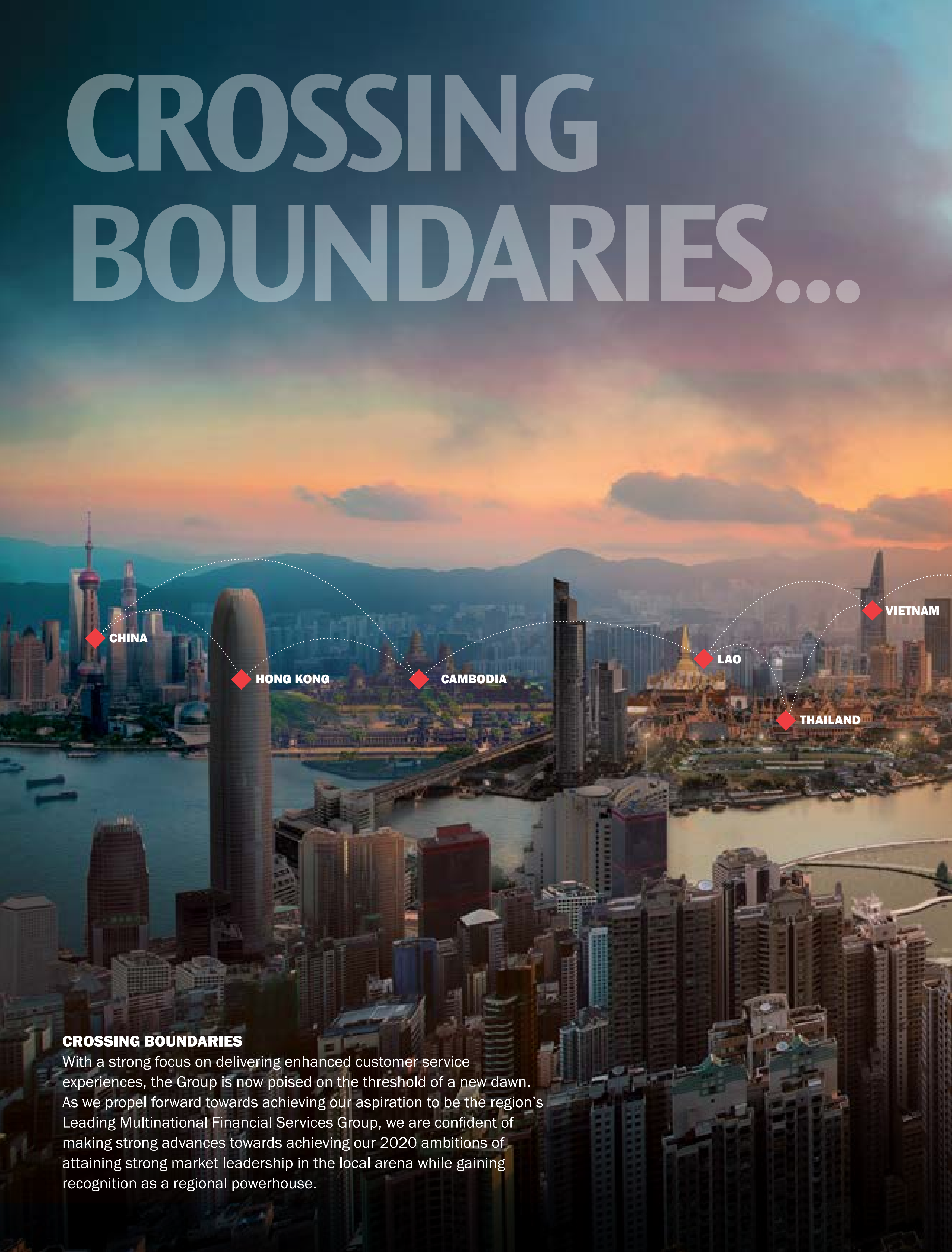
RHB Insurance Berhad

ANNUAL REPORT

2013

A NEW DAWN

CROSSING BOUNDARIES...



CROSSING BOUNDARIES

With a strong focus on delivering enhanced customer service experiences, the Group is now poised on the threshold of a new dawn. As we propel forward towards achieving our aspiration to be the region's Leading Multinational Financial Services Group, we are confident of making strong advances towards achieving our 2020 ambitions of attaining strong market leadership in the local arena while gaining recognition as a regional powerhouse.


INDONESIA
SINGAPORE
BRUNEI
MALAYSIA

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RHB's Aspirations

By 2020
To be a Leading Multinational Financial Services Group

- **TOP 3 IN MALAYSIA/TOP 8 IN ASEAN** by size and performance
- **STRONG MARKET LEADERSHIP IN MALAYSIA** across targeted products and segments
- **REGIONAL POWERHOUSE IN ASEAN+** with 40% revenue contribution from international operations
- **NEXT GENERATION CUSTOMER CENTRIC BANK** delivering innovative and personalised customer offerings
- **PROMINENT EMPLOYER OF CHOICE** within the region

Corporate Information

As at 3 March 2014

BOARD OF DIRECTORS

Ong Seng Pheow
Independent Non-Executive Chairman

Datuk Haji Faisal Siraj
Senior Independent Non-Executive Director

Haji Md Ja'far Abdul Carrim
Non-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

BOARD AUDIT COMMITTEE*

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Dato' Saw Choo Boon

Datuk Haji Faisal Siraj

BOARD RISK COMMITTEE#

Haji Khairuddin Ahmad
Chairman

Patrick Chin Yoke Chung

Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

Dato' Saw Choo Boon

BOARD NOMINATING AND REMUNERATION 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

BOARD TECHNOLOGY COMMITTEE*

Choong Tuck Oon
Chairman

Ong Seng Pheow

Dato' Mohd Ali Mohd Tahir

Charles Lew Foon Keong

Kellee Kam Chee Khiong

Dato' Khairussaleh Ramli

INVESTMENT COMMITTEE

Dato' Othman Jusoh
Chairman

Ong Seng Pheow

Dato' Teo Chiang Liang

Kong Shu Yin

GROUP SENIOR MANAGEMENT

Kellee Kam Chee Khiong
Group Managing Director
RHB Banking Group

Dato' Khairussaleh Ramli
Deputy Group Managing Director,
RHB Banking Group,
Managing Director, RHB Bank Berhad

Mike Chan Cheong Yuen
Managing Director
RHB Investment Bank Berhad

U Chen Hock
Executive Director
Group International Business

Ibrahim Hassan
Managing Director
RHB Islamic Bank Berhad

Yap Choi Foong
Group Chief Financial Officer

Rohan Krishnalingam
Group Chief Operations Officer

Norazzah Sulaiman
Group Chief Governance Officer

Patrick Ho Kwong Hoong
Group Chief Risk Officer

Jamaluddin Bakri
Group Chief Human Resource Officer

Christopher Loh Meng Heng
Group Chief Strategy & Transformation Officer

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 3 March 2014

RHB Capital Berhad

COMMERCIAL BANKING GROUP

100% RHB Bank Berhad

- **100%** RHB Islamic Bank Berhad
- **100%** RHB Bank (L) Ltd
  - **100%** RHB International Trust (L) Ltd
    - **100%** RHB Corporate Services Sdn Bhd
- **100%** RHB Leasing Sdn Bhd
- **100%** RHB Capital Nominees (Tempatan) Sdn Bhd
  - **100%** RHB Capital Nominees (Asing) Sdn Bhd
- **100%** RHB Capital Properties Sdn Bhd
- **100%** Utama Assets Sdn Bhd
- **100%** RHB Bank Nominees Pte Ltd (Singapore)
- **100%** Banfora Pte Ltd (Singapore)
- **100%** RHB Investment Ltd (Singapore)
- **100%** RHB Trade Services Limited (Hong Kong)
- **100%** Utama Gilang Sdn Bhd [(3)] *
- **100%** UMBC Sdn Bhd *
- **100%** RHB Delta Sdn Bhd [(3)] *
- **100%** RHB Indochina Bank Limited *(formerly known as OSK Indochina Bank Limited)*
  - **100%** RHB OSK Indochina Securities Limited *(formerly known as OSK Indochina Securities Limited)*

INVESTMENT BANKING GROUP

100% RHB Investment Bank Berhad

- **100%** RHB OSK International Investments Pte Ltd *(formerly known as OSK International Investments Pte Ltd)*
  - **100%** RHB OSK Asset Management Pte Ltd *(formerly known as RHB OSK International Asset Management Pte Ltd)*
    - **40%** RHB OSK GC-Millennium Capital Pte Ltd [(5)] *(formerly known as OSK GC-Millennium Capital Pte Ltd)*
- **100%** RHB Holdings Hong Kong Limited *(formerly known as OSK Holdings Hong Kong Limited)*
  - **100%** RHB OSK Securities Hong Kong Limited *(formerly known as OSK Securities Hong Kong Limited)*
    - **100%** RHB OSK Nominees Hong Kong Limited * *(formerly known as OSK Nominees Hong Kong Limited)*
  - **100%** RHB OSK Futures Hong Kong Limited *(formerly known as OSK Futures Hong Kong Limited)*
  - **100%** RHB OSK Finance Hong Kong Limited *(formerly known as OSK Finance Hong Kong Limited)*
  - **100%** RHB OSK Capital Hong Kong Limited *(formerly known as OSK Capital Hong Kong Limited)*
  - **100%** RHB OSK Precious Metals Hong Kong Limited *(formerly known as OSK Precious Metals Hong Kong Limited)*
  - **100%** RHB OSK Asset Management Limited *(formerly known as OSK International Investments Hong Kong Limited)*
  - **100%** RHB OSK Wealth Management Hong Kong Limited *(formerly known as OSK Wealth Management Hong Kong Limited)*
  - **100%** RHB OSK (China) Investment Advisory Co Ltd *(formerly known as OSK (China) Investment Advisory Co Ltd)*
- **99%** PT RHB OSK Securities Indonesia *(formerly known as PT OSK Nusadana Securities Indonesia)*
  - **99.62%** PT RHB OSK Asset Management *(formerly known as PT OSK Nusadana Asset Management)*
- **51%** DMG & Partners Securities Pte Ltd
  - **100%** DMG & Partners Nominees Pte Ltd #
  - **100%** Summit Nominees Pte Ltd #
  - **100%** DMG & Partners Research Pte Ltd
- **99.95%** RHB OSK Securities (Thailand) Public Company Limited *(formerly known as OSK Securities (Thailand) Public Company Limited)*
- **100%** OSK Futures and Options Sdn Bhd *
- **100%** OSK Research Sdn Bhd *
- **100%** RHB OSK International Asset Management Sdn Bhd * *(formerly known as OSK International Asset Management Sdn Bhd)*

100% OSK Investment Bank (Labuan) Limited *

- **100%** OSK Nominees (Tempatan) Sdn Bhd *
- **100%** OSK Nominees (Asing) Sdn Bhd *
- **100%** TCL Nominees (Tempatan) Sdn Bhd #
- **100%** TCL Nominees (Asing) Sdn Bhd #
- **100%** KE-ZAN Nominees (Tempatan) Sdn Bhd #
- **100%** KE-ZAN Nominees (Asing) Sdn Bhd #
- **80%** RHB Trustees Berhad (6) **20%** *(formerly known as OSK Trustees Berhad)*
- **80%** Malaysian Trustees Berhad (6) **20%**
- **100%** OSK Investment Management Berhad * *(formerly known as OSK-UOB Investment Management Berhad)*
- **100%** RHB Asset Management Sdn Bhd *(formerly known as RHB Investment Management Sdn Bhd)*
  - **100%** RHB Islamic International Asset Management Berhad *(formerly known as OSK-UOB Islamic Fund Management Berhad)*
  - **100%** RHB Islamic Asset Management Sdn Bhd *
- **100%** RHB Research Institute Sdn Bhd
- **100%** RHB Merchant Nominees (Tempatan) Sdn Bhd
  - **100%** RHB Merchant Nominees (Asing) Sdn Bhd
- **100%** RHB Nominees Sdn Bhd
- **100%** RHB Nominees (Tempatan) Sdn Bhd
- **100%** RHB Nominees (Asing) Sdn Bhd
- **100%** RHB Excel Sdn Bhd (4)
- **100%** RHB Progressive Sdn Bhd (4)
- **100%** RHB Marketing Services Sdn Bhd (3)
- **100%** RHB Unit Trust Management Berhad (4)
- **100%** RHB Private Equity Holdings Sdn Bhd
  - **100%** RHB Private Equity Management Ltd
  - **100%** RHB Private Equity Fund Ltd *(Cayman Islands)*
- **34.88%** iFast-OSK Sdn Bhd
  - **100%** iFast Capital Sdn Bhd
    - **100%** iFast Nominees Sdn Bhd
  - **100%** FA Corporate and Compliance Consultancy Sdn Bhd
- **40.05%** RHB Finexasia.com Sdn Bhd **59.95%** *(formerly known as Finexasia.com Sdn Bhd)*
  - **100%** RHB OSK Stock 188.com Sdn Bhd *(formerly known as Stock 188.com Sdn Bhd)*
- **49%** Vietnam Securities Corporation (5)

OTHERS

- **94.70%** RHB Insurance Berhad
- **100%** RHB Equities Sdn Bhd (1)
  - **100%** KYB Sdn Bhd (4) *
- **100%** RHB Capital (Jersey) Limited
  - **100%** RHB (Philippines) Inc (2) *
- **100%** RHB Hartanah Sdn Bhd
  - **100%** Positive Properties Sdn Bhd
  - **100%** RHB Property Management Sdn Bhd
- **100%** Straits Asset Holdings Sdn Bhd
  - **100%** SSSB Services (Melaka) Sdn Bhd (4) *
  - **100%** SFSB Services (Melaka) Sdn Bhd *
- **100%** RHBF Sdn Bhd *
- **100%** RHB Venture Capital Sdn Bhd *
- **100%** RHB Kawal Sdn Bhd
- **100%** OSKIB Sdn Bhd *

Notes :
* Dormant Company
\# Inactive 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) Jointly controlled entity.
(6) Held by: (i) RHB Investment Bank Berhad; (ii) RHB Nominees (Tempatan) Sdn Bhd; (iii) RHB Nominees (Asing) Sdn Bhd; and (iv) OSK Futures and Options Sdn Bhd with direct shareholdings of 20% each.

Board of Directors

1 **ONG SENG PHEOW**
Independent Non-Executive Chairman

2 **DATUK HAJI FAISAL SIRAJ**
Senior Independent Non-Executive Director

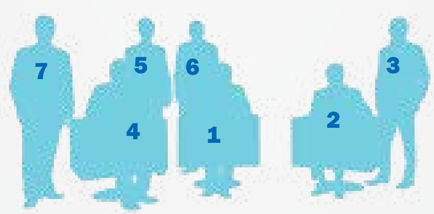
3 **HAJI MD JA'FAR ABDUL CARRIM**
Non-Independent Non-Executive Director

4 **DATO' OTHMAN JUSOH**
Independent Non-Executive Director

5 **DATO' TEO CHIANG LIANG**
Independent Non-Executive Director

6 **ABDUL AZIZ PERU MOHAMED**
Independent Non-Executive Director

7 **KONG SHU YIN**
Managing Director



Profiles of the Board of Directors

Ong Seng Pheow

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

Ong Seng Pheow ("Mr Ong") was appointed as an Independent Non-Executive Director of RHB Insurance on 1 January 2008 and was subsequently appointed as the Chairman of RHB Insurance on 23 May 2013.

He also serves as the Chairman of the Board Audit Committee as well as a Member of the Board Technology Committee and Investment Committee of RHB Insurance.

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 as the National Director of Assurance and Advisory Business Services. He also served on committees and working groups of MICPA.

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

Datuk Haji Faisal Siraj

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

Datuk Haji Faisal Siraj ("Datuk Faisal") was appointed as an Independent Non-Executive Director of RHB Insurance on 1 January 2008 and was subsequently appointed as the Senior Independent Non-Executive Director of RHB Insurance on 5 July 2013.

Datuk Faisal also serves as the Chairman of the Board Nominating and Remuneration Committee and a Member of the Board Audit Committee. He is also a Member of the Group Board Audit Committee of RHB Capital and Risk Management Committee of RHB Islamic Bank.

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, RHB Trustees Berhad (formerly known as OSK Trustees Berhad) and Malaysian Trustees Berhad.

Haji Md Ja'far Abdul Carrim

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

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 was re-designated as Senior Independent Non-Executive Director of RHB Insurance on 23 May 2013 and on 20 June 2013, Haji Ja'far was re-designated as Non-Independent Non-Executive Director. He also serves as a Member of the Board Credit Committee, Board Risk Committee and Board Nominating and Remuneration Committee. He is also a Member of the Risk Management Committee of RHB Islamic Bank Berhad.

A civil engineer by training, Haji Ja'far's career of 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. He holds a Bachelor of Science in Civil Engineering from Loughborough University, United Kingdom. Haji Ja'far is a member of the Institution of Engineer, Malaysia. He is also a Council Member for the Chair on Financial Planning for Old Age at University of Malaya. He also sits on the Board of Employees Provident Fund, Malaysia.

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

Dato’ Othman Jusoh

(65 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 is the Chairman of the Investment Committee of RHB Insurance. He also serves as a Member of the Board Audit Committee and the Investment Committee of RHB Asset Management Sdn Bhd (formerly known as 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

(63 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 Board Nominating and Remuneration Committee and Group Board Audit Committee of RHB Capital. He is also a Member of the 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 Council Member. Dato' Teo was appointed as a member of the MSC Education Advisory Panel from 1998 to 2000 and a Life Member of the Malaysian Red Crescent Society since 1983. He was 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

(65 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 Board Credit Committee of RHB Bank Berhad.

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

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

Encik Aziz Peru's other directorships in public companies include RHB Bank Berhad, RHB Investment Bank Berhad, RHB Asset Management Sdn Bhd (formerly known as RHB Investment Management Sdn Bhd) and as-Salihin Trustee Berhad.

Kong Shu Yin

(53 years of age – Malaysian)
Managing Director/Chief Executive Officer

Kong Shu Yin ("Mr Kong") was appointed as 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 28 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 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.

Corporate Governance Statement

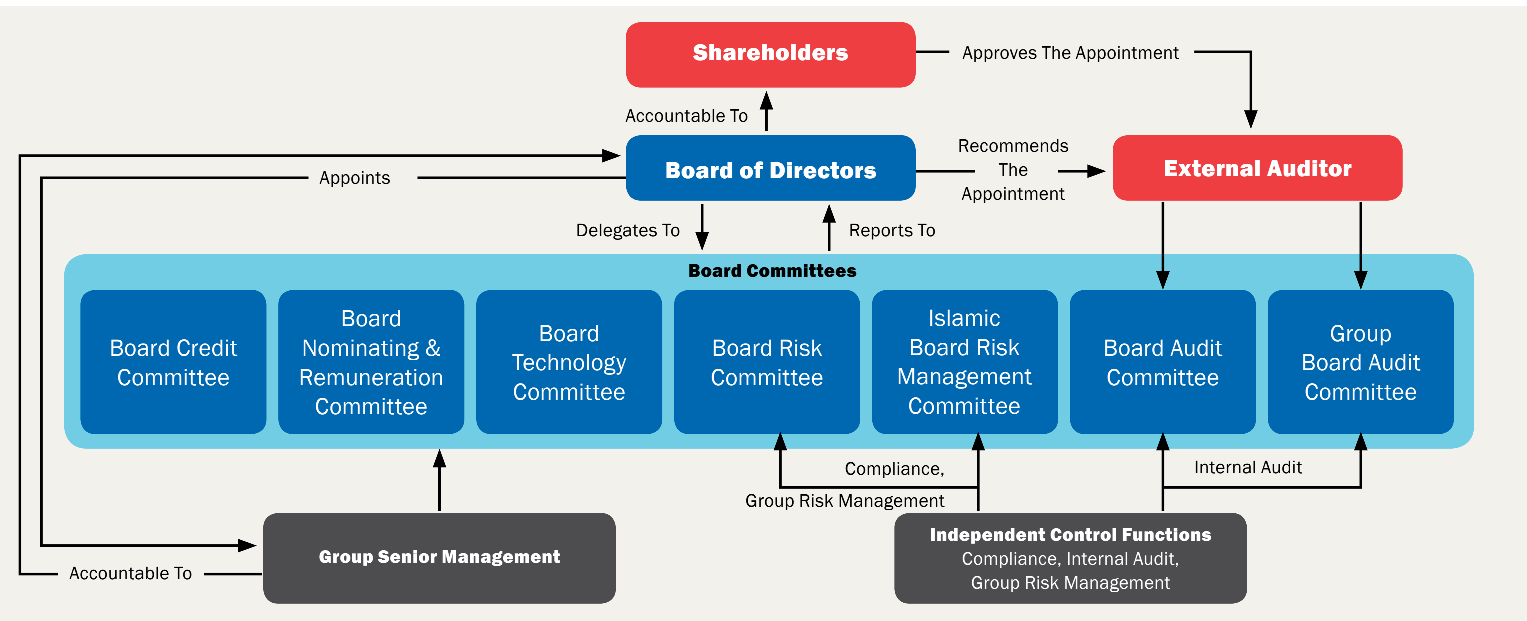
"Good corporate governance plays a vital role in underpinning the integrity and efficiency of the capital market. It is a testament of a company's commitment to values and ethical business conduct. Effective corporate governance structures encourage companies to create value (through entrepreneurialism, innovation and development) and provide accountability and control systems which commensurate with the risks involved. When companies are well governed, they are better able to attract capital investment and raise the standing of the capital market as a whole."

Foreword, Chairman, Bursa Malaysia Berhad
Corporate Governance Guide (2nd Edition)

The Board of Directors ("Board") of RHB Insurance Berhad ("RHB Insurance" or "Company") recognises the importance of good corporate governance in pursuing quantifiable and long term success for the RHB Banking Group ("Group"), and value creation for shareholders and all other stakeholders. The Board is fully committed to high standards of governance designed to protect the interests of shareholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability. The Board strives to ensure that the Company's and the Group's integrity and professional conduct are beyond reproach.

An effective corporate governance structure lies at the core of the Group's pursuit to realise its vision to be a "Leading Multinational Financial Services Group". This structure is based on stringent corporate governance practices and regulations, a clear organisational structure with well-defined accountabilities and responsibilities, and robust internal control and risk management mechanisms. Throughout the years, the Board has made concerted efforts to ensure a strict compliance to regulatory requirements and that its corporate governance framework, internal processes, guidelines and systems remain robust and relevant. The Board believes there is always room for improvement and continuously explores improvement to the governance processes. The Board exercises a significant effort to understand and manage stakeholders' expectations to fulfil their evolving needs and ensure that the Group's position as a whole and reputation as a leading financial holding company are held in good stead.

Group's Governance Model



ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Board and Management

The Board governs the business and affairs of the Company and exercises all such powers pursuant to the Articles of Association of the Company. To ensure effectiveness in discharging its roles and responsibilities, the Board delegates specific authorities to the relevant Board Committees. Such delegation of authority is expressly stipulated in the Terms of References ("TOR") of the respective Board Committees. The TORs are reviewed periodically to ensure effective and efficient decision making in the Group. The Board Committees also act as oversight committees where they evaluate and recommend matters under their purview for the Board to consider and approve. To ensure the efficient running of the businesses and operations, the Board also delegates certain decision making powers to the Managing Director ("MD") of the Company. The MD executes the Board's directions within his realm of authority and purview and he is supported by the Management of the Company. The MD develops effective collaboration with other entities in the Group to achieve the Group's vision and mission. The MD manages the Company's insurance premium, claims, underwriting and investments as the main pillars of the Company's business. Besides that, he also spearheaded various improvements to the core insurance system and introduced automation in the Company's digital initiatives, in ensuring that the Company continues to be competitive within its ambit of business.

At each Board meeting, the Board is among others informed of the decisions and salient issues deliberated by the Board Committees and the Management through minutes of meetings which are tabled thereat. The Board also receives updates from the respective Chairmen/representatives of the Board Audit Committee ("BAC"), Board Risk Committee ("BRC") and Board Nominating & Remuneration Committee ("BNRC") on matters that have been deliberated and considered at these Committees' meetings that require specific attention. This practice also applies for other operating entities within the Group.

Matters such as the annual business plan and budget, dividend distribution, business restructuring, reorganisation plan, strategic proposals, risk appetite, human capital management policies, appointment of the Company's Senior Management, talent and succession planning, brand positioning, investor and stakeholder relations direction as well as capital and operating expenditures above the Group Manual of Authority limits are reserved for the Board.

The role of the Board

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

The Board together with the Management are constantly monitoring the market in preparation for the de-tariffication of motor and fire insurance rates which are due to take place in 2016. The competitive environment within the industry is expected to intensify and hence, necessitate a more robust and effective way in managing the business. Accordingly, the Company has embarked on various measures to ensure that its market share and profitability are not significantly impacted.

The Board and the Management are looking at various strategies like risk based pricing, product innovation and differentiation, claims servicing as well as strengthening of delivery and distribution channels in equipping the Company to take on the new opportunities. Apart from that, the Company will also be strengthening its brand building and exploiting the business opportunities as a result of being part of the Group.

Among the Board's key roles and responsibilities are:

(a) Strategy setting

The Board plays an active role in reviewing the Company's strategies, business plans, financial objectives, major capital and operating budgets and policies proposed by the Management. The Board monitors the Management's performance in implementing the adopted strategies and plans and provides relevant direction and advice where necessary so as to ensure the achievement of the objectives.

For 2013, the Group's strategic planning process began with an offsite Strategic Development & Brainstorming Session held in October 2012, where the Management presented its proposed Company strategy, business plan and annual budget for financial year 2013. During this session, the Board discussed both the Management's and its own strategic perspectives, and challenged the Management's views and assumptions. The Board subsequently approved the proposed strategy, business plan and annual budget at its meeting held in November 2012. The Board also reviewed and approved the proposed 2013 performance scorecard for the Company, ensuring that the proposed targets correspond to the Group's strategy and business plan, reflect competitive industry trends and internal capabilities, and provide sufficient stretch for the Management.

In 2013, the merger of the Group's investment banking and asset management businesses with OSK Investment Bank Berhad (now known as OSKIB Sdn Bhd) Group ("OSK") was completed. With the completion of the merger, RHB Banking Group is now present in almost all of the ASEAN countries and Hong Kong. The Company will leverage on this platform and further enhance its business opportunities.

Being part of a large banking group, the Company will exploit such advantages and strive to reach optimum strength, especially the regional footprint.

In November 2013, the Group Senior Management initiated a 3-year transformation journey to achieve the Group's vision of becoming a Leading Multinational Financial Services Group by 2020. The roadmap and six strategic levers for the transformation dubbed IGNITE 2017 and the Group business plan and budget for 2014 were discussed and evaluated by the Board and Management at an offsite meeting and subsequently approved at the Board Meeting held in January 2014. Under the transformation, RHB Insurance will among others, deploy the core insurance system as part of its strategic initiative to support the group-wide cluster.

(b) The Company's and the Group's operations and conduct

The Board governs the business conduct, performance and operations of the Company with close collaboration with the Management. To ensure high performance, the Board reviews and approves performance objectives for the Senior Management team and monitors their performance on a regular basis. Interventions and reviews may be made to ensure that the execution of the plans is aligned with the set objectives and goals. The Board also governs the Company's risk management, controls and human resource ("HR") management through delegation of certain decision making and/or oversight responsibilities to various Board Committees namely the BAC, BRC and BNRC. The Board is updated on the Company's performance through a status report presented by the MD which includes a comprehensive summary of the Company's business drivers and financial performance of each reporting period vis a vis the approved balanced scorecard of RHB Insurance and the industry benchmark. The Board also keeps abreast of the key strategic initiatives, significant operational issues and the latest developments of the financial services industry.

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

(c) Risk management

The Board has the responsibility to identify the principal risks and implementation of appropriate systems to manage and control these risks. In ensuring effective risk assessment and control, the Board entrusted the BRC, which comprises four Independent Non-Executive Directors ("INEDs") and one Non-Independent Non-Executive Director ("NINED") representing the respective entities within the Group, with the responsibility to provide oversight and governance of risks for the Group. The composition of the BRC and the attendance of the members at meetings held in 2013 were as follows:

Name of Directors	Attendance at Meetings
Haji Khairuddin Ahmad (INED/ Chairman)	22/25 (88%)
Mr Patrick Chin Yoke Chung (INED)	24/25 (96%)
Haji Md Ja'far Abdul Carrim (NINED)	25/25 (100%)
Mr Choong Tuck Oon (INED)	19/25 (76%)
Dato' Saw Choo Boon (INED)	24/25 (96%)

The salient terms of reference of the BRC are as follows:

- to provide oversight and governance of risks at the Group;
- to oversee Senior Management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management processes of each entity in the Group are in place and functioning;
- to promote the management of the Group's risks in accordance with a risk-return performance management framework; and
- to provide guidance and make recommendations to the Board of each relevant entity within the Group in respect of risk management matters of the respective entities.

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

(d) Talent development and succession planning

Talent development and succession planning are key priorities of the Board in ensuring a high performing workforce to maintain the Company's and the Group's sustainability and competitiveness. The Board entrusted the BNRC with the responsibility to deliberate on HR strategies, policies, systems and development of the Company. The BNRC is also given the responsibility to select, assess and recommend to the Board the appointment and remuneration matters of Directors, Board Committee members, Group Shariah Committee and key Senior Management officers.

During the year, the Group has put in place programmes for the identification, competency assessment and development of talent to fill senior positions, to continuously strengthen the Group's succession plan. These programmes are monitored regularly by the BNRC. Other major issues deliberated by the BNRC were pay structures and policies, review and harmonisation of benefits and retention plans for Senior Management.

(e) Internal control system

The Board governs the adequacy and integrity of the Company's internal control system. With the support of the BAC and Group Internal Audit ("GIA"), the Board ensures that there is an effective and efficient framework for reporting internal controls and regulatory compliance. Details pertaining to the Company's internal control system and review of its effectiveness are set out in the Statement on Risk Management and Internal Control in this Annual Report.

Code of Ethics

The Board is committed to establish a corporate culture which engenders ethical conduct that permeates throughout the Company. 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, establish uniform ethical standards and promote ethical conduct for Directors in line with the governing laws, regulations and guidelines. The Code of Ethics includes principles relating to general standard of conduct, conflict of interest, insider trading, maintaining confidentiality, use of corporate assets, etc.

For all its employees, the Group has in place a Group Code of Ethics and Conduct to ensure a high standard of ethical and professional conduct is upheld in the performance of their duties and responsibilities. The said Code establishes the standards that govern the way employees deal with each other, the shareholders, customers, suppliers, competitors and communities. Within this framework, employees are expected to exercise good judgement and be accountable for their actions. Compliance with the Code is part of the terms and conditions of employment of every employee of the Group.

The Group has also established a Group Whistle Blower Policy in strengthening its governance practice and the policy was also adopted by the Company. The policy provides employees with an avenue to report on suspected fraud, corruption, dishonest practices or other similar circumstances. This policy is to encourage the reporting of such matters in good faith, with the confidentiality of the person making such reports being protected from reprisal, in the best possible manner. For the current year under review, three complaints pursuant to the Group Whistle Blower Policy were received, investigated and pursued based on the requirement of the said policy. All reports or complaints are filed with the Designated Recipient as specified in the Group Whistle Blower Policy. The Group Whistle Blower Policy is available on the Group's internal portal for reference by the staff across the Group.

Promotion of sustainability

The Board acknowledges that a sustainable approach to investing has a positive impact on the value of investments and is vital for the interests of long term investors. The Board further recognises that the Company and the Group's ability to prosper hinges substantially upon the ability to make business decisions that give credibility to their sense of economic, social and environmental responsibilities, and by which the stakeholders and society can hold them accountable. Therefore, environment, social and governance ("ESG") issues are of the utmost importance in the Board's decision making in order to maintain the standard of being a responsible corporate citizen.

The Group established a Corporate Responsibility ("CR") strategic framework that supports and creates value for the Group's business, operations and brand, and ensures positive contribution to the shareholders, customers, employees and society at large. The Group's CR Report for 2013 is uploaded on RHB's website prior to the forthcoming Annual General Meeting ("AGM") of RHB Capital. The Group's CR Report addresses among others the CR and ESG elements of the Group. The framework will be eventually translated into a governing policy.

The foundation of CR initiatives is premised on four quadrants which include Community, Environment, Workplace and Marketplace. The issue of sustainability is defined as conducting business responsibly and ethically by factoring in social, economic and environmental considerations in the decision making process for long term business success that in turn will contribute to the socioeconomic development of the communities in which it operates. As such, the Group will embark on activities that conserve the environment, enrich the lives of communities, promote a culture of respect and care for its workforce and the public, all of which, appropriately implements good governance.

Information and advice

The Board whether as a group or individually, regularly obtains the advice and dedicated support services of the Company Secretary in ensuring the effective functioning of the Board. The Board members may interact directly with the Management, seek their clarification and advice as well as request for information on matters pertaining to the Company's operations or business concerns from them. Should the need arise, the Directors may also seek independent professional advice, at the Company's expense, pursuant to the Group's "Standard Procedures for Directors to Have Access to Independent Advice" when deemed necessary for the proper discharge of their duties.

Dedicated Company Secretary

The Board is satisfied with the performance and support rendered by the Company Secretary to the Board in the discharge of his roles and responsibilities. In addition to acting as a custodian of the Company's statutory records, the Company Secretary serves and advises the Board on matters relating to the affairs of the Board and ensures that Board meetings are properly convened and an accurate and proper record of the proceedings and minutes of the meetings are kept. The Company Secretary assists the Chairman and Directors in the conduct of meetings and in the discharge of their governance obligations and responsibilities as Directors of the Company. The Company Secretary also facilitates the communication of key decisions and policies between the Board, Board Committees and the Senior Management. The Board is updated by the Company Secretary on the follow-up or implementation of its decisions/recommendations by the Management until their closure.

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

Board Charter

The Group has developed Board Charters for major entities, which set out the key corporate governance principles adopted by the Boards of the Group. The responsibilities of Boards, Chairperson, Senior Independent Director and the Group MD/MD/Chief Executive Officer are clearly defined therein. The Board Charters clearly stipulate the role that each party undertakes in ensuring checks and balances in the day to day management of the Group's business and operations.

Within these broad boundaries, each Board, based on the context of the company, also discussed, set and agreed with Management the annual balanced scorecard and key performance indicators that need to be executed and achieved by Management. The performance and progress thereof will then be reviewed by Boards at intervals.

The Boards review the Board Charters from time to time to keep them up to date with changes in regulations and best practices as well as to ensure its effectiveness and relevance to the Boards' objectives.

STRENGTHEN COMPOSITION

Board Nominating & Remuneration Committee

The BNRC comprises six Non-Executive Directors of whom five are INEDs and one is a NINED representing the respective entities within the Group. The BNRC is chaired by Datuk Haji Faisal Siraj, the Senior INED of RHB Capital. The BNRC met 15 times during financial year 2013. The composition of the BNRC and the attendance of the members at meetings held in 2013 are as follows:

Name of Directors	Attendance at Meetings
Datuk Haji Faisal Siraj (INED/Chairman)	14/15 (93%)
Dato' Mohamed Khadar Merican (INED)	13/15 (87%)
Dato' Saw Choo Boon (INED)	15/15 (100%)
Dato' Teo Chiang Liang (INED)	12/15 (80%)
Mr Choong Tuck Oon (INED)	12/15 (80%)
Haji Md Ja'far Abdul Carrim (NINED)	15/15 (100%)

The salient TOR of the BNRC with regard to its nomination roles are as follows:

- Establish a documented procedure for the appointment of Directors, Board Committee members, Group Shariah Committee ("GSC") and key Senior Management officers.
- Establish and recommend for Board approval, minimum requirements for Directors, GSC and key Senior Management officers.
- Establish and recommend for Board approval, the optimal size and mix of skills to ensure efficient operation of the Boards/Board Committees/GSC.
- Assess and recommend for Board approval, new and reappointed nominees for directorship, Board Committee members, GSC and key Senior Management officers.
- Establish and recommend for Board approval, a mechanism for the formal assessment of the performance of Boards as a whole, Board Committees, GSC, each Director and key Senior Management officers.
- Review performance assessment results and recommend to the Board, the removal of any Director, GSC or key Senior Management officer found to be ineffective, errant and negligent in the discharge of responsibilities.
- Ensure Directors, Board Committee members and GSC receive appropriate induction and continuous training programmes for closure of skill gaps and keeping abreast with latest developments.

Directors' appointment and assessment

(a) Appointment of Directors

The BNRC is guided by a nomination framework approved by the Group's Boards, to ensure that individuals appointed to relevant senior positions and the Boards within the Group have the appropriate fitness and propriety to properly discharge their prudential responsibilities on appointment and during the course of their appointment. A fit and proper assessment is carried out for each Director and relevant key Management.

Nomination Framework

Review of optimal size and mix of skills → Identification of candidates with the required skills → Selection of candidates through evaluation of suitability → Conduct the Fit and Proper assessment → Interaction with candidate → Deliberation by BNRC → Recommendation to Board for approval

For the appointment of new Directors, a thorough and comprehensive Fit and Proper assessment (including background, skills, knowledge and experience) of the nominee is undertaken by the BNRC in accordance with the Policy and Guidelines on Fit and Proper for Key Responsible Persons of RHB Banking Group ("Fit and Proper Policy"), through a transparent nomination process before a recommendation is made to the Board for approval. These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, declaration being completed by each individual, the obtaining of evidence of material qualification and the carrying out of checks on matters such as criminal record, bankruptcy and regulatory disqualification. These assessments are reviewed thereafter on an annual basis. The Fit and Proper Policy outlines the following criteria for assessment of the suitability of the candidate for appointment:

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

During its review of the suitability of the candidates and criteria for the appointment process, the BNRC is continuously mindful to have a balanced diversity in age, gender, race, culture and nationality, to facilitate optimal decision making by harnessing different insights and perspectives.

As for the re-appointment of existing Directors, the BNRC refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation besides their ongoing experience during their formal/informal interactions with the Directors. The application for the appointment/re-appointment of Directors will be submitted to Bank Negara Malaysia ("BNM") for consideration once the same is approved by the Board.

In 2013, the BNRC undertook a holistic review on the compositions of the Boards and Board Committees within the Group in order to ensure effective functioning of the Boards and Board Committees and decision making process, particularly the regional governance aspects post the RHB-OSK merger. The Board is intensifying its effort to secure new Board members with the right skill-sets and experience to close identified gaps. In addition, the BNRC also provided support to the Management in recruiting candidates of the right calibre to fill vacant key Senior Management positions.

(b) Board Effectiveness Evaluation

The Group has since 2006 undertaken the Board Effectiveness Evaluation ("BEE") exercise annually on the Boards and Board Committees with the objective of assessing their effectiveness and that of the individual Directors. The BEE is designed to detect strengths and weaknesses so that actions can be taken to improve overall effectiveness. The results of the Directors' self and peer evaluations form part of the basis for evaluation by the BNRC for the re-appointment of the respective Directors.

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

Part A: Board evaluation

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

Part B: Board committees evaluation

1. Structure and processes
2. Accountability and responsibilities

Part C: Directors' self and peer evaluation

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

Part D: Committee members' self and peer evaluation

1. Participation levels and contribution
2. Technical competencies

The BEE is based on a combination of self and peer assessment performed via a customised questionnaire. To ensure integrity and independence of the appraisal process, PricewaterhouseCoopers Advisory Services Sdn Bhd ("PwCAS") has been engaged to collate and tabulate the results of the evaluation. This approach is in line with market best practices in ensuring the assessment is conducted independently from any internal influence. The BEE also includes in-depth interviews with Directors and Senior Management by PwCAS to encompass areas which fall outside the realm of the written assessment. The detailed BEE results are discussed with the Chairmen of the BNRC and Boards by PwCAS.

In November 2013, each Director and Board Committee member was provided with individual results together with a peer average rating on each area of assessment for personal information and further improvement. A summarised report has been presented to the BNRC and the Board of the Company in December 2013 to enable the Board to identify and put in place actions to address areas for improvement.

Remuneration strategies

The Board is mindful that fair remuneration is critical to attract, retain and motivate the Directors with the relevant experience and expertise required for the stewardship of the Company and the Group. The BNRC has been entrusted to discharge its remuneration role (as outlined in its TOR), as follows:

- Ensure the establishment of formal and transparent procedures for developing remuneration and HR policies, strategies and framework for Directors, GSC and key Senior Management officers.
- Recommend remuneration strategies, policies and framework and specific remuneration packages for Directors, Board Committee members, GSC and key Senior Management officers, which should be (where relevant):
  - Market competitive and in support of the Group's culture, vision, objectives and strategy;
  - Reflective of the responsibilities and commitment required;
  - Sufficient to attract and retain quality people but yet not excessive;
  - Performance driven with sufficient emphasis on long term development of the Group to avoid excessive short term risk-taking; and
  - The framework should cover all aspects of remuneration including Directors' fees, salaries, allowances, bonuses, option and benefit-in-kind.
- Ensure HR strategies, policies and frameworks are in place for all the building blocks of a quality HR Management System (e.g. succession planning, talent and leadership development, training, etc.) to support the Group in achieving its objectives.

The Group has also established a common reference (incorporating the Non-Executive Directors' ("NEDs") Remuneration Framework) as a guide. It is aimed at applying the general principles in respect of the remuneration of NEDs in ensuring that the remuneration levels commensurate with the responsibilities, risks and time commitment of Boards/Board Committees. For the NEDs, the level of remuneration reflects the level of responsibilities undertaken by the particular NED concerned within the Company and the Group. The remuneration strategy takes into consideration practices within the industry and is reviewed at least once every two years to be aligned with the market.

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

(a) Directors' fees

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

In 2013, the Board has approved the BNRC's recommendation to revise the NEDs' remuneration based on a new tiering system. From a peer group benchmarking perspective, the Board believes that a more equitable and competitive remuneration should be offered to the NEDs in line with the complexity of the duties, responsibilities, expectations and commitment of the NEDs relative to the expanding scope of the Group's initiatives, particularly on regional business expansion. The proposed revised NEDs' fees have been aligned to the accepted industry range and will be presented to the shareholders at the forthcoming 35th AGM, for approval.

(b) Board Committee's allowances

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

In 2013, the Board revised the Group's existing Board Committee allowances structure to be in line with the increase in complexity of roles and responsibilities and heavier commitment of the Board Committees.

(c) Meeting attendance allowance

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

(d) Benefits-in-kind

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

The Group has also established a remuneration framework for key Senior Management, consisting of a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with contributions to the organisation. The MD is not paid a Director's fee nor is he entitled to receive any meeting attendance allowance for any of the Board and Board Committee meetings that he attends. His remuneration, which includes among others salary, bonus and benefits-in-kind, is solely derived from the Company.

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

REINFORCE INDEPENDENCE

Assessment of independence

The independence of the Directors is reviewed on an annual assessment and benchmarked against best practices and regulatory provisions. The BNRC assesses the independence of NEDs, via the BEE exercise, which takes into account the individual Director's ability to exercise independent judgement at all times and to contribute to the effective functioning of the Board. Based on the BEE 2012 results, the Board is generally satisfied with the level of independence demonstrated by all the NEDs, and their ability to act in the best interest of the Company.

In addition, the Independent Directors are required to provide their confirmations on their compliance with the criteria and definition of "Independent Director", as stipulated under Clause 2.26 and Clause 9.1 of BNM's Guidelines on Corporate Governance for Licensed Institutions ("BNM's CG Guidelines") and BNM's Guidelines on Minimum Standards For Prudential Management For Insurers (Consolidated), respectively. All the Independent Directors are independent from the substantial shareholders of the Company, not being substantial shareholders themselves nor directly associated with any substantial shareholders.

Role of the Chairman and Managing Director

The Independent Non-Executive Chairman, Mr Ong Seng Pheow, manages the affairs of the Board, with a view to ensuring that the Board functions effectively and meets its obligations and responsibilities, and leads the Board in the execution of its responsibilities to the shareholders. He ensures that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper decision making of the Board. Additionally, the Chairman has to ensure that general meetings are conducted efficiently and in accordance with the requirement of the Companies Act 1965, and that shareholders have adequate opportunity to air their views and obtain answers to their queries.

The MD, Mr Kong Shu Yin ("Mr Kong"), who has extensive experience and knowledge in the insurance business, assumes the overall responsibilities for the execution of the Company's strategies in line with the Board and the Group's direction, and drives the Company's businesses and performance towards achieving the vision and goals of the Company and the Group.

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

The Board of Directors

Currently, the Board of RHB Insurance comprises seven Members, with an Independent Non-Executive Chairman, four INEDs, one NINED and the MD. The structure and composition of the Board comply with the BNM's

Guidelines on Minimum Standard For Prudential Management of Insurers (Consolidated) where it is stipulated that the Board should include a balance of Executive Directors and Non-Executive Directors (including Independent Non-Executives) such that no individual or small group of individuals can dominate the Board's decision making. However, Directors with executive powers must not account for more than 40% of the total Board members at any time. The presence of the five INEDs ensures there is an effective check and balance in the functioning of the Board. These INEDs fulfil the criteria of independence as defined in the BNM's CG Guidelines. They are not involved in the day-to-day management of the Company, nor do they participate in any business dealings of the Company. This ascertains that they remain free of any conflict of interest and can undertake their roles and responsibilities as INEDs in an effective manner.

FOSTER COMMITMENT

Time commitment

For the financial year ended 31 December 2013, the Board is satisfied with the level of time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of RHB Insurance. All Directors have complied with the required minimum Board Meetings attendance of 75% under the BNM's revised guidelines.

The Board convened 17 meetings for the financial year ended 31 December 2013. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
Mr Ong Seng Pheow	17/17	100
Haji Md Ja'far Abdul Carrim	17/17	100
Datuk Haji Faisal Siraj	17/17	100
Dato' Othman Jusoh	17/17	100
Dato' Teo Chiang Liang	14/17	82
En Abdul Aziz Peru Mohamed	17/17	100
Mr Kong Shu Yin	17/17	100

In ensuring that Directors' commitment, resources and time are more focused to enable them to discharge their duties effectively, each Member of the Board is to hold a maximum of five directorships in public listed issuers. The Directors are required to notify the Board on changes of their other directorships and shareholdings as and when such changes arise. Such information is used to monitor the number of directorships held by the Directors of RHB Insurance, including those on public listed companies, and to notify the Companies Commission of Malaysia accordingly.

An annual meeting schedule is prepared and circulated to the Directors before the beginning of every year to ease the Directors' time planning. It provides the scheduled dates for meetings of the Boards and Board Committees as well as the AGM. The Group has, since 2011, embarked on the use of iPADs and eBooks at Board/Board Committee Meetings, whereby encrypted Board and Board Committee papers will be circulated electronically for Directors/Board Committee members to download the same via iPADs. This initiative has significantly enhanced mobility, movements of the documents, cost and time savings, greater convenience, better security and a positive impact on the environment. Directors who are unable to attend the Board/Board Committee Meetings physically are encouraged to participate in the deliberations and discussions via telephone or video-conferencing.

Training

The Board emphasises the importance of continuing education and training for its Directors to ensure that they are kept abreast of the latest development in business, corporate strategy, financial overview, risk management strategy, legal requirements, duties, responsibilities and rights from the legal viewpoint, moral and ethical obligations as well as good corporate governance in the ever-changing economic climate to meet the challenges of the Board. A budget for Directors' training is provided each year by RHB Capital. The Board, as part of the BEE exercise, assesses the training needs of each Director annually. The training and development of Directors are spelled out in the Group's Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group.

The NEDs of the Company and the Group are encouraged to attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme.

This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that would engender organisational excellence. The Company Secretary facilitates the organisation of internal training programmes and Directors' attendance of external programmes, and keeps a complete record of the training received and attended by the Directors.

All newly appointed Directors are required to attend an induction programme organised by the Management of the Group, to provide the Directors with in-depth information of the industry as well as an overview of the business operations of the Group. During the induction programme, the relevant Management will brief the newly appointed Directors on the functions and areas of responsibility of their respective divisions. This enables Directors to familiarise themselves with the operations and organisational structure of the Group. It also provides them with a platform to establish effective channels of communication and interaction with Management.

Each new Director receives a comprehensive Director's induction kit to assist them in building a detailed understanding of the Group's operations, the longer term direction and the statutory obligations.

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

(a) Corporate Governance

- Governance in Groups programme
- Forum on future corporate reporting
- Directors' Remuneration Seminar 2013 – The Best Practice
- Corporate Governance Symposium 2013
- Risk Management Committees – Insurance Programme
- FIDE Elective Programme: Advanced Risk Governance and Risk Management

(b) Banking and Finance

- Financial Services Act 2013 and Islamic Financial Services Act 2013 and Directors and Officers Liability Insurance Policy
- FIDE Elective Programme: Banking fundamental programmes
- FIDE Elective Programme: Corporate finance for directors programme
- FIDE Elective Programme: Mergers & Acquisitions For Financial Institutions

(c) Legal, Business and Human Resource

- Training on OSK Products
- Personal Data Protection Act 2010 and Foreign Account Tax Compliance Act presentation
- FIDE Elective Programme: Director's Legal Tool-Kit Programme
- Shariah Awareness Programme
- FIDE Elective Programme: The "Winning The War For Talent" Programme

UPHOLD INTEGRITY IN FINANCIAL REPORTING

Compliance with financial reporting standards

The Board ensures that shareholders are provided with a clear, balanced and meaningful assessment of the Company's financial performance, position and its future prospects through the Annual Audited Financial Statements and quarterly reports.

The BAC, with the assistance of both external and internal auditors, reviews the integrity and reliability of the Company's financial statements on a quarterly basis, prior to recommending the same for the Board's approval. During the reviews, the Group Chief Financial Officer provides assurance to the BAC that adequate processes and controls are in place for an effective and efficient financial statement close process, that appropriate accounting policies have been adopted and applied consistently and that the relevant financial statements give a true and fair view of the state of affairs of the Company in compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Companies Act, 1965. The BAC also meets twice a year with the external auditors, without the presence of the Management and the executive Board member, for discussion on any key issues/areas that require attention of the BAC and the Board.

Group Internal Audit ("GIA") also undertakes an independent assessment of the internal control systems throughout the Company and the Group, based on the annual audit plan approved by the BAC, to ensure that deficiencies or issues will be promptly resolved by the Management. An overview of the Company's internal control are contained in the Statement on Risk Management & Internal Control set out on pages 29 to 31 of this Annual Report.

Assessment of external auditors

The BAC undertakes an assessment of the suitability and independence of the external auditors based on qualifying criteria for the appointment of auditors and terms of audit engagements in accordance with BNM's Guidelines – "External Auditor" dated 28 June 2013. In addition, the work performance of the external auditors is assessed through a survey sent out to management personnel requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the reporting financial year. The survey covers areas such as quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness, relationship management and staff continuity. Having satisfied itself with their performance and fulfilment of criteria as set out in the relevant BNM's Guidelines, the BAC will recommend the re-appointment of the external auditors to the Board, upon which the shareholders' approval will be sought at the AGM.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors ("Policy"). The BAC and Group Board Audit Committee ("GBAC") review the non-audit services rendered by the External Auditors and the related fees prior to approval of non-audit service by the External Auditors. A report on non-audit fees is also presented to the BAC and the GBAC quarterly. This is to ensure that the independence of the External Auditors is not compromised and its compliance with the Policy and the terms of all relevant professional and regulatory requirements when rendering the audit and non-audit services to the Group. The External Auditors are also required to declare/confirm their independence for all non-audit engagements undertaken.

RECOGNISE AND MANAGE RISKS

Risk management framework

The Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and safeguard shareholders' investments as well as the Company's and the Group's assets. The BRC oversees the risk framework of the Group, reviews the Management's risk management activities and policies formulated by the Management for recommendation to the Boards for approval. In addition to the monthly updates on matters that have been deliberated at BRC meetings, a Group Risk Management Report (including the entities' and the Group's risk metrics and tolerance dashboard) is also presented to the Board on a monthly basis.

The Company and the Group continue to maintain and review its internal control procedures to ensure, as far as possible, the protection of its assets and liabilities and its shareholders' investments. The Board considers that the Group's risk management framework and system of internal control maintained by the Management, and which was in place throughout the financial year and up to and as of the date of this report, are operating adequately and effectively to safeguard the shareholders' investment and the Company's and the Group's assets. An overview of the Company's system of risk management is contained in the Risk Management Statement set out on page 37 of this Annual Report.

Internal audit

The GIA, led by the Group Chief Internal Auditor, reports directly to the GBAC and BAC. Being guided by the Group Internal Audit Charter, the GIA performs regular reviews and reports on the adequacy and effectiveness of the Group's risk management, internal control and governance processes. The results of the audits conducted by GIA are reported to the BAC/GBAC. The follow-up actions and the review of the status of actions taken as per the auditors' recommendations are carried out by the Management via the various Management Audit Committees ("MACs") (chaired by their respective MDs) established at the key operating subsidiaries within the Group. These MACs have been consolidated into one committee and renamed as Group Audit Committee effective March 2014. The Group internal auditors also work closely with the external auditors to resolve any control issues as raised by them to ensure that all issues are duly acted upon by the Management. Further details of the activities of the GIA function are set out in the Statement on Risk Management & Internal Control of this Annual Report.

ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate disclosure

The Group places strong emphasis on clear, comprehensive, timely and equitable dissemination of information on the business activities, the milestones achieved, the developments that have taken place and financial performance. The Group, guided by the Bursa Securities' Corporate Disclosure Guide, MMLR, Financial Services Act 2013, etc., ensures that complete and accurate financial information, updates on major corporate exercises, business events, etc. are released to the public on a timely manner. In 2013, the Group adopted a media communication plan whereby clear roles and responsibilities of Chairman and Senior Management are defined together with levels of authority in handling disclosure of material corporate, business and financial information to the public via media channels.

In addition, the Directors and employees are required to execute confidentiality undertakings in compliance to the secrecy requirement of the Financial Services Act 2013 or other regulatory requirements in respect of information which they may acquire through the business of the RHB Capital and subsidiaries.

Information technology and efficient dissemination of information

The corporate section on the Group's website which provides all relevant information on the Group (including information on dividend, capital & debt instruments, credit rating, all announcements released on Bursa Securities' website, annual reports, corporate structure as well as corporate governance statement of RHB Capital) is publicly accessible.

The announcement of the quarterly financial results is made via Bursa LINK on the scheduled date, following which a press release is issued. It is also the Group's practice to organise live analyst briefings for the half year and full year results, whilst conference calls are organised for the first and third quarter. These analyst briefings and conference calls are led by the Group MD, together with the Group Chief Financial Officer. Members of the Senior Management team are also in attendance, reflecting the commitment to providing a high degree of clarity to the investment community.

The presentation materials for the briefings and conference calls are simultaneously made available publicly on RHB's website upon the uploading of results to Bursa Securities.

The briefings and conference calls serve as an avenue to provide dialogue between research analysts and fund managers with the Group's Senior Management as well as to provide a platform for them to receive a balanced and complete view of the Group's performance and updates of the Group's business initiatives and strategies.

COMPLIANCE WITH THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012 ("CODE")

The Board is satisfied that the Company is generally in compliance with principles and recommendations of the Code.

This Statement on Corporate Governance was approved by the Board on 15 April 2014.

ADDITIONAL COMPLIANCE INFORMATION

Related party transactions

The Group has put in place a Policy on Related Party Transaction Review Process which serves as a guide for reviewing and reporting of all related party transactions. All related party transactions are reviewed by Group Legal before any submission is made to the GBAC for deliberation.

Sanctions and penalties

There were no public reprimands, sanctions and/or penalties imposed on the Company and its Directors or Management by the relevant regulatory bodies for the financial year 2013.

Material contracts involving Directors' and major shareholders' interest

There were no material contracts of RHB Capital and its subsidiaries involving Directors' and major shareholders' interests which subsisted at the end of the 12-month financial period from 1 January 2013 to 31 December 2013.

Statement on Risk Management & Internal Control

INTRODUCTION

The Board of Directors ("Board") recognises the importance of maintaining a sound risk management framework and internal control system to safeguard shareholders' investments and RHB Insurance Berhad's (the "Insurance Company") assets. The risk management and internal control system that we have in place facilitates our business operations and enables us to manage the Insurance Company in an effective and efficient manner with sound financial reporting as well as compliance with the relevant laws, regulations and internal procedures.

Set out below is the Board's Statement on Risk Management & Internal Control, which has been prepared in accordance with the "Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers".

RESPONSIBILITY

The Board is responsible for the adequacy and effectiveness of the Insurance Company's risk management and internal control system. The responsibilities of the Board for the governance of risk and controls include reviewing the risk management framework and processes, and assessing whether they provide reasonable assurance that risks are managed within the Insurance Company's defined risk appetite and tolerance level.

The risk management and control framework established by the Board to manage risks includes an ongoing process for identifying, evaluating, managing and reporting significant risks that may affect the achievement of the Insurance Company's business objectives and strategies.

Whilst total elimination of risks is not possible, the risk management and internal control system that is in place is designed to manage risks in meeting the Insurance Company's business objectives. The system can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

Management assists the Board in implementing Board policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operations and monitoring of appropriate internal controls to mitigate these risks. In this regard, the Board acknowledges that it has received assurances from the Managing Director ("MD") and Group Chief Financial Officer as well as the Group Chief Risk Officer that the Insurance Company's risk management and internal control system is operating adequately and effectively.

Reviewing the effectiveness of the risk management and internal control system is an essential part of the Board's responsibility. The Board has, through its Board Risk Committee ("BRC") and Board Audit Committee ("BAC"), assessed the adequacy and effectiveness of the Insurance Company's risk management and internal control system. Based on these reviews as well as the assurance it has received from Management, the Board is of the view that the Insurance Company's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this report.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

A sound framework of risk management and internal control is fundamental to good corporate governance. The key processes established by the Board for maintaining a sound system of risk management and internal control include the following:

Risk Management Framework

The risk management process seeks to identify, measure, monitor and control risk. It also seeks to ensure that risk exposures are adequately managed and that the expected returns compensate the risks taken, given that the risks within the industry we operate in are continuously changing and evolving. This process is regularly reviewed by the Board through its BRC which ensures the proper management of risks and that the appropriate measures are taken to mitigate any identified weaknesses in the control environment.

The Board, through the BRC, maintains overall responsibility for risk oversight within the Group. In discharging its overall duties and responsibilities, the BRC is supported by the Group Risk Management function which monitors and evaluates the effectiveness of the Group's risk management system and operations on an ongoing basis.

Amongst the other committees set up in the Group to manage specific areas of risk are the Group Assets & Liabilities Committee, Group Credit Committee, Board Credit Committee, Board Technology Committee, Group Capital & Risk Committee as well as the Investment Committee.

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

To support and promote accountability and ownership of risk management, a Risk and Control Self-Assessment framework has been implemented at key operating entities within the Group as part of the risk management process. These entities are required to identify and document the controls and processes for managing the risks arising from their business activities, as well as to assess the effectiveness thereof.

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

Internal Audit function

Group Internal Audit ("GIA") performs regular reviews of the Insurance Company's operations and systems of internal control, and evaluates the adequacy and effectiveness of the controls, risk management and governance processes implemented by Management. GIA adopts a risk-based approach in determining the auditable units and frequency of audits. The annual audit plan is reviewed and approved by the BAC.

The results of the audits conducted by GIA are reported to the BAC. Follow-up action and the review of the status of action taken as per the auditors' recommendations are carried out by Management via the Management Audit Committee (chaired by the MD) whose members comprise Senior Management. The minutes of meetings of the Management Audit Committee is tabled to the BAC for notation. The various Management Audit Committees established at the key operating subsidiaries in the Group have been consolidated into one committee and renamed as Group Audit Committee effective March 2014.

The BAC holds regular meetings to deliberate on the findings and recommendations for improvement highlighted by both the internal and external auditors as well as the regulatory authorities on the state of the Insurance Company's internal control system. The minutes of the meetings of the BAC are subsequently tabled to the Board for notation.

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

Group Compliance Framework

Compliance risk within the RHB Banking Group is defined as the risk of impairment to the Group's business model, reputation and financial condition from failure to meet laws and regulations, internal policies and procedures.

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

The Group's state of compliance with laws, regulations and internal policies and procedures are reported to the BRC and Board on a monthly basis. In addition, the Group has in place an incident escalation and reporting process wherein any incident affecting the reputation of the Group is escalated to the Senior Management and respective Boards within 24 hours of the incident occurring. This escalation process ensures oversight and guidance is provided by the Board in managing reputational risk.

The Compliance unit in collaboration with the business and operating units, continuously assesses and recommends improvements to compliance by carrying out root cause analysis on incidences of non-compliance, negligence or fraud (all of which are reported on a daily basis).

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

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

Board Committees

Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of references. These committees have oversight authority to examine and/or consider all matters within their scope of responsibility and make recommendations to the Board for approval, if such is required.

The following are the Group Board Committees that reside at RHB Bank Berhad:

- Board Credit Committee;
- Board Audit Committee; and
- Board Technology Committee.

The Group Board Committees currently residing at RHB Capital Berhad are as follows:

- Board Nominating & Remuneration Committee;
- Board Risk Committee; and
- Group Board Audit Committee.

Management Committee

The Management Committee ("MC") comprises key management personnel of the Insurance Company and is chaired by the MD. The MC provides a forum for the Insurance Company's Senior Management to discuss and deliberate on strategic matters that impact the Insurance Company's vision, strategic direction, business synergies and brand value as well as to chart its strategic roadmap. The MC meets regularly and special meetings are convened to discuss urgent issues.

Authority limits

Delegation of authority including authorisation limits at various levels of Management in the Group are documented and designed to ensure accountability and responsibility.

Internal policies and procedures

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

Budgeting process

A detailed budgeting process is established requiring all key operating companies in the Group to prepare budgets and business plans annually for approval by the respective Boards. The Group's budget and business plans as well as strategic initiatives, taking into account the risk appetite, are discussed by the Group's Senior Management and the Board at an annual business planning and budgetary session.

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

Performance review

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

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

Human Capital Management

The Group acknowledges that one of the key constituents of any internal control system is its people and that our system of risk management and internal control is dependent on the responsibility, integrity and judgement that people apply to their work.

Hence, the Group has in place policies and procedures that govern recruitment, appointment, performance management, talent management, succession planning, compensation and reward, learning and human capital development, as well as policies and procedures that govern discipline, termination and dismissal.

The Group places emphasis on human capital development and talent management with the objective of ensuring that staff at every level are adequately trained from a technical perspective as well as equipped with management and leadership capabilities.

Group Code of Ethics and Conduct

The Group Code of Ethics and Conduct (the "Code") sets out the standards of good and ethical banking practices, as well as aims to maintain confidence in the security and integrity of the Group's business practices.

It is a requirement that all employees of the Group understand and observe the Code. New recruits are briefed on the Code and are required to sign the Employee Declaration of Compliance Form upon joining the Group.

Group Whistle Blower Policy

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Group. All staff are accorded the opportunity to report via the Whistle Blowing mechanism with the assurance that it shall be dealt with confidentiality and that the reporter's identity is protected.

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

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

Incident Management framework

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

Board Audit Committee Report

ACTIVITIES OF THE BOARD AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Activities of the Board Audit Committee

During the financial year ended 31 December 2013 ("year"), a total of twenty (20) Board Audit Committee ("BAC") meetings were held. The BAC comprises the following members and the details of attendance of each member at the BAC meetings held during the year are as follows:

Composition of the BAC	Attendance at Meetings
1. Mr Ong Seng Pheow (Chairman/Independent Non-Executive Director)	20/20 (100%)
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	19/20 (95%)
3. Dato' Saw Choo Boon (Member/Independent Non-Executive Director)	20/20 (100%)
4. Dato' Mohd Ali Mohd Tahir (Member/Independent Non-Executive Director) - Resigned as a member on 28 January 2014	16/20 (80%)
5. Haji Md Ja'far Abdul Carrim (Member/Non-Independent Non-Executive Director) - Resigned as a member on 23 May 2013	9/9 (100%)
6. Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director) - Appointed as a member on 28 January 2014	Not Applicable

Tuan Haji Md Ja'far Abdul Carrim, a Non-Independent Non-Executive Director, resigned as a member of the BAC on 23 May 2013.

On 28 January 2014, Datuk Haji Faisal Siraj, an Independent Non-Executive Director ("INED"), was appointed as a member of BAC in place of Dato' Mohd Ali Mohd Tahir, an INED, who has resigned as BAC member.

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

- Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Insurance Berhad and the key operating entities within the Group before recommending them for approval by the Board;
- Reviewed the audit plan of the external auditors, the audit strategy, risk assessment and areas of audit emphasis for the year;
- Reviewed with the external auditors, the results of their annual audit and audit committee report together with the Management's response to their findings and recommendations;
- Met twice with the external auditors without the presence of the Management;
- Reviewed the non-audit services rendered by the external auditors and the related fees taking into consideration the fees threshold established under the Group policy;
- Evaluated the performance of the external auditors and made the necessary recommendations to the Board for consideration in relation to their appointment and audit fees;
- Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the identified auditable areas including staffing requirements;
- Reviewed the internal audit reports, audit recommendations and Management's responses to these recommendations as well as actions taken to improve the system of internal controls and procedures, and completion of the internal audit plan;
- Reviewed the related party transactions entered into by RHB Insurance Berhad and the other entities within the Group;
- Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in respect of any findings to satisfy itself that all matters highlighted in these reports have been adequately and promptly addressed by management; and
- Tabled the minutes of each BAC meeting to the Board for notation, and for further direction by the Board, where necessary.

During the year, the Members of the BAC attended the following training programmes, conferences and seminars:

(a) Banking and Finance

- Training on OSK Products
- Financial Services Act 2013 and Islamic Financial Services Act 2013 and Directors and Officers Liability Insurance Policy Presentation
- Personal Data Protection Act 2010 and Foreign Account Tax Compliance Act Presentation
- FIDE Elective Programmes: Banking Fundamentals Programme
- FIDE Elective Programmes: Corporate Finance for Directors Programme
- FIDE Elective Programmes: Mergers & Acquisitions for Financial Institutions
- Training Session No. 4 of Internal Capital Adequacy Assessment Process

(b) Board and Corporate Governance

- Shariah Awareness Programme
- Directors' Remuneration Seminar 2013 "The Best Practice"
- Corporate Governance Symposium 2013
- Governance in Groups Programme
- FIDE Elective Programmes: Advanced Risk Governance and Risk Management
- FIDE Elective Programmes: Risk Management Committees – Insurance Programme
- Advocacy Sessions on Corporate Disclosure for Directors of Listed Issuers

Internal Audit function

The Group has an in-house group internal audit function which is guided by the Group Internal Audit Charter and reports to the BAC. Group Internal Audit's primary role is to assist the BAC in the discharge of their duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Group's risk management, internal control and governance processes.

The BAC approves the annual internal audit plan at the beginning of each financial year. Group Internal Audit adopts a risk-based approach towards the planning and conduct of audits, which is consistent with the Group's framework in designing, implementing and monitoring its internal control system.

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

Group Internal Audit works closely with the external auditors to resolve any control issues raised by them to ensure that all reported issues are duly acted upon by Management.

TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE

Objectives

1. To provide independent oversight over the management of the financial reporting and internal control system and ensuring checks and balances for entities within RHB Banking Group ("the Group"), namely RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad.

2. To review the financial condition and performance of the Group.

3. To assist the Board ("the Board") 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.

4. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit activities.

5. To provide, by way of regular meetings, a line of communication between the respective Boards and the external auditors.

6. 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.

7. To review the quality of the audits conducted by the internal and external auditors.

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

Duties and Responsibilities

1. The BAC is directly accountable to the Boards of the respective entities and the Boards will continue to be accountable for all matters relating to their respective entities.

2. To ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives.

3. To ensure independent review of risk management and capital management process relating to the Internal Capital Adequacy Assessment Process ("ICAAP") for their integrity, objectivity and consistent application, is conducted.

4. To review the effectiveness of internal controls and risk management processes, including the scope of the internal audit programme and the appropriateness of the risk assessment methodology employed to determine the frequency and scope of audits.

5. To ensure that the reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, the reports of internal auditors should not be subject to the clearance of the Managing Director/Chief Executive Officer or any Executive Directors.

6. To ensure that all findings and recommendations are resolved effectively and in a timely manner.

7. To make appropriate public disclosure of the terms of reference and the activities of the Committee in the respective licensed entities' financial statements.

8. To review the respective entities' quarterly results and year-end financial statements and to recommend the same to the respective Boards for approval whilst ensuring that they are prepared in a timely and accurate manner complying with all applicable accounting and regulatory requirements and are promptly published.

9. To review regularly the adequacy of provisions made and to recommend the same to the respective Boards for approval.

10. To review any related party transaction and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.

11. To review with the external and internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.

12. To review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.

13. To review and approve the internal audit plan, audit charter and the budget for the audit plan.

14. To ensure that internal audit staff receives necessary training to perform audit work. There shall be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.

15. To appraise the performance of the Group Chief Internal Auditor and to review the appraisals of senior staff members of the internal audit function.

16. To approve any appointment or termination of the Group Chief Internal Auditor and senior staff members of the internal audit function and to review any resignations of internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.

17. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of management, where necessary.

18. To recommend to the respective Boards on the appointment and the annual reappointment of the external auditors and assessing their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.

19. To discuss and review with the external auditors any proposal from them to resign as auditors.

20. To investigate reasons for any request made by management to dismiss the external auditors, or any resignation by the external auditors. The results of the investigation shall be disclosed to the respective full Board together with the recommendations on proposed actions to be taken.

21. To review the non-audit services rendered by the external auditors together with the related fees and thereafter approving or recommending the same to the respective Boards for approval (whichever relevant), in accordance with the Group Policy on Non-Audit Fees payable to the external auditors.

22. To review the coordination of audit activities between the external and internal auditors.

23. To review the effectiveness of the infrastructure for ensuring Shariah compliance.

24. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.

25. To review the following pertaining to RHB Insurance Berhad:

    (i) The Chairman's Statement, interim financial reports and preliminary announcements;

    (ii) Corporate governance disclosures made in the Directors' Report pursuant to the requirement in BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers; and

    (iii) All representation letters signed by management, and be satisfied that the information provided is complete and appropriate.

26. To ensure that RHB Insurance Berhad complies with Section 95 of the Insurance Act which requires the Company to publish its accounts within fourteen (14) days of the laying of its accounts at its annual general meeting.

27. To review the minutes of meetings of other BACs within the Group to the extent permitted by the relevant regulatory authorities and be satisfied that all matters arising therefrom are being appropriately addressed by these other BACs.

28. To perform any other functions as authorised by the respective Boards.

Authority

1. The Chairman of the Committee should engage on a continuous basis with Senior Management, such as the Managing Director/Chief Executive Officer, the Group Chief Operations Officer, the Group Chief Financial Officer, the Group Chief Internal Auditor and the external auditors in order to be kept informed of matters affecting the Group.

2. The Committee is authorised by the respective Boards to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to relevant information. It is also authorised to seek any information it requires from any employee of the Group and all employees are directed to cooperate with any request made by the Committee.

3. The Committee shall have direct communication channels with the external and internal auditors.

4. The Committee is authorised by the respective Boards to obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend meetings, if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year and the frequency of meetings shall reflect the wider and increased responsibilities assumed. Meetings shall convene with a minimum quorum of two-thirds of the members and the majority of members present shall be Independent Non-Executive Directors.

2. The Committee should not convene any meeting to discuss specific issues of a particular entity without the presence of the representative of the said entity.

3. The Group Chief Internal Auditor shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the Managing Director/Chief Executive Officer, the Group Chief Operations Officer, the Group Chief Financial Officer, any other directors or members of the Management and employees of the Group to be in attendance during meetings to assist in its deliberations.

4. At least twice a year, the Committee shall meet with the external auditors without the presence of the Management or any executive Board members and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.

5. The Company Secretary shall act as Secretary of the Committee and shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to Committee members within a reasonable timeframe prior to each meeting.

6. The Company Secretary shall also be responsible for keeping the minutes of meetings of the Committee, their timely circulation to Committee members and other members of the Boards, and following up on outstanding matters in relation to the meetings.

7. The Chairman of the Committee shall provide written reports to the respective Boards on the deliberations of the Committee on a regular basis. In addition, the Chairman shall also present summary of all significant matters (highlighting the risks and implications) and resolutions made by the Committee at the Board meetings.

8. The minutes of each Committee meeting shall be tabled to the respective Boards. Thereafter, a copy of the minutes of the Committee meeting pertaining to RHB Investment Bank Berhad shall be submitted to Bursa Malaysia Securities Berhad within thirty (30) days from the date of the minutes having been adopted by the Board.

Membership

1. The membership of the Committee, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Board Nominating & Remuneration Committee.

2. The Committee shall comprise at least three (3) members and there should be a fair representative on the Committee, from each entity within the Group. All members of the Committee should be Non-Executive Directors with majority of whom are independent.

3. The Chairman of the Committee shall be an Independent Non-Executive Director.

4. No Committee member shall be employed in an executive position in the Group, or otherwise have a relationship which in the opinion of the respective Boards will interfere with the exercise of independent judgement in carrying out the functions of the Committee. In addition, members of the Committee shall not be directly responsible for, or part of any committee involved in, the management functions within the Group.

5. No alternate director shall be appointed as a member of the Committee.

6. Disclosure of customers' information to the members of the Committee to be strictly on need to know basis and the members are to provide undertaking to preserve the confidentiality of the customers' information.

7. Collectively, the Committee shall have a wide range of necessary skills to undertake its duties and responsibilities and are expected to be familiar with the areas included in the scope of internal audit, including the area of risk management.

8. All members of the Committee shall be financially literate and at least one member shall be a member of an accounting association or body.

9. Details of the activities of Committee, the number of audit meetings held in a year, details of attendance of each member in respect of meetings, and the details of relevant training attended by each member should be documented in an informative way.

10. The term of office and performance of the Committee and each of its members must be reviewed by the respective Boards at least once every two (2) years.

11. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the respective Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

Risk Management Statement

Risk Management Framework

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

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

The main objectives of the BRC 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 BRC, the Company's Investment Committee manages interest rate risk, market risk, credit risk and liquidity risk associated with Company's investments. The Investment Committee comprises 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.

Capital Management Policy

Capital Management Policy ("CMP") sets out recommendations 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 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.

Responsibility Statement by the Board of Directors

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

It is the responsibility of the Directors to ensure that the financial reporting of the Company present a true and fair view of the state of affairs of the Company as at 31 December 2013 and of the financial results and cash flows of the Company for the financial year ended 31 December 2013.

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

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 94 of the financial statements.

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Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2013.

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	71,100
Retained earnings brought forward	165,322
Profits available for appropriation	236,422
Dividend paid during the financial year	(18,750)
Retained earnings carried forward	217,672

DIVIDENDS

The dividends paid by the Company since 31 December 2012 are as follows:

	RM'000
A final dividend of 25% less tax at 25% for the financial year ended 31 December 2012, paid on 10 June 2013.	18,750

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year of 18.75% on 100,000,000 ordinary shares amounting to RM18,750,000, will be proposed for shareholders' and Bank Negara Malaysia's ("BNM") 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 2014 when approved.

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 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 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 also has in place a Code of Ethics 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.

BOARD OF DIRECTORS

Composition of the Board

The Board currently comprises an Independent Non-Executive Chairman, four (4) Independent Non-Executive Directors ("INEDs"), one (1) Non-Independent Non-Executive Director ("NINED") and a Managing Director, details of which are as follows:

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

Mr Ong Seng Pheow was appointed as the Chairman of the Company in place of Tuan Haji Md Ja'far Abdul Carrim who has been re-designated as the NINED with effect from 23 May 2013.

Datuk Haji Faisal Siraj was appointed as the Senior INED in place of Mr Ong Seng Pheow who has been appointed as the Chairman with effect from 5 July 2013.

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.

CORPORATE GOVERNANCE (CONTINUED)

Duties and Responsibilities of the Board (Continued)

The day-to-day management of the Company is delegated to the Managing Director ("MD") who is responsible for 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.

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 seventeen (17) meetings for the financial year ended 31 December 2013. 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 (%)
Mr Ong Seng Pheow	17/17	100
Datuk Haji Faisal Siraj	17/17	100
Tuan Haji Md Ja'far Abdul Carrim	17/17	100
Dato' Othman Jusoh	17/17	100
Dato' Teo Chiang Liang	14/17	82
En Abdul Aziz Peru Mohamed	17/17	100
Mr Kong Shu Yin	17/17	100

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.

CORPORATE GOVERNANCE (CONTINUED)

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.

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.

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.

CORPORATE GOVERNANCE (CONTINUED)

Group Audit Committee

The Group Audit Committee ("Group AC") comprises four (4) INEDs of whom one (1) is the Chairman. A total of twenty (20) meetings were held during the financial year ended 2013 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 (%)
Mr Ong Seng Pheow *(Chairman/INED)*	20/20	100
Dato' Othman Jusoh *(Member/INED)*	19/20	95
Tuan Haji Md Ja'far Abdul Carrim *(Member/INED)* [1]	9/9	100
Dato' Saw Choo Boon *(Member/INED)*	20/20	100
Dato' Mohd Ali Bin Mohd Tahir *(Member/INED)*	16/20	80

Notes:
[1] Resigned as Member of Group AC with effect from 23 May 2013.

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 NHRC comprises of five (5) INEDs and one (1) NINED. During the financial year ended 31 December 2013, a total of fifteen (15) meetings were held for the Group NHRC and the details of the attendance of each member are as follows:

Members of Group NHRC	Total meetings attended	Percentage of attendance (%)
Datuk Haji Faisal Siraj *(Chairman/INED)*	14/15	93
Dato' Mohamed Khadar Merican *(Member/INED)*	13/15	87
Dato' Saw Choo Boon *(Member/INED)*	15/15	100
Dato' Teo Chiang Liang *(Member/INED)*	12/15	80
Mr Choong Tuck Oon *(Member/INED)*	12/15	80
Tuan Haji Md Ja'far Abdul Carrim *(Member/NINED)*	15/15	100

CORPORATE GOVERNANCE (CONTINUED)

Group Nominating and Human Resource Committee (Continued)

The main objectives of the Group NHRC are to support the Boards in the following:

(i) 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")/Heads of Company 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.

(ii) Oversight and direction on Human Resource matters and operations, and to recommend to the Boards for approval, the remuneration and human resource strategies, policies and frameworks.

Group Risk Management Committee

The Group Risk Management Committee ("Group RMC") comprises of five (5) Non-Executive Directors. During the financial year ended 31 December 2013, a total of twenty five (25) 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)*	22/25	88
Mr Patrick Chin Yoke Chung *(Member/INED)*	24/25	96
Tuan Haji Md Ja'far Abdul Carrim *(Member/NINED)*	25/25	100
Mr Choong Tuck Oon *(Member/INED)*	19/25	76
Dato' Saw Choo Boon *(Member/INED)*	24/25	96

The main objectives of the Group RMC are as follows:

(i) to provide oversight and governance of risks at the Group. For avoidance of doubt, the Group refers to all entities under the umbrella of RHB Capital Berhad, both local and foreign, whether onshore of offshore;

(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 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.

CORPORATE GOVERNANCE (CONTINUED)

Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee ("GIT&TSC") comprises four (4) INEDs, the Group MD and the MD of RHB Bank Berhad. During the financial year ended 31 December 2013, a total of thirteen (13) meetings were held and the details of the attendance of each member are as follows:

Members of Group GI&TSC	Total meetings attended	Percentage of attendance (%)
Mr Choong Tuck Oon *(Chairman/INED)*	13/13	100
Mr Ong Seng Pheow *(Member/INED)*	12/13	92
Dato' Mohd Ali Bin Mohd Tahir *(Member/INED)*	12/13	92
Mr Kellee Kam Chee Khiong *(Member/Group MD)*	10/13	77
En Johari Abdul Muid *(Member/MD of RHB Bank Berhad)* [1]	6/8	75
Dato' Khairussaleh Ramli (Member/MD of RHB Bank Berhad) [2]	-	-
Mr Charles Lew Foon Keong (Member/INED) [2]	-	-

Notes:
1 Resigned with effect from 18 July 2013
2 Appointed on 20 December 2013

The principal responsibility of the GIT&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 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 ongoing 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.

CORPORATE GOVERNANCE (CONTINUED)

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 the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia. In accordance with Section 66 of the Financial Services Act 2013, 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:

Mr Ong Seng Pheow
Datuk Haji Faisal Siraj
Tuan Haji Md Ja'far Abdul Carrim
Dato' Othman Jusoh
Dato' Teo Chiang Liang
En Abdul Aziz Peru Mohamed
Mr Kong Shu Yin

In accordance with Article 74 of the Company's Articles of Association, Datuk Haji Faisal Siraj and En Abdul Aziz Peru Mohamed 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 1.1.2013	Bought	Sold	As at 31.12.2013
Holding company RHB Capital Berhad				
Dato' Teo Chiang Liang				
- Indirect [1]	5,204	154	-	**5,358**

Notes:

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

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.

CORPORATE GOVERNANCE (CONTINUED)

DIRECTORS' BENEFITS

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

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

HOLDING COMPANY

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

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 21 February 2014.

ONG SENG PHEOW
CHAIRMAN

KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur
6 March 2014

Statement of Financial Position

As at 31 December 2013

	Note	31.12.2013 RM'000	31.12.2012 RM'000
ASSETS			
Property, plant and equipment	5	**5,821**	6,741
Intangible assets - computer software	6	**1,022**	385
Investments	7	**673,805**	570,144
- Held-to-maturity		**15,400**	15,398
- Fair value through profit or loss		**121,017**	75,388
- Available-for-sale		**454,883**	344,217
- Loans and receivables		**82,505**	135,141
Reinsurance assets	9	**261,164**	191,147
Insurance receivables	10	**66,228**	58,200
Other receivables	11	**58,528**	27,115
Cash and cash equivalents	12	**9,231**	1,091
Total assets		**1,075,799**	854,823
LIABILITIES			
Insurance contract liabilities	13	**658,523**	517,285
Insurance payables	14	**63,385**	35,798
Other payables	15	**32,876**	31,300
Deferred tax liabilities	16	**1,196**	103
Current tax liabilities		**2,878**	4,459
Total liabilities		**758,858**	588,945
SHAREHOLDERS' FUND			
Share capital	17	**100,000**	100,000
Retained earnings	18	**217,672**	165,322
Available-for-sale reserve		**(731)**	556
		316,941	265,878
Total liabilities and shareholders' fund		**1,075,799**	854,823

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

Income Statement

For the Financial Year Ended 31 December 2013

	Note	31.12.2013 RM'000	31.12.2012 RM'000
Gross earned premiums	19	**495,302**	430,123
Premiums ceded to reinsurers	19	**(178,134)**	(140,376)
Net earned premiums	19	**317,168**	289,747
Investment income	20	**23,481**	20,201
Realised gains	21	**4,944**	4,545
Fair value gains	22	**7,599**	3,348
Reinsurance commission income		**38,769**	32,360
Other operating income		**10,056**	974
Other income		**84,849**	61,428
Gross claims paid	13(a)	**(193,940)**	(178,114)
Claims ceded to reinsurers	13(a)	**58,222**	56,358
Gross change to claims liabilities	13(a)	**(100,859)**	(46,414)
Change in claims liabilities ceded to reinsurers	13(a)	**57,785**	12,628
Net claims		**(178,792)**	(155,542)
Commission expense		**(71,749)**	(61,185)
Management expenses	23	**(66,876)**	(58,011)
Other expenses		**(138,625)**	(119,196)
Profit before taxation		**84,600**	76,437
Taxation	24	**(13,500)**	(16,953)
Profit for the financial year		**71,100**	59,484
Basic earnings per share (sen)	25	**71.10**	59.48

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

Statement of Comprehensive Income

For the Financial Year Ended 31 December 2013

	Note	31.12.2013 RM'000	31.12.2012 RM'000
Profit for the financial year		**71,100**	59,484
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to the income statements			
Available-for-sale reserve			
- Net (loss)/gain arising during the financial year	7(e)	**(1,716)**	256
- Income tax relating to components of other comprehensive income/(loss)		**429**	(64)
		(1,287)	192
Total comprehensive income for the financial year		**69,813**	59,676

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

Statement of Changes in Equity

For the Financial Year Ended 31 December 2013

	Issued and fully paid ordinary shares				
	No. of shares '000 units	RM1 each Nominal value RM'000	Distributable Retained earnings RM'000	Non distributable available-for-sale reserve RM'000	Total RM'000
31.12.2013					
At 1 January 2013	**100,000**	**100,000**	**165,322**	**556**	**265,878**
Total comprehensive income/(loss) for the financial year	**-**	**-**	**71,100**	**(1,287)**	**69,813**
Dividends paid during the financial year	**-**	**-**	**(18,750)**	**-**	**(18,750)**
At 31 December 2013	**100,000**	**100,000**	**217,672**	**(731)**	**316,941**
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

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

Statement of Cash Flow

For the Financial Year Ended 31 December 2013

	31.12.2013 RM'000	31.12.2012 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	**71,100**	59,484
Adjustment for:		
Realised gains	**(4,944)**	(4,545)
Fair value gains	**(7,599)**	(3,348)
Allowance for/(write back of) impairment on insurance receivables	**809**	(855)
Bad debts written off	**596**	16
Amortisation of premiums	**1**	2
Depreciation of property, plant and equipment	**1,916**	1,698
Amortisation of intangible assets - computer software	**175**	110
Investment income	**(23,482)**	(20,203)
Unrealised gain on foreign exchange	**(147)**	(196)
Taxation expense	**13,500**	16,953
Operating profit before changes in operating assets and liabilities	**51,925**	49,116
Purchase of fair value through profit or loss investments	**(80,136)**	(39,936)
Proceeds from sale of fair value through profit or loss investments	**46,803**	43,868
Decrease in loans and receivables	**52,192**	5,627
Purchase of available-for-sale investments	**(112,123)**	(65,078)
Recovery of fully impaired available-for-sale investments	**8**	5
Interest received	**4,870**	5,071
Dividend received	**18,685**	14,949
Increase in insurance receivables	**(9,292)**	(11,979)
Increase in other receivables	**(31,045)**	(8,292)
Increase in insurance contract liabilities	**141,238**	83,352
Increase in reinsurance assets	**(70,017)**	(28,772)
Increase/(decrease) in insurance payables	**27,587**	(15,382)
Increase in other payables	**1,576**	1,244
Cash generated from operations	**42,271**	33,793
Income taxes paid	**(13,559)**	(9,893)
Net cash generated from operating activities	**28,712**	23,900

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

	Note	31.12.2013 RM'000	31.12.2012 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,174)**	(4,244)
Purchase of intangible assets - computer software		**(812)**	(216)
Proceeds from sale of property, plant and equipment		**158**	-
Net cash used in investing activities		**(1,828)**	(4,460)
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		**6**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,140**	690
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		**1,091**	401
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	12	**9,231**	1,091

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

Notes to the Financial Statements

For the Financial Year Ended 31 December 2013

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2013:

- Amendment to MFRS 101 "Presentation of items of other comprehensive income" 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.

- MFRS 13, "Fair Value Measurement" 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 7, "Financial Instruments: Disclosures" 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.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2013: (Continued)

There were no material changes to the Company's accounting policies other than enhanced disclosures to the financial statements.

All other new standards, amendments to the published standards and interpretations to existing standards issued by the Malaysian Accounting Standards Board ("MASB") effective for financial period beginning on 1 January 2013 are not relevant to the Company.

The Company will apply the following applicable new standards, amendments to standards and interpretations in the following periods:

(i) Effective from financial year beginning on 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. The amendment is not expected to have a material impact on the financial statements of the Company.

(ii) Effective date yet to be determined by MASB

MFRS 9, "Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities", replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Company has yet to assess the full impact of MFRS 9 onto the Company's accounting policies. The Company will also consider the impact of the remaining phases of MFRS 9 when completed by MASB.

All other new standards, amendments to the published standards and interpretations to existing standards issue by the MASB effective for financial period subsequent to 1 January 2014 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) to the financial statements 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 five 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.

(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 de-recognised or impaired.

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

(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 de-recognised 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 de-recognised or impaired, at which time the cumulative gains or losses previously recognised in equity shall be transferred to the income statement.

(d) De-recognition

A financial asset or part of it is de-recognised 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 de-recognition 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 de-recognised when, and only when the obligation specified in the contract is discharged or cancelled or expires. On de-recognition 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(iii) Financial assets carried at fair value

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

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

(iv) Insurance receivables

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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

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

Reinsurance

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

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) General insurance underwriting results (Continued)

Reinsurance (Continued)

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 de-recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the date of statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are de-recognised 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) 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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Fair value of financial instruments

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

(i) The fair values of Malaysian Government Securities and BNM notes are based on the indicative middle prices obtained from BNM.

(ii) The fair values of corporate debt securities are based on quotations from Bondweb.

(iii) The fair values of quoted shares, warrants, loan stocks and Real Estate Investment Trusts ("REITs") are based on the quoted market price.

(iv) The fair values of loans are based on the discounted cash flows by using the interest rates at valuation date for similar loans.

(v) The fair value of wholesale unit trust fund is based on the fair value of the underlying assets in the fund.

(vi) The carrying amounts of other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

(r) Equity instruments

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

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.

(i) 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
31.12.2013					
Net book value					
At beginning of financial year	**608**	**324**	**532**	**5,277**	**6,741**
Additions	**-**	**-**	**751**	**423**	**1,174**
Disposals	**-**	**-**	**(178)**	**-**	**(178)**
Depreciation charge	**(8)**	**(8)**	**(397)**	**(1,503)**	**(1,916)**
At end of financial year	**600**	**316**	**708**	**4,197**	**5,821**
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
31.12.2013					
Cost	**1,793**	**1,205**	**814**	**13,176**	**16,988**
Accumulated depreciation	**(1,193)**	**(889)**	**(106)**	**(8,979)**	**(11,167)**
Net book value	**600**	**316**	**708**	**4,197**	**5,821**
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

6 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	31.12.2013 RM'000	31.12.2012 RM'000
Cost		
At beginning of financial year	**2,573**	2,357
Additions	**812**	216
At end of financial year	**3,385**	2,573
Accumulated amortisation		
At beginning of financial year	**2,188**	2,078
Amortisation for the financial year	**175**	110
At end of financial year	**2,363**	2,188
Net book value		
At end of financial year	**1,022**	385

7 INVESTMENT

	31.12.2013 RM'000	31.12.2012 RM'000
Debt securities	**15,400**	15,398
Equities securities	**119,180**	71,278
Wholesale unit trust funds	**454,883**	344,217
Property trust funds	**1,837**	4,110
Staff loans	**180**	284
Fixed and call deposits	**82,325**	134,857
	673,805	570,144

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

	31.12.2013 RM'000	31.12.2012 RM'000
Held-to-maturity	**15,400**	15,398
Fair value through profit or loss	**121,017**	75,388
Available-for-sale	**454,883**	344,217
Loans and receivables	**82,505**	135,141
	673,805	570,144

The following investments mature after 12 months:

	31.12.2013 RM'000	31.12.2012 RM'000
Held-to-maturity	**15,400**	15,398
Loans and receivables	**170**	284
	15,570	15,682

7 INVESTMENT (CONTINUED)

		31.12.2013 RM'000	31.12.2012 RM'000
a)	Held-to-maturity ("HTM")		
	At amortised cost		
	Unquoted in Malaysia:		
	- Debt securities	**15,400**	15,398
		15,400	15,398
b)	Fair value through profit or loss ("FVTPL")		
	At fair value		
	Quoted in Malaysia:		
	Held-for-trading ("HFT")		
	- Equities securities	**119,180**	71,278
	- Property trust funds	**1,837**	4,110
		121,017	75,388
c)	Available-for-sale ("AFS")		
	At fair value		
	Unquoted in Malaysia:		
	- Wholesale unit trust funds	**454,883**	344,217
		454,883	344,217
d)	Loans and receivables ("LAR")		
	At amortised cost		
	- Loans	**180**	284
	- Fixed and call deposits	**82,325**	134,857
		82,505	135,141

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 2012	71,432	15,400	140,684	278,883	506,399
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)
Movement in accrued interest	-	-	84	-	84
At 31 December 2012	**75,388**	**15,398**	**135,141**	**344,217**	**570,144**
Purchases	**80,136**	**-**	**53,800**	**112,123**	**246,059**
Maturities	**-**	**-**	**(105,992)**	**-**	**(105,992)**
Disposals	**(42,098)**	**-**	**-**	**-**	**(42,098)**
Recovery of fully impaired unsecured corporate debts during the financial year	**-**	**-**	**-**	**(8)**	**(8)**
Fair value gains recorded in Income Statement	**7,591**	**-**	**-**	**259**	**7,850**
Fair value gains/(loss) recorded in Other Comprehensive Income	**-**	**-**	**-**	**(1,716)**	**(1,716)**
Movement in impairment allowance	**-**	**-**	**-**	**8**	**8**
Amortisation charge	**-**	**(1)**		**-**	**(1)**
Movement in accrued interest	**-**	**3**	**(444)**	**-**	**(441)**
At 31 December 2013	**121,017**	**15,400**	**82,505**	**454,883**	**673,805**

7 INVESTMENT (CONTINUED)

f) Fair value investments

	Fair value through profit or loss RM'000	Available-for-sale RM'000	Total RM'000
31.12.2013			
Level 1 - Quoted market price	**121,017**	**-**	**121,017**
Level 2 - Valuation techniques – market observable inputs	**-**	**454,883**	**454,883**
	121,017	**454,883**	**575,000**
31.12.2012			
Level 1 - Quoted market price	75,388	-	75,388
Level 2 - Valuation techniques – market observable inputs	-	344,217	344,217
	75,388	344,217	419,605

g) Fair value measurements

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

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

	Level 1 RM'000	Level 2 RM'000	Total RM'000
31.12.2013			
Fair value through profit and loss			
- Quoted equities securities	**119,180**	**-**	**119,180**
- Quoted property trust funds	**1,837**	**-**	**1,837**
Available-for-sale			
- Wholesale unit trust funds	**-**	**454,883**	**454,883**
	121,017	**454,883**	**454,883**
31.12.2012			
Fair value through profit and 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

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

7 INVESTMENT (CONTINUED)

g) Fair value measurements (Continued)

(i) Financial instruments in level 1

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

(ii) Financial instruments in level 2

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

8 STRUCTURED ENTITIES

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

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

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

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

8 STRUCTURED ENTITIES (CONTINUED)

The Company's exposure to investments in the investee funds is disclosed below:

	31.12.2013 RM'000	31.12.2012 RM'000
Number of wholesale unit trust funds	**3**	2
Average net asset value per unit of wholesale unit trust funds:		
RHB Income Plus Fund 2	**1.0127**	1.0163
RHB Income Plus Fund 9	**1.0000**	-
AmIncome Value	**0.9956**	1.0004
Fair value of underlying assets:		
Malaysian Government Securities	**-**	1,532
Debt securities	**323,601**	290,327
Call deposits	**128,214**	49,113
Receivables	**3,043**	3,242
Cash equivalents	**25**	3
	454,883	344,217
Total (loss)/gain incurred	**(975)**	741

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

9 REINSURANCE ASSETS

	31.12.2013 RM'000	31.12.2012 RM'000
Claims liabilities (Note 13)	**181,673**	123,888
Premium liabilities (Note 13)	**79,491**	67,259
	261,164	191,147

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

	31.12.2013 RM'000	31.12.2012 RM'000
Due premiums including agents, brokers and co-insurers balances	**66,709**	53,665
Due from reinsurers and cedants	**6,086**	10,293
	72,795	63,958
Allowance for impairment	**(6,567)**	(5,758)
	66,228	58,200

10 INSURANCE RECEIVABLES (CONTINUED)

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial liabilities set off in the statement of financial position RM'000	Net amounts of financial assets presented in the statement of financial position RM'000
31.12.2013			
Insurance receivables	**67,535**	**(1,307)**	**66,228**
31.12.2012			
Insurance receivables	61,414	(3,214)	58,200

11 OTHER RECEIVABLES

	31.12.2013 RM'000	31.12.2012 RM'000
Other receivables, deposits and prepayments	**4,108**	5,931
Amount due from Malaysian Motor Insurance Pool ("MMIP")		
- Cash call	**17,989**	-
- Assets held in MMIP	**35,480**	19,002
Amount due from stock brokers	**110**	1,709
Dividend income receivable	**841**	473
	58,528	27,115

MMIP amount as at 31 December 2013 is a net payable of RM7,378,283 (2012: RM22,951,176) after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premium liabilities included in Note 13 to the financial statements.

12 CASH AND CASH EQUIVALENTS

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

13 INSURANCE CONTRACT LIABILITIES

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2013			
Claims reported	**315,224**	**(137,485)**	**177,739**
Incurred but not reported claims ("IBNR")	**113,797**	**(44,188)**	**69,609**
Claims liabilities (Note (a))	**429,021**	**(181,673)**	**247,348**
Premium liabilities (Note (b))	**229,502**	**(79,491)**	**150,011**
	658,523	**(261,164)**	**397,359**
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)

(a) Claims liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2013			
At 1 January 2013	**328,162**	**(123,888)**	**204,274**
Claims incurred for current accident year			
- Paid	**75,616**	**(19,895)**	**55,721**
- Case reserves	**147,496**	**(77,923)**	**69,573**
- IBNR	**80,708**	**(32,324)**	**48,384**
Claims incurred for prior accident year			
- Paid	**118,324**	**(38,327)**	**79,997**
- Case reserves	**(260,067)**	**90,016**	**(170,051)**
- IBNR	**(61,218)**	**20,668**	**(40,550)**
At 31 December 2013	**429,021**	**(181,673)**	**247,348**
31.12.2012			
At 1 January 2012	281,748	(111,260)	170,488
Claims incurred for 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 for 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

(b) Premium liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2013			
At 1 January 2013	**189,123**	**(67,259)**	**121,864**
Premiums written for the financial year (Note 19)	**535,681**	**(190,366)**	**345,315**
Premiums earned during the financial year (Note 19)	**(495,302)**	**178,134**	**(317,168)**
At 31 December 2013	**229,502**	**(79,491)**	**150,011**
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

14 INSURANCE PAYABLES

	31.12.2013 RM'000	31.12.2012 RM'000
Due to agents and intermediaries	**30,586**	21,669
Due to reinsurers and cedants	**32,799**	14,129
	63,385	35,798

	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial assets set off in the statement of financial position RM'000	Net amounts of financial liabilities presented in the statement of financial position RM'000
31.12.2013			
Insurance payables	**64,692**	**(1,307)**	**63,385**
31.12.2012			
Insurance payables	39,012	(3,214)	35,798

15 OTHER PAYABLES

	31.12.2013 RM'000	31.12.2012 RM'000
Other payables	**11,333**	11,671
Other accrued expenses	**9,704**	9,544
Provision for staff bonus	**5,690**	4,661
Provision for advertising and marketing expenses	**2,342**	2,601
Provision for agents' profit commission	**1,897**	1,546
Provision for training expenses	**1,286**	708
Cash collaterals held on behalf of insureds	**588**	569
Amount due to fund managers	**36**	-
	32,876	31,300

16 DEFERRED TAX LIABILITIES

	31.12.2013 RM'000	31.12.2012 RM'000
At beginning of financial year	**(103)**	1,188
Transferred to Income Statement (Note 24)	**(1,522)**	(1,227)
Transferred to Other Comprehensive Income	**429**	(64)
At end of financial year	**(1,196)**	(103)

16 DEFERRED TAX 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
31.12.2013				
Excess of capital allowances over depreciation	**(670)**	**29**	**-**	**(641)**
(Accretion of discounts)/amortisation of premiums – net	**(156)**	**157**	**-**	**1**
Impairment gain on insurance receivables	**1,371**	**167**	**-**	**1,538**
Premium liabilities	**105**	**25**	**-**	**130**
Fair value change on FVTPL financial assets	**(2,719)**	**(1,898)**	**-**	**(4,617)**
Impairment loss on AFS financial assets	**2,151**	**(2)**	**-**	**2,149**
Fair value changes on AFS financial assets	**(185)**	**-**	**429**	**244**
Total	**(103)**	**(1,522)**	**429**	**(1,196)**
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)

	31.12.2013 RM'000	31.12.2012 RM'000
Recoverable within 12 months	**(1,196)**	(103)
Recoverable after 12 months	**-**	-
	(1,196)	(103)

17 SHARE CAPITAL

	31.12.2013 RM'000	31.12.2012 RM'000
Ordinary shares of RM1 each:		
Authorised:		
At beginning and end of financial year	**100,000**	100,000
Issued and fully paid:		
At beginning and end of financial year	**100,000**	100,000

18 RETAINED EARNINGS

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend with effect from financial year beginning 1 January 2014.

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

19 NET EARNED PREMIUMS

	31.12.2013 RM'000	31.12.2012 RM'000
(a) Gross earned premiums		
Gross premiums	**535,681**	467,061
Change in premium liabilities	**(40,379)**	(36,938)
Gross earned premiums	**495,302**	430,123
(b) Premiums ceded		
Reinsurance	**(190,366)**	(156,520)
Change in premium liabilities	**12,232**	16,144
Premiums ceded	**(178,134)**	(140,376)
Net earned premiums	**317,168**	289,747

20 INVESTMENT INCOME

	31.12.2013 RM'000	31.12.2012 RM'000
Dividend income from FVTPL investments	**3,755**	2,985
Interest income from HTM investments	**1,161**	1,165
Interest income from loans and receivables	**3,265**	3,986
Dividend income from AFS investments	**15,298**	12,063
Interest income from AFS investments	**2**	2
	23,481	20,201

21 REALISED GAINS AND LOSSES

	31.12.2013 RM'000	31.12.2012 RM'000
Property, plant and equipment	**(20)**	-
FVTPL investments		
- Equities securities	**3,981**	4,166
- Property trust fund	**724**	379
AFS investments	**259**	-
	4,944	4,545

22 FAIR VALUE GAINS AND LOSSES - NET

	31.12.2013 RM'000	31.12.2012 RM'000
Fair value gains from FVTPL investments	**7,591**	3,343
Recovery of fully impaired AFS investments	**8**	5
	7,599	3,348

23 MANAGEMENT EXPENSES

	31.12.2013 RM'000	31.12.2012 RM'000
Personnel costs	**35,318**	30,378
Establishment costs	**5,085**	5,568
Marketing costs	**12,619**	11,310
Administrative and general expenses	**13,854**	10,755
	66,876	58,011

	31.12.2013 RM'000	31.12.2012 RM'000
The above expenditure is further analysed as follows:		
Staff salary and bonus	**27,802**	24,155
Defined contribution plan	**4,114**	3,849
Other staff benefits	**2,331**	1,560
Staff costs	**34,247**	29,564
Executive Director's remuneration:		
Staff salary and bonus	**931**	704
Defined contribution plan	**140**	110
	1,071	814
Non-Executive Directors' remuneration:		
Fee	**500**	480
Other emoluments	**414**	333
	914	813
Auditors' remuneration	**160**	149
Rental of offices	**2,387**	2,963
Depreciation of property, plant and equipment	**1,916**	1,698
Amortisation of intangible assets – computer software	**175**	110
Perbadanan Insurans Deposit Malaysia	**346**	773
Allowance for/(write back of) impairment on insurance receivables	**809**	(855)
Bad debts written off	**596**	16
Bank charges	**2,978**	3,167
Advertising and marketing expenses	**3,650**	5,029
Other expenses	**17,627**	13,770
	66,876	58,011

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 (2012: RM7,200).

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 RM1,078,426 (2012: RM821,200).

24 TAXATION

	31.12.2013 RM'000	31.12.2012 RM'000
Malaysian taxation:		
Current taxation	**11,978**	15,726
Deferred taxation (Note 16)	**1,522**	1,227
	13,500	16,953
Current taxation		
Current financial year	**11,608**	15,045
Under accrual in respect of prior financial years	**370**	681
	11,978	15,726
Deferred taxation		
Origination and reversal of temporary differences	**1,522**	1,227
	13,500	16,953

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:

	31.12.2013 RM'000	31.12.2012 RM'000
Profit before taxation	**84,600**	76,437
Tax calculated at a tax rate of 25%	**21,150**	19,109
Double deduction of cash contribution to MMIP during the financial year*	**(4,497)**	-
Expenses not deductible for tax purposes	**1,212**	816
Income exempted for tax purposes	**(4,681)**	(3,614)
Income subject to different tax rate	**(54)**	(39)
Under accrual in respect of prior financial years	**370**	681
Tax expense	**13,500**	16,953

* The double deduction of cash contribution to MMIP during the financial year of RM4,497,283 relates to the double tax deduction allowed on MMIP contributions made, pursuant to the Gazette Order issued by the Attorney General Chambers of Malaysia on 28 November 2012.

25 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM71,100,383 (2012: RM59,484,028) divided by the number of ordinary shares in issue of 100,000,000 (2012:100,000,000) during the financial year.

26 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2013 are as follows:

	31.12.2013		31.12.2012	
	Net 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	**18.75**	**18,750**	25.00	18,750

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year of 18.75% on 100,000,000 ordinary shares, 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 earnings in the financial year ending 31 December 2014 when approved by BNM and the 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.

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

		31.12.2013 RM'000	31.12.2012 RM'000
Related party transactions	**Nature of transaction**		
With subsidiaries of immediate and ultimate holding company	Interest income	**2,270**	2,968
	Insurance premium earned	**10,795**	24,959
	Commission paid and payable	**(8,203)**	(7,581)
	Rental expense	**(350)**	(757)
With key management personnel	Insurance premium earned	**205**	41
	Claims incurred	**11**	-
Related party balances	**Types of balances**		
With subsidiaries of immediate and ultimate holding company	Bank balances	**9,036**	(1,435)
	Fixed and call deposits	**46,737**	83,202
	Insurance premium	**5,247**	3,006
	Investment in corporate debts securities	**5,014**	5,014
	Others	**(383)**	(313)
With key management personnel	Claims liabilities	**(3)**	(304)
Key management personnel			
The remuneration of key management personnel is as follows:			
Short term employee benefits			
- Fees		**-**	480
- Salary and other remuneration		**4,357**	4,264
- Benefits-in-kind		**-**	7

28 CAPITAL COMMITMENTS

	31.12.2013 RM'000	31.12.2012 RM'000
Authorised and contracted for	**414**	1,520
Authorised but not contracted for	**1,112**	918
	1,526	2,438

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" or "BOD") through the Group Risk Management ("GRM") function and the 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 Banking 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, the Company's Investment Committee manages interest rate risk, market risk, credit risk and liquidity risk associated with Company's investments. The 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.

(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.

(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
31.12.2013					
Average claim cost	**+10%**	**37,438**	**19,627**	**(19,627)**	**(14,720)**
Average number of claims	**+10%**	**34,053**	**19,699**	**(19,699)**	**(14,774)**
Average claim settlement period	**Increased by 6 months**	**6,668**	**3,529**	**(3,529)**	**(2,647)**
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)

(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 2013:

Accident year	Before 2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	Total RM'000
At end of accident year		124,057	160,843	190,481	171,164	197,050	234,640	**303,820**	
One year later		102,763	132,088	175,385	155,885	188,105	219,458		
Two years later		97,480	128,109	157,675	146,173	183,227			
Three years later		94,450	125,790	148,901	142,690				
Four years later		92,690	123,848	147,369					
Five years later		92,364	122,831						
Six years later		91,492							
Seven years later									
Current estimate of cumulative claims incurred		91,492	122,831	147,369	142,690	183,227	219,458	**303,820**	
At end of accident year		(33,236)	(41,250)	(52,222)	(51,789)	(57,313)	(66,947)	**(75,616)**	
One year later		(72,877)	(99,020)	(103,357)	(108,154)	(129,615)	(154,519)		
Two years later		(80,909)	(110,166)	(115,918)	(123,092)	(149,304)			
Three years later		(84,589)	(116,211)	(129,157)	(127,702)				
Four years later		(86,829)	(118,386)	(126,050)					
Five years later		(87,722)	(119,199)						
Six years later		(88,641)							
Seven years later									
Cumulative payments to date		(88,641)	(119,199)	(126,050)	(127,702)	(149,304)	(154,519)	**(75,616)**	
Gross insurance claims liabilities per Statement of Financial Position (Note 13(a))	59,165	2,851	3,632	21,319	14,988	33,923	64,939	**228,204**	429,021
Current estimate of surplus/(deficiency)		8,744	9,093	(15,893)	(11,170)	(9,789)	(13,350)	**(109,168)**	
% surplus/(deficiency) of initial gross reserve		8.72%	6.89%	(12.09%)	(8.49%)	(5.64%)	(6.48%)	**(56.08%)**	

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

Net insurance claims liabilities for 2013:

Accident year	Before 2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	Total RM'000
At end of accident year		92,190	103,966	119,648	126,677	136,749	154,367	**173,678**	
One year later		77,818	87,186	109,416	114,798	126,585	146,227		
Two years later		75,892	84,719	107,956	110,199	121,799			
Three years later		74,167	83,589	104,246	107,963				
Four years later		73,029	82,206	102,824					
Five years later		72,741	81,683						
Six years later		72,377							
Seven years later									
Current estimate of cumulative claims incurred		72,377	81,683	102,824	107,963	121,799	146,227	**173,678**	
At end of accident year		(28,516)	(28,615)	(46,141)	(45,331)	(47,677)	(49,146)	**(55,721)**	
One year later		(58,706)	(63,782)	(81,903)	(86,633)	(95,770)	(105,577)		
Two years later		(64,840)	(71,894)	(90,376)	(96,331)	(106,108)			
Three years later		(67,895)	(76,787)	(96,196)	(99,645)				
Four years later		(69,549)	(78,516)	(96,734)					
Five years later		(70,208)	(79,247)						
Six years later		(70,946)							
Seven years later									
Cumulative payments to date		(70,946)	(79,247)	(96,734)	(99,645)	(106,108)	(105,577)	**(55,721)**	
Net insurance claims liabilities per Statement of Financial Position (Note 13(a))	54,775	1,430	2,436	6,090	8,318	15,691	40,650	**117,958**	247,348
Current estimate of surplus/(deficiency)		(538)	(5,129)	(13,266)	(11,981)	1,037	(9,910)	**(41,380)**	
% surplus/(deficiency) of initial gross reserve		(0.75%)	(6.70%)	(14.81%)	(12.48%)	0.84%	(7.27%)	**(31.28%)**	

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	5,462	19,744	23,081	58,490	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%)	

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.

	31.12.2013 RM'000	31.12.2012 RM'000
Investments held-to-maturity		
Unquoted corporate debt securities	**15,400**	15,398
Loans and receivables		
Loans	**180**	284
Fixed and call deposits	**82,325**	134,857
Reinsurance assets - claims liabilities	**181,673**	123,888
Insurance receivables	**66,228**	58,200
Other receivables	**56,437**	23,287
Cash equivalents	**9,225**	1,085
	411,468	356,999

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
31.12.2013					
Investments held-to-maturity					
Unquoted corporate debt securities	**15,400**	**-**	**-**	**-**	**15,400**
Loans and receivables					
Loans	**-**	**-**	**180**	**-**	**180**
Fixed and call deposits	**82,325**	**-**	**-**	**-**	**82,325**
Reinsurance assets - claims liabilities	**149,280**	**7**	**32,386**	**-**	**181,673**
Insurance receivables	**-**	**-**	**-**	**66,228**	**66,228**
Other receivables	**-**	**-**	**56,437**	**-**	**56,437**
Cash and cash equivalents	**9,225**	**-**	**-**	**-**	**9,225**
	256,230	**7**	**89,003**	**66,228**	**411,468**
31.12.2012					
Investments held-to-maturity					
Unquoted corporate debt securities	15,398	-	-	-	15,398
Loans and receivables					
Loans	-	-	284	-	284
Fixed and call deposits	134,857	-	-	-	134,857
Reinsurance assets - claims liabilities	100,480	6	23,402	-	123,888
Insurance receivables	-	-	-	58,200	58,200
Other receivables	-	-	23,287	-	23,287
Cash and cash equivalents	1,085	-	-	-	1,085
	251,820	6	46,973	58,200	356,999

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
31.12.2013						
Investments held-to-maturity						
Unquoted corporate debt securities	**-**	**5,234**	**10,166**	**-**	**-**	**15,400**
Loans and receivables						
Loans	**-**	**-**	**-**	**-**	**180**	**180**
Fixed and call deposits	**-**	**74,820**	**7,505**	**-**	**-**	**82,325**
Reinsurance assets - claims liabilities	**5,479**	**8,122**	**135,679**	**7**	**32,386**	**181,673**
Insurance receivables	**-**	**-**	**175**	**-**	**66,053**	**66,228**
Other receivables	**-**	**-**	**-**	**-**	**56,437**	**56,437**
Cash and cash equivalents	**189**	**9,036**	**-**	**-**	**-**	**9,225**
	5,668	**97,212**	**153,525**	**7**	**155,056**	**411,468**
31.12.2012						
Investments held-to-maturity						
Unquoted corporate debt securities	-	5,235	10,163	-	-	15,398
Loans and receivables						
Loans	-	-	-	-	284	284
Fixed and call deposits	16,573	112,145	6,139	-	-	134,857
Reinsurance assets - claims liabilities	3,099	3,719	93,662	6	23,402	123,888
Insurance receivables	-	-	140	-	58,060	58,200
Other receivables	-	-	-	-	23,287	23,287
Cash and cash equivalents	2,476	(1,391)	-	-	-	1,085
	22,148	119,708	110,104	6	105,033	356,999

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
31.12.2013				
Insurance receivables	**42,577**	**12,701**	**10,950**	**66,228**
31.12.2012				
Insurance receivables	36,237	11,683	10,280	58,200

31 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (Continued)

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 2013, based on collective assessment of receivables, there are impaired insurance receivables of RM6,567,218 (2012: RM5,758,102). No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate "allowance for impairment" accounts. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	31.12.2013 RM'000	31.12.2012 RM'000
At 1 January	**5,758**	6,613
Charge for the financial year	**3,497**	1,819
Write back	**(2,688)**	(2,674)
At 31 December	**6,567**	5,758

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 2013, there are impaired financial assets available for sale of RM39,624 (2012: RM8,603,239). A reconciliation of the allowance for impairment losses for investment in debt securities is as follows:

Available-for-sale investments

	31.12.2013 RM'000	31.12.2012 RM'000
At 1 January	**8,603**	8,608
Recovery of fully impaired investment	**(8)**	(5)
Write-off of fully impaired investment	**(8,555)**	-
At 31 December	**40**	8,603

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 (Continued)

Maturity profiles (Continued)

	Carrying value RM'000	1 year or less RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
31.12.2013						
Investments held-to-maturity						
Unquoted corporate debt securities	**15,400**	**1,163**	**2,325**	**2,325**	**42,412**	**48,225**
Loans and receivables						
Loans	**180**	**110**	**70**	**-**	**-**	**180**
Fixed and call deposits	**82,325**	**82,731**	**-**	**-**	**-**	**82,731**
Reinsurance assets - claims liabilities	**181,673**	**106,075**	**33,177**	**25,679**	**16,742**	**181,673**
Insurance receivables	**66,228**	**66,228**	**-**	**-**	**-**	**66,228**
Other receivables	**56,437**	**56,437**	**-**	**-**	**-**	**56,437**
Cash equivalents	**9,225**	**9,225**	**-**	**-**	**-**	**9,225**
Total financial assets	**411,468**	**321,969**	**35,572**	**28,004**	**59,154**	**444,699**
Insurance contract liabilities - claims liabilities	**429,021**	**298,236**	**75,550**	**40,872**	**14,363**	**429,021**
Insurance payables	**63,385**	**63,385**	**-**	**-**	**-**	**63,385**
Other payables	**32,876**	**32,876**	**-**	**-**	**-**	**32,876**
Total financial liabilities	**525,282**	**394,497**	**75,550**	**40,872**	**14,363**	**525,282**
31.12.2012						
Investments held-to-maturity						
Unquoted corporate debt securities	15,398	1,163	2,325	2,325	43,575	49,388
Loans and receivables						
Loans	284	119	160	5	-	284
Fixed and call deposits	134,857	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	23,287	23,287	-	-	-	23,287
Cash equivalents	1,085	1,085	-	-	-	1,085
Total financial assets	356,999	281,650	33,620	20,104	57,713	392,087
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 FINANCIAL RISKS (CONTINUED)

(c) Market risk

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

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

Currency risk

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

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

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act, 2013, 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.

	Change in variables	31.12.2013 Impact on equity* RM'000	31.12.2012 Impact on equity* RM'000
Interest rate	+100 basis points	**(9,110)**	(7,536)
Interest rate	-100 basis points	**9,492**	11,359

* 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)

(c) Market risk (Continued)

Price risk

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

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

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

		31.12.2013		31.12.2012	
	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%	**18,629**	**13,972**	10,675	8,006
Bursa Malaysia	-15%	**(18,629)**	**(13,972)**	(10,675)	(8,006)

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

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

(d) Operational risk

Operational risk is the risk of loss 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 2013, as prescribed under the RBC Framework is provided below:

	Note	31.12.2013 RM'000	31.12.2012 RM'000
Eligible Tier 1 Capital			
Share capital (paid-up)	17	**100,000**	100,000
Retained earnings		**217,672**	165,322
		317,672	265,322
Tier 2 Capital			
Available-for-sale reserve		**(731)**	556
Amount deducted from Capital		**-**	-
Total Capital Available		**316,941**	265,878

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 21 February 2014.

Statement by Directors

Pursuant to Section 169(15) of The Companies Act, 1965

We, Ong Seng Pheow and Kong Shu Yin, two of the Directors of RHB Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 50 to 93 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2013 and of its results and cash flows for the financial year ended 31 December 2013 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 21 February 2014.

ONG SENG PHEOW
CHAIRMAN

KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur
6 March 2014

Statutory Declaration

Pursuant to Section 169(15) of The Companies Act, 1965

I, Chong Sook Yin, being the Officer primarily responsible for the financial management of RHB Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 50 to 93 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 6 March 2014)
)
Before me,)

CHONG SOOK YIN

COMMISSIONER FOR OATHS

Kuala Lumpur

Independent Auditors' Report to the Members of RHB Insurance Berhad

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Insurance Berhad, which comprise the statement of financial position as at 31 December 2013 of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 50 to 93.

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia, so as to give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF-1146)
Chartered Accountants

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

Kuala Lumpur
6 March 2014

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RHB Insurance Berhad (38000-U)
Level 12, West Wing, The Icon, No. 1, Jalan 1/68 F, Jalan Tun Razak, 55000 Kuala Lumpur.
Tel: 603-2180 3000 Fax: 603-2161 9255