

TOGETHER WE PROGRESS

ANNUAL REPORT 2014

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RHB's Aspirations

2007
2010
2014

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 25 FEBRUARY 2015

BOARD OF DIRECTORS

Ong Seng Pheow
Independent Non-Executive Chairman

Datuk Haji Faisal Siraj
Senior Independent Non-Executive Director

Tuan Haji Md Ja'far Abdul Carrim
Non-Independent Non-Executive Director

Dato' Othman Jusoh
Independent Non-Executive Director

Dato' Teo Chiang Liang
Independent Non-Executive Director

Abdul Aziz Peru Mohamed
Independent Non-Executive Director

Kong Shu Yin
Managing Director/Chief Executive Officer

COMPANY SECRETARY

Azman Shah Md Yaman
(LS0006901)

BOARD AUDIT COMMITTEE*

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Datuk Seri Saw Choo Boon

Datuk Haji Faisal Siraj

BOARD RISK COMMITTEE#

Tuan Haji Khairuddin Ahmad
Chairman

Patrick Chin Yoke Chung

Tuan Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

Datuk Seri Saw Choo Boon

BOARD NOMINATING AND REMUNERATION COMMITTEE#

Datuk Haji Faisal Siraj
Chairman

Datuk Seri Saw Choo Boon

Dato' Teo Chiang Liang

Choong Tuck Oon

Tuan 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

CORPORATE INFORMATION AS AT 25 FEBRUARY 2015

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

Ibrahim Hassan

Managing Director, RHB Islamic Bank Berhad

U Chen Hock

Head, Group Retail Banking

Yap Choi Foong

Group Chief Financial Officer

Rohan Krishnalingam

Group Chief Operations Officer

Norazzah Sulaiman

Group Chief 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

REGISTERED OFFICE

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RHB Centre
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55000 Kuala Lumpur

Tel: 603 - 2180 3000 Fax: 603 - 2161 9255

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Travers, Kuala Lumpur Sentral
P.O. Box 10192
50706 Kuala Lumpur
Malaysia

Tel: 603 - 2173 1188 Fax: 603 - 2173 1288

Notes:

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



RHB CAPITAL BERHAD

GROUP CORPORATE STRUCTURE

AS AT 25 FEBRUARY 2015



COMMERCIAL BANKING GROUP

INVESTMENT BANKING GROUP

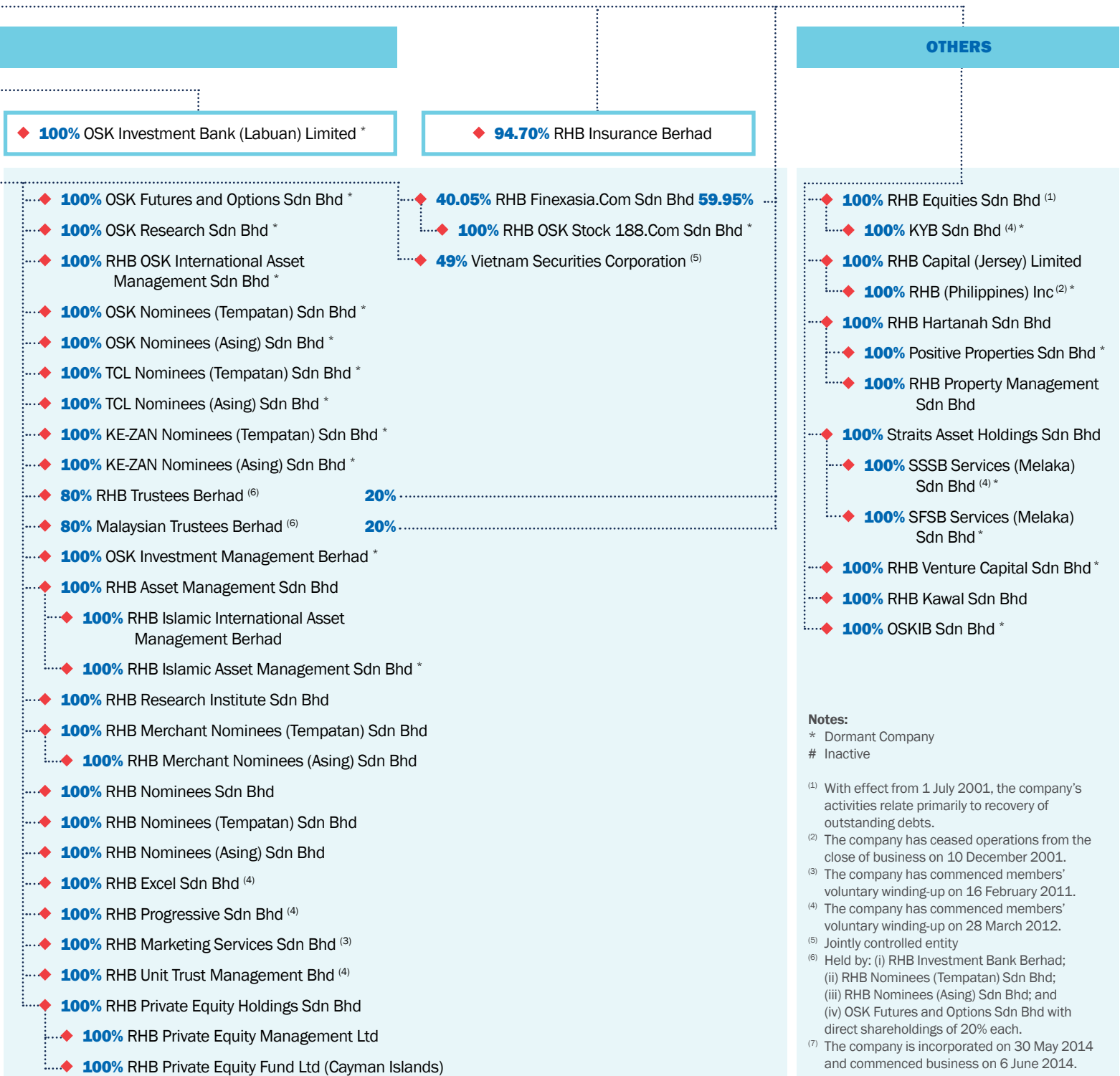
♦ **100%** RHB Bank Berhad

♦ **100%** RHB Investment 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
- ♦ **100%** RHB OSK Indochina Securities Limited
- ♦ **100%** RHB Bank Lao Limited ⁽⁷⁾

- ♦ **100%** RHB OSK International Investments Pte Ltd
- ♦ **100%** RHB OSK Asset Management Pte Ltd
- ♦ **40%** RHB OSK GC-Millennium Capital Pte Ltd ⁽⁵⁾
- ♦ **100%** RHB Holdings Hong Kong Limited
- ♦ **100%** RHB OSK Securities Hong Kong Limited
- ♦ **100%** RHB OSK Nominees Hong Kong Limited
- ♦ **100%** RHB OSK Futures Hong Kong Limited
- ♦ **100%** RHB OSK Finance Hong Kong Limited
- ♦ **100%** RHB OSK Capital Hong Kong Limited
- ♦ **100%** RHB Fundamental Capital Hong Kong Limited
- ♦ **100%** RHB OSK Asset Management Limited
- ♦ **51%** RHB-OSK Fideus Asia and Emerging Markets Value Fund Ltd
- ♦ **100%** RHB OSK Wealth Management Hong Kong Limited
- ♦ **100%** RHB OSK (China) Investment Advisory Co Ltd
- ♦ **99%** PT RHB OSK Securities Indonesia
- ♦ **99.62%** PT RHB OSK Asset Management
- ♦ **100%** 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) PCL

RHB CAPITAL BERHAD GROUP CORPORATE STRUCTURE AS AT 25 FEBRUARY 2015



PROFILES OF THE BOARD OF DIRECTORS



ONG SENG PHEOW

(66 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.

Mr Ong 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 (formerly known as OSK Holdings Hong Kong Limited), Daiman Development Berhad, LCTH Corporation Berhad, George Kent (Malaysia) Berhad and HELP International Corporation Berhad. He is also a Non-Executive Director of Jacks International Limited, a company listed on the Main Board of Singapore Exchange Securities Trading Ltd.

PROFILES OF THE BOARD OF DIRECTORS



DATUK HAJI FAISAL SIRAJ

(69 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. He is also a Member of the Board Audit Committee and Group Board Audit Committee of RHB Capital.

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 Capital Berhad, RHB Islamic Bank Berhad, RHB Trustees Berhad and Malaysian Trustees Berhad.

PROFILES OF THE BOARD OF DIRECTORS



TUAN HAJI MD JA'FAR ABDUL CARRIM

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

Tuan 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.

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

A civil engineer by training, Haji Ja'far's career of some 32 years includes a stint in the public sector as well as a broad range of activities in the corporate sector as Chief Executive Officer and at the Board of Directors level. His extensive experience covers inter alia, the areas of manufacturing, property development and construction. 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 and is a Council Member for the Chair on Financial Planning for Old Age at University Malaya. He also sits on the Board of Employees Provident Fund, Malaysia.

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

PROFILES OF THE BOARD OF DIRECTORS



DATO' OTHMAN JUSOH

(66 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.

Dato' Othman 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), RHB Islamic International Asset Management Berhad and PT RHB OSK Asset Management.

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' Othman's other directorship in public companies include RHB Islamic International Asset Management Berhad and PUC Founder (MSC) Berhad.

PROFILES OF THE BOARD OF DIRECTORS



DATO' TEO CHIANG LIANG

(64 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.

Dato' Teo 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 Professor of Nottingham Trent University, United Kingdom from 1998 to 2012 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 elected as an Executive Council Member of Malaysia Crime Prevention Foundation from 2006 to 2012.

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

PROFILES OF THE BOARD OF DIRECTORS



ABDUL AZIZ PERU MOHAMED

(66 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.**

Encik Aziz Peru 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 with almost 30 years in an accomplished career track spanning management of branch network and retail banking. He spent most of his working years at Malayan Banking Berhad, where his last position was General Manager, Consumer Banking Division. He was also formerly the Senior General Manager of AmBank Berhad from 2002 to 2005. During the years in the banking industry, he was appointed as the Chairman of Rules

Committee of Association of Banks of Malaysia and has held several other key positions including 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.

PROFILES OF THE BOARD OF DIRECTORS



KONG SHU YIN

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

Kong Shu Yin (“Mr Kong”) was appointed as Managing Director (“MD”)/Chief Executive Officer (“CEO”) of RHB Insurance on 13 March 2011.

Mr Kong also serves as a Member of the Investment Committee of RHB Insurance.

Mr Kong has 29 years of experience in the insurance business. Prior to joining RHB Insurance, he was with one of the largest general insurers in Malaysia, in various capacities including CEO. He also has experience with the Thailand and Indonesian insurance markets.

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

Mr Kong is currently the Chairman of ISM Insurance Services Malaysia Berhad, an organisation established by the insurance and takaful industry to provide statistical services to its members and the public. He is also the Deputy Chairman of Persatuan Insurans Am Malaysia (“PIAM”) and the Chairman of the Malaysian Motor Insurance Pool. He also represents PIAM on the Board of Vehicle Theft Reduction Council of Malaysia Berhad.

CORPORATE GOVERNANCE STATEMENT

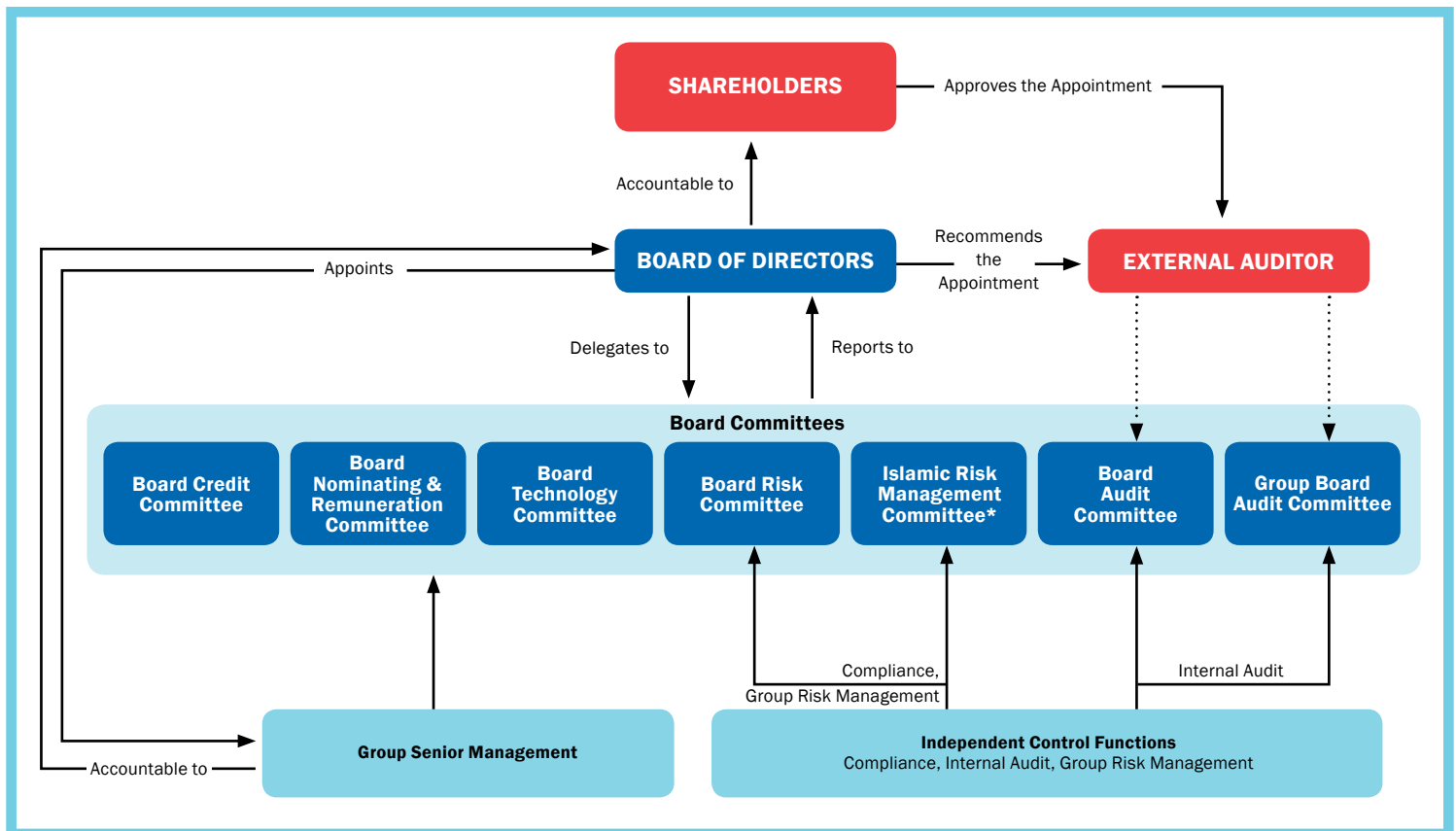
The Board of Directors (“Board”) of RHB Insurance Berhad (“RHB Insurance” or “Company”) recognises that good corporate governance is the keystone to RHB Banking Group’s (“the Group”) long-term success and in delivering value to its shareholders and all its other stakeholders. The Board strives to ensure that the Company’s integrity and professional conduct are beyond reproach. In line with the Group’s IGNITE 2017 transformation programme to become a Leading Multinational Financial Services Group by 2020, the Board is fully committed to fostering a corporate culture with high standards of governance, integrity, transparency and accountability.

Throughout the year, the Board has made concerted efforts to ensure that the Group’s position as a whole and its reputation as a leading financial holding company are held in good stead. The Group has thus

implemented a corporate governance structure 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. Hence, these governance processes are also cascaded and adopted by the subsidiaries including the Company.

The Board believes there are always opportunities for improvement and continuously explores enhancements to the Company’s governance processes. In line with the restructuring of the Group’s organisation in 2014 as outlined in the IGNITE 2017 Statement, the Group also reviewed its corporate governance structure to ensure it remains robust even as it continues to expand.

GOVERNANCE MODEL



* This Board Committee is a dedicated Board Committee to address all risk management issues that relate specifically to Islamic Finance and the intricacies thereof.



CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

Board Charter

The Group has developed Board Charters for each of its major entities. The Board Charters set out the key corporate governance principles adopted by the Boards of the Group and clearly define the responsibilities of Boards, Chairperson, Senior Independent Director and the Group Managing Director (“Group MD”)/Managing Director (“MD”)/Chief Executive Officer. The role of each party is also stipulated to ensure checks and balances in the day-to-day management of the Group’s businesses and operations.

Within these boundaries, the Board of RHB Insurance also discusses, sets and agrees with Management the annual balanced scorecard and key performance indicators that are to be executed and achieved by Management. The performance and progress of Management is then reviewed by the Board at specified intervals.

The Board Charter is reviewed periodically by the Board to ensure corporate governance principles are in line with changes in regulations and best practices.

Roles and Responsibilities of the Board

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

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

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

The Board assumes the following key roles and responsibilities:

(a) Strategy setting

The Board plays an active role in reviewing the Company’s strategy, business plans, financial objectives, major capital and operating budgets as well as policies proposed by the Management. The Board monitors the Management’s performance in implementing the adopted strategies and plans whilst providing direction and advice to ensure the achievement of the objectives.

(b) Governing the Company’s business conduct and operations

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

The Board also governs the Company’s risk management, internal controls and human resource (“HR”) management through the delegation of certain decision making and/or oversight responsibilities to various Board Committees, namely the Board Audit Committee, Board Risk Committee and Board Nominating & Remuneration Committee.

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

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

(c) Risk Management

The Board is responsible for identifying the principal risks and implementation of appropriate systems to manage and control these risks. In ensuring effective risk assessment and control, the Board Risk Committee (“BRC”) has been entrusted with providing oversight and governance of risks for the Group. The BRC comprises four Independent Non-Executive Directors (“INEDs”) and one Non-Independent Non-Executive Director (“NINED”)

CORPORATE GOVERNANCE STATEMENT

representing the Group's respective entities including the Company. Matters deliberated on at BRC meetings are presented to the Board on a monthly basis.

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

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 maintains and reviews its internal control procedures to ensure, as far as possible, the protection of its assets and liabilities as well as its shareholders' investments. The Board considers that the Company's risk management framework and system of internal control, which are in place throughout the financial year, up to and as of the date of this report, are operating adequately and effectively. An overview of the Company's systems of risk management is contained in the Risk Management Statement set out on pages 25 to 28 of this Annual Report.

(d) Talent Development and Succession Planning

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

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

In line with IGNITE 2017, the Group has made a concerted effort to enhance and realign its HR and talent management to attract and retain regional talent and build a high-performing regional workforce. During the year, the BNRC considered the renewal of service contracts and new appointments for key management positions based on their profiles, professional achievements and personal assessments. This included successfully identifying and attracting suitable candidates for all senior positions. The BNRC also considered their remuneration packages in finalising the terms and conditions of their service contracts.

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

(e) Internal Control

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

Board Composition and Balance

The Board of RHB Insurance is currently represented by seven Members, comprising an Independent Non-Executive Chairman, four INEDs, one NINED and the MD. The structure and composition of the Board comply with 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.

Boardroom Diversity Policy

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



CORPORATE GOVERNANCE STATEMENT

Assessment of Independence

The independence of the Directors is reviewed annually and benchmarked against best practices and regulatory provisions. The BNRC assesses the independence of INEDs via the Board Effectiveness Evaluation ("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 results, the Board is generally satisfied with the level of independence demonstrated by all the INEDs and their ability to act in the best interest of the Company.

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 Bank Negara Malaysia's ("BNM") 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.

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

Tenure of Independent Directors

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

Role of the Chairman and Managing Director

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

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

Additionally, the Chairman ensures 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.

Directors' Appointment and Assessment

(a) Appointment of Directors

The Group leverages on the industry's talent pool and the Group's Independent Directors' network to source for new candidates for Board appointments, as overseen by the BNRC, and the same applies to the Company.

The BNRC is guided by a nomination framework approved by the Board. The framework ensures that individuals appointed to relevant senior positions and the Boards within the Group have the appropriate fitness and propriety to discharge their prudential responsibilities on and during the course of their appointment.



CORPORATE GOVERNANCE STATEMENT

New Director nominees are assessed by the BNRC in accordance with RHB Banking Group's Policy and Guidelines on Fit and Proper for Key Responsible Persons ("Fit and Proper Policy"). The assessment takes into account the nominees' background, skills, knowledge and experience, and is part of a transparent nomination process before a recommendation is made for the Board's approval.

These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, the completion of declarations by each individual, the obtaining of evidence of material qualification and the carrying out of checks on matters such as criminal record, bankruptcy and regulatory disqualification. These assessments are reviewed on an annual basis. The Fit and Proper Policy outlines the following criteria in assessing the suitability of the candidate:

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

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

During its review of the suitability of candidates and criteria for the appointment process, the BNRC also takes into consideration the appropriate skill sets required, size, structure and composition of the Board. This ensures it is not only well-balanced and supportive of good governance and efficient management, but also complies with regulatory requirements and is responsive to changing business environment as well as the entity's business needs.

For the re-appointment of existing Directors, the BNRC refers to the results of the individual assessments conducted via the BEE in addition to their formal/informal interactions with the Directors. The BNRC also assesses the Directors based on their roles and contribution to the Board and Board Committees, independence of view in respect of decision making, adequacy of training

and time commitment by the Directors. The application for the appointment/re-appointment of Directors is submitted to BNM for consideration once it is approved by the Board.

(b) Board Effectiveness Evaluation

Since 2006, the Group has undertaken the BEE exercise on the Boards and Board Committees to assess their effectiveness and that of individual Directors. The BEE is designed to identify strengths and weaknesses to improve the Board's overall effectiveness. It also forms part of the BNRC's evaluation for the re-appointment of Directors.

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, Messrs PricewaterhouseCoopers Advisory Services Sdn Bhd ("PwCAS") is engaged to collate and tabulate the results of the evaluation. 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.

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

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Part D: Committee Members' Self and Peer Evaluation

1. Participation levels and contribution
2. Technical competencies

In December 2014, each Director and Board Committee member was required to perform an online self and peer assessment for the year in review. Upon completion, individual results together with a peer average rating on each area of assessment will be provided to each Director and Board Committee member for their information and further improvement. A summarised report will also be presented to the BNRC and the Board to identify and address areas for improvement.

MEETINGS AND SUPPLY OF INFORMATION TO THE BOARD

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

For the financial year ended 31 December 2014, the Board is satisfied with the 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 BNM's revised guidelines as adopted by the Company.

The Board convened 14 meetings for the financial year ended 31 December 2014. 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 Directors	No. of Meetings Attended	Total Percentage of Attendance (%)
Mr Ong Seng Pheow	14/14	100
YBhg Datuk Haji Faisal Siraj	14/14	100
Tuan Haji Md Ja'far Abdul Carrim	14/14	100
YBhg Dato' Othman Jusoh	13/14	93
YBhg Dato' Teo Chiang Liang	12/14	86
Encik Abdul Aziz Peru Mohamed	14/14	100
Mr Kong Shu Yin	14/14	100

For the Directors' convenience, an annual meeting schedule for Board and Board Committee meetings and the AGM is circulated to the Directors before the beginning of every year.

In 2014, the Group embarked on the use of a meeting management solution system (in place of eBooks which were used since 2011), allowing Directors/Board Committee Members to access the online portal directly in a secured and organised manner on their iPads. This initiative has significantly enhanced mobility, movement of documents, cost and time savings, as well as created greater convenience, better security and a positive impact on the environment. Directors who are unable to attend the Board/Board Committee meetings physically are also encouraged to participate via telephone or video-conferencing.

The Directors are required to notify the Board on changes of their other directorships and shareholdings in RHB Capital Berhad ("RHB Capital") as and when such changes arise. This information is used to monitor the number of directorships held by the Directors of RHB Insurance, including those on other public listed companies, and to lodge such information to the Companies Commission of Malaysia accordingly.

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In addition, notices on the closed period for trading in RHB Capital securities based on the targeted date of announcement of the Group's quarterly results are circulated in advance to Directors and principal officers who are deemed privy to any price sensitive information and knowledge, whenever the closed period is applicable.

Information and Advice

The Board, whether as a group or individually, regularly obtains the advice and dedicated support services of the Company Secretary. The Board members may also interact directly with the Management, seek their clarification and advice as well as request for information on matters pertaining to the Company's and the Group's operations or business concerns. Pursuant to the Group's Standard Procedures for Directors to Have Access to Independent Advice, the Directors may also seek independent professional advice, at the Company's expense, should the need arise in discharging their duties.

Dedicated Company Secretary

The Board acknowledges and is satisfied with the performance and support rendered by the Company Secretary. In addition to acting as the custodian of the Company's statutory records, the Company Secretary serves and advises the Board on matters relating to the affairs of the Board and the Company, ensures that Board meetings are properly convened and maintain accurate and proper record of the proceedings and minutes of the meetings.

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

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

REMUNERATION STRATEGIES

The Board is mindful that fair remuneration is critical to attract, retain and motivate Directors with the relevant experience and expertise required to lead the Company. The BNRC has been entrusted with discharging the remuneration strategies (as outlined in its terms of reference).

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 are 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 align 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.

The shareholders of the Company had, at the last AGM held on 30 April 2014, approved an increase of Directors' fee to RM150,000 per annum for the Non-Executive Chairman and RM120,000 per annum for NEDs retrospective from 1 January 2013.

(b) Board Committee Allowances

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

(c) Meeting attendance allowance

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

(d) Benefits-in-kind

Benefits are accorded to the Chairmen of the Group, consisting 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.

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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 is proven to have acted negligently, fraudulently or dishonestly, or in breach of his duty of care. The Directors are required to contribute jointly towards the premium of the said policy.

DIRECTORS’ ORIENTATION, CONTINUING EDUCATION AND TRAINING

The Board emphasises the importance of continuing education and training for its Directors to ensure that they are kept abreast with the latest developments in the areas related to their duties. A budget for Directors’ training is provided each year by RHB Insurance. The Board, as part of the BEE exercise, assesses the training needs of each Director annually. The training and development of Directors are detailed 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 engender organisational excellence. The Company Secretary facilitates the organisation of internal training programmes and Directors’ attendance of external programmes, and keep 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 RHB Insurance attended the following training programmes, conferences and seminars:-

(a) Corporate Governance

- Bursa Malaysia – Nominating Committee Programme 2: Effective Board Evaluations

(b) Banking and Finance

- ICAAP Training No. 5 – Supervisory Review Preparation for Board of Directors
- Talk, How To Be Innovative In The Way We Think, Operate and Execute
- The Briefing on Cross Border Financing between Malaysia and Indonesia
- Breakfast Talk – Singapore National ICT Masterplan

(c) Risk Management And Legal

- KPMG Training – Managing Risks in Islamic Banks
- Managing Uncertainty – Surviving the Turbulence
- The Inverse Risk Logic Approach to Risk Governance Programme
- Talk on Board Strategic Leadership in Managing Cybersecurity Risk In Financial Institutions
- Sweating the Right Stuff – Risk for Profitable Growth

BOARD COMMITTEES

To ensure effectiveness in discharging its roles and responsibilities, the Board also delegates specific authorities to the relevant Board Committees which are established centrally at RHB Capital Berhad and RHB Bank Berhad and serve the other entities of the Group. This delegation of authority is expressly stipulated in the Terms of References (“TORs”) 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, evaluating and recommending matters under their purview for the Board to consider and approve.

The Board receives updates from the respective chairmen/representatives of the Board Audit Committee, Board Risk Committee and Board Nominating & Remuneration Committee on matters that require specific mention that have been deliberated and considered at the meetings of Board Committees. This practice also applies for other entities within the Group.

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Board Nominating & Remuneration Committee

The Board Nominating & Remuneration Committee (“BNRC”) comprises five NEDs, of whom four are INEDs and one NINED, representing the respective entities within the Group including RHB Insurance. The BNRC is chaired by YBhg Datuk Haji Faisal Siraj, the Senior INED of RHB Capital. The BNRC met 11 times during the financial year 2014. The composition of the BNRC and the attendance of the members at meetings held in 2014 are as follows:-

Name of Directors	Attendance at Meetings
YBhg Datuk Haji Faisal Siraj (INED/Chairman)	11/11 (100%)
YBhg Dato’ Mohamed Khadar Merican (INED)*	6/8 (78%)
YBhg Datuk Seri Saw Choo Boon (INED)	11/11 (100%)
YBhg Dato’ Teo Chiang Liang (INED)	9/11 (82%)
Mr Choong Tuck Oon (INED)	9/11 (82%)
Tuan Haji Md Ja’far Abdul Carrim (NINED)	11/11 (100%)

Note:

* YBhg Dato’ Mohamed Khadar Merican resigned as a member of BNRC with effect from 18 September 2014.

The salient TOR of the BNRC are as follows:

- Establish a documented procedure for the appointment of Directors, Board Committee members, Shariah Committee (“SC”) and key Senior Management officers.
- Establish and recommend for Board approval, minimum requirements for Directors, SC 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/SC.
- Assess and recommend for Board approval, new and reappointed nominees for directorship, Board Committee members, SC 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, SC, each Director and key Senior Management officers.
- Review performance assessment results and recommend to the Board, the removal of any Director, SC or key Senior Management officer found to be ineffective, errant and negligent in the discharge of responsibilities.
- Ensure Directors, Board Committee members and SC receive appropriate induction and continuous training programmes for closure of skill gaps and keeping abreast with latest developments.

- Ensure the establishment of formal and transparent procedures for developing remuneration and HR policies, strategies and framework for Directors, SC and key Senior Management officers.
- Recommend remuneration strategies, policies and framework and specific remuneration packages for Directors, Board Committee members, SC 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, options and benefits-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.
- Approve changes to Group HR policies, in line with HR strategy and direction set by the Board.

Board Risk Committee

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 Board Risk Committee (“BRC”) provides oversight and governance of risks for the Group, and reviews the Management’s risk management activities and policies.

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

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

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

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

The BRC comprises five NEDs, of whom four are INEDs and one NINED, representing the respective entities within the Group. The BRC met 20 times during the financial year 2014. The composition of the BRC and the attendance of the members at meetings held in 2014 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (INED/Chairman)	20/20 (100%)
Mr Patrick Chin Yoke Chung (INED)	17/20 (85%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	20/20 (100%)
Mr Choong Tuck Oon (INED)	18/20 (90%)
YBhg Datuk Seri Saw Choo Boon (INED)	16/20 (80%)

Pursuant to the Group's current governance framework, RHB Islamic Bank Berhad ("RHB Islamic Bank") has adopted the BRC while maintaining a dedicated Risk Management Committee to manage Shariah risk and its associated intricacies.

Board Audit Committee

The Board Audit Committee ("BAC") comprises four INEDs representing the Group's operating entities including RHB Insurance. The BAC provides independent oversight of RHB Banking Group's financial reporting and internal control system, ensuring checks and balances for entities within the Group, excluding RHB Capital (which establishes its own Group Board Audit Committee (GBAC) as required under Main Market Listing Requirements ("MMLR"). The BAC continuously reinforces the independence of the external auditors and provides a line of communication between the Board and the external auditors.

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

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

Board Technology Committee

The Board Technology Committee ("BTC") comprises four INEDs, the Group MD and Deputy Group MD. The BTC guides the Boards of the operating entities on the Group's strategic IT programs and major IT investments. The BTC reviews and recommends to the Boards the Group's overall technology strategies and policies, strategic and major technology investments and projects above Management's limits set by the Boards or as referred to by the Group Management Committee. It also receives updates from Management on emerging technology trends affecting the Group.

INVESTOR RELATIONS AND STAKEHOLDER COMMUNICATIONS

Corporate Disclosure

The Company and the Group, guided by the Bursa Securities' Corporate Disclosure Guide, MMLR and Financial Services Act 2013, place strong emphasis on clear, comprehensive, timely and equitable dissemination of information to the public on its business activities, milestones achieved, latest developments and financial performance. In 2013, the Group adopted a media communication plan which defined the roles and responsibilities of the Chairman and Senior Management 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 with 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 Company and the Group.

Corporate Website

Recognising the importance of a high quality corporate website in promoting the Group's branding and image, the Group revamped and launched its new corporate website in February 2015 to meet the evolving expectations of customers and other stakeholders.

Information on RHB Insurance's range of products is available on the corporate website (www.rhbgroup.com) under 'Products & Services'.

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UPHOLDING INTEGRITY

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 future prospects through the Annual Audited Financial Statements and quarterly reports.

Relationship with Internal and External Auditors

Internal audit

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

Follow-up actions and a review of the status of actions taken as per the auditors' recommendations are carried out by the Management via the various Management Audit Committees established within the Group. 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 on by the Management. Further details of the activities of the GIA function are set out in the Statement on Risk Management & Internal Control of this Annual Report.

In October 2014, the Group's current Internal Audit Charter was reviewed. Upon the BAC's recommendation, the Board approved relevant updates to the charter in line with the latest regulatory requirements as well as the International Standards for the Professional Practice of Internal Auditing.

Assessment of external auditors

The BAC undertakes an assessment of the suitability and independence of the external auditors, Messrs PricewaterhouseCoopers, based on qualifying criteria for the appointment of auditors and terms of audit engagements in accordance with BNM's Guidelines – "External Auditor" dated 29 August 2014. In addition, the performance of the external auditors is assessed through a survey issued to management personnel requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the financial reporting 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 BNM's Guidelines, the BAC will recommend the re-appointment of the external auditors to the Board, upon which the shareholders' approval will be sought at the AGM.

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

Group Whistle Blower Policy

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

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

Code of Ethics

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



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

Group Gifts & Hospitality Guidelines

The Group had, in November 2014, established Group Gifts & Hospitality Guidelines to promote integrity and transparency. The Guidelines complement the existing Group Code of Ethics and Conduct for Employees and are benchmarked against best practices for giving and receiving gifts as well as transparency and openness about gifting.

Corporate Responsibility

The foundation of the Corporate Responsibility (“CR”) initiatives is premised on the four quadrants of Community, Environment, Workplace and Marketplace. The Group’s established CR strategic framework has supported and created value for the Group’s business, operations and brand, as well as contributed positively to the Group’s shareholders, customers, employees and society at large. The framework was introduced with the intention of translating its defined values into a governing policy that addresses the Group’s CR, as well as environment, social and governance (“ESG”) elements.

The policy will ensure that ESG issues are integrated into the Group’s daily business practices to promote its sustainability. Sustainability is defined as conducting business responsibly and ethically by factoring in 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 the Group operates. As such, the Group embarks 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.

The Board also acknowledges that a sustainable approach to investing is vital to the interests of long-term investor and positively impacts the value of investments. The Board further recognises that the Group’s ability to prosper hinges substantially on its ability to make business decisions that uphold economic, social and environmental responsibilities by which the stakeholders and society can hold the Group accountable. The Board of RHB Insurance recognises and supports the importance of ESG issues in its decision making to maintain responsible corporate citizenship.

COMPLIANCE WITH THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012 (“MCCG”)

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

This Corporate Governance Statement was approved by the Board on 13 April 2015.

ADDITIONAL COMPLIANCE INFORMATION

Related Party Transactions

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

Sanctions and penalties

For the financial year 2014, no public reprimands, sanctions and/or penalties were imposed on the Company and its Directors or Management by the relevant regulatory bodies.

Material contracts involving Directors’ and major shareholders’ interest

RHB Insurance did not have any material contracts involving Directors’ and major shareholders’ interests in the 12-month financial period from 1 January 2014 to 31 December 2014. The material contracts in this case do not include financing to parties connected to Directors which are conducted in accordance with the relevant BNM’s guidelines.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

RESPONSIBILITY

The Board acknowledges its overall responsibility for RHB Insurance Berhad (the “Insurance Company”)’s risk management and internal control system and its adequacy and effectiveness in safeguarding shareholders’ investments and the Insurance Company’s assets.

The system of risk management and internal control that is in place is designed to manage risks according to the risk appetite approved by the Board rather than total elimination of risks to achieve the Insurance Company’s goals and objectives. The system can therefore only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The system of risk management and internal control includes an established and on-going process for identifying, evaluating, managing and reporting significant risks that may affect the achievement of the Insurance Company’s business objectives and strategies.

Management assists the Board in implementing Board policies and processes for identifying, evaluating, monitoring and reporting of risks and internal control, taking timely corrective actions as required, and providing assurance to the Board that the processes have been carried out. In this regard, the Board has received assurance from the Managing Director 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, in all material aspects, based on the risk management and internal control system of the Insurance Company.

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 and Board Audit Committees, 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 Board Risk Committee (“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 Insurance Company. In discharging its overall duties and responsibilities, the BRC is supported by the Group Capital and Risk Committee and Group Risk & Credit Management function which monitor and evaluate 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 Asset & Liability Committee, Group Credit Committee, Islamic Risk Management Committee, Board Credit Committee, Board Technology Committee and 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 in business and functional units within the Group as part of the risk management process. These business and functional units are required to identify and document the controls and processes for managing the risks arising from their business activities, as well as to assess the effectiveness thereof.

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 Insurance Company’s current and projected demand for capital under existing and stressed conditions.



STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

• 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 Board Audit Committee (“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 Managing Director) whose members comprise Senior Management. The minutes of meetings of the Management Audit Committee are tabled to the BAC for notation.

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 while the highlights of the BAC meetings are presented to the Insurance Company’s Board by the Chairman of the BAC.

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.

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

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.

• Shariah Compliance

In line with the Guidelines on Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, the Management is responsible for observing and implementing the respective Shariah rulings and decisions.

The Shariah Framework has also been put in place which encompasses the concept of Shariah, Islamic financial business, governance and reporting structures, roles and responsibilities, Shariah compliance strategy and Shariah approval procedures.

In mitigating Shariah non-compliance risk, various briefings aimed at creating awareness as well as learning programmes were conducted throughout the year to ensure compliance with Shariah principles.

• Board Committees

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

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

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- **Management Committee**

The Management Committee (“MC”) comprises key management personnel of the Insurance Company and is chaired by the Managing Director. 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 the minutes of meetings are tabled to the Board of RHB Insurance Berhad for notation.

- **Information Technology (“IT”) Security**

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

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

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

- **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.

- **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 Insurance Company’s budget and business plans as well as strategic initiatives, taking into account the risk appetite, were deliberated at the Board where the budget was presented.

A reporting system on actual performance against 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 its performance against the strategic business plan approved by the Board. This information covers all key financial and operational indicators as well as key strategic initiatives undertaken by the Insurance Company 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.

- **Internal Policies and Procedures**

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

- **Human Capital Management**

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

Hence, the Group has in place policies and procedures that govern recruitment, appointment, performance management, compensation and reward as well as policies and procedures that govern discipline, termination and dismissal.

The Group places emphasis on human capital development and talent management. To enhance staff competencies, we provide technical training as well as management and leadership skills training.



STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- **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.

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

- **Group Whistle Blower Policy**

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Group. All staff are accorded the opportunity to report via the whistle-blowing mechanism with the assurance that the report will be dealt with confidentiality and that the reporter’s identity will be 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 Insurance Company being exposed or used to launder money.

- **Incident Management Reporting**

To complement the Group’s system of internal control, a comprehensive incident management reporting has been implemented to ensure proper escalation and management of incidents. The incident management reporting system 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 2014

Activities of the Board Audit Committee

During the financial year ended 31 December 2014 (“year”), a total of eighteen (18) Board Audit Committee (“BAC”) meetings were held. The BAC comprises the following members and the details of attendance of each member at the BAC meetings held during the year are as follows:

Composition of the BAC	Attendance at Meetings
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	18/18 (100%)
2. Dato’ Othman Jusoh (Member/Independent Non-Executive Director)	17/18 (94%)
3. Datuk Seri Saw Choo Boon (Member/Independent Non-Executive Director)	16/18 (89%)
4. Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director) - Appointed as a member on 28 January 2014	16/16 (100%)*
5. Dato’ Mohd Ali Mohd Tahir (Member/Independent Non-Executive Director) - Resigned as a member on 28 January 2014	2/2 (100%)*

* 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 Board 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 to discuss issues of concern to the auditors arising from the annual statutory audit;

- 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 the timely 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 proposed changes to the Group Internal Audit Charter (“Audit Charter”) prior to recommending the updated Audit Charter for approval by the Board;
- Reviewed the proposed changes to the Terms of Reference (“TOR”) of the BAC for approval by the Board;
- 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 had 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:

- Managing Risks in Islamic Banks
- Training Session No. 5 of Internal Capital Adequacy Assessment Process - Supervisory Review Preparation for Board of Directors
- Breakfast Talk - Singapore National ICT Masterplan
- The Inverse Risk Logic Approach to Risk Governance Programme
- Talk on Board Strategic Leadership in Managing Cybersecurity Risk in Financial Institutions
- Opening of Legal Year 2014
- Malaysian Anti-Corruption Commission - Corporate Liability Provision
- Corruption in Malaysia : The Making of an Unequal Society
- National Economic Summit and Dialogue with The Prime Minister

BOARD AUDIT COMMITTEE REPORT

- World Bank: Study on Achieving a System of Competitive Cities
- Federation of Malaysian Manufacturers Energy Conference
- Training on Economic Outlook, Consumer Insight, Market Trends, Goods and Services Tax and Social Media Crisis Management
- Ministry of International Trade & Industry : ASEAN Economic Initiatives Workshop
- Ministry-Industry Dialogue: Generating Green Wealth in Spurring the Nation's Prosperity
- Commonwealth Association for Public Administration and Management Conference : Public Service Transformation
- Academy of Science Malaysia General Assembly: Malaysia Beyond 2020
- Good Regulatory Practice Workshop
- Workshop on Network, Spectrum, Branding.

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 prior to the start 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.

All audit reports on the results of work undertaken by Group Internal Audit are reported to the BAC. Follow-up action and review of the status of action taken as per the auditors' recommendations are carried out by Management via the Management Audit Committee of RHB Insurance Berhad. The minutes of meetings of the Management Audit Committee are tabled to the BAC for notation.

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 via the respective Management Audit committees of RHB Banking Group.

TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE

Objective

1. Provide independent oversight of RHB Banking Group's ("the Group") financial reporting and internal control system, and ensuring checks and balances for entities within the Group.

2. Review the quality of the audits conducted by internal and external auditors.
3. Provide a line of communication between Board and external auditors.
4. Reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit activities.
5. Provide emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide a forum for discussion that is, among others, independent of the management.
6. Enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Authority

The BAC shall, within its terms of reference:

1. The Chairman of the BAC should engage on a continuous basis with senior management, such as the Managing Director / Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.
2. The BAC 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 co-operate with any request made by the BAC.
3. The BAC shall have direct communication channels with the external and internal auditors.
4. The BAC 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.
5. The BAC is authorised by the respective Boards to provide a written confirmation to Bank Negara Malaysia ("BNM") that the banking entities comply with BNM's requirements on financial reporting.

BOARD AUDIT COMMITTEE REPORT

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the BAC are as follows:

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. Internal Audit
 - 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.
 - 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.
 - To review the adequacy of the scope, functions and resources of the internal audit function, Internal Audit Charter and that it has the necessary authority to carry out its work.
 - To review and approve the internal audit plan and to review the results of the internal audit programme or investigation undertaken and whether appropriate action is taken by Management on the recommendations of the internal auditors.
 - To ensure that the reporting relationships of the internal audit staff do not impede the exercise of independent judgment 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.
 - To ensure that all findings and recommendations are resolved effectively and in a timely manner.
 - To ensure that internal audit staff receive 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.
3. External Audit
 - To appraise the performance of the head of internal audit and to review the appraisals of senior staff members of the internal audit function.
 - To approve any appointment or termination of the head of internal audit 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.
 - To review with the external auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.
 - 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.
 - 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.
 - To discuss and review with the external auditors any proposal from them to resign as auditors.
 - To review the non-audit services rendered by the external auditors together with the related fees for recommendation to the respective Boards for approval in accordance with the Group Policy on Non-Audit Fees payable to the external auditors.
 - To review the co-ordination of audit approach where more than one audit firm of external auditors is involved.
4. Financial Reporting
 - To review the quarterly results and year-end financial statements of the respective entities for recommendation to the respective Boards for approval, focusing particularly on:-
 - (i) Changes in or implementation of new accounting policies and practices;
 - (ii) Significant and unusual events; and



BOARD AUDIT COMMITTEE REPORT

- (iii) Compliance with applicable financial reporting standards and other legal and regulatory requirements.

5. Related Party Transactions

- 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.

6. Other Matters

- To ensure independent review of risk management and capital management processes relating to the Internal Capital Adequacy Assessment Process (“ICAAP”) for their integrity, objectivity and consistent application, is conducted.
- To review the Group’s Islamic-based business and operations comply with the Shariah Governance Framework for Islamic Financial Institutions.
- 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.
- 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.
- To review the minutes of meetings of other board audit committees within the Group to the extent permitted by the relevant regulatory authorities and be satisfied that all matters arising therefrom are being appropriately addressed by these other board audit committees.
- To perform any other functions as authorised by the respective Boards.

REPORTING

The BAC reporting line is to the respective Boards of entities that adopt the BAC.

COMPOSITION OF BAC

1. The membership of the BAC, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Board Nominating and Remuneration Committee.
2. The BAC shall comprise at least three (3) members and there should be a fair representation on the BAC, from each entity within the Group. All members of the BAC should be Non-Executive Directors with majority of whom are independent.
3. The Chairman of the BAC shall be an Independent Non-Executive Director.
4. No BAC 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 BAC. In addition, members of the BAC 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 BAC.
6. Collectively, the BAC shall have a wide range of necessary skills to undertake its duties and responsibilities and is expected to be familiar with the areas included in the scope of internal audit, including the area of risk management.
7. All members of the BAC shall be financially literate and at least one member shall be a member of an accounting association or body.
8. The term of office and performance of the BAC and each of its members must be reviewed by the respective Boards annually.
9. If a member of the BAC 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.

BOARD AUDIT COMMITTEE REPORT

FREQUENCY OF MEETINGS

1. The BAC shall meet at least once a month or when necessary.
2. Quorum: Two-thirds of the members (majority of the members present shall be Independent Non-Executive Directors).
3. Permanent Invitees: Group Chief Financial Officer (Chairman, Group Audit Committee) and the Group Chief Internal Auditor. Other invitees:
 - (i) The BAC should not convene any meeting to discuss specific issues of a particular entity without the presence of the representative of the said entity.
 - (ii) The BAC may invite the external auditors, the Managing Director / Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, any other directors or members of the Management and employees of the Group to be in attendance during meetings to assist in its deliberations.
 - (iii) At least twice a year, the BAC shall meet with the external auditors without the presence of the Management or any executive Board members and upon the request of the external auditors, the Chairman of the BAC shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.

SECRETARIAT

1. Company Secretary or representative from Group Secretariat.
2. Minutes of each meeting shall be kept and distributed to all members of the BAC and shall be tabled to the Board.
3. Details of the activities of the BAC, 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.

DISCLOSURE

The activities of the BAC should be briefly disclosed in the relevant entity's annual report as follows:

1. Membership of the BAC.
2. Responsibilities and terms of reference of the BAC.
3. Number of the BAC meetings as well as attendance of meetings by BAC members.



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 2014 and of the financial results and cash flows of the Company for the financial year ended 31 December 2014.

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 101 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 2014.

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	74,434
Retained earnings brought forward	217,672
Profits available for appropriation	292,106
Dividend paid during the financial year	(18,750)
Retained earnings carried forward	273,356

DIVIDENDS

The dividends paid by the Company since 31 December 2013 was as follows:

	RM'000
In respect of the financial year ended 31 December 2013:	
- Single-tier final dividend of 18.75% paid on 23 May 2014	18,750

The Directors have declared a single-tier interim dividend of 25% amounting to RM25 million in respect of the financial year ended 31 December 2014. The interim dividend was approved by the Board of Directors on 26 January 2015.

The financial statements for the current financial year do not reflect this proposed interim dividend. Upon declaration, this dividend payment will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2015.

The Directors do not propose any final dividend for the financial year ended 31 December 2014.

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.

DIRECTORS' REPORT

INSURANCE LIABILITIES

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

IMPAIRED DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

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

CHANGE OF CIRCUMSTANCES

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

DIRECTORS' REPORT

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

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:

Name of Director

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*)

Abdul Aziz Peru Mohamed (*INED*)

Kong Shu Yin (*Managing Director*)

DIRECTORS' REPORT

CORPORATE GOVERNANCE (CONTINUED)

Duties and Responsibilities of the Board

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

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

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



DIRECTORS' REPORT

CORPORATE GOVERNANCE (CONTINUED)

Board Meetings and Access of Information (Continued)

- 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 fourteen (14) meetings for the financial year ended 31 December 2014. 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 (%)
Ong Seng Pheow	14/14	100
Datuk Haji Faisal Siraj	14/14	100
Tuan Haji Md Ja'far Abdul Carrim	14/14	100
Dato' Othman Jusoh	13/14	93
Dato' Teo Chiang Liang	12/14	86
Abdul Aziz Peru Mohamed	14/14	100
Kong Shu Yin	14/14	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.

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 Board Nominating and Remuneration Committee ("BNRC") reviews and assesses the appointments/re-appointments of Directors. During such assessment, the Group BNRC also refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation ("BEE"). The recommendation of the BNRC 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

DIRECTORS' REPORT

CORPORATE GOVERNANCE (CONTINUED)

Training (Continued)

- 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 BNRC 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:

- Board Audit Committee
- Board Nominating And Remuneration Committee
- Board Risk Committee
- Board Technology 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.

Board Audit Committee

The Board Audit Committee ("BAC") comprises four (4) INEDs of whom one (1) is the Chairman. A total of eighteen (18) meetings were held during the financial year ended 2014 and the details of attendance of each member at the BAC Meetings are as follows:

Members of BAC	Total meetings attended	Percentage of attendance (%)
Ong Seng Pheow (<i>Chairman/INED</i>)	18/18	100
Dato' Othman Jusoh (<i>Member/INED</i>)	17/18	94
Dato' Saw Choo Boon (<i>Member/INED</i>)	16/18	89
Datuk Haji Faisal Siraj (<i>Member/INED</i>) ¹	16/16	100
Dato' Mohd Ali Bin Mohd Tahir (<i>Member/INED</i>) ²	2/2	100

Notes:

¹ Appointed as Member of BAC with effect from 28 January 2014

² Resigned as Member of BAC with effect from 28 January 2014

DIRECTORS' REPORT

CORPORATE GOVERNANCE (CONTINUED)

Board Audit Committee (Continued)

The main objectives of the BAC are as follows:

- (i) To provide independent oversight of RHB Banking Group's financial reporting and internal control system, and ensuring checks and balances for entities within the Group;
- (ii) To review the quality of the audits conducted by internal and external auditors;
- (iii) To provide a line of communication between Board and external auditors;
- (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 emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide a forum for discussion that is among others independent of the management; and
- (vi) To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Board Nominating & Remuneration Committee

The Board Nominating & Remuneration Committee ("BNRC") comprises of four (4) INEDs and one (1) Non-Independent Non-Executive Director ("NINED"). During the financial year ended 31 December 2014, a total of eleven (11) meetings were held for the BNRC and the details of the attendance of each member are as follows:

Members of BNRC	Total meetings attended	Percentage of attendance (%)
Datuk Haji Faisal Siraj (<i>Chairman/INED</i>)	11/11	100
Dato' Mohamed Khadar Merican (<i>Member/INED</i>) ¹	6/8	75
Dato' Saw Choo Boon (<i>Member/INED</i>)	11/11	100
Dato' Teo Chiang Liang (<i>Member/INED</i>)	9/11	82
Choong Tuck Oon (<i>Member/INED</i>)	9/11	82
Tuan Haji Md Ja'far Abdul Carrim (<i>Member/NINED</i>)	11/11	100

Note:

- ¹ Dato' Mohamed Khadar Merican resigned as a member of BNRC on 18 September 2014.

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

- (i) Review and assess the appointment/re-appointments of directors, board committee members, Shariah Council ("SC") and key senior management officers for recommendation to the Boards.
- (ii) Advise the Boards on optimal size and mix of skills of Boards.
- (iii) Provide oversight and direction on Human Resource (HR) matters and operations, and to recommend to the Boards for approval of remuneration and human resource strategies.

DIRECTORS' REPORT

CORPORATE GOVERNANCE (CONTINUED)

Board Risk Committee

The Board Risk Committee (“BRC”) comprises of five (5) Non-Executive Directors. During the financial year ended 31 December 2014, a total of twenty (20) meetings were held and the details of the attendance of each member are as follows:

Members of BRC	Total meetings attended	Percentage of attendance (%)
Tuan Haji Khairuddin Ahmad (<i>Chairman/INED</i>)	20/20	100
Patrick Chin Yoke Chung (<i>Member/INED</i>)	17/20	85
Tuan Haji Md Ja'far Abdul Carrim (<i>Member/NINED</i>)	20/20	100
Choong Tuck Oon (<i>Member/INED</i>)	18/20	90
Dato' Saw Choo Boon (<i>Member/INED</i>)	16/20	80

The main objectives of the BRC are as follows:

- (i) To provide oversight and governance of risks at RHB Capital Group (“the Group”). RHB Capital Group refers to all entities under the umbrella of RHB Capital Berhad, both local and foreign, whether onshore or offshore;
- (ii) To oversee Senior Management’s activities in managing risks and 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 support and provide the overall leadership to the Senior Management in driving the Risk Culture and Risk Ownership in the Group.

Board Technology Committee

The Board Technology Committee (“BTC”) comprises four (4) INEDs, the Group Managing Director (“Group MD”) and the Managing Director (“MD”) of RHB Bank Berhad. During the financial year ended 31 December 2014, a total of eight (8) meetings were held and the details of the attendance of each member are as follows:

Members of BTC	Total meetings attended	Percentage of attendance (%)
Choong Tuck Oon (<i>Chairman/INED</i>)	8/8	100
Ong Seng Pheow (<i>Member/INED</i>)	6/8	75
Dato' Mohd Ali Bin Mohd Tahir (<i>Member/INED</i>)	8/8	100
Kellee Kam Chee Khiong (<i>Member/Group MD</i>)	7/8	88
Dato' Khairussaleh Ramli (<i>Member/MD of RHB Bank Berhad</i>)	7/8	88
Charles Lew Foon Keong (<i>Member/INED</i>)	7/8	88

The roles and responsibilities of the BTC are as follows:

- (i) To review and recommend to the Board of Directors (BOD), the Group’s overall technology strategies and policies;



DIRECTORS' REPORT

CORPORATE GOVERNANCE (CONTINUED)

Board Technology Committee (Continued)

- (ii) To review and recommend to the BOD, strategic and major technology investments and projects above management's limits set by the BOD or as referred to by the Group Management Committee ("GMC");

[Note: For IT capital expenditure, the Group Approving Authority Matrix ("GAAM") limits set by the BOD as at 1 January 2014 are RM20 million (budgeted) and RM3 million (unbudgeted)]

- (iii) To receive from management, updates on emerging technology trends affecting the Group; and

- (iv) To perform any other activities as delegated by the BOD.

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 on-going process for identifying, evaluating and managing all significant risks faced by the Company which will be regularly reviewed by the Board.

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

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

Public Accountability

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

DIRECTORS' REPORT

CORPORATE GOVERNANCE (CONTINUED)

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:

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

In accordance with Article 74 of the Company's Articles of Association, Mr Ong Seng Pheow and Tuan Haji Md Ja'far Abdul Carrim 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 1.1.2014	Bought	Sold	As at 31.12.2014
Holding company				
<u>RHB Capital Berhad</u>				
Dato' Teo Chiang Liang				
- Indirect ¹	5,358	74	-	5,432

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.



DIRECTORS' REPORT

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 26 January 2015.

ONG SENG PHEOW
CHAIRMAN

Kuala Lumpur
20 March 2015

KONG SHU YIN
MANAGING DIRECTOR

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000
ASSETS			
Property, plant and equipment	5	8,146	5,821
Intangible assets - computer software	6	2,434	1,022
Investments	7	740,857	673,805
- Held-to-maturity		15,400	15,400
- Fair value through profit or loss		112,475	121,017
- Available-for-sale		518,886	454,883
- Loans and receivables		94,096	82,505
Reinsurance assets	9	332,113	261,164
Insurance receivables	10	72,060	66,228
Other receivables	11	70,209	58,528
Deferred tax assets	16	2,378	-
Cash and cash equivalents	12	13,885	9,231
TOTAL ASSETS		1,242,082	1,075,799
LIABILITIES			
Insurance contract liabilities	13	775,699	658,523
Insurance payables	14	50,296	63,385
Other payables	15	36,874	32,876
Deferred tax liabilities	16	-	1,196
Current tax liabilities		6,652	2,878
TOTAL LIABILITIES		869,521	758,858
SHAREHOLDERS' FUND			
Share capital	17	100,000	100,000
Retained earnings	18	273,356	217,672
Available-for-sale reserve		(795)	(731)
		372,561	316,941
TOTAL LIABILITIES AND SHAREHOLDERS' FUND		1,242,082	1,075,799

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



INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000
Gross earned premiums	19	554,192	495,302
Premiums ceded to reinsurers	19	(194,110)	(178,134)
Net earned premiums	19	360,082	317,168
Investment income	20	26,518	23,481
Realised gains	21	10,714	4,944
Fair value (losses)/gains	22	(17,284)	7,599
Reinsurance commission income		43,732	38,769
Other operating income		1,910	10,056
Other income		65,590	84,849
Gross claims paid	13(a)	(235,978)	(193,940)
Claims ceded to reinsurers	13(a)	80,462	58,222
Gross change to claims liabilities	13(a)	(85,939)	(100,859)
Change in claims liabilities ceded to reinsurers	13(a)	59,972	57,785
Net claims		(181,483)	(178,792)
Commission expense		(78,597)	(71,749)
Management expenses	23	(75,139)	(66,876)
Other operating expenses		(14)	-
Other expenses		(153,750)	(138,625)
Profit before taxation		90,439	84,600
Taxation	24	(16,005)	(13,500)
Profit for the financial year		74,434	71,100
Basic earnings per share (sen)	25	74.43	71.10

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000
Profit for the financial year		74,434	71,100
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to the income statements			
Available-for-sale reserve			
- Net loss arising during the financial year	7(e)	(85)	(1,716)
- Income tax relating to components of other comprehensive income		21	429
		(64)	(1,287)
Total comprehensive income for the financial year		74,370	69,813

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



STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	No. of shares '000 units	Issued and fully paid ordinary shares RM1 each Nominal value RM'000	Distributable Retained earnings RM'000	Non-distributable Available-for-sale reserve RM'000	Total RM'000
31.12.2014					
At 1 January 2014	100,000	100,000	217,672	(731)	316,941
Total comprehensive income/(loss) for the financial year	-	-	74,434	(64)	74,370
Dividends paid during the financial year (Note 26)	-	-	(18,750)	-	(18,750)
At 31 December 2014	100,000	100,000	273,356	(795)	372,561
31.12.2013					
At 1 January 2013	100,000	100,000	165,322	556	265,878
Total comprehensive income for the financial year	-	-	71,100	(1,287)	69,813
Dividends paid during the financial year (Note 26)	-	-	(18,750)	-	(18,750)
At 31 December 2013	100,000	100,000	217,672	(731)	316,941

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

STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	31.12.2014 RM'000	31.12.2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	74,434	71,100
Adjustment for:		
Realised gains	(10,714)	(4,944)
Fair value gains/(losses)	17,284	(7,599)
(Write back)/allowance for impairment on insurance receivables	(506)	809
Bad debts (recoverable)/written off	(263)	596
Amortisation of premiums	1	1
Depreciation of property, plant and equipment	2,210	1,916
Amortisation of intangible assets - computer software	390	175
Investment income	(26,520)	(23,482)
Unrealised losses/(gains) on foreign exchange	8	(147)
Taxation expense	16,005	13,500
Operating profit before changes in operating assets and liabilities	72,329	51,925
Purchase of fair value through profit or loss investments	(108,392)	(80,136)
Proceeds from sale of fair value through profit or loss investments	110,222	46,803
(Increase)/decrease in loans and receivables	(11,587)	52,192
Purchase of available-for-sale investments	(64,088)	(112,123)
Recovery of fully impaired available-for-sale investments	21	8
Interest received	3,992	4,870
Dividend received	22,476	18,685
Increase in insurance receivables	(5,077)	(9,292)
Increase in other receivables	(11,633)	(31,045)
Increase in insurance contract liabilities	117,175	141,238
Increase in reinsurance assets	(70,949)	(70,017)
(Decrease)/increase in insurance payables	(13,089)	27,587
Increase in other payables	3,996	1,576
Cash generated from operations	45,396	42,271
Income taxes paid	(15,784)	(13,559)
Net cash generated from operating activities	29,612	28,712

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 2014**

	Note	31.12.2014 RM'000	31.12.2013 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(4,534)	(1,174)
Purchase of intangible assets - computer software		(1,802)	(812)
Proceeds from sale of property, plant and equipment		122	158
Net cash used in investing activities		(6,214)	(1,828)
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	6
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,654	8,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		9,231	1,091
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	12	13,885	9,231

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 2014

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The new accounting standards, amendments and improvements to published standards and interpretations to existing accounting standards that are effective and applicable for the Company's financial year beginning on or after 1 January 2014 are as follows:

- | | |
|---|--|
| • Amendments to MFRS 10, MFRS 12 and MFRS 127 | Investment Entities |
| • Amendments to MFRS 132 | Offsetting Financial Assets and Financial Liabilities |
| • Amendments to MFRS 136 | Recoverable Amount Disclosures for Non-Financial Assets |
| • Amendments to MFRS 139 | Novation of Derivatives and Continuation of Hedge Accounting |
| • IC Interpretation 21 | Levies |

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

All other new accounting standards, amendments and improvements to published standards effective beginning on or after 1 January 2014 are not applicable to the Company.

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective.
- MFRS 9 'Financial Instruments' (effective from 1 January 2018) replaces the parts of MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014. MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments in equity instruments are always measured at fair value through profit or loss with irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instruments is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. There is now a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

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

3 SIGNIFICANT ACCOUNTING POLICIES

- (a) Property, plant and equipment

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

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

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

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Property, plant and equipment (Continued)

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

(b) Intangible assets - computer software

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

(c) Investments and other financial assets

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

(i) Fair value through profit or loss

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

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

(ii) Held-to-maturity

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

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

(iii) Loans and receivables

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



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investments and other financial assets (Continued)

(iv) Available-for-sale

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

(d) Derecognition

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

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

(e) Impairment of financial assets

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

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on held-to-maturity financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of financial assets (Continued)

(iii) Financial assets carried at fair value

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

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

(iv) Insurance receivables

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

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

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

(f) Investment income

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

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

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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of non-financial assets

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

An impairment loss is charged to the income statement immediately.

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

(h) Insurance receivables

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

(i) General insurance underwriting results

Product classification

The Company issues contracts that transfer insurance risk.

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

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

Premium income

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) General insurance underwriting results (Continued)

Premium liabilities

Premium liabilities refer to the higher of:

- (i) the aggregate of the unearned premium reserves,

or

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

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

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

Claim liabilities

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

Acquisition costs

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

Reinsurance

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

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



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) General insurance underwriting results (Continued)

Reinsurance (Continued)

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

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

The Company also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(k) Income taxes

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

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

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

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

(l) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plan

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

(m) Operating lease

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

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



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Contingent liabilities and contingent assets

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

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

(o) Cash and cash equivalents

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

(p) Dividends

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

(q) Fair value of financial instruments

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

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

(r) Equity instruments

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

5 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Furniture, fixtures and fittings, office equipment RM'000	Assets work in progress RM'000	Total RM'000
31.12.2014						
<u>Net book value</u>						
At beginning of financial year	600	316	708	4,197	-	5,821
Additions	-	-	141	3,143	1,251	4,535
Depreciation charge	(8)	(7)	(167)	(2,028)	-	(2,210)
At end of financial year	592	309	682	5,312	1,251	8,146
31.12.2013						
<u>Net book value</u>						
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
31.12.2014						
Cost	730	422	1,404	19,761	1,251	23,568
Accumulated depreciation	(138)	(113)	(722)	(14,449)	-	(15,422)
Net book value	592	309	682	5,312	1,251	8,146
31.12.2013						
Cost	730	422	1,901	16,619	-	19,672
Accumulated depreciation	(130)	(106)	(1,193)	(12,422)	-	(13,851)
Net book value	600	316	708	4,197	-	5,821

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

6 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	31.12.2014	31.12.2013
	RM'000	RM'000
<u>Cost</u>		
At beginning of financial year	3,385	2,573
Additions	1,802	812
At end of financial year	5,187	3,385
<u>Accumulated amortisation</u>		
At beginning of financial year	2,363	2,188
Amortisation for the financial year	390	175
At end of financial year	2,753	2,363
<u>Net book value</u>		
At end of financial year	2,434	1,022

7 INVESTMENT

	31.12.2014	31.12.2013
	RM'000	RM'000
Debt securities	15,400	15,400
Equities securities	112,475	119,180
Wholesale unit trust funds	518,886	454,883
Property trust funds	-	1,837
Staff loans	68	180
Fixed and call deposits	94,028	82,325
	740,857	673,805

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

	31.12.2014	31.12.2013
	RM'000	RM'000
Held-to-maturity	15,400	15,400
Fair value through profit or loss	112,475	121,017
Available-for-sale	518,886	454,883
Loans and receivables	94,096	82,505
	740,857	673,805

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

7 INVESTMENT (CONTINUED)

The following investments mature after 12 months:

	31.12.2014	31.12.2013
	RM'000	RM'000
Held-to-maturity ("HTM")	15,400	15,400
Loans and receivables	24	170
	15,424	15,570
	31.12.2014	31.12.2013
	RM'000	RM'000
(a) Held-to-maturity ("HTM")		
<u>At amortised cost</u>		
Unquoted in Malaysia:		
- Debt securities	15,400	15,400
	15,400	15,400
(b) Fair value through profit or loss ("FVTPL")		
<u>At fair value</u>		
Quoted in Malaysia:		
Held-for-trading ("HFT")		
- Equities securities	112,475	119,180
- Property trust funds	-	1,837
	112,475	121,017
(c) Available-for-sale ("AFS")		
<u>At fair value</u>		
Unquoted in Malaysia:		
- Wholesale unit trust funds	518,886	454,883
	518,886	454,883
(d) Loans and receivables ("LAR")		
<u>At amortised cost</u>		
- Loans	68	180
- Fixed and call deposits	94,028	82,325
	94,096	82,505

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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 2013	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/(losses) 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
Purchases	108,392	-	26,745	64,088	199,225
Maturities	-	-	(15,158)	-	(15,158)
Disposals	(99,629)	-	-	-	(99,629)
Recovery of fully impaired unsecured corporate debts during the financial year	-	-	-	(21)	(21)
Fair value gains recorded in Income Statement	(17,305)	-	-	-	(17,305)
Fair value gains/(losses) recorded in Other Comprehensive Income	-	-	-	(85)	(85)
Movement in impairment allowance	-	-	-	21	21
Amortisation charge	-	(1)	-	-	(1)
Movement in accrued interest	-	1	4	-	5
At 31 December 2014	112,475	15,400	94,096	518,886	740,857

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

7 INVESTMENT (CONTINUED)

(f) Fair value investments

	Fair value through profit or loss RM'000	Available- for-sale RM'000	Total RM'000
31.12.2014			
Level 1 - Quoted market price	112,475	-	112,475
Level 2 - Valuation techniques – market observable inputs	-	518,886	518,886
	112,475	518,886	631,361
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	575,900

(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
31.12.2014			
Fair value through profit and loss			
- Quoted equities securities	112,475	-	112,475
Available-for-sale			
- Wholesale unit trust funds	-	518,886	518,886
	112,475	518,886	631,361

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

7 INVESTMENT (CONTINUED)

(g) Fair value measurements (Continued)

	Level 1	Level 2	Total
	RM'000	RM'000	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	575,900

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

(i) Financial instruments in Level 1

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

(ii) Financial instruments in Level 2

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

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

Specific valuation techniques used to value financial instruments include:

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

**NOTES TO THE FINANCIAL STATEMENTS
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8 STRUCTURED ENTITIES

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

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

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

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

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

	31.12.2014	31.12.2013
	RM’000	RM’000
Number of wholesale unit trust funds	3	3
Average net asset value per unit of wholesale unit trust funds:		
RHB Income Plus Fund 2	1.0130	1.0127
RHB Income Plus Fund 9	1.0000	1.0000
AmIncome Value	0.9949	0.9956
Fair value of underlying assets:		
Debt securities	384,190	323,601
Call deposits	130,209	128,214
Receivables	7	3,043
Cash equivalents	4,480	25
	518,886	454,883
Total loss incurred	(1,061)	(975)

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

9 REINSURANCE ASSETS

	31.12.2014	31.12.2013
	RM'000	RM'000
Claims liabilities (Note 13)	241,647	181,673
Premium liabilities (Note 13)	90,466	79,491
	332,113	261,164

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

	31.12.2014	31.12.2013
	RM'000	RM'000
Due premiums including agents, brokers and co-insurers balances	71,135	66,709
Due from reinsurers and cedants	6,986	6,086
	78,121	72,795
Allowance for impairment	(6,061)	(6,567)
	72,060	66,228

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 14)	Net amounts of financial assets presented in the statement of financial position
	RM'000	RM'000	RM'000
31.12.2014			
Insurance receivables	73,151	(1,091)	72,060
31.12.2013			
Insurance receivables	67,535	(1,307)	66,228

There are no financial assets subject to enforceable master netting arrangement or similar agreements and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2014 (2013: Nil).

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

11 OTHER RECEIVABLES

	31.12.2014	31.12.2013
	RM'000	RM'000
Other receivables, deposits and prepayments	3,219	4,108
Amount due from Malaysian Motor Insurance Pool ("MMIP")		
- Cash call	27,348	17,989
- Assets held in MMIP	38,645	35,480
Amount due from stock brokers	111	110
Dividend income receivable	886	841
	70,209	58,528

MMIP amount as at 31 December 2014 is a net payable of RM6,675,531 (2013: RM7,378,283) after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premium liabilities included in note 13 to the financial statements.

12 CASH AND CASH EQUIVALENTS

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

13 INSURANCE CONTRACT LIABILITIES

	Gross	Reinsurance	Net
	RM'000	RM'000	RM'000
31.12.2014			
Claims reported	365,757	(173,795)	191,962
Incurred but not reported claims ("IBNR")	149,203	(67,852)	81,351
Claims liabilities (Note (a))	514,960	(241,647)	273,313
Premium liabilities (Note (b))	260,739	(90,466)	170,273
	775,699	(332,113)	443,586
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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Claims liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2014			
At 1 January 2014	429,021	(181,673)	247,348
Claims incurred for current accident year			
- Paid	91,538	(25,607)	65,931
- Case reserves	157,602	(87,922)	69,680
- IBNR	114,355	(52,516)	61,839
Claims incurred for prior accident year			
- Paid	144,440	(54,855)	89,585
- Case reserves	(343,047)	132,074	(210,973)
- IBNR	(78,949)	28,852	(50,097)
At 31 December 2014	514,960	(241,647)	273,313
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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) Premium liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2014			
At 1 January 2014	229,502	(79,491)	150,011
Premiums written for the financial year (Note 19)	585,429	(205,086)	380,343
Premiums earned during the financial year (Note 19)	(554,192)	194,110	(360,082)
At 31 December 2014	260,739	(90,467)	170,272
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

14 INSURANCE PAYABLES

	31.12.2014 RM'000	31.12.2013 RM'000
Due to agents and intermediaries	31,883	30,586
Due to reinsurers and cedants	18,413	32,799
	50,296	63,385

	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial assets set off in the statement of financial position (Note 10) RM'000	Net amounts of financial liabilities presented in the statement of financial position RM'000
31.12.2014			
Insurance payables	51,387	(1,091)	50,296
31.12.2013			
Insurance payables	64,692	(1,307)	63,385

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

14 INSURANCE PAYABLES (CONTINUED)

There are no financial liabilities subject to enforceable master netting arrangement or similar agreements and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2014 (2013: Nil).

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

15 OTHER PAYABLES

	31.12.2014	31.12.2013
	RM'000	RM'000
Other payables	13,260	11,333
Other accrued expenses	10,580	9,704
Provision for staff bonus	7,142	5,690
Provision for advertising and marketing expenses	2,172	2,342
Provision for agents' profit commission	1,600	1,897
Provision for training expenses	1,512	1,286
Cash collaterals held on behalf of insureds	608	588
Amount due to fund managers	-	36
	36,874	32,876

16 DEFERRED TAX ASSETS/(LIABILITIES)

	31.12.2014	31.12.2013
	RM'000	RM'000
At beginning of financial year	(1,196)	(103)
Transferred to Income Statement (Note 24)	3,553	(1,522)
Transferred to Other Comprehensive Income	21	429
At end of financial year	2,378	(1,196)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

	At beginning of financial year RM'000	(Debited)/ credited to Income Statement RM'000	Credited to Other Comprehensive Income RM'000	At end of financial year RM'000
31.12.2014				
Excess of capital allowances over depreciation	(641)	(456)	-	(1,097)
Amortisation of premiums/ (accretion of discounts) – net	1	-	-	1
Impairment gain on insurance receivables	1,538	(239)	-	1,299
Premium liabilities	130	(74)	-	56
Fair value change on FVTPL financial assets	(4,617)	4,327	-	(290)
Impairment loss on AFS financial assets	2,149	(5)	-	2,144
Fair value changes on AFS financial assets	244	-	21	265
Total	(1,196)	3,553	21	2,378
31.12.2013				
Excess of capital allowances over depreciation	(670)	29	-	(641)
(Accretion of discounts)/ amortisation of premiums – net	(156)	157	-	1
Impairment loss 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)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	31.12.2014	31.12.2013
	RM'000	RM'000
Utilised/(reversed) within 12 months	2,378	(1,196)
Utilised/(reversed) after 12 months	-	-
	2,378	(1,196)

17 SHARE CAPITAL

	31.12.2014	31.12.2013
	RM'000	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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

19 NET EARNED PREMIUMS

	31.12.2014	31.12.2013
	RM'000	RM'000
(a) Gross earned premiums		
Gross premiums	585,429	535,681
Change in premium liabilities	(31,237)	(40,379)
Gross earned premiums	554,192	495,302
(b) Premiums ceded		
Reinsurance	(205,086)	(190,366)
Change in premium liabilities	10,976	12,232
Premiums ceded	(194,110)	(178,134)
Net earned premiums	360,082	317,168

20 INVESTMENT INCOME

	31.12.2014	31.12.2013
	RM'000	RM'000
Dividend income from FVTPL investments	3,322	3,755
Interest income from HTM investments	1,161	1,161
Interest income from loans and receivables	2,836	3,265
Dividend income from AFS investments	19,199	15,298
Interest income from AFS investments	-	2
	26,518	23,481

21 REALISED GAINS AND LOSSES

	31.12.2014	31.12.2013
	RM'000	RM'000
Property, plant and equipment	121	(20)
FVTPL investments		
- Equities securities	10,593	3,981
- Property trust fund	-	724
AFS investments	-	259
	10,714	4,944

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

22 FAIR VALUE GAINS AND LOSSES - NET

	31.12.2014	31.12.2013
	RM'000	RM'000
Fair value (losses)/gains from FVTPL investments	(17,305)	7,591
Recovery of fully impaired AFS investments	21	8
	(17,284)	7,599

23 MANAGEMENT EXPENSES

	31.12.2014	31.12.2013
	RM'000	RM'000
Personnel costs	41,380	35,318
Establishment costs	5,603	5,085
Marketing costs	15,689	12,619
Administrative and general expenses	12,467	13,854
	75,139	66,876

**NOTES TO THE FINANCIAL STATEMENTS
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23 MANAGEMENT EXPENSES (CONTINUED)

	31.12.2014	31.12.2013
	RM'000	RM'000
The expenditure is further analysed as follows:		
Staff salary and bonus	33,286	27,802
Defined contribution plan	5,185	4,114
Other staff benefits	1,772	2,331
Staff costs	40,243	34,247
Executive Director's remuneration:		
Staff salary and bonus	990	931
Defined contribution plan	147	140
	1,137	1,071
Non-Executive Directors' remuneration:		
Fee	750	500
Other emoluments	665	414
	1,415	914
Auditors' remuneration	190	160
Rental of offices	2,405	2,387
Depreciation of property, plant and equipment	2,210	1,916
Amortisation of intangible assets – computer software	390	175
(Write back)/allowance for impairment on insurance receivables	(506)	809
Bad debts (reversed)/written off	(263)	596
Bank charges	2,611	2,978
Advertising and marketing expenses	6,245	3,650
Other expenses	19,062	17,973
	75,139	66,876

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 (2013: 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 RM1,144,368 (2013: RM1,078,426).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

24 TAXATION

	31.12.2014	31.12.2013
	RM'000	RM'000
Malaysian taxation:		
Current taxation	19,558	11,978
Deferred taxation (Note 16)	(3,553)	1,522
	16,005	13,500
<u>Current taxation</u>		
Current financial year	19,558	11,608
Under accrual in respect of prior financial years	-	370
	19,558	11,978
<u>Deferred taxation</u>		
Origination and reversal of temporary differences	(3,553)	1,522
	16,005	13,500

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:

	31.12.2014	31.12.2013
	RM'000	RM'000
Profit before taxation	90,439	84,600
Tax calculated at a tax rate of 25%	22,610	21,150
Double deduction of cash contribution to MMIP during the financial year*	(2,340)	(4,497)
Expenses not deductible for tax purposes	1,414	1,212
Income exempted for tax purposes	(5,630)	(4,681)
Income subject to different tax rate	(49)	(54)
Under accrual in respect of prior financial years	-	370
Tax expense	16,005	13,500

* The double deduction of cash contribution to MMIP during the financial year of RM2,339,692 (2013: 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.



**NOTES TO THE FINANCIAL STATEMENTS
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25 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM74,434,492 (2013: RM71,100,383) divided by the number of ordinary shares in issue of 100,000,000 (2013: 100,000,000) during the financial year.

26 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2014 are as follows:

	31.12.2014		31.12.2013	
	Net dividend per share Sen	Amount of dividend net of tax RM'000	Net dividend per share Sen	Amount of dividend net of tax RM'000
Proposed final dividend	18.75	18,750	18.75	18,750

The Directors have declared a single-tier interim dividend of 25% amounting to RM25million in respect of the financial year ended 31 December 2014. The interim dividend was approved by the Board of Directors on 26 January 2015.

The financial statements for the current financial year do not reflect this proposed interim dividend. Upon declaration, this dividend payment will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2015.

The Directors do not propose any final dividend for the financial year ended 31 December 2014.

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 of the Company consists of: - All Directors of the Company; and - Member of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Company)	Close family members and dependents of key management personnel

**NOTES TO THE FINANCIAL STATEMENTS
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27 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

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

		31.12.2014	31.12.2013
		RM'000	RM'000
Related party transactions	Nature of transaction		
With subsidiaries of immediate and ultimate holding company	Interest income	2,152	2,270
	Insurance premium earned	12,172	10,795
	Commission paid and payable	(8,761)	(8,203)
	Rental expense	522	(350)
With key management personnel	Insurance premium earned	33	205
	Claims incurred	37	11
Related party balances	Types of balances		
With subsidiaries of immediate and ultimate holding company	Bank balances	11,472	9,036
	Fixed and call deposits	32,796	46,737
	Insurance premium	4,352	5,247
	Investment in corporate debts securities	5,014	5,014
	Others	(544)	(383)
With key management personnel	Claims liabilities	-	(3)
Key management personnel			
The remuneration of key management personnel is as follows:			
Short-term employee benefits			
- Fees		-	-
- Salary and other remuneration		1,144	4,357
- Benefits-in-kind		-	-

28 CAPITAL COMMITMENTS

	31.12.2014	31.12.2013
	RM'000	RM'000
Authorised and contracted for	657	414
Authorised but not contracted for	1,384	1,112
	2,041	1,526

**NOTES TO THE FINANCIAL STATEMENTS
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29 RISK MANAGEMENT FRAMEWORK

(a) Risk Management framework

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

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

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

The Group Risk Management Framework governs the management of risks in the RHB Banking Group ('the Group') which inclusive of the Company, as follows:

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

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

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

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

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

2. Clear Understanding of Risk Management Ownership
Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The business units ("SBUs") and functional units ("SFUs") of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including risk management function.
3. Institutionalisation of a Risk-focused Organisation
In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk coordination functions and continuous reinforcement of a risk and control environment within the Group.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Management framework (Continued)

4. Alignment of Risk Management to Business Strategies

The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite is set by the Board and reported through various metrics that enable the Company and the Group to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Company and the Group are prepared to accept in delivering its strategy.

5. Optimisation of Risk-adjusted Return

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

(b) Capital Management Policy

Capital Management Policy ("CMP") has been written to set out recommendation on the action plans to be taken by the Board and management of the Company in the event of Capital Adequacy Ratio ("CAR") falling below the internal target and the minimum supervisory requirement. The CMP will require the Board and management of the Company to undertake remedial actions so as to improve the Company's capital position. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

30 INSURANCE RISK (CONTINUED)

(a) Key assumptions

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

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

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

(b) Sensitivity analysis

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

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

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
31.12.2014					
Average claim cost	+10%	51,572	21,175	(21,175)	(15,881)
Average number of claims	+10%	43,014	20,278	(20,278)	(15,209)
Average claim settlement period	Increased by 6 months	6,530	3,059	(3,059)	(2,294)
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)

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

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.

Gross insurance claims liabilities for 2014:

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

Gross insurance claims liabilities for 2014 (Continued):

Accident year	Before 2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
Cumulative payments to-date		(119,451)	(126,575)	(130,325)	(160,502)	(182,102)	(166,887)	(91,529)	
Gross insurance claims liabilities per Statement of Financial Position (Note 13(a))	69,058	2,064	11,042	9,696	13,284	28,317	109,542	271,957	514,960
Current estimate of surplus/(deficiency)		10,449	(6,079)	(8,150)	559	(1,121)	(40,757)	(87,750)	
% surplus/(deficiency) of initial gross reserve		7.92%	(4.62%)	(6.18%)	0.32%	(0.54%)	(17.29%)	(31.82%)	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

Net insurance claims liabilities for 2014:

Accident year	Before 2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year	103,966	119,648	119,648	126,677	136,749	154,367	173,678	197,440	
One year later	87,186	109,416	109,416	114,798	126,585	146,227	157,247		
Two years later	84,719	107,372	107,372	110,199	121,799	137,404			
Three years later	83,589	103,662	103,662	107,963	118,122				
Four years later	82,206	102,240	102,240	105,538					
Five years later	81,683	99,135							
Six years later	80,659								
Seven years later									
Current estimate of cumulative claims incurred		80,659	99,135	105,538	118,122	137,404	157,247	197,440	
At end of accident year	(28,615)	(46,140)	(46,140)	(45,331)	(47,677)	(49,146)	(55,721)	(65,922)	
One year later	(63,782)	(81,903)	(81,903)	(86,633)	(95,770)	(105,577)	(112,324)		
Two years later	(71,894)	(89,792)	(89,792)	(96,331)	(106,108)	(119,912)			
Three years later	(76,787)	(95,612)	(95,612)	(99,645)	(112,076)				
Four years later	(78,516)	(96,150)	(96,150)	(101,142)					
Five years later	(79,246)	(96,367)							
Six years later	(79,461)								
Seven years later									
Cumulative payments to-date	(79,461)	(96,367)	(96,367)	(101,142)	(112,076)	(119,912)	(112,324)	(65,922)	
Net insurance claims liabilities per Statement of Financial Position (Note 13(a))	64,972	1,197	2,768	4,396	6,047	17,492	44,924	131,518	273,314
Current estimate of surplus/(deficiency)	(4,068)	(9,519)	(9,519)	(9,247)	5,200	1,070	4,141	(53,046)	
% surplus/(deficiency) of initial gross reserve	(5.31%)	(10.62%)	(10.62%)	(9.60%)	4.22%	0.77%	2.57%	(36.74%)	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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%)	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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	103,966	119,648	126,677	136,749	154,367	173,678	
One year later	77,818	87,186	87,186	109,416	114,798	126,585	146,227		
Two years later	75,892	84,719	84,719	107,956	110,199	121,799			
Three years later	74,167	83,589	83,589	104,246	107,963				
Four years later	73,029	82,206	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	81,683	102,824	107,963	121,799	146,227	173,678	
At end of accident year	(28,516)	(28,615)	(28,615)	(46,141)	(45,331)	(47,677)	(49,146)	(55,721)	
One year later	(58,706)	(63,782)	(63,782)	(81,903)	(86,633)	(95,770)	(105,577)		
Two years later	(64,840)	(71,894)	(71,894)	(90,376)	(96,331)	(106,108)			
Three years later	(67,895)	(76,787)	(76,787)	(96,196)	(99,645)				
Four years later	(69,549)	(78,516)	(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)	(79,247)	(96,734)	(99,645)	(106,108)	(105,577)	(55,721)	
Net insurance claims liabilities per Statement of Financial Position (Note13(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)	(5,129)	(13,266)	(11,981)	1,037	(9,910)	(41,380)	
% surplus/(deficiency) of initial gross reserve	(0.75%)	(6.70%)	(6.70%)	(14.81%)	(12.48%)	0.84%	(7.27%)	(31.28%)	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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.

	31.12.2014	31.12.2013
	RM'000	RM'000
Investments held-to-maturity		
Unquoted corporate debt securities	15,400	15,400
Loans and receivables		
Loans	68	180
Fixed and call deposits	94,028	82,325
Reinsurance assets - claims liabilities	241,647	181,673
Insurance receivables	72,060	66,228
Other receivables*	69,480	56,437
Cash and cash equivalents**	13,878	9,225
	506,561	411,468

* excluding prepayments which is not subject to credit risk

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

31 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (Continued)

Credit exposure by credit rating

	Neither past-due nor impaired			Past-due but not impaired RM'000	Total RM'000
	Rated: satisfactory RM'000	Rated: unsatisfactory RM'000	Not rated RM'000		
31.12.2014					
Investments held-to-maturity					
Unquoted corporate debt securities	115,400	-	-	-	115,400
Loans and receivables					
Loans	-	-	68	-	68
Fixed and call deposits	94,028	-	-	-	94,028
Reinsurance assets - claims liabilities	212,337	1,873	27,437	-	241,647
Insurance receivables	-	-	-	72,060	72,060
Other receivables	-	-	69,480	-	69,480
Cash and cash equivalents	13,878	-	-	-	13,878
	335,643	1,873	96,985	72,060	506,561
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



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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
31.12.2014						
Investments held-to-maturity						
Unquoted corporate debt securities	-	5,234	10,166	-	-	15,400
Loans and receivables						
Loans	-	-	-	-	68	68
Fixed and call deposits		81,757	12,271			94,028
Reinsurance assets - claims liabilities		1,248	211,090	1,873	27,436	241,647
Insurance receivables	-	-	269	-	71,791	72,060
Other receivables	-	-	-	-	69,480	69,480
Cash and cash equivalents	2,420	11,458	-	-	-	13,878
	2,420	99,697	233,796	1,873	168,775	506,561
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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

31 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (Continued)

Age analysis of financial assets past due but not impaired

	Less than 3 months RM'000	3 to 6 months RM'000	More than 6 months RM'000	Total RM'000
31.12.2014				
Insurance receivables	49,387	13,917	8,756	72,060
31.12.2013				
Insurance receivables	42,577	12,701	10,950	66,228

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 2014, based on collective assessment of receivables, there are impaired insurance receivables of RM6,061,223 (2013: RM6,567,218). No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate "allowance for impairment" accounts. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	31.12.2014 RM'000	31.12.2013 RM'000
At 1 January	6,567	5,758
Charge for the financial year	2,482	3,497
Write back	(2,988)	(2,688)
At 31 December	6,061	6,567

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 2014, there are impaired financial assets available for sale of RM18,934 (2013: RM39,624). A reconciliation of the allowance for impairment losses for investment in debt securities is as follows:

Available-for-sale investments

	31.12.2014 RM'000	31.12.2013 RM'000
At 1 January	40	8,603
Recovery of fully impaired investment	(21)	(8)
Write-off of fully impaired investment	-	(8,555)
At 31 December	19	40

**NOTES TO THE FINANCIAL STATEMENTS
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31 FINANCIAL RISKS (CONTINUED)

(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.

	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
31.12.2014						
Investments held-to-maturity						
Unquoted corporate debt securities	15,400	1,163	2,325	2,325	41,250	47,063
Loans and receivables						
Loans	68	68	-	-	-	68
Fixed and call deposits	94,028	94,444	-	-	-	94,444
Reinsurance assets - claims liabilities	241,647	50,883	156,262	31,645	2,857	241,647
Insurance receivables	72,060	72,060	-	-	-	72,060
Other receivables	70,209	70,209	-	-	-	70,209
Cash and cash equivalents	13,885	13,885	-	-	-	13,885
Total financial assets	507,297	302,712	158,587	33,970	44,107	539,376
Insurance contract liabilities - claims liabilities	514,960	172,788	283,781	55,334	3,057	514,960
Insurance payables	50,296	50,296	-	-	-	50,296
Other payables	36,874	36,874	-	-	-	36,874
Total financial liabilities	602,130	259,958	283,781	55,334	3,057	602,130

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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	35,340	150,921	(7,895)	3,307	181,673
Insurance receivables	66,228	66,228	-	-	-	66,228
Other receivables	58,528	58,528	-	-	-	58,528
Cash and cash equivalents	9,231	9,231	-	-	-	9,231
Total financial assets	413,565	253,331	153,316	(5,570)	45,719	446,796
Insurance contract liabilities - claims liabilities	429,021	142,791	268,359	6,614	11,257	429,021
Insurance payables	63,385	63,385	-	-	-	63,385
Other payables	32,876	32,876	-	-	-	32,876
Total financial liabilities	525,282	239,052	268,359	6,614	11,257	525,282

(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.



**NOTES TO THE FINANCIAL STATEMENTS
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31 FINANCIAL RISKS (CONTINUED)

(c) Market risk (Continued)

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	31.12.2014 Impact on equity* RM'000	31.12.2013 Impact on equity* RM'000
Interest rate	+100 basis points	(10,108)	(9,110)
Interest rate	-100 basis points	10,780	9,492

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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.

	Change in variables	31.12.2014		31.12.2013	
		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%	19,998	14,998	18,629	13,972
Bursa Malaysia	-15%	(19,998)	(14,998)	(18,629)	(13,972)

* 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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

32 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2014, as prescribed under the RBC Framework is provided below:

	Note	31.12.2014 RM'000	31.12.2013 RM'000
<u>Eligible Tier 1 Capital</u>			
Share capital (paid-up)	17	100,000	100,000
Retained earnings		273,356	217,672
		373,356	317,672
<u>Tier 2 Capital</u>			
Available-for-sale reserve		(795)	(731)
Amount deducted from Capital		2,378	-
Total Capital Available		370,183	316,941

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 January 2015.

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 47 to 100 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2014 and of its results and cash flows for the financial year ended 31 December 2014 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 26 January 2015.

ONG SENG PHEOW
CHAIRMAN

KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur
20 March 2015

STATUTORY DECLARATION

Pursuant to Section 169 (16) of the Companies Act, 1965, I, Chong Sook Yin, being the Officer primarily responsible for the financial management of RHB Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 47 to 100 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 20 March 2015)

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 2014 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 47 to 100.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2014 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RHB INSURANCE BERHAD
(INCORPORATED IN MALAYSIA) (COMPANY NO. 38000-U)**

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

SOO HOO KHOON YEAN

(No. 2682/10/15 (J))
Chartered Accountant

Kuala Lumpur
20 March 2015

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