

Annual Report 2012

Engaging Sustainable Growth



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## Together Everyone Achieves More

### OUR BACKGROUND

The Pacific Insurance Berhad has its roots going back to the 1950s when it was the Malayan business arm of The Netherlands Insurance Company, then the 12th largest insurance company in the world. The local operations were reconstituted in 1984 into a local insurance company bearing the name, The Netherlands Insurance (Malaysia) Sdn Bhd. In 1994, The Pacific Bank Bhd (now known as PacificMas Berhad) acquired 70% of the Company's equity and changed to The Pacific Insurance Berhad when the Company became a wholly-owned subsidiary of PacificMas Berhad.

In 2011, Fairfax Asia Limited acquired 100% of the equity of The Pacific Insurance Berhad and Fairfax Financial Holdings Limited (Fairfax) of Canada became the ultimate holding company. Fairfax is a large Canadian financial services holding company based in Toronto and is listed on the Toronto Stock Exchange with shareholders' equity of USD7.7 billion and total assets of USD36.9 billion as at the end of 2012. Through its various subsidiaries, the Fairfax Group is engaged in property and casualty insurance and reinsurance and investment management. The Group has operations in Canada, USA, Brazil, Europe as well as Asia with total premiums of USD7.4 billion.

### KEY ACHIEVEMENTS IN 2012

- Gross premiums rose to RM209.5 million (2011: RM205.8 million)
- Underwriting profit rose to RM 9.5 million (2011: RM 1.8 million)
- Total assets rose to RM492.8 million (2011: RM456.3 million)
- Shareholder's fund rose to RM149.8 million (2011: RM132.6 million).
- Ranked as the largest individual medical insurer in the Malaysian general insurance industry.





## CORPORATE INFORMATION

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### BOARD OF DIRECTORS

**1** SAMMY CHAN SUM YU  
*Director*

**2** DATO' HUANG SIN CHENG  
*Chairman*

**3** RAMASWAMY ATHAPPAN  
*Director*



#### REGISTERED OFFICE

D2-3-2 Solaris Dutamas, No.1, Jalan Dutamas 1, 50480 Kuala Lumpur.  
Tel : 603-6207 8080 Fax : 603-6207 9933

**4** DATUK ABU HASSAN  
BIN KENDUT  
*Director*

**5** ZAINUL ABIDIN  
BIN MOHAMED RASHEED  
*Director*

**6** ABDULLAH  
BIN TARMUGI  
*Director*



**COMPANY  
SECRETARIES**

John Mathew a/l Mathai  
Kwan Wai Kein

**AUDITORS**

PricewaterhouseCoopers  
Chartered Accountants

## CHAIRMAN'S STATEMENT

“...our underwriting profit surged by RM 7.7 million to RM 9.5 million...”



On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of our Company for the financial year ended 31 December 2012.

### OVERVIEW

The Malaysian economy continues to grow despite the uncertainties and challenges in the global economy. In 2012, the economy grew by 5.1% supported by robust domestic investments and consumption. According to the 2012 Bank Negara Malaysia Annual Report, the Malaysian economy is expected to maintain a steady growth, with an expansion of 5.6% in 2013. Economic activity will continue to be anchored by domestic demand, supported by a gradual improvement in the external sector.

In tandem with the Malaysian economic growth, the General Insurance industry (“industry”) also registered an expansion in 2012, with gross premiums increasing by 8.2% to RM15.2 billion at the end of the year, compared with the increase of 7.9% to RM14.0 billion in 2011. The industry’s Net Claims Incurred (“NCI”) ratio of 57.1% recorded an improvement in 2012, compared with the ratio of 60.7% in the previous year while the combined ratio of 87.4% also showed improvement, compared with the ratio of 90.3% in the previous year.

### COMPANY'S PERFORMANCE

Financial Performance at a glance

	2012 RM 'million	2011 RM 'million	% increase
Gross Written Premium	209.5	205.8	1.8%
Underwriting Profit	9.5	1.8	427.8%
Profit Before Tax	23.3	13.8	68.8%
Net Profit for the Year	18.5	11.0	68.2%
Basic Earnings Per Share (sen)	18.5	11.0	68.2%
Total Assets	492.8	456.3	8.0%
Total Equity	149.8	132.6	13.0%





## Financial Review

The Company ended the 2012 financial year with commendable results. The sharp improvement in the Company's performance was mainly attributed to its cautious and strict approach in the selection of risks which is in line with its philosophy of attaining reasonable top line growth with emphasis on underwriting profits. Following this strategy, our Gross Written Premium ("GWP") grew marginally by RM3.7 million or 1.8% to RM209.5 million at the end of 2012, compared with the GWP of RM205.8 million at the end of 2011, while our underwriting profit surged by RM7.7 million to RM9.5 million in 2012 or an increase of 427.8% against 2011.

Medical insurance continues to be our star performer and anchors as our largest portfolio with gross premium income amounting to RM58.6 million, representing 28% of the total premium income of RM209.5 million obtained in 2012. The ISM Statistics Bulletin (Jan – Dec 2012) continued to give the Company the highest ranking in Individual Medical Insurance with a market share of 32.5%. Further, our Medical portfolio continues to contribute positively to the Company with a healthy trend of growing underwriting profits.

In 2012, our Motor portfolio also grew by 14.2% to RM49.1 million at the end of the year. The Company's own motor portfolio was profitable, however, with the inclusion of the loss contribution of RM8.1 million to the Malaysian Motor Insurance Pool ("MMIP"), an overall motor underwriting loss of RM2.48 million was incurred by the Company. The new Motor Cover Framework implemented in January 2012 had allowed a gradual and marginal increase in motor tariff premium. Following this framework, Bank Negara Malaysia has allowed a second round of adjustment to the motor tariff rates effective 15 February 2013. This gradual increase in premium rate will continue until 2015. As the increase is marginal, we do not expect its impact on the contribution to the Motor class to be significant.

In 2012, our Net Claims Incurred ("NCI") rose marginally to RM79.7 million compared with RM79.2 million in 2011. The NCI ratio improved to 59.1% in 2012 compared to 64.3% in 2011 due to the higher earned premiums recorded during the year. Excluding the loss contribution to MMIP, our Company's NCI ratio would have been 51.7% in 2012, instead of 59.1%.

**“Medical insurance continues to be our star performer and anchors as our largest portfolio with gross premium income amounting to RM58.6 million, representing 28% of total premium income....”**

Management expense rose to RM29.9 million in 2012 compared with RM27.9 million in 2011, due to the costs incurred in the closure of seven branches and higher bonus payment to management staff.

Our Company’s underwriting profit recorded a strong improvement from RM1.8 million in 2011 to RM9.5 million in 2012, after taking into account the Company’s share of loss incurred by the MMIP which amounted to RM8.1 million. Accordingly, the Company’s Combined Ratio improved to 93.0% in 2012 compared to 98.5% in 2011.

Total assets rose to RM492.8 million as at end of 2012 from RM456.3 million at the end of 2011. Investment-related income comprising investment income, net operating income and fair value gains and losses grew to RM14.1 million in 2012 compared with RM11.5 million in 2011. The higher income was mainly a result of the capital gain of RM2.4 million arising from the full redemption of investments in a unit trust fund.

During the year under review, our profit before tax increased by 68.8% to RM23.3 million in 2012 as compared to RM13.8 million in 2011, mainly due to the higher underwriting profit and higher investment related income.

For the financial year ended 31 December 2012, the Board of Directors does not recommend any payment of dividend.

### Business Operations Review

In 2012, management attention was directed towards improving the underwriting position as well as the development of profitable segments of business.

#### *Closure of Branches*

As part of the cost saving strategy, the Company closed down seven branches in the middle of 2012. The affected branches are namely, Sandakan, Miri, Bintulu, Kuala Terengganu, Teluk Intan, Muar and Batu Pahat. The businesses from these offices were incorporated into those at the nearest offices. The financial impact of the closure of these branches has started to show positively in the results of the Company in the 4th Quarter of 2012.

#### *E-Payment System*

In line with the directive from Bank Negara Malaysia, the Company started to implement phase 1 of the e-Payment system in 2011. The remaining phase 2 of the e-Payment system was mostly implemented







in 2012. The e-Payment system enables the Company to transfer money directly and efficiently to the bank accounts of staff, claimants, vendors and business partners. The consequential reduction in cheque issuances will benefit the Company by easing the process of reconciliation and follow-up on unrepresented cheques and also by providing better security and timely funds transfer to the recipients.

### *Agency Force*

Our agency force continues to remain as the main distribution channel of the Company. During the year, many training programs were provided to the agents to equip them with the necessary technical knowledge and skill that are needed. In 2012, the Company expended RM0.3 million on training and development of the agency force. In recognition of the agents' achievement and contributions, the 2012 Agency Convention was held at Swiss Garden Golf & Spa Resort Damai Laut, Perak in July 2012 where top and profitable agents were honoured. In assisting our agents to do more on-line business and to reach out to more customers, the Company also continues to provide computer on loan to qualified agents.

### *Broking*

Our Broking Department continues to make headways in terms of premium growth. The Broking Department managed to record an increase in gross

premium of 6.2%, from RM46.7 million at the end of 2011 to RM49.6 million at the end of 2012. In particular, the department was successful in improving our company's ranking in the industry in the Marine Hull class of business from 6th position in 2011 to 3rd placing in 2012 and our market share rose from 7.39% (RM 17.4 million in gross direct premium) in 2011 to 11.2% (RM29.2 million in gross direct premium) in 2012. This was made possible by leveraging on the technical expertise within the Fairfax Group.

### *Information Technology*

The IT infrastructure is continually being enhanced to support the business operations and provide prompt services to our customers. Agents are now able to issue cover notes at the point of sale for Motor Insurance, Personal Insurance, Fire Insurance and standard policies for the Foreign Worker Health & Surgical Insurance.

The upgrading of the core application system and hardware is in progress and is expected to complete by the second half of 2013. The roll out of more products available for on-line sale will take place once the upgrading of the core system is completed.

The enhancement of our core application system and hardware is expected to generate more sales and improve the efficiency of the day-to-day operations as well as the productivity of the staff.



### *Relationship with Business Partners*

During the year under review, Management continued its initiative to nurture the strategic alliances and business relationships with major business partners, based on our prompt and efficient service, strong balance sheet and good reputation for governance, in order to grow our market share of premium income. As a member of the Fairfax Group, Management is also able to establish stronger relationship with brokers and large corporate clients.

## CAPITAL MANAGEMENT PLAN

The Board of Directors has approved the revised Capital Management Plan (“CMP”) which is in line with the Guideline on the Internal Capital Adequacy Assessment Process for Insurers issued by Bank Negara Malaysia (“BNM”) which became effective from 1 September 2012.

The CMP incorporates the Company’s risk appetite, review of risk profiles and Capital Adequacy Ratio (“CAR”) on an on-going basis and corrective actions to be taken to ensure the capital level remains at an appropriate level.

As at 31 December 2012, the Company’s CAR was 289%, which is well above the supervisory CAR of 130% set by the BNM and our Individual Target Capital Level.

## GIVING BACK TO THE COMMUNITY

As we strive to do well, we have not forgotten the less fortunate among us. To quote Mr Prem Watsa, President of Fairfax Financial Holdings Limited, “We are very grateful to be able to do good by doing well but of course we have to do well first”. In line with

this Guiding Principle and as a member of the Fairfax Group, we are committed to support the community through various charitable events.

In December 2012, the Company organized a charity jungle walk to raise donations for the aborigine community in Bukit Lagong, Selangor and funds for one of our staff who was diagnosed with cancer. This charity event brought together over 300 participants comprising staff, intermediaries, business partners and their families. We are pleased to report that we donated a wide variety of food stuff, books and stationery, clothing and household items to the families of the aboriginal community and at the same time raised RM42,000 in aid of the staff who is ill. Apart from this event, a sum of RM27,000 was also donated to various organizations for charitable causes during the year.

## OUTLOOK AND PROSPECTS

Bank Negara Malaysia in its 2012 Annual Report stated that the Malaysian economy is expected to remain on a steady growth path with an expansion







of 5.6% in 2013, with domestic demand as the key driver of growth. The Malaysian insurance industry is therefore likely to remain resilient. The increasing competition from the existing insurance companies, and takaful players as well as the adverse impact from the losses incurred by MMIP will continue to pose as challenges to the Company.

Barring unforeseen circumstances, our Company's prospects in 2013 are expected to be favorable.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to extend the Board's gratitude and appreciation to Management and all staff of The Pacific Insurance Berhad for their commitment, dedication and hard work during the year. The commendable results of 2012 are a testament to their hard work, commitment, professionalism and dedication.

I would also like to acknowledge the Board's appreciation of the Fairfax Group for strengthening our business operations and enabling the Company to further reach out to the market.

A special thanks also goes out to all our customers, business partners and agents for their continued support and also to the regulatory authorities, especially Bank Negara Malaysia, for their guidance and assistance in the course of the year.

Last but not least, I also wish to take this opportunity to extend my appreciation to my fellow Directors for their counsel and active participation in the Board's deliberations, which are so crucial for the continuing progress of the Company.

Dato' Huang Sin Cheng  
Chairman

## MANAGEMENT TEAM

**a** RICHARD LIANG LIP KIN  
Senior Manager,  
Medical Insurance

**b** MICHAEL YEOW KIEW MENG  
Senior Manager,  
Work-Site Marketing

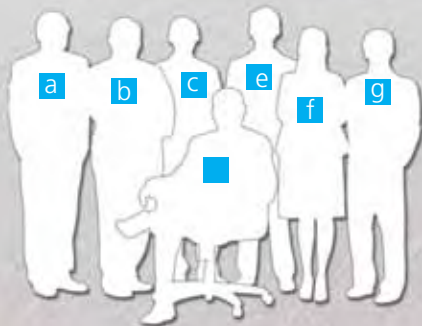
**c** FREDDY WEE CHEE SUNG  
Manager,  
Policy Processing

**d** SONNY TAN SIEW HOCK  
Chief Executive Officer

**e** CHEONG YEW WING  
Senior Manager,  
KL Agency

**f** TAY YEW LEAN  
Senior Manager,  
Direct Business &  
Customer Care

**g** TEY CHIN LEA  
Manager,  
Credit Control,  
Complaints Management  
and Special Project



• Honesty & Integrity • Professionalism • Teamwork



## “Teamwork divides the task and multiplies the success”

**h** CHIN KIM YEN  
Manager,  
Internal Audit

**i** NICHOLAS LAI AH TING  
Senior Manager,  
Information and  
Communication,  
Technology & Research

**j** GRACE CHEONG MEE TIEN  
Manager,  
Human Resource

**k** MICHAEL CHOO HENG SAI  
Senior Manager,  
Broking

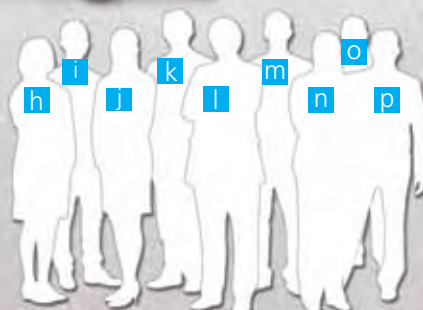
**l** ONG BOON HOCK  
Senior General Manager

**m** FRANCIS CHAM HOCK SENG  
Senior Manager,  
Non-Medical Claims

**n** NORHAFIZAH AHMAD  
Senior Manager,  
Financial Services

**o** VIJAYAKUMAR S MARIMUTHU  
Assistant Manager,  
Centralised Filing Unit &  
Administration

**p** AHMAD AZHARI AWANG  
Senior Manager,  
Underwriting and Reinsurance



• Customer Service Excellence • Corporate Governance

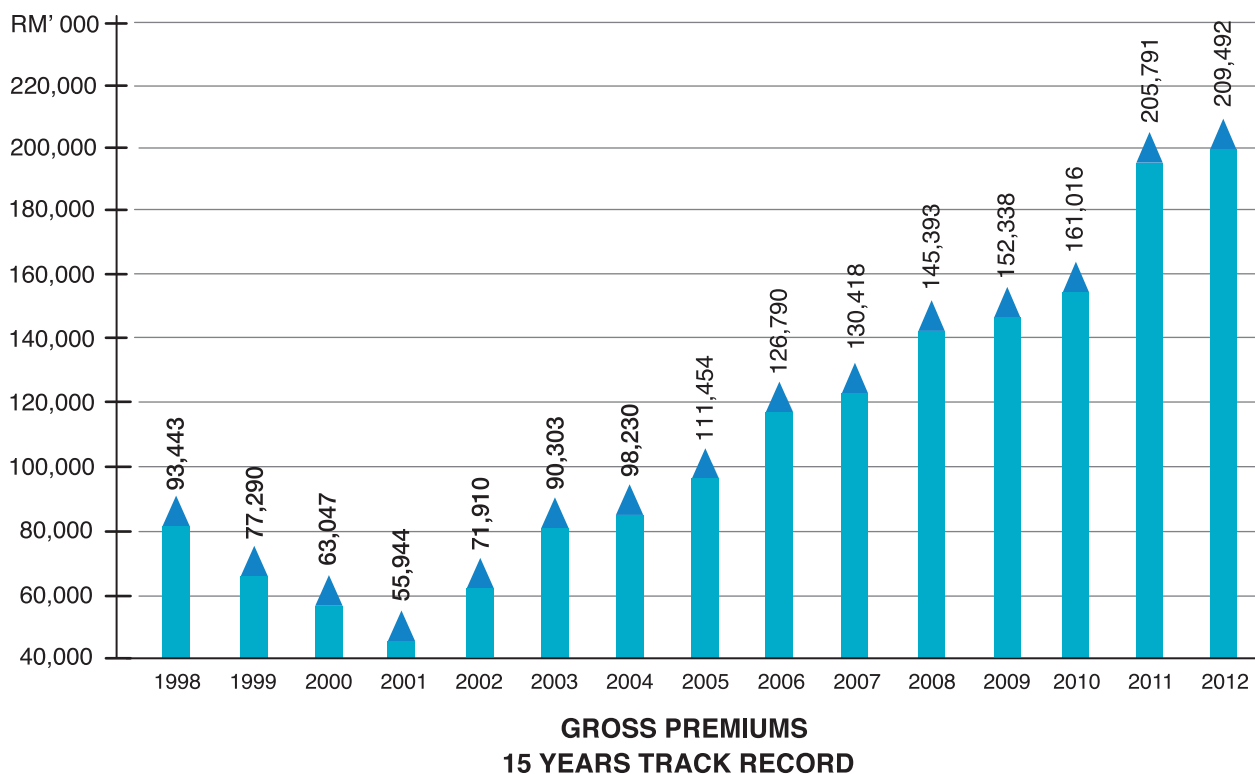
## FINANCIAL HIGHLIGHTS

### KEY FINANCIAL INDICATORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

RM'000	2003	2004	2005	2006
Gross Premiums	90,303	98,230	111,454	126,790
Underwriting Surplus/(Deficit)	1,977	6,412	7,786	2,028
Profit Before Tax	16,540	18,454	13,394	14,288
Total Equity	128,267	133,284	133,917	134,161
<b>Total Assets</b>	<b>245,510</b>	<b>271,496</b>	<b>260,538</b>	<b>264,829</b>

### GROSS PREMIUM FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

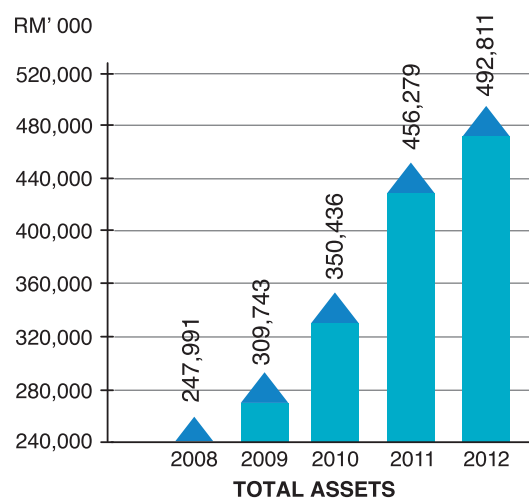
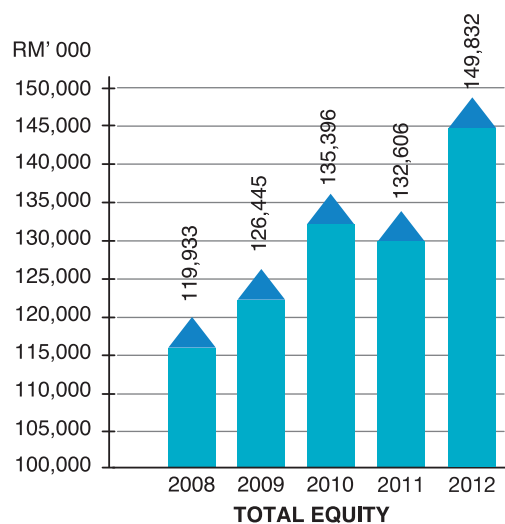
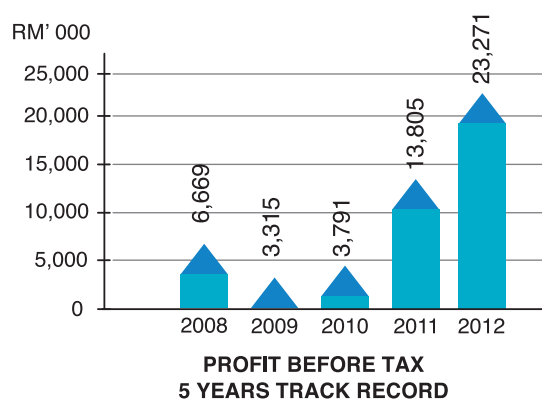
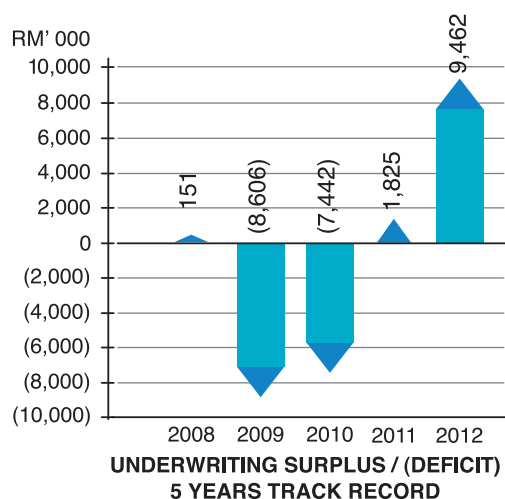
RM'000	2003	2004	2005	2006
Medical	27,312	33,892	32,423	39,416
Motor	22,463	23,038	31,143	34,770
Fire	17,505	17,835	19,532	21,215
Others	23,023	23,465	28,356	31,389
<b>Total</b>	<b>90,303</b>	<b>98,230</b>	<b>111,454</b>	<b>126,790</b>





	2007	2008	2009	2010	2011	2012
	130,418	145,393	152,338	161,016	205,791	209,492
	1,047	151	(8,606)	(7,442)	1,825	9,462
	14,463	6,669	3,315	3,791	13,805	23,271
	114,995	119,933	126,445	135,396	132,606	149,832
	241,585	247,991	309,743	350,436	456,279	492,811

	2007	2008	2009	2010	2011	2012
	41,744	49,975	48,688	50,767	68,167	58,604
	33,784	31,996	30,627	32,751	42,955	49,112
	22,009	20,594	23,054	26,320	31,527	35,934
	32,881	42,828	49,969	51,178	63,142	65,842
	<b>130,418</b>	<b>145,393</b>	<b>152,338</b>	<b>161,016</b>	<b>205,791</b>	<b>209,492</b>



## OUR RANGE OF PRODUCTS

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### MEDICAL INSURANCE

The Pacific Insurance Berhad is known for its competency and expertise in medical insurance. We have one of the widest range of medical insurance products in the market. In 2012, we were ranked again as the largest Individual Medical Insurer within the Malaysian general insurance industry.

- PACIFIC Medi-Pac Insurance
- PACIFIC Medi-Major Insurance
- PACIFIC Medi-Help Insurance
- PACIFIC Medi-Care Insurance
- PACIFIC EMA Insurance  
(Emergency Medical Healthcare Insurance)
- Group Hospitalisation & Surgical Insurance
- EVO Healthcare Insurance
- PHM Healthcare Insurance
- PHM VIP Healthcare Insurance

**“Growth is never by mere chance, it is the result of forces working together.”**





## Innovative Products

Our products are designed with customers in mind. Comprehensive coverage, affordable premium and a wide range of plans - these are the hallmarks of our product design philosophy.

### FIRE INSURANCE

- Consequential Loss of Profit
- Home Content
- Houseowner / Householder
- Material Damage

### OTHER INSURANCES

- Accident
- Bonds
- Engineering
- Liability
- Marine Cargo
- Marine Hull
- Personal Accident
- Workmen Compensation

### MOTOR INSURANCE

- Private Cars
- Commercial Vehicles
- Motorcycles





Agency Convention 2012  
at Swiss Garden  
Golf & SPA Resort  
Damai Laut, Perak  
13 – 15 July 2012.



2012 Excellence Award  
& Gala Nite at  
The Agency  
Convention 2012 on  
July 2012.





Team Building & Jungle  
Walk activities at  
Damai Laut





Charity Team  
Building Jungle Walk  
at Bukit Lagong,  
Selangor on  
15 December 2012



Chinese New Year  
Dinner  
at Concorde Hotel  
on 21 February 2013



# FINANCIAL STATEMENTS

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## DIRECTORS' REPORT

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The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2012.

### PRINCIPAL ACTIVITY

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

### RESULTS

	<b>RM</b>
Net profit for the financial year	<u><u>18,491,823</u></u>

There were no material transfers to or from reserves or provisions during the financial year, other than as disclosed in the financial statements.

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

### DIVIDENDS

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2012.

### DIRECTORS

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

Dato' Huang Sin Cheng  
Ramaswamy Athappan  
Sammy Chan Sum Yu  
Datuk Abu Hassan bin Kendut\*  
Abdullah bin Tarmugi\*  
Zainul Abidin bin Mohamed Rasheed\*\*

\* *Appointed on 16 May 2012*

\*\* *Appointed on 31 October 2012*



## DIRECTORS' REPORT (CONT'D)

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### DIRECTORS (CONTINUED)

In accordance with Article 65 of the Company's Articles of Association, Dato' Huang Sin Cheng and Sammy Chan Sum Yu will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 59 of the Company's Articles of Association, Abdullah bin Tarmugi and Zainul Abidin bin Mohamed Rasheed will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Datuk Abu Hassan bin Kendut will retire at the forthcoming Annual General Meeting and a resolution will be proposed for his re-appointment as Director under the provision of Section 129(6) of the said Act to hold office until the conclusion of the next Annual General Meeting of the Company.

### CORPORATE GOVERNANCE

#### (a) Board Responsibility and Oversight

##### Board Responsibility

The Board is committed to ensure that the highest standards of corporate governance are observed in the Company so that the affairs of the Company are conducted with professionalism, accountability and integrity with the objective of enhancing shareholders' value as well as safeguarding the interests of other stakeholders.

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines, BNM/RH/GL 003-01 on Minimum Standards for Prudential Management of Insurers (Consolidated) and BNM/RH/GL 003-02 on Prudential Framework of Corporate Governance for Insurers. The Company has complied with the prescriptive applications and adopted management practices that are consistent with these guidelines.

## **DIRECTORS' REPORT (CONTINUED)**

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### **CORPORATE GOVERNANCE (CONTINUED)**

#### **(a) Board Responsibility and Oversight (continued)**

##### **Board Responsibility (continued)**

The Board has overall responsibility for the strategic direction and development plans in furthering the achievements of the Company. The Board meets regularly and has a formal schedule of matters specifically reserved for its consideration and approval, which includes the annual business and strategic plans, business operations, financial performance, risk management, investment, as well as compliance requirements under the Risk-Based Capital Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers. The Board's approval is also sought for transactions by the Company on outsourcing of certain business functions, major acquisition and disposal of assets, as well as material related party transactions. In addition, the Board also reviews the Company's investment risk management and reinsurance practices and approves the authority levels for the Company's core functions, including expenditure approving, risk acceptance and claims approval.

The Company provides an orientation training programme for the newly appointed Directors. The training serves to familiarise the newly appointed Directors with the Malaysian general insurance industry as well as the Company's operations, compliance controls, risk overview and corporate governance practices. On an ongoing basis, the Directors are kept informed through relevant training programmes and briefings to assist them to keep abreast with developments in the market place. The Directors are also updated with the policy and administrative changes as well as new guidelines issued by BNM and relevant professional bodies.

##### **Board Composition and Meetings**

Following the completion of the acquisition of the Company by Fairfax Asia Limited from PacificMas Berhad on 24 March 2011, the Board was, with the approval of BNM, reconstituted to comprise an independent non-executive Chairman and two non-independent non-executive Directors. Subsequently, three additional independent non-executive Directors were appointed during the financial year.

On a yearly basis, the Directors are subject to an internal declaration to review their status of compliance with Part XII of the Insurance Regulations, 1996 on the fulfilment of the minimum criteria of a "fit and proper person". In accordance with section 70(1) of the Insurance Act, 1996, all Directors are appointed and reappointed to the Board after prior approval has been obtained from BNM. All Directors comply with the prescribed maximum number of directorships held and none of them are active politicians.

## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

#### (a) Board Responsibility and Oversight (continued)

##### Board Composition and Meetings (continued)

The Directors are persons of calibre, credibility and integrity. Collectively they bring with them a wide range of business and management experience, skills and specialised knowledge that are required to lead and oversee the affairs of the Company.

The Company's Board of Directors as at 31 December 2012 consists of six Directors as set out below:

Members	Status of Directorship
Dato' Huang Sin Cheng	Independent Non-Executive Director, Chairman
Ramaswamy Athappan	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director
Datuk Abu Hassan bin Kendut*	Independent Non-Executive Director
Abdullah bin Tarmugi*	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed**	Independent Non-Executive Director

\* Appointed on 16 May 2012

\*\* Appointed on 31 October 2012

The Board met six (6) times during the financial year and the attendance of the Directors was as follows:

Name	Number of Board Meetings	
	Attended	Percentage (%)
Dato' Huang Sin Cheng	6/6	100
Ramaswamy Athappan	6/6	100
Sammy Chan Sum Yu	5/6	83
Datuk Abu Hassan bin Kendut *	4/4	100
Abdullah bin Tarmugi *	4/4	100
Zainul Abidin bin Mohamed Rasheed **	1/1	100

\* Appointed on 16 May 2012

\*\* Appointed on 31 October 2012



## **DIRECTORS' REPORT (CONTINUED)**

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### **CORPORATE GOVERNANCE (CONTINUED)**

#### **(a) Board Responsibility and Oversight (continued)**

##### **Board Composition and Meetings (continued)**

The Board members are provided with adequate and timely information and reports, including background explanatory information, on matters brought before the Board. All the Directors have full and unrestricted access to all information and records of the Company as well as services and advice of the Company Secretaries and the senior management of the Company to assist them in discharging their duties and responsibilities.

##### **Board Committees**

During the year under review, the Board size was increased from three to six with the appointment of the following Directors:-

- (a) Datuk Abu Hassan bin Kendut on 16 May 2012
- (b) Abdullah bin Tarmugi on 16 May 2012; and
- (c) Zainul Abidin bin Mohamed Rasheed on 31 October 2012.

Pending the setting up of the Board Committees, the Board assumes the roles and responsibilities of the Board Committees.

In the absence of the Audit Committee ("AC"), the Board has independent access to the Company's internal auditors, external auditors and management to enable it to discharge its functions, which include the reinforcement of the independence and objectivity of the internal and external audit functions and their scopes and results. The Board reviewed the findings of the internal/external auditors and those of the examiners from BNM, as well as the management's responses and actions taken to address the findings. The Board also reviewed, inter-alia, the Company's financial statements, the impact of new or proposed changes in accounting standards and policies on the financial statements and the maintenance of a sound system of internal control to safeguard shareholders' investment and the Company's assets. Besides reviewing and approving the annual Audit Plan, the Board also evaluated the effectiveness, independence and objectivity of the external auditors before recommending to the shareholders on their appointment or reappointment.

## DIRECTORS' REPORT (CONTINUED)

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### CORPORATE GOVERNANCE (CONTINUED)

#### (a) Board Responsibility and Oversight (continued)

##### Board Composition and Meetings (continued)

During the financial year 2012, the Board provided overall risk management oversight of the Company. BNM's Guidelines BNM/RH/GL 003-01 on Minimum Standards for Prudential Management of Insurers (Consolidated) requires the Board to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively. During the financial year 2012, the Board reviewed periodic management reports on risk exposure, risk portfolio and management strategies, ensuring adequacy of infrastructure, resources and systems for effective risk management, assessing adequacy of policies and framework for identifying, measuring, monitoring and controlling risks, as well as reviewing the extent to which these are operating effectively. The Board was also involved in the review of requirements under the Risk-Based Capital Framework and Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers in relation to the Company's capital management plan, internal target capital level and results of periodic stress test. The Company had successfully implemented the Risk-Based Capital Framework since 2009 and the ICAAP on 1 September 2012 with a capital adequacy ratio well above the internal and supervisory capital targets.

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate the Directors, chief executive officer and key senior officers of the quality required to manage the Company. In this respect, the Board reviewed and approved the remuneration packages of the Directors, chief executive officer and key senior officers of the Company.

#### (b) Management Accountability

The Company has an organisational structure with clearly communicated defined lines of accountability and delegated authority to ensure proper identification of responsibilities and segregation of duties. The operational authority limits covering all aspects of operations which include underwriting, claims and finance are reviewed and updated as appropriate. Clearly documented job descriptions for all management and executive employees are maintained while formal appraisals of performance are conducted at least once annually. Any changes to the organisational structure are communicated to all staff.

The Directors, chief executive officer and key senior officers of the Company responsible for processing credit facilities do not have any direct or indirect interest in the facilities, as referred to in Section 54 of the Insurance Act, 1996.

The Directors who hold office or possess property do not have any direct or indirect interest, which is in conflict with their duty or interest as Directors, as referred to in Section 55 of the Insurance Act, 1996.

## **DIRECTORS' REPORT (CONTINUED)**

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### **CORPORATE GOVERNANCE (CONTINUED)**

#### **(c) Corporate Independence**

The Company has met all the requirements of BNM's Guidelines BNM/RH/GL 003-3 on Guidelines on Related Party Transactions (Consolidated). Other than the provision of financial services which are on normal commercial terms and in the ordinary course of business, all material related party transactions have been disclosed in the audited financial statements in accordance with MFRS124 Related Party Disclosures.

#### **(d) Internal Controls and Operational Risk Management**

The Board has the overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company in order to provide reasonable assurance for effective and efficient operations, internal financial controls and compliance with laws and regulations. There is a continuous process present for identifying, evaluating and managing the significant risks faced by the Company. This process is periodically reviewed by the Board.

A formal risk management framework has been maintained in the Company by the Risk Management Unit ("RMU") which was headed by the chief executive officer as the Risk Management Officer ("RMO").

With effect from 16 October 2012, the newly appointed Risk Management cum Compliance Officer assumes the role and responsibilities of the RMO and reports directly and independently to the Board.

During the financial year, the following risk management initiatives were undertaken by the RMU:

- (i) On a quarterly basis, the RMU reviewed the risks identified and reported its risk assessment results to the Board for consideration.
- (ii) The RMU assessed and identified from time to time, the significant risks faced by the Company such as business strategic risks and operational risks, which included areas related to regulatory and compliance issues, financial, underwriting and claims risks and business continuity plan. The mitigating plans and control measures were formulated and implemented to address these risks and were monitored in terms of their timeliness and effectiveness. In addition, the RMU also considered the target dates for possible improvement in the risk rating, while working towards them with the appropriate follow-up of action plans.



## DIRECTORS' REPORT (CONTINUED)

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### CORPORATE GOVERNANCE (CONTINUED)

#### (d) Internal Controls and Operational Risk Management (continued)

During the financial year, the following risk management initiatives were undertaken by the RMU: (continued)

- (iii) The RMU maintained an updated database of all risks and controls in the form of detailed risk registers and individual risk profiles for the Company. The likelihood of the key risks occurring and their impact are periodically monitored and rated.

The disclosure of the Company's risk management policies are set out under Notes 28, 29 and 30 in the financial statements.

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company:

- (i) The Business Resumption and Contingency Plan Committee is tasked to prepare, review and periodically test the effectiveness of the Company's business continuity plan to support critical business operations. The Company has in place a Business Continuity Management ("BCM") Plan which is reviewed and updated at least once a year. The BCM Plan serves to ensure that critical resources and services of the Company are available in the event of system failures or business interruptions. It also aims to ensure that possible disruptions to operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had successfully tested the BCM Plan and the related IT Disaster Recovery Plan during the financial year, with observations from the internal audit team and an external audit service provider.

During the financial year, with the approval of BNM, the Company had engaged the services of an international accounting firm, to perform a review on the Business Continuity Management ("BCM") Framework, "live" testing of the BCM and Information Technology function.

- (ii) The Information Technology Steering Committee ("ITSC") has the responsibility to monitor the overall efficiency, performance and effectiveness of IT services. The ITSC meets periodically to review the Company's IT operations, plans, progress of action plans, as well as investment in IT resources and to make any recommendations thereof when necessary. The IT plans formulated during the financial year included the short-term IT plans which are aligned to the business direction of the Company.

## **DIRECTORS' REPORT (CONTINUED)**

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### **CORPORATE GOVERNANCE (CONTINUED)**

#### **(d) Internal Controls and Operational Risk Management (continued)**

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company: (continued)

- (iii) The Anti-Money Laundering and Counter-Financing of Terrorism ("AML/CFT") – Management Committee comprising the chief executive officer, Compliance Officers at the Head Office as well as Branches, and key senior officers of the Company manages the risk and areas related to AML/CFT. The Company had also introduced measures leveraging on IT as a tool to facilitate the detection of suspicious transactions.

The Company has in place an AML/CFT Framework in accordance with the relevant BNM guidelines and laws to prevent the Company from being used as a channel to launder funds in the financial system. The framework complies with the Anti-Money Laundering & Anti-Terrorism Financing Act 2001, as well as BNM's UPW/GP1 on Standard Guidelines on AML/CFT and UPW/GP1[2] on AML/CFT-Sectoral Guidelines 2 for Insurance and Takaful Industries.

- (iv) The Credit Control Committee reviews credit risk, recoverability of trade receivables and reconciliation of accounts with third parties as well as studies the requirements of Malaysian Financial Reporting Standards, International Financial Reporting Standards pertaining to credit risk and makes recommendations on its compliance. The committee also considers and implements appropriate measures to improve existing credit control procedures and practices.
- (v) The Company has a Product Development Committee which undertakes the planning, design and development of new products, as well as review of the Company's products against the prevailing guidelines, eg. BNM/RH/GL 010-14 on Guidelines on Introduction of New Products for Insurance Companies and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure. All newly developed products are submitted to the Board for approval and where appropriate to BNM for its approval.

## DIRECTORS' REPORT (CONTINUED)

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### CORPORATE GOVERNANCE (CONTINUED)

#### (d) Internal Controls and Operational Risk Management (continued)

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company: (continued)

- (vi) A Goods and Services Tax ("GST") Committee has been in place since 2007 in view of the proposed GST implementation. The early planning in this area serves to prepare the Company for the GST regime to implement necessary operational adjustments in the areas of business processes, system development and personnel training. The Company has embarked on the first phase of the project by mapping the GST input/output transactions and identifying the GST implications in the Company's business operations and management information system. These endeavours will be resumed pending further announcement on the implementation of the GST regime by the government.
- (vii) The Occupational Safety and Health Management Committee is committed to provide a working environment that emphasises on the safety and health of the employees. The Company develops and adopts relevant policies and applicable best practices to improve the standard of safety and health environment of the Company.

The Company operates in a business environment that is subject to regulatory purview and operational compliance requirement and reporting. The Company Secretaries and Management keep the Board apprised of new laws and guidelines and changes thereof as well as new accounting and insurance standards to be adopted by the Company. To address compliance risk, the Company has a Compliance officer responsible for placing adequate control measures to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines stipulated. The Compliance officer submits a compliance statement to the Board on a quarterly basis.

The internal audit department is headed by an internal audit manager who works in consultation with the Head of Internal Audit of Fairfax Asia Limited. The internal audit department presently reports directly to the Board of Directors.



## **DIRECTORS' REPORT (CONTINUED)**

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### **CORPORATE GOVERNANCE (CONTINUED)**

#### **(d) Internal Controls and Operational Risk Management (continued)**

The functions and responsibilities of the Board with respect to the internal audit and the functions and responsibilities of the internal audit department are in accordance with BNM's Guidelines BNM/RH/GL 003-22: Guidelines on Audit Committees and Internal Audit Department, BNM/RH/GL 013-4: Guidelines on Internal Audit Function of Licensed Institutions and BNM/RH/GL 003-2: Prudential Framework of Corporate Governance for Insurers.

The internal audit function adopts a systematic, disciplined risk-based audit methodology and prepares its audit strategy and plan based on the risk profiles of the business and functional departments of the Company, identified through a risk management process. Internal audit independently reviews the risk exposures and control processes on governance, operations and information systems implemented by management. The internal audit activities are guided by a detailed annual audit plan which is approved by the Board and thereafter updated as and when necessary with the prior approval of the Board.

The internal audit reports were tabled at the Board's meetings, at which audit findings were reviewed with the management. Follow-up audits were also conducted by internal auditors to ensure that recommendations to improve controls were promptly implemented by management. The Board met with the external auditors twice this year without management's presence to discuss any problems, issues and concerns arising from the interim and final statutory audits, as well as any other relevant matters.

These initiatives, together with the management's adoption of the external auditors' recommendations for improvement on internal controls noted during their audits, provided reasonable assurance that necessary control procedures were in place.

The other key elements of the Company's system of internal control are stated below:

##### **(i) Corporate culture**

The Board and management of the Company set the requirements for an effective control culture in the organisation through the Company's core corporate values i.e. honesty and integrity, professionalism, excellent customer service, teamwork and governance.

## DIRECTORS' REPORT (CONTINUED)

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### CORPORATE GOVERNANCE (CONTINUED)

#### (d) Internal Controls and Operational Risk Management (continued)

The other key elements of the Company's system of internal control are stated below: (continued)

##### (ii) Organisation structure

The Company has an organisational structure showing clearly defined lines of accountability and delegated authority levels to ensure effectiveness of the internal control system. Any changes to organisational structure are communicated to all staff to ensure proper identification of responsibilities and segregation of duties.

##### (iii) Communication

Regular management meetings are held in the Company to discuss the financial performance, operational performance, business issues, implications of new risks and any other relevant matters.

##### (iv) Staff competency and succession planning

The professionalism and competency of staff are enhanced through continuous training and development programmes and a structured recruitment process. A performance planning and appraisal system of staff is in place with established key performance indicators and competencies subject to mid-year and annual review. The Company has a Code of Ethics that guides all staff in their work performance and in upholding their ethical standards.

The Board is cognisant of its responsibilities to identify and develop viable candidates for long term succession planning of the senior management. The senior management has identified key staff for critical functions to ensure a smooth succession plan is in place.

##### (v) Whistleblowing program

Whistleblowing is considered an effective safeguard against fraud, corruption or other malpractice that undermines the internal control system and organisational reporting lines. Hence, the Company has implemented a whistleblowing program to encourage its staff to report, in good faith, any suspicion of fraud, irregularity or misdemeanour, without fear of reprisals by any party. The Board shall review concerns, including anonymous complaints, which staff or external parties may, in confidence, raise about possible misconduct or improprieties within the Company and shall have the concerns independently investigated by the internal audit department and/or external service providers whom the Board may think fit.

## **DIRECTORS' REPORT (CONTINUED)**

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### **CORPORATE GOVERNANCE (CONTINUED)**

#### **(d) Internal Controls and Operational Risk Management (continued)**

The other key elements of the Company's system of internal control are stated below:  
(continued)

##### **(vi) Independence of external auditors**

The Company has adopted a policy on the provision of non-audit services by the external auditors. The Company has always ensured that the external auditors' ability to conduct audits objectively and independently is not impaired, or perceived to be impaired. Unless specifically allowed by the Board, the Company only engages the services of the external auditors for audit assurance and corporate tax. The Board also reviews the total fees earned by the external auditors from non-audit services rendered to the Company for assurance that the independence of the external auditors is not impaired.

#### **(e) Public Accountability and Fair Practices**

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company has taken the appropriate steps to ensure that all insurance policies issued or delivered to all policyholders contain the necessary information to alert them of the existence of the Financial Mediation Bureau and BNM's Consumer and Market Conduct Department, in compliance with the requirements of BNM's BNM/RH/GL 003-09 Guidelines on Claims Settlement Practices (Consolidated). The Financial Mediation Bureau and BNM's Consumer and Market Conduct Department were set up with the view to provide alternative avenues for the policyholders to seek redress against any occurrence of unfair market practices.

BNM's BNM/RH/GL 003-06 on Guidelines on Unfair Practices in Insurance Business was issued to promote higher standards of transparency, greater market discipline and accountability in the conduct of insurance business for the protection of policyholders. The Company has implemented measures for compliance with BNM/RH/GL 003-06 by having in place a Centralised Complaints Unit to provide effective and fair services to the customers.

The Company has also taken the necessary measures to comply with the requirements pursuant to BNM's BNM/RH/GL 010-14 on Guidelines on Introduction of New Products for Insurance Companies and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure.

In line with the Bank Negara Malaysia Financial Sector Blueprint 2011-2020, the Company has taken the necessary actions to migrate payment to e-payment, as a means to improve payment efficiency to the insuring public and the prevention of fraud.



## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

#### (f) Financial Reporting

The Board has overall oversight responsibility for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, the provisions of the Companies Act, 1965, the Insurance Act, 1996, the Insurance Regulations, 1996 and relevant regulatory requirements.

### DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement, to which the Company was a party, whereby the Directors might acquire benefits by means of acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Notes 21 and 27 to the financial statements and the financial statements of its related corporations or the fixed salary and benefits of a full-time employee of the holding company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

### DIRECTORS' INTERESTS

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

	Holdings registered in name of Director			
	1.1.2012	Acquired	Exercised	31.12.2012
<b>Ultimate Holding Company</b>				
– Fairfax Financial Holdings Limited ("FFHL")				
<i>(Common or Subordinate voting shares of no par value each)</i>				
Ramaswamy Athappan	3,300	2,481	–	5,781
Sammy Chan Sum Yu	24,770	50	–	24,820

## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

#### DIRECTORS' INTERESTS (CONTINUED)

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options in the Company and its related corporations during the financial year were as follows: (continued)

	Holdings registered in name of nominee*			
	1.1.2012	Acquired	Exercised	31.12.2012
<b>Fellow Subsidiary</b>				
– First Capital Insurance Limited ("FCIL")				
<i>(Ordinary shares of SGD1 each)</i>				
Ramaswamy Athappan	1	–	–	1

\* The share is held in trust for the holding company, Fairfax Asia Limited.

Other than as disclosed, none of the Directors in office at the end of the financial year had any interest in shares and in options in the Company or its related corporations during the financial year.

#### OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
  - (i) the amount written off for bad debts or the amount of the allowance for doubtful debts of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

## DIRECTORS' REPORT (CONTINUED)

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### OTHER STATUTORY INFORMATION (CONTINUED)

- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
  - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e) and (f), contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

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



## **DIRECTORS' REPORT (CONTINUED)**

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### **IMMEDIATE AND ULTIMATE HOLDING COMPANIES**

The Company is a wholly-owned subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.

### **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 Directors dated 11 March 2013.



DATO' HUANG SIN CHENG  
DIRECTOR



DATUK ABU HASSAN BIN KENDUT  
DIRECTOR

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
<b>ASSETS</b>				
Property and equipment	3	1,035,852	1,276,674	901,788
Investment properties	4	92,167	321,042	652,298
Intangible assets	5	24,013	25,571	29,851
Investments	6			
Available-for-sale financial assets		184,314,740	183,213,552	146,118,017
Held-for-trading financial assets		8,613,462	3,029,391	1,497,003
Loans and receivables		96,025,424	63,773,864	92,747,175
Asset held for sale	4	218,534	–	–
Reinsurance assets	7	137,064,000	134,333,000	68,853,000
Insurance and other receivables	8	53,365,024	56,672,732	28,764,054
Loans	9	1,730,306	1,733,993	2,052,045
Deferred tax asset	13	193,265	–	524,572
Tax recoverable		1,680,864	4,834,623	4,117,354
Cash and bank balances		8,453,295	7,064,085	4,178,578
<b>TOTAL ASSETS</b>		<b>492,810,946</b>	<b>456,278,527</b>	<b>350,435,735</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	10	100,000,000	100,000,000	100,000,000
Available-for-sale reserves		1,938,187	3,204,252	1,494,611
Retained earnings		47,893,964	29,402,141	33,901,373
<b>Total equity</b>		<b>149,832,151</b>	<b>132,606,393</b>	<b>135,395,984</b>
Insurance contract liabilities	12	303,366,000	286,378,000	189,291,000
Deferred tax liabilities	13	–	807,509	–
Insurance and other payables	14	39,612,795	36,486,625	25,748,751
<b>Total liabilities</b>		<b>342,978,795</b>	<b>323,672,134</b>	<b>215,039,751</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>492,810,946</b>	<b>456,278,527</b>	<b>350,435,735</b>

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

## STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

		Share capital RM	Non- distributable Available- for-sale reserves RM	Distributable Retained earnings RM	Total RM
	Note				
<b>At 1 January 2011</b>		100,000,000	1,494,611	33,901,373	135,395,984
Total comprehensive income for the financial year		–	1,709,641	10,983,768	12,693,409
Dividend paid during the financial year	24	–	–	(15,483,000)	(15,483,000)
<b>At 31 December 2011</b>		<u>100,000,000</u>	<u>3,204,252</u>	<u>29,402,141</u>	<u>132,606,393</u>
<b>At 1 January 2012</b>		<b>100,000,000</b>	<b>3,204,252</b>	<b>29,402,141</b>	<b>132,606,393</b>
Total comprehensive income for the financial year		–	(1,266,065)	18,491,823	17,225,758
<b>At 31 December 2012</b>		<u><b>100,000,000</b></u>	<u><b>1,938,187</b></u>	<u><b>47,893,964</b></u>	<u><b>149,832,151</b></u>

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



## INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM	2011 RM
<b>Operating revenue</b>	15	<b>210,094,570</b>	189,773,917
Gross earned premiums	16(a)	<b>199,499,392</b>	179,383,830
Premiums ceded to reinsurers	16(b)	<b>(64,647,141)</b>	(56,195,208)
<b>Net earned premiums</b>	16	<b>134,852,251</b>	123,188,622
Investment income	17	<b>10,595,178</b>	10,390,087
Realised gains and losses	18	<b>2,494,895</b>	349,295
Fair value gains and losses	19	<b>(296,828)</b>	473,647
Fee and commission income	20	<b>12,836,821</b>	13,189,506
Other operating income		<b>1,101,479</b>	853,057
<b>Other revenue</b>		<b>26,731,545</b>	25,255,592
Gross benefits and claims paid	12(i)	<b>(107,296,976)</b>	(90,561,179)
Claims ceded to reinsurers	12(i)	<b>41,425,784</b>	26,374,021
Gross change in contract liabilities		<b>(6,995,000)</b>	(70,680,000)
Change in contract liabilities ceded to reinsurers		<b>(6,850,000)</b>	55,642,000
<b>Net claims</b>		<b>(79,716,192)</b>	(79,225,158)
Fee and commission expense		<b>(28,616,825)</b>	(27,553,801)
Management expenses	21	<b>(29,979,818)</b>	(27,859,967)
<b>Other expenses</b>		<b>(58,596,643)</b>	(55,413,768)
<b>Profit before taxation</b>		<b>23,270,961</b>	13,805,288
Taxation	22	<b>(4,779,138)</b>	(2,821,520)
<b>Net profit for the financial year</b>		<b>18,491,823</b>	10,983,768
<b>Earnings per share (sen)</b>			
Basic	23	<b>18.5</b>	11.0

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

## STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	2012 RM	2011 RM
<b>Net profit for the financial year</b>	<b>18,491,823</b>	10,983,768
<b>Other comprehensive income:</b>		
Available-for-sale fair value reserves		
Net gain arising during the financial year	<b>743,259</b>	2,279,521
Net realised gain transferred to Income Statement	<b>(2,431,346)</b>	–
	<b>(1,688,087)</b>	2,279,521
Tax effect thereon (Note 13)	<b>422,022</b>	(569,880)
	<b>(1,266,065)</b>	1,709,641
<b>Total comprehensive income for the financial year</b>	<b>17,225,758</b>	12,693,409

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

## STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	2012 RM	2011 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	23,270,961	13,805,288
Adjustment for:		
Depreciation of property and equipment	380,047	325,202
Gain on disposal of property and equipment	(26)	(5,863)
Gain on disposal of intangibles	(7)	–
Gain on disposal of investment property	–	(154,078)
Property and equipment written-off	68,102	7,592
Intangibles written-off	117	–
Change in fair value of FVTPL investments	296,828	(473,647)
Depreciation of investment properties	10,341	20,246
Amortisation of intangible assets	12,041	12,442
Net gain on disposal of:		
FVTPL securities	(131,734)	(196,946)
AFS investments	(2,431,346)	–
Investment income	(10,595,178)	(10,390,087)
Other interest income	(44,228)	(49,011)
Bad debts written-off /(recovered)	36,880	(928)
Write-back of allowance for impairment losses	(94,487)	(95,649)
Profit from operations before changes in operating assets and liabilities	10,778,311	2,804,561
Purchase of investments	(73,630,587)	(42,979,265)
Proceeds from disposal/maturity of investments	67,086,241	7,008,570
Decrease in loans and receivables	3,687	318,052
Increase in reinsurance assets	(2,731,000)	(65,480,000)
Decrease/(increase) in insurance and other receivables	3,581,768	(27,672,068)
Increase in insurance contract liabilities	16,988,000	97,087,000
Increase in insurance and other payables	3,126,170	10,737,874
Cash generated from/(used in) operations	25,202,590	(18,175,276)
Investment income received	10,811,846	10,537,998
Other interest income received	44,228	49,011
Income tax paid	(2,200,000)	(2,771,646)
Net cash generated from/(used in) operating activities	33,858,664	(10,359,913)



## STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

	2012 RM	2011 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(219,641)	(849,156)
Purchase of intangible assets	(10,640)	(8,162)
Proceeds from disposal of investment properties	–	465,088
Proceeds from disposal of property and equipment	12,340	147,339
Proceeds from disposal of intangibles	47	–
Net cash used in investing activities	(217,894)	(244,891)
<b>CASH FLOW FROM FINANCING ACTIVITY</b>		
Dividend paid	–	(15,483,000)
Net cash used in financing activity	–	(15,483,000)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>33,640,770</b>	<b>(26,087,804)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>	<b>70,837,949</b>	<b>96,925,753</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	<b>104,478,719</b>	<b>70,837,949</b>
<b>Cash and cash equivalents comprise:</b>		
Fixed and call deposits with licensed financial institutions	96,025,424	63,773,864
Cash and bank balances	8,453,295	7,064,085
	104,478,719	70,837,949

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

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

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### 1 CORPORATE INFORMATION

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 6, Menara Prudential, No. 10, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The Company is a wholly-owned subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited, a company incorporated in Canada.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 11 March 2013.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The financial statements comply with the Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia.

The financial statements of the Company for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with MFRS 1 “First-time Adoption of MFRS”. The Company has consistently applied the same accounting policies in the opening MFRS statement of financial position as at 1 January 2011 (date of transition) and throughout all years presented, as if these policies had always been in effect. The transition to MFRS did not result in any significant change to the Company’s existing accounting policies. Nonetheless, as required under MFRS 1, the Company has presented three statements of financial position, two income statements, two statements of comprehensive income, two statements of cash flows, two statements of changes in equity and related notes including comparatives.

Subsequent to the transition in the financial reporting framework to MFRS on 1 January 2012, the restated comparative information has not been audited under MFRS. The restated comparative statements of financial position as at 31 December 2011, comparative statements of income, comprehensive income, changes in equity and cash flows for the year then ended have been audited under the previous financial reporting framework, Financial Reporting Standards in Malaysia.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.1 Basis of preparation (continued)**

The financial statements of the Company have also been prepared on a historical cost basis, except for those financial instruments which have been measured at their fair values and insurance liabilities which have been measured in accordance with the valuation methods specified in the Risk-Based Capital (“RBC”) Framework for insurers issued by BNM.

The Company has met the minimum capital requirements as prescribed by the RBC Framework and the Guidelines on Internal Capital Adequacy Assessment Process (“ICAAP”) for Insurers as at the date of the statement of financial position.

The preparation of financial statements in conformity with MFRS requires the use of estimates and assumptions that affect the reported amounts of 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 are based on the Directors’ best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3.

The financial statements are presented in Ringgit Malaysia (“RM”).



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.1 Basis of preparation (continued)

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

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

- (i) Financial year beginning on/after 1 January 2013
- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.
  - Amendment to MFRS 101 “Presentation of items of other comprehensive income” (effective from 1 July 2012) requires entities to separate items presented in ‘other comprehensive income’ (OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.
  - Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.1 Basis of preparation (continued)**

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

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

- (i) Financial year beginning on/after 1 January 2013 (continued)

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

- (ii) Financial year beginning on/after 1 January 2014

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

- (iii) Financial year beginning on/after 1 January 2015

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

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.1 Basis of preparation (continued)

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

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

- (iii) Financial year beginning on/after 1 January 2015 (continued)

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

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

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

The Company is currently assessing the impact on the financial statements from the adoption of MFRS 9.

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



## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies**

##### **(a) Property and equipment**

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(d).

Depreciation is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Office renovations	33 $\frac{1}{3}$ %
Motor vehicles	20%
Furniture and fittings	10%
Office equipment	10%
Computers	20% – 50%

A depreciation rate of 50% is applied to computer notebooks on loan to agents of the Company.

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (b) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both are classified as investment properties.

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(d).

Depreciation is provided for on a straight-line basis over the estimated useful life of 50 years for the investment properties. The residual values and useful lives of the investment properties are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal is recognised in the income statement in the year in which it arises.

##### (c) Intangible assets

Intangible assets of the Company consist of computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(d).

The computer software is amortised on a straight-line basis over the estimated economic useful life of five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(d) Impairment of non-financial assets**

The carrying amounts of assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in the income statement in the period in which it arises. An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the assets in prior years. A reversal of impairment loss for an asset is recognised in the income statement.



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (e) Investments and other financial assets

The Company classifies its investment into financial assets at fair value through profit or loss (“FVTPL”), loans and other receivables (“LAR”), held-to-maturity financial assets (“HTM”) and available-for-sale financial assets (“AFS”).

The Company determines the classification of its investments at initial recognition, depending on the purpose for which the investments were acquired or originated and re-evaluates them at every reporting date.

The Company initially recognises financial assets including cash and short-term deposits, loans and other receivables when it becomes a party to the contractual provisions of the instruments.

All regular way purchases and sales of financial assets with delivery of assets within the time period established by regulation or market convention are recognised or derecognised on the trade date (i.e., the date that the Company commit to purchase or sell the asset).

##### (i) FVTPL

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. These investments are initially recorded at fair value and transaction costs are expensed in the income statement. Subsequent to initial recognition, these assets are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(e) Investments and other financial assets (continued)**

###### **(ii) LAR**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. After initial measurement, LAR assets are measured at amortised cost, using the effective yield method, less allowance for impairment. The Company's LAR comprises fixed and call deposits with licensed financial institutions.

###### **(iii) HTM**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. After initial measurement, HTM assets are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains or losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

###### **(iv) AFS**

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (f) Fair value of financial instruments

All financial instruments are recognised initially at the transacted price, which is the best indicator of fair value. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For financial instruments where there is no active market such as unquoted securities, fair value is determined based on quotes from independent brokers.

##### (g) Impairment of financial assets

The Company assesses at each date of the statement of financial position, whether a financial asset or group of financial assets is impaired.

##### (i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate/yield. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recorded in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at the date of the statement of financial position.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(g) Impairment of financial assets (continued)**

###### **(i) Financial assets carried at amortised cost (continued)**

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

###### **(ii) Available-for-sale financial assets**

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity through the statement of comprehensive income or from insurance contract liabilities to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (h) Derecognition of financial assets

Financial assets are derecognised when the Company's contractual rights to the cash flows from the financial assets expire or when the Company transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset.

##### (i) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

##### (j) Equity instruments

Ordinary shares are classified as equity on the statement of financial position.

Dividends on ordinary shares are recognised and reflected in the statement of changes in equity in the period in which they are declared.

##### (k) Product classification

The Company issues contracts that transfer insurance risk only.

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.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(I) 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. Amount recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

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

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

Gains or losses on buying reinsurance are recognised in the 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 have expired or when the contract is transferred to another party.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (m) Underwriting results

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

##### (i) Premium income

Premiums from direct business are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted before the end of the reporting period for which policies are issued subsequent to the end of the reporting period are accrued at the end of the reporting period.

Inward treaty reinsurance premiums are recognised on the basis of available periodic advices received from ceding insurers.

##### (ii) Premium liabilities

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves (“UPR”) for all lines of business and the best estimate value of the insurer’s unexpired risk reserves (“URR”) at the end of the financial year, and the provision of risk margin for adverse deviation (“PRAD”) calculated at 75% confidence level 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 at the end of the financial year including allowance for insurer’s expenses.

##### (a) Unexpired risk reserves

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year and also includes allowance for expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(m) Underwriting results (continued)**

##### **(ii) Premium liabilities (continued)**

##### **(b) Unearned premium reserves**

UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at reporting date, the method that most accurately reflects the actual liability is used, as follows:

- 25% method for marine cargo, aviation cargo and transit business
- 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower:
 

– Motor and bonds	10%
– Fire, engineering, aviation and marine hull	15%
– Medical	10 – 15%
– Other classes	25%
- 1/8th method for all other classes of overseas inward treaty business, with a deduction of 20% for commission
- non-annual policies are time-apportioned over the period of the risks



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (m) Underwriting results (continued)

##### (iii) Claim liabilities

Claim liabilities are recognised as the obligation to make future payments in relation to all claims that have been incurred as at the end of the financial year. They are recognised in respect of both direct insurance and inward reinsurance. The value is the best estimate value of claim liabilities which include provision for claims reported, claims incurred but not enough reserved (“IBNER”), claims incurred but not reported (“IBNR”) and direct and indirect claim-related expenses as well as PRAD at 75% confidence level calculated at the overall Company level. These are based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development pattern.

##### (iv) Acquisition costs

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

##### (n) Insurance receivables

Insurance receivables are recognised when due and measured at the fair value of the consideration received and receivable.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process and method as described in Note 2.2 (g).

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(o) Insurance contract liabilities**

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

These liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, 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 end of the reporting period. The liability is calculated at the end of the reporting period 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 the income statement by setting up a provision for liability adequacy.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (p) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably.

##### (i) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

##### (ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

##### (iii) Gross dividend/distribution income from unit trust funds

Gross dividend/distribution income from unit trust funds is recognised on a declared basis when the shareholder's/unitholders' right to receive payment is established.

##### (iv) Net realised gain/loss on investment

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement.

##### (q) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the end of the reporting period.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(q) Income tax (continued)**

Deferred tax is provided for using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted at the end of the reporting period. Deferred tax is recognised as an income or an expense and included in the income statement for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

##### **(r) Employee benefits**

###### **(i) Short-term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

###### **(ii) Defined contribution plan**

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation. The Company makes statutory and voluntary contributions to the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement as incurred.



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Summary of significant accounting policies (continued)

##### (s) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. At the end of each reporting period, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange rate differences are taken to the income statement.

##### (t) Other financial liabilities and insurance payables

Other liabilities and payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

##### (u) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances, and fixed and call deposits with financial institutions with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

The statement of cash flows has been prepared using the indirect method.

##### (v) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(v) Financial instruments (continued)**

###### Recognition method

The particular recognition method adopted for financial instruments recognised on the statement of financial position is disclosed in the individual accounting policy note associated with each item.

###### Fair value estimation

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

- the fair values of Malaysian Government Securities and Government investment issues are based on the indicative market prices;
- the fair values of unquoted corporate debt securities are based on the indicative market yield obtained from dealers and brokers;
- the fair values of quoted equity securities and Real Estate Investment Trusts ("REITs") are based on quoted prices;
- the fair values of the unit trust funds are based on the fair value of the underlying assets of the fund; and
- the carrying amounts for other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.3 Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

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

##### (a) Critical judgements made in applying the Company's accounting policies

In the process of applying the Company's accounting policies, management is of the opinion that there are no instances of judgement which are expected to have a significant financial impact on the amounts and balances recognised in the financial statements.

##### (b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom 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 discussed below:

##### (i) Valuation of insurance contract liabilities

For insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims IBNR reserves at the end of the reporting period.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the claim liabilities. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Link Ratio and Bornheutter-Ferguson methods.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.3 Significant accounting estimates and judgements (continued)**

##### **(b) Key sources of estimation uncertainty and assumptions (continued)**

###### **(i) Valuation of insurance contract liabilities (continued)**

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratio. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, level of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 3 PROPERTY AND EQUIPMENT

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
<b>31.12.2012</b>				
<b>Cost</b>				
At 1 January 2012	1,923,781	402,970	5,803,699	8,130,450
Additions	2,400	–	217,241	219,641
Reclassification	(8,300)	–	8,300	–
Disposals	(8,800)	–	(79,834)	(88,634)
Write-offs	(553,444)	–	(385,383)	(938,827)
At 31 December 2012	1,355,637	402,970	5,564,023	7,322,630
<b>Accumulated depreciation</b>				
At 1 January 2012	1,767,428	17,237	5,069,111	6,853,776
Charge for the financial year	55,224	79,240	245,583	380,047
Disposals	(8,800)	–	(67,520)	(76,320)
Write-offs	(550,562)	–	(320,163)	(870,725)
At 31 December 2012	1,263,290	96,477	4,927,011	6,286,778
<b>Net book value</b>	92,347	306,493	637,012	1,035,852



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 3 PROPERTY AND EQUIPMENT (CONTINUED)

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
<b>31.12.2011</b>				
<b>Cost</b>				
At 1 January 2011	1,778,276	324,909	5,732,104	7,835,289
Additions	145,505	392,832	310,819	849,156
Disposals	–	(314,771)	(78,595)	(393,366)
Write-offs	–	–	(160,629)	(160,629)
At 31 December 2011	1,923,781	402,970	5,803,699	8,130,450
<b>Accumulated depreciation</b>				
At 1 January 2011	1,744,587	137,797	5,051,117	6,933,501
Charge for the financial year	22,841	57,130	245,231	325,202
Disposals	–	(177,690)	(74,200)	(251,890)
Write-offs	–	–	(153,037)	(153,037)
At 31 December 2011	1,767,428	17,237	5,069,111	6,853,776
<b>Net book value</b>	156,353	385,733	734,588	1,276,674

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 3 PROPERTY AND EQUIPMENT (CONTINUED)

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
<b>1.1.2011</b>				
<b>Cost</b>				
At 1 January 2010	1,777,772	324,909	5,910,137	8,012,818
Additions	38,206	–	98,611	136,817
Disposals	–	–	(181,455)	(181,455)
Write-offs	(37,702)	–	(95,189)	(132,891)
At 31 December 2010/1 January 2011	1,778,276	324,909	5,732,104	7,835,289
<b>Accumulated depreciation</b>				
At 1 January 2010	1,745,503	97,767	5,015,708	6,858,978
Charge for the financial year	36,786	40,030	304,741	381,557
Disposals	–	–	(180,074)	(180,074)
Write-offs	(37,702)	–	(89,258)	(126,960)
At 31 December 2010/1 January 2011	1,744,587	137,797	5,051,117	6,933,501
<b>Net book value</b>	33,689	187,112	680,987	901,788

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 4 INVESTMENT PROPERTIES

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
<b>Cost</b>			
At 1 January	475,000	886,700	1,006,700
Disposal	–	(411,700)	(120,000)
Reclassification*	(300,000)	–	–
At 31 December	175,000	475,000	886,700
<b>Accumulated depreciation</b>			
At 1 January	153,958	234,402	239,869
Charge for the financial year	10,341	20,246	22,503
Disposal	–	(100,690)	(27,970)
Reclassification*	(81,466)	–	–
31 December	82,833	153,958	234,402
<b>Net book value</b>	92,167	321,042	652,298
<b>Fair value</b>	450,000	780,000	1,158,000

\* The assets and liabilities related to a three storey freehold shophouse property have been presented as asset held for sale as shown below and in the statement of financial position, following the approval of the Board of Directors on 22 October 2012 to sell a freehold shophouse located at No.16, Jalan Pelandok, Batu 21, Taman Permata, 81000 Kulai, Johor, at a selling price of RM340,000. The completion date for the transaction is expected by 30 June 2013.

	RM
Cost	300,000
Accumulated depreciation	(81,466)
Net book value	218,534

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 4 INVESTMENT PROPERTIES (CONTINUED)

The fair value of investment property is based on the market value of the property as assessed by an independent professional valuer.

As at 31 December 2012, the only commercial investment property held by the Company is leased to a third party. Rental income from the property is included in Note 17 to the financial statements.

Direct operating expenses (included within Management Expenses, Note 21 to the financial statements) arising in respect of the investment property during the financial year was RM25,942 (2011: RM36,583).

### 5 INTANGIBLE ASSETS

	<b>Computer software</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Cost</b>			
At 1 January	<b>211,796</b>	203,634	203,949
Additions	<b>10,640</b>	8,162	694
Disposals	<b>(1,303)</b>	–	(210)
Write-offs	<b>(1,010)</b>	–	(799)
At 31 December	<b>220,123</b>	211,796	203,634
<b>Accumulated amortisation</b>			
At 1 January	<b>186,225</b>	173,783	158,017
Charge for the financial year	<b>12,041</b>	12,442	16,775
Disposals	<b>(1,263)</b>	–	(210)
Write-offs	<b>(893)</b>	–	(799)
At 31 December	<b>196,110</b>	186,225	173,783
<b>Net book value</b>	<b>24,013</b>	25,571	29,851

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 6 INVESTMENTS

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Malaysian Government Securities	40,687,000	44,581,561	40,657,543
Government Investment Issues	–	–	5,046,823
Corporate bonds	41,833,644	41,921,506	9,757,457
Unit trust investments	101,794,096	96,710,485	90,656,194
Equity securities	5,837,812	730,611	1,091,303
Real Estate Investment Trusts (“REITs”)	2,775,650	2,298,780	405,700
Deposits with licensed financial institutions	96,025,424	63,773,864	92,747,175
	<b>288,953,626</b>	<b>250,016,807</b>	<b>240,362,195</b>

The Company’s financial investments are summarised by categories as follows:

Available-for-sale financial assets (“AFS”)	184,314,740	183,213,552	146,118,017
Held-for-trading financial assets (“HFT”)	8,613,462	3,029,391	1,497,003
Loans and receivables (“LAR”)	96,025,424	63,773,864	92,747,175
	<b>288,953,626</b>	<b>250,016,807</b>	<b>240,362,195</b>

The following investments mature after 12 months:

AFS	67,478,644	82,960,006	49,291,582
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## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 6 INVESTMENTS (CONTINUED)

#### (a) AFS

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
<b>Fair value</b>			
Malaysian Government Securities	<b>40,687,000</b>	44,581,561	40,657,543
Government Investment Issues	–	–	5,046,823
Quoted in Malaysia:			
Unit trust investments	<b>101,794,096</b>	96,710,485	90,656,194
Unquoted in Malaysia:			
Corporate bonds	<b>41,833,644</b>	41,921,506	9,757,457
	<b>184,314,740</b>	183,213,552	146,118,017

#### (b) HFT

<b>Fair value</b>			
Equity securities	<b>5,837,812</b>	730,611	1,091,303
REITs	<b>2,775,650</b>	2,298,780	405,700
	<b>8,613,462</b>	3,029,391	1,497,003

#### (c) LAR

<b>Amortised cost</b>			
Deposits with licensed financial institutions:			
Commercial banks	<b>46,014,005</b>	35,713,772	49,212,591
Other financial institutions	<b>50,011,419</b>	28,060,092	43,534,584
	<b>96,025,424</b>	63,773,864	92,747,175

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 6 INVESTMENTS (CONTINUED)

#### (d) Carrying values of financial instruments

	AFS RM	HFT RM	LAR RM	Total RM
<b>31.12.2012</b>				
At 1 January 2012	183,213,552	3,029,391	63,773,864	250,016,807
Purchases	67,547,714	6,082,873	343,365,746	416,996,333
Maturities	(3,530,000)	–	(311,114,186)	(314,644,186)
Disposals	(60,791,187)	(201,974)	–	(60,993,161)
Fair value losses recorded in:				
Profit or loss	–	(296,828)	–	(296,828)
Other comprehensive income	(1,688,087)	–	–	(1,688,087)
Amortisation of premiums	(437,252)	–	–	(437,252)
At 31 December 2012	<b>184,314,740</b>	<b>8,613,462</b>	<b>96,025,424</b>	<b>288,953,626</b>
<b>31.12.2011</b>				
At 1 January 2011	146,118,017	1,497,003	92,747,175	240,362,195
Purchases	41,228,900	1,750,365	752,977,060	795,956,325
Maturities	(6,120,000)	–	(781,950,371)	(788,070,371)
Disposals	–	(691,624)	–	(691,624)
Fair value gains recorded in:				
Profit or loss	–	473,647	–	473,647
Other comprehensive income	2,279,521	–	–	2,279,521
Amortisation of premiums	(292,886)	–	–	(292,886)
<b>At 31 December 2011</b>	<b>183,213,552</b>	<b>3,029,391</b>	<b>63,773,864</b>	<b>250,016,807</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 6 INVESTMENTS (CONTINUED)

#### (d) Carrying values of financial instruments (continued)

	AFS RM	HFT RM	LAR RM	Total RM
<b>1.1.2011</b>				
At 1 January 2010	136,957,091	–	85,620,790	222,577,881
Purchases	18,189,174	12,638,778	558,753,694	589,581,646
Maturities	–	–	(551,627,309)	(551,627,309)
Disposals	(11,226,992)	(11,365,411)	–	(22,592,403)
Fair value gains recorded in:				
Profit or loss	–	223,636	–	223,636
Other comprehensive income	2,417,443	–	–	2,417,443
Amortisation of premiums	(218,699)	–	–	(218,699)
At 31 December 2010/ 1 January 2011	146,118,017	1,497,003	92,747,175	240,362,195

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 6 INVESTMENTS (CONTINUED)

#### (e) Fair values of financial investments

The following tables show financial investments recorded at fair value analysed by the different basis of fair values and valuation methods as follows:

	AFS RM	HFT RM	LAR RM
<b>31.12.2012</b>			
Quoted market price (Level 1)	101,794,096	8,613,462	110,407,558
Valuation techniques – market observable inputs (Level 2)	82,520,644	–	82,520,644
	<u>184,314,740</u>	<u>8,613,462</u>	<u>192,928,202</u>
<b>31.12.2011</b>			
Quoted market price (Level 1)	96,710,485	3,029,391	99,739,876
Valuation techniques – market observable inputs (Level 2)	86,503,067	–	86,503,067
	<u>183,213,552</u>	<u>3,029,391</u>	<u>186,242,943</u>
<b>1.1.2011</b>			
Quoted market price (Level 1)	90,656,194	1,497,003	92,153,197
Valuation techniques – market observable inputs (Level 2)	55,461,823	–	55,461,823
	<u>146,118,017</u>	<u>1,497,003</u>	<u>147,615,020</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 6 INVESTMENTS (CONTINUED)

#### (e) Fair values of financial investments (continued)

Included in the quoted market price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis (Level 1).

Financial instruments which are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market and instruments with fair values based on broker quotes are classified as Level 2.

Financial instruments that are valued not based on observable market data are categorised as Level 3. There are no financial instruments categorised as Level 3.

### 7 REINSURANCE ASSETS

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Reinsurance of insurance contracts (Note 12)	<b>137,064,000</b>	134,333,000	68,853,000

### 8 INSURANCE AND OTHER RECEIVABLES

Insurance receivables:			
Due premiums including agents/brokers and co-insurers balances	<b>25,972,003</b>	32,614,512	15,520,265
Allowance for impairment	<b>(336,991)</b>	(410,221)	(521,697)
	<b>25,635,012</b>	32,204,291	14,998,568



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 8 INSURANCE AND OTHER RECEIVABLES (CONTINUED)

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Amounts due from reinsurers/ceding companies	<b>5,223,307</b>	7,664,331	2,242,763
Allowance for impairment	<b>(221,422)</b>	(242,678)	(226,851)
	<b>5,001,885</b>	7,421,653	2,015,912
Total insurance receivables	<b>30,636,897</b>	39,625,944	17,014,480
Other receivables:			
Other receivables, deposits and prepayments	<b>2,838,647</b>	2,964,242	3,407,164
Share of net assets in Malaysian Motor Insurance Pool ("MMIP")	<b>18,374,220</b>	12,783,740	7,154,900
Income due and accrued	<b>1,515,260</b>	1,298,806	1,187,510
Total other receivables	<b>22,728,127</b>	17,046,788	11,749,574
Total insurance and other receivables	<b>53,365,024</b>	56,672,732	28,764,054

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances.

### 9 LOANS

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Staff loans:			
Secured	<b>1,712,232</b>	1,717,224	2,026,174
Unsecured	<b>18,074</b>	16,769	25,871
	<b>1,730,306</b>	1,733,993	2,052,045
Receivable after 12 months	<b>1,351,536</b>	1,335,422	1,615,546

The weighted average effective interest rate for staff loans as at 31 December 2012 was 2.64% (2011: 2.50%) per annum on the basis of monthly rest.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 10 SHARE CAPITAL

	Number of ordinary shares of RM1 each			Amount		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Authorised: At beginning and end of financial year	<b>500,000,000</b>	500,000,000	500,000,000	<b>500,000,000</b>	500,000,000	500,000,000
Issued and paid up: At beginning and end of financial year	<b>100,000,000</b>	100,000,000	100,000,000	<b>100,000,000</b>	100,000,000	100,000,000

### 11 RESERVES

Presently, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007, which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard their accumulated tax credit under Section 108 of Income Tax Act, 1967 ("Section 108 balance") and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. During the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act, 2007.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained earnings as at 31 December 2012. As at 31 December 2012, the Company has a tax exempt account of RM1,574,146 (2011: RM1,574,146) from which it can declare tax exempt dividends. These amounts are however subject to agreement by the Inland Revenue Board.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 12 INSURANCE CONTRACT LIABILITIES

	31.12. 2012		31.12. 2011		1.1.2011	
	Gross RM	Re- insurance RM	Net RM	Gross RM	Re- insurance RM	Net RM
Provision for claims reported by policyholders	<b>141,996,251</b>	<b>(77,300,667)</b>	<b>64,695,584</b>	130,614,005	(71,983,601)	58,630,404
Provision for incurred but not reported claims ("IBNR")	<b>46,036,749</b>	<b>(11,156,333)</b>	<b>34,880,416</b>	50,423,995	(23,323,399)	27,100,596
	<b>188,033,000</b>	<b>(88,457,000)</b>	<b>99,576,000</b>	181,038,000	(95,307,000)	85,731,000
Claim liabilities (i)	<b>115,333,000</b>	<b>(48,607,000)</b>	<b>66,726,000</b>	105,340,000	(39,026,000)	66,314,000
Premium liabilities (ii)	<b>303,366,000</b>	<b>(137,064,000)</b>	<b>166,302,000</b>	286,378,000	(134,333,000)	152,045,000
				110,358,000	(39,665,000)	70,693,000
				78,933,000	(29,188,000)	49,745,000
				189,291,000	(68,853,000)	120,438,000

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 12 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	31.12. 2012			31.12. 2011			1.1.2011		
	Gross RM	Re- insurance RM	Net RM	Gross RM	Re- insurance RM	Net RM	Gross RM	Re- insurance RM	Net RM
(i) Claim liabilities									
At 1 January	181,038,000	(95,307,000)	85,731,000	110,358,000	(39,665,000)	70,693,000	101,875,000	(35,856,000)	66,019,000
Claims incurred in the current accident year	135,203,325	(63,909,913)	71,293,412	158,270,188	(73,545,107)	84,725,081	80,623,250	(15,462,286)	65,160,964
Claims incurred in prior accident years	(22,331,969)	28,772,063	6,440,094	2,178,524	(6,179,265)	(4,000,741)	(1,427,664)	2,408,163	980,499
Movement in PRAD of claim liabilities at 75% confidence level	1,193,329	562,066	1,755,395	3,470,000	(2,291,649)	1,178,351	1,374,000	6,907	1,380,907
Movement in claims handling expenses	227,291	-	227,291	(2,677,533)	-	(2,677,533)	668,385	-	668,385
Claims paid during the financial year	(107,296,976)	41,425,784	(65,871,192)	(90,561,179)	26,374,021	(64,187,158)	(72,754,971)	9,238,216	(63,516,755)
At 31 December	188,033,000	(88,457,000)	99,576,000	181,038,000	(95,307,000)	85,731,000	110,358,000	(39,665,000)	70,693,000
(ii) Premium liabilities									
At 1 January	105,340,000	(39,026,000)	66,314,000	78,933,000	(29,188,000)	49,745,000	64,815,000	(21,182,000)	43,633,000
Premiums written in the financial year (Note 16)	209,492,392	(74,228,141)	135,264,251	205,790,830	(66,033,208)	139,757,622	161,015,626	(51,542,196)	109,473,430
Premiums earned during the financial year (Note 16)	(199,499,392)	64,647,141	(134,852,251)	(179,383,830)	56,195,208	(123,188,622)	(146,897,626)	43,536,196	(103,361,430)
At 31 December	115,333,000	(48,607,000)	66,726,000	105,340,000	(39,026,000)	66,314,000	78,933,000	(29,188,000)	49,745,000

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 13 DEFERRED TAX ASSET/(LIABILITIES)

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
At 1 January	(807,509)	524,572	(10,415)
– Recognised in the income statement (Note 22)	578,752	(762,201)	1,139,348
– Recognised in other comprehensive income	422,022	(569,880)	(604,361)
At 31 December	193,265	(807,509)	524,572
	Fair value changes on investments RM	Accelerated capital allowances RM	Total RM
<b>31.12.2012</b>			
<b>Deferred tax liabilities</b>			
At 1 January 2012	1,242,405	211,518	1,453,923
– Recognised in income statement	(74,207)	(30,619)	(104,826)
– Recognised in other comprehensive income	(422,022)	–	(422,022)
At 31 December 2012 (before offsetting)	746,176	180,899	927,075
	Receivables RM	Others RM	Total RM
<b>Deferred tax asset</b>			
At 1 January 2012	50,567	595,847	646,414
– Recognised in income statement	(16,601)	490,527	473,926
At 31 December 2012 (before offsetting)	33,966	1,086,374	1,120,340
Net deferred tax assets (after offsetting)			193,265



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 13 DEFERRED TAX ASSET/(LIABILITIES) (CONTINUED)

	Fair value changes on investments RM	Accelerated capital allowances RM	Total RM
<b>31.12.2011</b>			
<b>Deferred tax liabilities</b>			
At 1 January 2011	554,113	185,555	739,668
– Recognised in income statement	118,412	25,963	144,375
– Recognised in other comprehensive income	569,880	–	569,880
At 31 December 2011 (before offsetting)	1,242,405	211,518	1,453,923
	<b>Receivables RM</b>	<b>Others RM</b>	<b>Total RM</b>
<b>Deferred tax asset</b>			
At 1 January 2011	79,437	1,184,803	1,264,240
– Recognised in income statement	(28,870)	(588,956)	(617,826)
At 31 December 2011 (before offsetting)	50,567	595,847	646,414
Net deferred tax liabilities (after offsetting)			(807,509)
	<b>Fair value changes on investments RM</b>	<b>Accelerated capital allowances RM</b>	<b>Total RM</b>
<b>1.1.2011</b>			
<b>Deferred tax liabilities</b>			
At 1 January 2010	–	218,898	218,898
– Recognised in income statement	55,909	(33,343)	22,566
– Recognised in other comprehensive income	498,204	–	498,204
At 31 December 2010/1 January 2011 (before offsetting)	554,113	185,555	739,668

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 13 DEFERRED TAX ASSET/(LIABILITIES) (CONTINUED)

	Receivables RM	Fair value changes on investments RM	Others RM	Total RM
<b>Deferred tax asset</b>				
At 1 January 2010	93,901	106,157	8,425	208,483
– Recognised in income statement	(14,464)	–	1,176,378	1,161,914
– Recognised in other comprehensive income	–	(106,157)	–	(106,157)
At 31 December 2010/1 January 2011 (before offsetting)	79,437	–	1,184,803	1,264,240
Net deferred tax asset (after offsetting)				524,572

### 14 INSURANCE AND OTHER PAYABLES

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
<b>Trade payables:</b>			
Amount due to reinsurers/ceding companies	21,170,949	20,008,544	9,916,226
Amount due to brokers, co-insurers and insureds	9,867,471	8,848,755	6,311,354
	<b>31,038,420</b>	<b>28,857,299</b>	<b>16,227,580</b>
<b>Other payables:</b>			
Accrual for agents' profit commission	1,590,321	1,137,490	859,491
Accrual for bonus (including EPF for bonus)	3,278,819	1,753,963	4,739,211
Service tax payable	494,750	1,584,622	883,952
Takaful and Insurance Benefits Protection Scheme ("TIPS")/Insurance Guarantee Scheme Fund ("IGSF")	338,161	547,886	338,437
Cash collateral held for bond business	490,351	608,310	796,699
Other payables and accrued liabilities	2,381,973	1,997,055	1,903,381
	<b>8,574,375</b>	<b>7,629,326</b>	<b>9,521,171</b>
Total insurance and other payables	<b>39,612,795</b>	<b>36,486,625</b>	<b>25,748,751</b>

The carrying amounts disclosed above approximate fair value at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 15 OPERATING REVENUE

	2012 RM	2011 RM
Gross premiums (Note 16)	199,499,392	179,383,830
Investment income (Note 17)	10,595,178	10,390,087
	<u>210,094,570</u>	<u>189,773,917</u>

### 16 NET EARNED PREMIUMS

	2012 RM	2011 RM
<b>(a) Gross premiums</b>		
Written premiums (Note 12(ii))	209,492,392	205,790,830
Change in premium liabilities	(9,993,000)	(26,407,000)
	<u>199,499,392</u>	<u>179,383,830</u>
<b>(b) Premium ceded</b>		
Ceded premiums (Note 12(ii))	(74,228,141)	(66,033,208)
Change in premium liabilities	9,581,000	9,838,000
	<u>(64,647,141)</u>	<u>(56,195,208)</u>
<b>Net earned premiums</b>	<u>134,852,251</u>	<u>123,188,622</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 17 INVESTMENT INCOME

	2012 RM	2011 RM
Rental income from investment properties	24,600	25,361
Financial assets at FVTPL		
Dividend income		
– equity securities	109,516	38,419
– REITs	73,744	19,414
AFS financial assets		
Interest income	3,848,715	2,939,649
Dividend income – unit trusts	4,325,218	4,930,335
Interest income from loans and receivables	2,560,226	2,685,038
Profit income from cash at bank	90,411	44,757
Amortisation of premiums, net of accretion of discounts	(437,252)	(292,886)
	<b>10,595,178</b>	<b>10,390,087</b>

### 18 REALISED GAINS AND LOSSES

	2012 RM	2011 RM
<b>Financial assets at FVTPL</b>		
Realised gains:		
Equity securities	70,485	152,511
REITs	61,249	44,435
Total realised gains for financial assets at FVTPL	<b>131,734</b>	<b>196,946</b>
<b>AFS financial assets</b>		
Realised gains:		
Unit trusts	2,431,346	–
Total realised gains for AFS financial assets	<b>2,431,346</b>	<b>–</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 18 REALISED GAINS AND LOSSES (CONTINUED)

	2012 RM	2011 RM
<b>Property and equipment</b>		
Realised gains	4,842	5,863
Realised losses	(73,027)	(7,592)
	<u>(68,185)</u>	<u>(1,729)</u>
Total realised losses for property and equipment		
	<u>(68,185)</u>	<u>(1,729)</u>
<b>Investment properties</b>		
Realised gains	–	154,078
	<u>2,494,895</u>	<u>349,295</u>

### 19 FAIR VALUE GAINS AND LOSSES

	2012 RM	2011 RM
Financial assets at FVTPL	(296,828)	473,647
	<u>(296,828)</u>	<u>473,647</u>

### 20 FEES AND COMMISSION INCOME

	2012 RM	2011 RM
Reinsurance commission income	12,836,821	13,189,506
	<u>12,836,821</u>	<u>13,189,506</u>



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 21 MANAGEMENT EXPENSES

	Note	2012 RM	2011 RM
Employee benefits expenses	21(a)	<b>21,188,021</b>	17,934,628
Directors' fees	21(b)	<b>100,786</b>	131,500
Auditors' remuneration			
– statutory audits		<b>150,000</b>	150,000
Depreciation of property and equipment	3	<b>380,047</b>	325,202
Depreciation of investment properties	4	<b>10,341</b>	20,246
Direct operating expenses of investment properties			
– revenue generating	4	<b>25,942</b>	36,583
Amortisation of intangible assets	5	<b>12,041</b>	12,442
Bad debts written-off/(recovered)		<b>36,880</b>	(928)
Write-back of allowance for impairment losses		<b>(94,487)</b>	(95,649)
Office rental		<b>1,641,691</b>	1,655,053
Office equipment rental		<b>370,465</b>	388,564
Computer maintenance		<b>1,033,438</b>	925,674
Entertainment		<b>406,969</b>	338,113
Transport and travelling		<b>349,759</b>	346,388
Printing and stationery		<b>228,903</b>	382,074
Padunet networking charges		<b>400,437</b>	605,055
Shared services expenses		–	1,022,630
Bank charges		<b>1,427,701</b>	1,305,457
Other expenses		<b>2,310,884</b>	2,376,935
		<b>29,979,818</b>	27,859,967
<b>(a) Employee benefits expense</b>			
Wages and salaries		<b>17,279,992</b>	14,537,078
Social security contributions		<b>113,427</b>	115,409
Contributions to defined contribution plan, EPF		<b>2,519,703</b>	2,196,861
Other benefits		<b>1,274,899</b>	1,085,280
		<b>21,188,021</b>	17,934,628

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 21 MANAGEMENT EXPENSES (CONTINUED)

#### (b) Directors' remuneration

The details of remuneration receivable by Directors during the financial year are as follows:

	<b>2012 RM</b>	<b>2011 RM</b>
Non-executive Directors' fees	<b>100,786</b>	131,500

The number of Directors whose total remuneration received during the financial year falls within the following band is:

	<b>Number of Directors 2012 RM</b>	<b>2011 RM</b>
Non-executive Directors: Below RM50,000	<b>4</b>	4

#### (c) The details of remuneration received and receivable by the CEO during the financial year are as follows:

	<b>2012 RM</b>	<b>2011 RM</b>
Salary and other emoluments	<b>405,642</b>	384,780
Bonus	<b>350,750</b>	228,571
Contribution to defined contribution plan	<b>119,800</b>	97,051
Estimated money value of benefits-in-kind	<b>18,790</b>	16,902
	<b>894,982</b>	727,304

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 22 TAXATION

	2012 RM	2011 RM
Income tax:		
Malaysian income tax	5,380,896	1,465,976
(Over)/under provision in respect of prior years	(23,006)	593,343
	<u>5,357,890</u>	<u>2,059,319</u>
Deferred tax relating to origination and reversal of temporary differences (Note 13)	(578,752)	762,201
Tax expense for the financial year	<u>4,779,138</u>	<u>2,821,520</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) on the estimated assessable profit for the financial year.

A reconciliation of tax expense applicable to profit before taxation at the statutory income tax rate to tax expense at the effective tax rate of the Company is as follows:

	2012 RM	2011 RM
Profit before taxation	23,270,961	13,805,288
Taxation at Malaysian statutory income tax rate of 25% (2011: 25%)	5,817,740	3,451,322
Expenses not deductible for tax purposes	107,393	102,775
Income not subject to tax	(1,122,989)	(1,241,784)
(Over)/under provision of income tax in prior years	(23,006)	593,343
Over provision of deferred tax in prior years	–	(84,136)
Tax expense for the financial year	<u>4,779,138</u>	<u>2,821,520</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 23 EARNINGS PER SHARE

The calculation of basic earnings per ordinary share of RM1.00 each is based on the profit after taxation for the financial year of RM18,491,823 (2011: RM10,983,768) over the number of shares in issue during the financial year of 100,000,000 (2011: 100,000,000).

### 24 DIVIDENDS

	31.12.2012		31.12.2011		1.1.2011	
	Gross dividend per share Sen	Amount of dividend, net of tax RM	Gross dividend per share Sen	Amount of dividend, net of tax RM	Gross dividend per share Sen	Amount of dividend, net of tax RM
Interim dividend for financial year 2011	–	–	20.6	15,483,000	–	–

### 25 OPERATING LEASE ARRANGEMENTS

The Company has entered into non-cancellable operating lease agreements for the use of several of its photocopiers and printing system. The lease agreements have fixed rentals for a period of five years.

The future aggregate minimum lease payment under non-cancellable operating leases contracted for as at the end of the reporting period but not recognised as liabilities are as follows:

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Future minimum rental payment:			
Not later than 1 year	40,080	188,095	180,697
Later than 1 year and not later than 5 years	76,380	116,460	164,815
	<b>116,460</b>	<b>304,555</b>	<b>345,512</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 26 CAPITAL COMMITMENTS

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Approved and contracted for:			
Furniture and fittings	1,892	6,480	–
Computers	11,980	48,835	22,080
	<b>13,872</b>	<b>55,315</b>	<b>22,080</b>

### 27 SIGNIFICANT RELATED PARTY DISCLOSURES

- (a) The Company is a wholly-owned subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited (“FFHL”), a company incorporated in Canada.

In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group:

	Significant transactions			Carrying value		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
<b>FELLOW SUBSIDIARY:</b>						
<b>Income</b>						
Commission receivable						
– First Capital Insurance Limited	54,517	63,344	–	–	–	–
<b>Expense</b>						
Reinsurance premium ceded						
– First Capital Insurance Limited	597,867	921,025	–	–	–	–
– Falcon Insurance Co. (HK) Ltd	19,007	–	–	–	–	–

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 27 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group: (continued)

	Significant transactions			Carrying value		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM	RM	RM	RM	RM	RM
<b>Payables</b>						
Reinsurance balances due to						
– First Capital Insurance Limited	–	–	–	81,728	846,169	–
– Falcon Insurance Co. (HK) Ltd	–	–	–	19,007	–	–
<b>KEY MANAGEMENT OF THE COMPANY:</b>						
Secured staff loans outstanding	–	–	–	–	22,000	36,400

#### (b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year was as follows:

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Short-term employee benefits	1,621,614	1,405,940	2,049,028
Defined contribution plan	234,874	197,134	287,327
	<b>1,856,488*</b>	<b>1,603,074*</b>	<b>2,336,355</b>

\* Includes compensation payable to key management personnel at the end of reporting period of RM696,068 (2011: RM487,894).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The key management personnel of the Company includes the Directors, Chief Executive Officer, Senior General Manager and Head of Financial Services.



## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **28 RISK MANAGEMENT FRAMEWORK**

#### **(a) Risk management framework**

The Company's financial risk management policies seek to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk and reward balance and protecting the Company's statement of financial position from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk tolerances with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties.

#### **(b) Regulatory framework**

Insurers have to comply with the Insurance Act, 1996, the Insurance Regulations, 1996, and circulars and guidelines issued by BNM, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policies rests with the Board. The Board exercises oversight on the investments to safeguard the interests of the policyholders and shareholders.

#### **(c) Capital management**

The Company's capital management policy is to create shareholder value, deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth. The Risk-Based Capital Framework and Guidelines on Internal Capital Adequacy Assessment Process for the insurance industry came into effect on 1 January 2009 and 1 September 2012 respectively. Under the frameworks, the Company has to maintain a capital adequacy level that commensurate with its risk profiles. The minimum capital requirement under the Risk-Based Capital Framework regulated by Bank Negara Malaysia is 130%.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 29 INSURANCE RISK

Insurance risk comprises of both actuarial and underwriting risks resulting from the pricing and acceptance of insurance contracts. The risks arise when actual claims experience are different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims.

Risks under most general insurance policies usually cover a twelve-month duration. The risk inherent in general insurance contracts is reflected in the insurance contract liabilities which include the premium and claim liabilities, as set out under Note 12 of the financial statements. The premium liabilities comprise reserve for unexpired risks, while the claim liabilities comprise the loss reserves which include both provision for outstanding claims notified and IBNR.

The Company has in place a prudent underwriting policy to ensure appropriate risk classification and premium levels. The Company's reinsurance management strategy and policy are reviewed and approved by the Board.

Stress Testing ("ST") is performed twice a year. The purpose of the ST is to test the solvency of the general fund under the various scenarios according to regulatory guidelines, simulating changes in major parameters such as new business volume, claims experience, expenses and investment environment.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK

The Company's insurance contract liabilities exposure by class of business is as follows:

	31.12. 2012				31.12. 2011				1.1.2011	
	Gross RM	Re- insurance RM	Net RM	Gross RM	Re- insurance RM	Net RM	Gross RM	Re- insurance RM	Net RM	Net RM
<b>Claim liabilities</b>										
Motor	64,325,000	(1,885,000)	62,440,000	55,009,000	(3,793,000)	51,216,000	47,419,000	(5,279,000)	42,140,000	
Fire	56,181,000	(50,437,000)	5,744,000	52,359,000	(45,844,000)	6,515,000	17,038,000	(11,127,000)	5,911,000	
Marine, Aviation and Transit	10,815,000	(9,724,000)	1,091,000	32,040,000	(31,020,000)	1,020,000	9,614,000	(8,868,000)	746,000	
Medical and Health	10,010,000	(161,000)	9,849,000	8,322,000	(161,000)	8,161,000	6,897,000	(217,000)	6,680,000	
Miscellaneous	46,702,000	(26,250,000)	20,452,000	33,308,000	(14,489,000)	18,819,000	29,390,000	(14,174,000)	15,216,000	
	<b>188,033,000</b>	<b>(88,457,000)</b>	<b>99,576,000</b>	<b>181,038,000</b>	<b>(95,307,000)</b>	<b>85,731,000</b>	<b>110,358,000</b>	<b>(39,665,000)</b>	<b>70,693,000</b>	
<b>Premium liabilities</b>										
Motor	27,862,000	(827,000)	27,035,000	24,470,000	(78,000)	24,392,000	23,491,000	(3,014,000)	20,477,000	
Fire	10,572,000	(6,570,000)	4,002,000	10,222,000	(5,264,000)	4,958,000	8,563,000	(4,504,000)	4,059,000	
Marine, Aviation and Transit	12,095,000	(11,080,000)	1,015,000	4,830,000	(4,382,000)	448,000	6,578,000	(6,091,000)	487,000	
Medical and Health	26,792,000	(721,000)	26,071,000	28,997,000	(106,000)	28,891,000	22,559,000	(3,105,000)	19,454,000	
Miscellaneous	38,012,000	(29,409,000)	8,603,000	36,821,000	(29,196,000)	7,625,000	17,742,000	(12,474,000)	5,268,000	
	<b>115,333,000</b>	<b>(48,607,000)</b>	<b>66,726,000</b>	<b>105,340,000</b>	<b>(39,026,000)</b>	<b>66,314,000</b>	<b>78,933,000</b>	<b>(29,188,000)</b>	<b>49,745,000</b>	

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 29 INSURANCE RISK (CONTINUED)

#### 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 judgments 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. Judgment 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.

#### Sensitivities

The general 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 following analysis 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 claim liabilities, but to demonstrate the impact due to changes in assumptions, these assumptions are illustrated on an individual basis. It should be noted that movements in these assumptions are non-linear.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

#### Sensitivities (continued)

	Change in assumptions	Impact on gross liabilities RM	Impact on net liabilities RM	Impact on profit before tax RM	Impact on equity RM
<b>31.12.2012</b>					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	507,000	279,000	(279,000)	(209,250)
Loss ratio	+5%	21,393,000	5,875,000	(5,875,000)	(4,406,250)
Claim handling expenses	+5%	224,000	224,000	(224,000)	(168,000)
<b>31.12.2011</b>					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	480,000	223,000	(223,000)	(167,250)
Loss ratio	+5%	7,443,000	3,390,000	(3,390,000)	(2,542,500)
Claim handling expenses	+5%	215,000	215,000	(215,000)	(161,250)
<b>1.1.2011</b>					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	307,000	165,000	(165,000)	(123,750)
Loss ratio	+5%	3,978,000	2,794,000	(2,794,000)	(2,095,500)
Claim handling expenses	+5%	331,000	331,000	(331,000)	(248,250)

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

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### 29 INSURANCE RISK (CONTINUED)

#### 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 reporting date, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2012:

<b>Accident year</b>	<b>Prior to 2005 RM</b>	<b>2005 RM</b>	<b>2006 RM</b>	<b>2007 RM</b>	<b>2008 RM</b>	<b>2009 RM</b>	<b>2010 RM</b>	<b>2011 RM</b>	<b>2012 RM</b>	<b>Total RM</b>
At end of accident year		71,852,310	77,898,739	115,372,773	128,437,501	89,290,332	80,623,250	144,171,467	135,203,325	
One year later		69,834,563	75,864,402	85,828,743	79,515,986	92,169,233	87,820,763	120,667,544		
Two years later		67,004,601	53,444,656	108,881,420	76,147,747	89,143,708	79,606,318			
Three years later		60,883,583	71,750,374	108,411,967	75,274,488	87,570,573				
Four years later		64,327,834	71,278,686	108,312,091	74,915,371					
Five years later		65,080,937	70,866,751	108,033,202						
Six years later		65,303,575	70,897,996							
Seven years later		66,076,440								
<b>Current estimate of cumulative claims incurred</b>		66,076,440	70,897,996	108,033,202	74,915,371	87,570,573	79,606,318	120,667,544	135,203,325	
At end of accident year		(32,402,437)	(35,651,536)	(43,666,569)	(42,502,687)	(44,790,938)	(36,889,706)	(45,032,760)	(38,341,088)	
One year later		(54,561,152)	(58,977,943)	(81,768,206)	(65,226,954)	(66,629,520)	(64,369,651)	(100,846,814)		
Two years later		(58,771,335)	(62,694,290)	(98,501,691)	(69,928,865)	(77,625,071)	(68,499,657)			
Three years later		(60,147,921)	(64,536,458)	(103,112,379)	(71,506,198)	(79,800,667)				
Four years later		(61,655,697)	(66,091,734)	(104,527,674)	(72,485,699)					
Five years later		(62,772,094)	(66,413,002)	(105,826,990)						
Six years later		(64,187,117)	(66,605,175)							
Seven years later		(65,553,128)								
<b>Cumulative payments to-date</b>		(65,553,128)	(66,605,175)	(105,826,990)	(72,485,699)	(79,800,667)	(68,499,657)	(100,846,814)	(38,341,088)	
Gross general insurance outstanding liabilities (direct and facultative)	1,044,557	523,312	4,292,821	2,206,212	2,429,672	7,769,906	11,106,661	19,820,730	96,862,237	146,056,108

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Accident year	Note	Prior to 2005 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	Total RM
Gross general insurance outstanding liabilities (treaty inward)											27,589,158
Best estimate of claim liabilities											173,645,266
Claims handling expenses											4,182,734
PRAD at 75% confidence level											10,205,000
Gross general insurance contract liabilities per statement of financial position	12										188,033,000

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2012:

	Prior to 2005 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	Total RM
<b>Accident year</b>										
At end of accident year		56,660,141	66,582,424	71,729,810	68,953,095	67,842,838	65,160,963	70,626,359	71,293,412	
One year later		54,251,921	64,158,819	68,064,372	67,639,879	67,842,778	65,221,562	68,348,022		
Two years later		52,930,466	60,061,778	69,698,769	65,465,600	65,790,686	63,839,900			
Three years later		50,439,948	60,308,636	70,449,562	64,884,601	64,330,681				
Four years later		50,771,292	60,114,203	69,852,976	63,929,753					
Five years later		51,189,988	59,976,494	69,672,520						
Six years later		51,005,958	59,807,380							
Seven years later		51,954,284								
<b>Current estimate of cumulative claims incurred</b>		51,954,284	59,807,380	69,672,520	63,929,753	64,330,681	63,839,900	68,348,022	71,293,412	
At end of accident year		(27,328,731)	(32,641,681)	(37,256,847)	(38,288,857)	(38,768,160)	(34,150,025)	(36,266,616)	(35,186,016)	
One year later		(43,287,324)	(52,282,674)	(59,293,106)	(56,976,319)	(56,237,346)	(53,401,540)	(56,248,456)		
Two years later		(46,324,813)	(55,226,345)	(63,397,062)	(60,998,930)	(59,897,881)	(56,659,878)			
Three years later		(47,269,795)	(56,959,090)	(66,690,768)	(61,996,064)	(61,498,223)				
Four years later		(48,611,541)	(58,352,746)	(67,697,426)	(62,672,785)					
Five years later		(49,692,695)	(58,702,848)	(68,571,702)						
Six years later		(50,366,488)	(58,880,911)							
Seven years later		(51,482,855)								
<b>Cumulative payments to-date</b>		(51,482,855)	(58,880,911)	(68,571,702)	(62,672,785)	(61,498,223)	(56,659,878)	(56,248,456)	(35,186,016)	
<b>Net general insurance outstanding liabilities (direct and facultative)</b>	193,315	471,429	926,469	1,100,818	1,256,968	2,832,458	7,180,022	12,099,566	36,107,396	62,168,441

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Accident year	Note	Prior to 2005 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	Total RM
Net general insurance outstanding liabilities (treaty inwards)											27,589,158
Best estimate of claim liabilities											89,757,599
Claims handling expenses											4,182,734
PRAD at 75% confidence level											5,635,667
Net general insurance contract liabilities per statement of financial position	12										99,576,000

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities for 2011:

	Prior to 2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	Total RM
<b>Accident year</b>										
At end of accident year		72,098,477	71,852,310	77,898,739	115,372,773	128,437,501	89,290,332	80,623,250	144,171,467	
One year later		62,507,272	69,834,563	75,864,402	85,828,743	79,515,986	92,169,233	87,820,763		
Two years later		60,484,651	67,004,601	53,444,656	108,881,420	76,147,747	89,143,708			
Three years later		59,406,149	60,883,583	71,750,374	108,411,967	75,274,488				
Four years later		48,536,226	64,327,834	71,278,686	108,312,091					
Five years later		57,542,539	65,080,937	70,866,751						
Six years later		57,150,775	65,303,575							
Seven years later		57,210,811								
<b>Current estimate of cumulative claims incurred</b>		57,210,811	65,303,575	70,866,751	108,312,091	75,274,488	89,143,708	87,820,763	144,171,467	
At end of accident year		(30,027,264)	(32,402,437)	(35,651,536)	(43,666,569)	(42,502,687)	(44,790,938)	(36,889,706)	(45,032,760)	
One year later		(47,882,246)	(54,561,152)	(58,977,943)	(81,768,206)	(65,226,954)	(66,629,520)	(64,369,651)		
Two years later		(50,881,837)	(58,771,335)	(62,694,290)	(98,501,691)	(69,928,865)	(77,625,071)			
Three years later		(52,967,926)	(60,147,921)	(64,536,458)	(103,112,379)	(71,506,198)				
Four years later		(54,003,513)	(61,655,697)	(66,091,734)	(104,527,674)					
Five years later		(56,128,209)	(62,772,094)	(66,413,002)						
Six years later		(56,649,043)	(64,187,117)							
Seven years later		(56,749,495)								
<b>Cumulative payments to-date</b>		(56,749,495)	(64,187,117)	(66,413,002)	(104,527,674)	(71,506,198)	(77,625,071)	(64,369,651)	(45,032,760)	
<b>Gross general insurance outstanding liabilities (direct and facultative)</b>	2,920,052	461,316	1,116,458	4,453,749	3,784,417	3,768,290	11,518,637	23,451,112	99,138,707	150,612,738

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Accident year	Note	Prior to 2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	Total RM
Gross general insurance outstanding liabilities (treaty inwards)											16,864,819
Best estimate of claim liabilities											167,477,557
Claims handling expenses											3,955,443
PRAD at 75% confidence level											9,605,000
Gross general insurance contract liabilities per statement of financial position	12										181,038,000



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2011:

	Prior to 2004 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	Total RM
<b>Accident year</b>										
At end of accident year		55,355,827	56,660,141	66,582,424	71,729,810	68,953,095	67,842,838	65,160,963	70,626,359	
One year later		50,733,781	54,251,921	64,158,819	68,064,372	67,639,879	67,842,778	65,221,562		
Two years later		49,211,940	52,930,466	60,061,778	69,698,769	65,465,600	65,790,686			
Three years later		48,128,164	50,439,948	60,308,636	70,449,562	64,884,601				
Four years later		46,595,060	50,771,292	60,114,203	69,852,976					
Five years later		46,870,906	51,189,988	59,976,494						
Six years later		46,789,654	51,005,958							
Seven years later		46,832,527								
<b>Current estimate of cumulative claims incurred</b>		46,832,527	51,005,958	59,976,494	69,852,976	64,884,601	65,790,686	65,221,562	70,626,359	
At end of accident year		(23,533,002)	(27,328,731)	(32,641,681)	(37,256,847)	(38,288,857)	(38,768,160)	(34,150,025)	(36,266,616)	
One year later		(39,099,348)	(43,287,324)	(52,282,674)	(59,293,106)	(56,976,319)	(56,237,346)	(53,401,540)		
Two years later		(41,389,374)	(46,324,813)	(55,226,345)	(63,397,062)	(60,998,930)	(59,897,881)			
Three years later		(43,265,907)	(47,269,795)	(56,959,090)	(66,690,768)	(61,996,064)				
Four years later		(44,219,684)	(48,611,541)	(58,352,746)	(67,697,426)					
Five years later		(45,811,675)	(49,692,695)	(58,702,848)						
Six years later		(46,338,840)	(50,366,488)							
Seven years later		(46,408,936)								
<b>Cumulative payments to-date</b>		(46,408,936)	(50,366,488)	(58,702,848)	(67,697,426)	(61,996,064)	(59,897,881)	(53,401,540)	(36,266,616)	
<b>Net general insurance outstanding liabilities (direct and facultative)</b>	983,773	423,591	639,470	1,273,646	2,155,550	2,888,537	5,892,805	11,820,022	34,359,743	60,437,137

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

<b>Accident year</b>	<b>Note</b>	<b>Prior to 2004 RM</b>	<b>2004 RM</b>	<b>2005 RM</b>	<b>2006 RM</b>	<b>2007 RM</b>	<b>2008 RM</b>	<b>2009 RM</b>	<b>2010 RM</b>	<b>2011 RM</b>	<b>Total RM</b>
Net general insurance outstanding liabilities (treaty inwards)											16,864,819
Best estimate of claim liabilities											77,301,956
Claims handling expenses											3,955,443
PRAD at 75% confidence level											4,473,60
Net general insurance contract liabilities per statement of financial position	12										85,731,000

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities for 2010:

	Prior to 2003 RM	2003 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	Total RM
<b>Accident year</b>										
At end of accident year		55,677,878	72,098,477	71,852,310	77,898,739	115,372,773	128,438,501	89,290,332	80,623,250	
One year later		53,488,063	62,507,272	69,834,563	75,864,402	85,828,743	79,515,986	92,169,233		
Two years later		50,810,226	60,484,651	67,004,601	53,444,656	108,881,420	76,147,747			
Three years later		47,744,231	59,405,149	60,883,583	71,750,374	108,411,967				
Four years later		47,350,882	48,536,226	64,327,834	71,278,686					
Five years later		39,475,777	57,542,539	65,080,937						
Six years later		46,024,285	57,150,775							
Seven years later		45,108,604								
<b>Current estimate of cumulative claims incurred</b>		45,108,604	57,150,775	65,080,937	71,278,686	108,411,967	76,147,747	92,169,233	80,623,250	
At end of accident year		(19,961,760)	(30,027,264)	(32,402,437)	(35,651,536)	(43,666,569)	(42,502,687)	(44,790,938)	(36,889,706)	
One year later		(35,163,910)	(47,882,246)	(54,561,152)	(58,977,943)	(81,768,206)	(65,226,954)	(66,629,520)		
Two years later		(38,692,088)	(50,881,837)	(58,771,335)	(62,694,290)	(98,501,691)	(69,928,864)			
Three years later		(40,038,920)	(52,967,926)	(60,147,821)	(64,536,458)	(103,112,378)				
Four years later		(41,851,222)	(54,003,513)	(61,655,697)	(66,091,734)					
Five years later		(43,161,966)	(56,128,209)	(62,772,094)						
Six years later		(44,776,565)	(56,649,043)							
Seven years later			(44,656,316)							
<b>Cumulative payments to-date</b>		(44,656,316)	(56,649,043)	(62,772,094)	(66,091,734)	(103,112,378)	(69,928,864)	(66,629,520)	(36,889,706)	
<b>Gross general insurance outstanding liabilities (direct and facultative)</b>	3,972,826	452,288	501,732	2,308,843	5,186,952	5,299,589	6,218,883	25,539,713	43,733,544	93,214,370

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Accident year	Note	Prior to 2003 RM	2003 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	Total RM
Gross general insurance outstanding liabilities (treaty inwards)											4,375,654
Best estimate of claim liabilities											97,590,024
Claims handling expenses											6,632,976
PRAD at 75% confidence level											6,135,000
Gross general insurance contract liabilities per statement of financial position	12										110,358,000

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2010:

	Prior to 2003	2003	2004	2005	2006	2007	2008	2009	2010	Total
Accident year	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
At end of accident year		41,234,575	55,355,827	56,660,141	66,582,424	71,729,810	68,953,095	67,842,838	65,160,963	
One year later		41,919,129	50,733,781	54,251,921	64,158,819	68,064,372	67,639,879	67,842,778		
Two years later		40,231,112	49,211,940	52,930,466	60,061,778	69,698,769	65,465,600			
Three years later		37,936,723	48,128,164	50,439,948	60,308,636	70,449,562				
Four years later		36,756,357	46,595,060	50,771,292	60,114,203					
Five years later		36,092,302	46,870,906	51,189,988						
Six years later		36,744,888	46,789,654							
Seven years later		36,341,428								
<b>Current estimate of cumulative claims incurred</b>		36,341,428	46,789,654	51,189,988	60,114,203	70,449,562	65,465,600	67,842,778	65,160,963	
At end of accident year		(15,402,043)	(23,533,002)	(27,328,731)	(32,641,681)	(37,256,647)	(38,288,857)	(38,768,160)	(34,150,025)	
One year later		(27,854,715)	(39,099,348)	(43,287,324)	(52,282,674)	(59,293,106)	(56,976,319)	(56,237,346)		
Two years later		(30,716,210)	(41,389,374)	(46,324,813)	(55,226,345)	(63,397,062)	(60,998,930)			
Three years later		(31,912,314)	(43,265,907)	(47,269,795)	(59,959,090)	(66,690,768)				
Four years later		(33,406,878)	(44,219,684)	(48,611,541)	(58,352,746)					
Five years later		(34,293,021)	(45,811,675)	(49,692,695)						
Six years later		(35,698,757)	(46,338,840)							
Seven years later		(35,941,733)								
<b>Cumulative payments to-date</b>		(35,941,733)	(46,338,840)	(49,692,695)	(58,352,746)	(66,690,768)	(60,998,930)	(56,237,346)	(34,150,025)	
<b>Net general insurance outstanding liabilities (direct and facultative)</b>	1,438,027	399,695	450,814	1,497,293	1,761,457	3,758,794	4,466,670	11,605,432	31,010,938	56,389,120

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

Accident year	Note	Prior to 2003 RM	2003 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	Total RM
Net general insurance outstanding liabilities (treaty inwards)											4,375,654
Best estimate of claim liabilities											60,764,774
Claims handling expenses											6,632,976
PRAD at 75% confidence level											3,295,250
Net general insurance contract liabilities per statement of financial position	12										70,693,000



## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**

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### **30 FINANCIAL RISKS**

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

(i) **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The major classes of financial assets of the Group are deposits with financial institutions, available-for-sale securities (unit trusts and bonds), loan receivables and trade receivables.

Credit risk arises when the Company's cash assets are placed in interest-bearing instruments, mainly fixed and call deposits and repurchase agreements with licensed financial institutions. The Company manages this credit risk by spreading its deposits with a large group of financial institutions.

Trade receivables are monitored regularly and the Company adopts various control measures such as 60 days Premium Warranty and Cash Before Cover to minimise this credit risk.

#### **Credit exposure**

At the reporting date, the Company's maximum exposure to credit risk is represented by the maximum amount of each class of financial assets recognised in the statements of financial position.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past-due nor impaired		Past-due but not impaired	Total
	Investment grade RM	Not rated RM	RM	RM
<b>31.12.2012</b>				
LAR				
Fixed and call deposits	89,209,441	6,815,983	–	96,025,424
AFS financial investments				
Malaysian Government Securities	–	40,687,000	–	40,687,000
Corporate bonds	41,833,644	–	–	41,833,644
Unit trusts	–	101,794,096	–	101,794,096
HFT financial investments				
Equity securities	–	5,837,812	–	5,837,812
REITs	–	2,775,650	–	2,775,650
Reinsurance assets	–	137,064,000	–	137,064,000
Insurance receivables	–	–	30,636,897	30,636,897
Cash and bank balances	8,435,939	17,356	–	8,453,295
	<b>139,479,024</b>	<b>294,991,897</b>	<b>30,636,897</b>	<b>465,107,818</b>
<b>31.12.2011</b>				
LAR				
Fixed and call deposits	61,345,774	2,428,090	–	63,773,864
AFS financial investments				
Malaysian Government Securities	–	44,581,561	–	44,581,561
Corporate bonds	41,921,506	–	–	41,921,506
Unit trusts	–	96,710,485	–	96,710,485
HFT financial investments				
Equity securities	–	730,611	–	730,611
REITs	–	2,298,780	–	2,298,780
Reinsurance assets	–	134,333,000	–	134,333,000
Insurance receivables	–	–	39,625,944	39,625,944
Cash and bank balances	7,037,781	26,304	–	7,064,085
	<b>110,305,061</b>	<b>281,108,831</b>	<b>39,625,944</b>	<b>431,039,836</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (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 Company's credit ratings of counterparties. (continued)

	Neither past-due nor impaired		Past-due but not impaired	Total
	Investment grade RM	Not rated RM	RM	RM
<b>1.1.2011</b>				
LAR				
Fixed and call deposits	89,198,622	3,548,553	–	92,747,175
AFS financial investments				
Malaysian Government Securities	–	40,657,543	–	40,657,543
Government investment issues	–	5,046,823	–	5,046,823
Corporate bonds	9,757,457	–	–	9,757,457
Unit trusts	–	90,656,194	–	90,656,194
HFT financial investments				
Equity securities	–	1,091,303	–	1,091,303
REITs	–	405,700	–	405,700
Reinsurance assets	–	68,853,000	–	68,853,000
Insurance receivables	–	–	17,014,480	17,014,480
Cash and bank balances	4,142,681	35,897	–	4,178,578
	<u>103,098,760</u>	<u>210,295,013</u>	<u>17,014,480</u>	<u>330,408,253</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (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 credit ratings of counterparties obtained from Rating Agency of Malaysia (“RAM”), Malaysian Rating Corporation Berhad (“MARC”), A.M. Best Company (“A.M. Best”) and Standard & Poor’s (“S&P”). AAA is the highest possible rating.

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<b>31.12.2012</b>						
LAR						
Fixed and call deposits	9,950,426	35,343,051	43,915,964	–	6,815,983	96,025,424
AFS financial investments						
Malaysian Government Securities	–	–	–	–	40,687,000	40,687,000
Corporate bonds	13,225,544	28,608,100	–	–	–	41,833,644
Unit trusts	–	–	–	–	101,794,096	101,794,096
HFT financial investments						
Equity securities	–	–	–	–	5,837,812	5,837,812
REITs	–	–	–	–	2,775,650	2,775,650
Reinsurance assets	–	–	–	–	137,064,000	137,064,000
Insurance receivables	–	–	3,185,752	330	27,450,815	30,636,897
Cash and bank balances	8,221,655	307,054	(92,770)	–	17,356	8,453,295
	<u>31,397,625</u>	<u>64,258,205</u>	<u>47,008,946</u>	<u>330</u>	<u>322,442,712</u>	<u>465,107,818</u>
<b>31.12.2012</b>						
Neither past-due nor impaired	31,397,625	64,258,205	43,823,194	–	294,991,897	434,470,921
Past-due but not impaired	–	–	3,185,752	330	27,450,815	30,636,897
	<u>31,397,625</u>	<u>64,258,205</u>	<u>47,008,946</u>	<u>330</u>	<u>322,442,712</u>	<u>465,107,818</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Credit exposure by credit rating (continued)

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<b>31.12.2011</b>						
LAR						
Fixed and call deposits	9,671,214	26,378,069	25,296,491	–	2,428,090	63,773,864
AFS financial investments						
Malaysian Government Securities	–	–	–	–	44,581,561	44,581,561
Corporate bonds	13,126,806	28,794,700	–	–	–	41,921,506
Unit trusts	–	–	–	–	96,710,485	96,710,485
HFT financial investments						
Equity securities	–	–	–	–	730,611	730,611
REITs	–	–	–	–	2,298,780	2,298,780
Reinsurance assets	–	–	–	–	134,333,000	134,333,000
Insurance receivables	–	292,925	4,182,692	25	35,150,302	39,625,944
Cash and bank balances	6,777,133	215,392	45,256	–	26,304	7,064,085
	<u>29,575,153</u>	<u>55,681,086</u>	<u>29,524,439</u>	<u>25</u>	<u>316,259,133</u>	<u>431,039,836</u>
<b>31.12.2011</b>						
Neither past-due nor impaired	29,575,153	55,388,161	25,341,747	–	281,108,831	391,413,892
Past-due but not impaired	–	292,925	4,182,692	25	35,150,302	39,625,944
	<u>29,575,153</u>	<u>55,681,086</u>	<u>29,524,439</u>	<u>25</u>	<u>316,259,133</u>	<u>431,039,836</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Credit exposure by credit rating (continued)

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<b>1.1.2011</b>						
LAR						
Fixed and call deposits	13,770,143	31,701,843	43,726,636	–	3,548,553	92,747,175
AFS financial investments						
Malaysian Government Securities	–	–	–	–	40,657,543	40,657,543
Government investment issues	–	–	–	–	5,046,823	5,046,823
Corporate bonds	2,319,220	7,438,237	–	–	–	9,757,457
Unit trusts	–	–	–	–	90,656,194	90,656,194
HFT financial investments						
Equity securities	–	–	–	–	1,091,303	1,091,303
REITs	–	–	–	–	405,700	405,700
Reinsurance assets	–	–	–	–	68,853,000	68,853,000
Insurance receivables	–	–	680,847	228	16,333,405	17,014,480
Cash and bank balances	3,975,076	112,778	54,827	–	35,897	4,178,578
	<u>20,064,439</u>	<u>39,252,858</u>	<u>44,462,310</u>	<u>228</u>	<u>226,628,418</u>	<u>330,408,253</u>
<b>1.1.2011</b>						
Neither past-due nor impaired	20,064,439	39,252,858	43,781,463	–	210,295,013	313,393,773
Past-due but not impaired	–	–	680,847	228	16,333,405	17,014,480
	<u>20,064,439</u>	<u>39,252,858</u>	<u>44,462,310</u>	<u>228</u>	<u>226,628,418</u>	<u>330,408,253</u>



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Credit exposure by credit rating (continued)

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The Company uses the ratings assigned by external rating agencies to assess credit risk.

#### Age analysis of financial assets past-due but not impaired

	<30 days	31 to 60 days	61 to 90 days	91 to 180 days	>180 days	Total
<b>31.12.2012</b>						
Insurance receivables	<b>13,772,824</b>	<b>5,979,420</b>	<b>3,481,418</b>	<b>6,222,006</b>	<b>1,181,229</b>	<b>30,636,897</b>
<b>31.12.2011</b>						
Insurance receivables	16,052,148	9,555,802	2,787,907	8,498,042	2,732,045	39,625,944
<b>1.1.2011</b>						
Insurance receivables	11,398,897	2,077,379	456,320	2,592,379	489,505	17,014,480

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Age analysis of financial assets past-due but not impaired (continued)

At 31 December 2012, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM558,413 (2011: RM652,899). No collateral is held as security for any past-due or impaired assets. The Company records impairment allowance for insurance receivables in separate “allowance for impairment losses” account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	Allowance for impairment losses		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
At 1 January	652,899	748,548	1,010,675
Write-back for the financial year	(57,606)	(96,577)	(208,830)
Bad debts recovered, net of written-off/ (written-off, net of recovery)	(36,880)	928	(53,297)
At 31 December	<u>558,413</u>	<u>652,899</u>	<u>748,548</u>

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company’s exposure to liquidity risk arises mainly from its lending commitments, borrowings, trade and other payables.

The Company actively manages the profile of its deposits with financial institutions, operating cash flows and the availability of funding so as to ensure that all operating needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

#### Maturity profiles

The following table 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 claims liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised claims liabilities.

Unearned premiums reserves and the reinsurers’ share of the unearned premiums reserves have been excluded from the analysis as they are not contractual obligations.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

#### Maturity profiles (continued)

31.12.2012

Financial investments:

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity RM	Total RM
LAR	96,025,424	97,712,177	-	-	-	-	-	97,712,177
AFS	184,314,740	15,277,500	22,865,850	8,941,190	50,245,580	-	101,794,096	199,124,216
HFT	8,613,462	-	-	-	-	-	8,613,462	8,613,462
Reinsurance assets on claim liabilities	88,457,000	44,197,626	20,319,232	11,258,899	12,681,243	-	-	88,457,000
Insurance receivables	30,636,897	30,636,897	-	-	-	-	-	30,636,897
Other receivables								
– staff loans	1,730,306	378,769	463,982	259,802	570,464	57,289	-	1,730,306
– bond collateral deposits placements	618,824	628,250	-	-	-	-	-	628,250
Cash and bank balances	8,453,295	-	-	-	-	-	8,453,295	8,453,295
<b>Total financial assets</b>	<b>418,849,948</b>	<b>188,831,219</b>	<b>43,649,064</b>	<b>20,459,891</b>	<b>63,497,287</b>	<b>57,289</b>	<b>118,860,853</b>	<b>435,355,603</b>
Insurance contract liabilities – claim liabilities	188,033,000	95,007,713	52,851,172	20,505,480	19,668,635	-	-	188,033,000
Insurance payables	31,038,420	31,038,420	-	-	-	-	-	31,038,420
Other payables								
– cash collateral held for bond business	512,642	425,362	87,280	-	-	-	-	512,642
<b>Total financial liabilities</b>	<b>219,584,062</b>	<b>126,471,495</b>	<b>52,938,452</b>	<b>20,505,480</b>	<b>19,668,635</b>	<b>-</b>	<b>-</b>	<b>219,584,062</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

#### Maturity profiles (continued)

##### 31.12.2011

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity RM	Total RM
Financial investments:								
LAR	63,773,864	64,985,893	–	–	–	–	–	64,985,893
AFS	183,213,552	3,595,623	27,106,000	15,201,650	58,766,270	–	96,710,485	201,380,028
HFT	3,029,391	–	–	–	–	–	3,029,391	3,029,391
Reinsurance assets on claim liabilities	95,307,000	54,747,789	19,917,984	5,167,144	15,474,083	–	–	95,307,000
Insurance receivables	39,625,944	39,625,944	–	–	–	–	–	39,625,944
Other receivables								
– staff loans	1,733,993	398,569	502,250	307,318	465,000	60,856	–	1,733,993
– bond collateral deposits placements	753,717	768,004	–	–	–	–	–	768,004
Cash and bank balances	7,064,085	–	–	–	–	–	7,064,085	7,064,085
Total financial assets	394,501,546	164,121,822	47,526,234	20,676,112	74,705,353	60,856	106,803,961	413,894,338
Insurance contract liabilities – claim liabilities	181,038,000	93,827,767	49,194,377	15,723,899	22,291,957	–	–	181,038,000
Insurance payables	28,857,297	28,857,297	–	–	–	–	–	28,857,297
Other payables								
– cash collateral held for bond business	641,154	603,185	37,969	–	–	–	–	641,154
Total financial liabilities	210,536,451	123,288,249	49,232,346	15,723,899	22,291,957	–	–	210,536,451

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 29 INSURANCE RISK (CONTINUED)

#### Maturity profiles (continued)

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity RM	Total RM
<b>1.1.2011</b>								
Financial investments:								
LAR	92,747,175	94,059,523	–	–	–	–	–	94,059,523
AFS	146,118,017	6,372,784	14,651,868	24,743,850	19,926,370	–	90,656,194	156,351,066
HFT	1,497,003	–	–	–	–	–	1,497,003	1,497,003
Reinsurance assets on claim liabilities	39,665,000	13,205,941	5,607,755	4,695,991	16,155,313	–	–	39,665,000
Insurance receivables	17,014,480	17,014,480	–	–	–	–	–	17,014,480
Other receivables								
– staff loans	2,052,045	436,499	591,293	290,992	612,717	120,544	–	2,052,045
– bond collateral deposits placements	712,696	724,848	–	–	–	–	–	724,848
Cash and bank balances	4,178,578	–	–	–	–	–	4,178,578	4,178,578
<b>Total financial assets</b>	<b>303,984,994</b>	<b>131,814,075</b>	<b>20,850,916</b>	<b>29,730,833</b>	<b>36,694,400</b>	<b>120,544</b>	<b>96,331,775</b>	<b>315,542,543</b>
Insurance contract liabilities – claim liabilities	110,358,000	47,049,195	24,312,755	15,083,615	23,912,435	–	–	110,358,000
Insurance payables	16,227,580	16,227,580	–	–	–	–	–	16,227,580
Other payables								
– cash collateral held for bond business	826,999	700,545	126,454	–	–	–	–	826,999
<b>Total financial liabilities</b>	<b>127,412,579</b>	<b>63,977,320</b>	<b>24,439,209</b>	<b>15,083,615</b>	<b>23,912,435</b>	<b>–</b>	<b>–</b>	<b>127,412,579</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Maturity profiles (continued)

	Current RM	Non- current RM	Total RM
<b>31.12.2012</b>			
Financial investments:			
LAR	96,025,424	–	96,025,424
AFS	116,836,096	67,478,644	184,314,740
HFT	8,613,462	–	8,613,462
Reinsurance assets on claim liabilities	44,197,626	44,259,374	88,457,000
Insurance receivables	30,636,897	–	30,636,897
Other receivables			
– staff loans	378,769	1,351,537	1,730,306
– bond collateral deposits placements	618,824	–	618,824
Cash and bank balances	8,453,295	–	8,453,295
<b>Total financial assets</b>	<b>305,760,393</b>	<b>113,089,555</b>	<b>418,849,948</b>
<b>31.12.2011</b>			
Financial investments:			
LAR	63,773,864	–	63,773,864
AFS	100,253,546	82,960,006	183,213,552
HFT	3,029,391	–	3,029,391
Reinsurance assets on claim liabilities	54,747,789	40,559,211	95,307,000
Insurance receivables	39,625,944	–	39,625,944
Other receivables			
– staff loans	398,569	1,335,424	1,733,993
– bond collateral deposits placements	753,717	–	753,717
Cash and bank balances	7,064,085	–	7,064,085
<b>Total financial assets</b>	<b>269,646,905</b>	<b>124,854,641</b>	<b>394,501,546</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Maturity profiles (continued)

	Current RM	Non- current RM	Total RM
<b>1.1.2011</b>			
Financial investments:			
LAR	92,747,175	–	92,747,175
AFS	96,826,435	49,291,582	146,118,017
HFT	1,497,003	–	1,497,003
Reinsurance assets on claim liabilities	13,205,941	26,459,059	39,665,000
Insurance receivables	17,014,480	–	17,014,480
Other receivables			
– staff loans	436,499	1,615,546	2,052,045
– bond collateral deposits placements	712,696	–	712,696
Cash and bank balances	4,178,578	–	4,178,578
<b>Total financial assets</b>	<b>226,618,807</b>	<b>77,366,187</b>	<b>303,984,994</b>

#### Market price risk

Market price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market prices (other than interest rates).

The Company's investments in equities and REITs are subject to fluctuation in market prices of quoted securities while investments in unit trusts are subject to fluctuation in the net asset value of the unit trust funds. The Company's investments in equities are managed by licensed asset management companies. The Company has given clear investment guidelines and performance benchmarks to the asset management companies under the fund management agreements in order to manage the market risk. The unit trusts held by the Company are invested with unit trust funds governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Company monitors the performance of the investments against the relevant performance benchmarks established by the Company.



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### Market price risk

The analysis below is performed for reasonably possible price movements in the available-for-sale and trading securities of the Company. The impact on equity represents the changes in fair value of AFS financial assets.

	31.12.2012			31.12.2011			1.1.2011		
	Changes in variables	Impact on profit before tax	Impact on equity*	Changes in variables	Impact on profit before tax	Impact on equity*	Changes in variables	Impact on profit before tax	Impact on equity*
	RM	RM	RM	RM	RM	RM	RM	RM	RM
<b>Market value</b>									
Available-for-sale securities:									
Unit trust investments	+5%	-	3,817,279	+5%	-	3,626,643	+5%	-	3,399,608
Unit trust investments	-5%	-	(3,817,279)	-5%	-	(3,626,643)	-5%	-	(3,399,608)

\* Impact on equity reflects adjustments for tax, where applicable.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 30 FINANCIAL RISKS (CONTINUED)

#### 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 rates.

The Company's primary interest rate risk relates to interest-bearing assets. The interest-bearing assets are made up primarily of fixed and call deposits with licensed financial institutions, Malaysian Government Securities, Government investment issues and bonds issued by corporations in Malaysia. Floating rate/yield instruments expose the Company to cash flow interest/profit risk, whereas fixed rate/yield instruments expose the Company to fair value interest/profit risk.

The Company manages the interest rate risk of its deposits with licensed financial institutions by maintaining a prudent mix of short and longer term deposits and actively reviewing its portfolio of deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the deposits and fixed income securities of the Company:

	Impact on profit before tax RM	Impact on equity* RM
<b>31.12.2012</b>		
Change in interest rates		
+50 basis points	407,051	(1,044,948)
– 50 basis points	(407,051)	1,088,399
<b>31.12.2011</b>		
Change in interest rates		
+50 basis points	421,477	(777,588)
– 50 basis points	(421,477)	813,004
<b>1.1.2011</b>		
Change in interest rates		
+50 basis points	404,304	(393,073)
– 50 basis points	(404,304)	411,638

\* Impact on equity reflects adjustments for tax, where applicable.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)

### 31 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2012, as prescribed under the Risk-Based Capital Framework is provided below:

	<b>31.12.2012 RM</b>	<b>31.12.2011 RM</b>	<b>1.1.2011 RM</b>
<b>Eligible Tier 1 Capital</b>			
Share capital (paid-up)	<b>100,000,000</b>	100,000,000	100,000,000
Reserves, including retained earnings	<b>47,893,964</b>	29,402,141	33,901,373
	<b>147,893,964</b>	129,402,141	133,901,373
<b>Tier 2 Capital</b>			
Available-for-sale-reserves	<b>1,938,187</b>	3,204,252	1,494,611
Amount deducted from capital	<b>(217,278)</b>	(25,571)	(29,851)
Total Capital Available	<b>149,614,873</b>	132,580,822	135,366,133

## **STATEMENT BY DIRECTORS PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965**

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We, Dato' Huang Sin Cheng and Datuk Abu Hassan bin Kendut, being two of the Directors of The Pacific Insurance Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 37 to 127 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2012 and of the results and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 11 March 2013.



DATO' HUANG SIN CHENG  
DIRECTOR



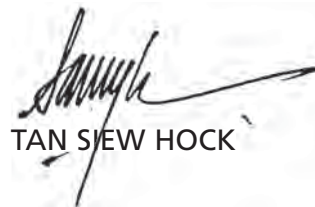
DATUK ABU HASSAN BIN KENDUT  
DIRECTOR

## **STATUTORY DECLARATION PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965**

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I, Tan Siew Hock, being the Officer primarily responsible for the financial management of The Pacific Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 37 to 127 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared  
by the abovenamed Tan Siew  
Hock at Kuala Lumpur in Wilayah  
Persekutuan on 11 March 2013,



TAN SIEW HOCK

Before me



No. 1, Tingkat 2,  
Jalan Ampang,  
50450 Kuala Lumpur.

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD**

(Company No. 91603 K)  
(Incorporated in Malaysia)

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## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of The Pacific Insurance Berhad, which comprise the statement of financial position as at 31 December 2012, and the statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 37 to 127.

### **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 the Malaysian Financial Reporting Standards, International Financial Reporting Standards, and comply with the provision of Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the 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.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD**

(Company No. 91603 K)  
(Incorporated in Malaysia)

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### **REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)**

#### **Opinion**

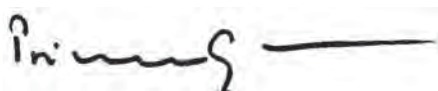
In our opinion, the financial statements have been properly drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, and comply with the provision of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2012 and of its financial performance and cash flows for the financial year then ended.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

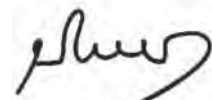
In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **OTHER MATTERS**

1. As stated in Note 2 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.
2. This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants



SRIDHARAN NAIR  
(No: 2656/05/14 (J))  
Chartered Accountant

Kuala Lumpur  
11 March 2013

# BRANCH NETWORK

## HEAD OFFICE

### Kuala Lumpur

Level 6, Menara Prudential  
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## SENIOR MANAGEMENT

### Chief Executive Officer

Sonny Tan Siew Hock  
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### Senior General Manager

Ong Boon Hock  
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## HEAD OFFICE PRODUCTION UNITS

### Broking

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**Visit our Website at:**

[www.pacificinsurance.com.my](http://www.pacificinsurance.com.my)

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