PACIFIC
INSURANCE
A member of the Fairfax Group

Annual Report 2013


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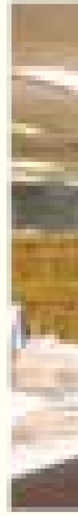
INSURANCE
A member of the Fairfax Group

Annual Report **2013**

We Are All One.

Our People Make Things Happen.



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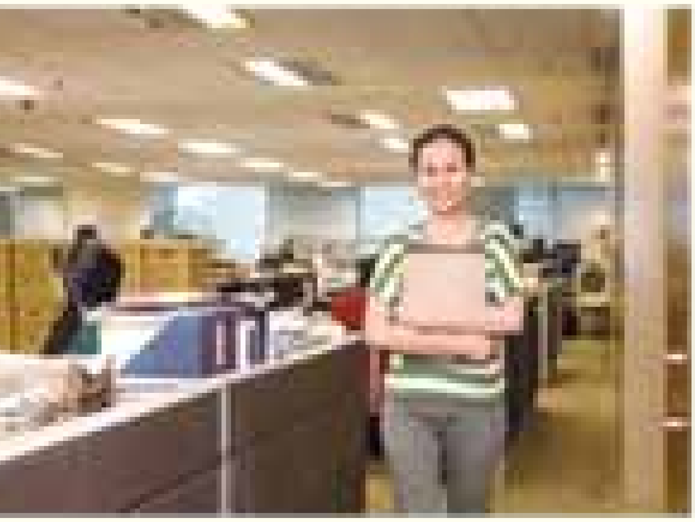


About Pacific Insurance

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 USD7.2 billion and total assets of USD36.0 billion as at the end of 2013. 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 USD5.9 billion.

Key Achievements In 2013

- Gross premiums rose by 9.1% to RM228.5 million (2012: RM209.5 million).
- Total assets rose to RM519.6 million (2012: RM492.8 million).
- Ranked as the largest individual Medical Insurer in the Malaysian general insurance industry.
- Ranked as second largest Marine Hull Insurer with a market share of 11.4%.

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CORPORATE INFORMATION
Board Of Directors

Dato' Huang Sin Cheng
Chairman

Ramaswamy Athappan
Director

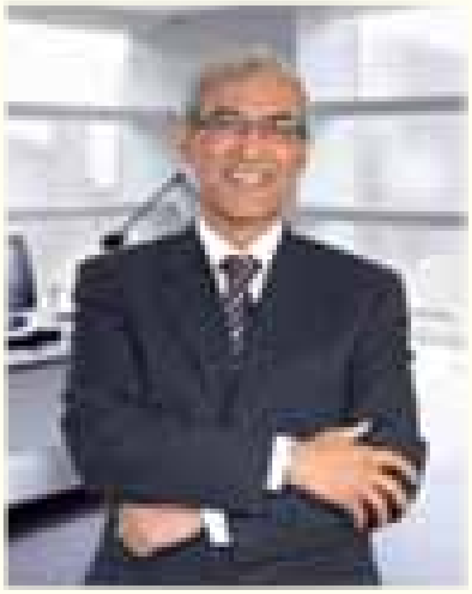
Sammy Chan Sum Yu
Director

Registered Office
Level 22, Quill 7, No. 9, Jalan Stesen Sentral 5, Kuala Lumpur Sentral,
50470 Kuala Lumpur.
Tel: 03-2273 1919 Fax: 03-2273 8310

Abdullah Bin Tarmugi
Director

Together
We Will
Always
Succeed.

Datuk Abu Hassan Bin Kendut
Director



Zainul Abidin Bin Mohamed Rasheed
Director

Company Secretaries
John Mathew a/l Mathai
Kwan Wai Kein

Auditors
PricewaterhouseCoopers
Chartered Accountants

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CHAIRMAN'S STATEMENT

" Our Company recorded a growth in gross written premium of 9.1% to RM 228.5 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 2013.

OVERVIEW

Amid a challenging global economic and financial environment, the Malaysian economy expanded by 4.7% in 2013 (2012: 5.6%), driven by the continued strong domestic demand that remained resilient throughout the year. According to the 2013 Bank Negara Malaysia Annual Report, the Malaysian economy is expected to remain on a steady growth path in 2014, expanding by about 4.5% to 5.5%, with domestic demand remaining as the key driver of growth.

In 2013, the General Insurance industry ("industry") registered a growth of 6.4% (2012: 8.3%) in gross written premium to reach RM16.2 billion (2012: RM15.2 billion). The overall Net Claims Incurred ("NCI") ratio declined to 56.7% in 2013 (2012: 56.8%). Consequently, the combined ratio also improved to 87.1% in 2013 (2012: 87.2%).

COMPANY'S PERFORMANCE

Financial Performance at a glance

	2013 RM 'million	2012 RM 'million	% increase
Gross Written Premium	228.5	209.5	9.1%
Underwriting Profit	8.3	9.5	-12.6%
Profit Before Tax	22.6	23.3	-3.0%
Net Profit for the Year	21.4	18.5	15.7%
Basic Earnings Per Share (sen)	21.4	18.5	15.7%
Total Assets	519.6	492.8	5.4%
Total Equity	169.9	149.8	13.4%

Financial Review

Our Company recorded a growth in gross written premium of 9.1% to RM228.5 million (2012: RM209.5 million). This growth rate is above the industry growth rate of 6.4%. Medical and Motor class remained as the main premium generator with both classes together accounting for 53.6% of the total gross written premium.

In 2013, our Company's overall market ranking was 19th out of a total of 25 insurers in Malaysia (2012: 20th out of 26 insurers). However, on the ranking of Individual Health Insurance, our Company continues to maintain its number 1 spot in the industry with a market share of 37.1% as at the end of 2013 (2012: 32.5%).

In 2013, our Marine Hull portfolio was placed second, with a market share of 11.4%, among the total of 25 insurers (2012: ranked third, with a market share of 11.7%, out of 26 insurers).

Our Motor portfolio grew by 34.4% to RM66 million in 2013 compared to RM49.1 million in 2012. An overall underwriting loss of RM5 million was recorded in the Motor portfolio in 2013. However, with the exclusion of the Malaysia Motor Insurance Pool ("MMIP") loss, our Company's own Motor portfolio recorded an underwriting profit of RM3.7 million (2012: RM5.6 million).

The new Motor Cover Framework implemented in January 2012 had allowed a gradual increase in motor tariff premium. The latest adjustment to motor insurance tariff rate was effected on 15 February 2014 and represented the third round of adjustment under the Framework. This gradual increase in premium rate will continue until 2016. As the premium rate increase has been marginal, its impact on the Motor class is not expected to be significant.

Net Claims Incurred ("NCI") in our Motor portfolio rose by 16% to RM92.5 million in 2013 (2012: RM79.7 million).

Accordingly, the NCI ratio increased to 63% in 2013 compared with 59.1% in 2012, largely due to the impairment in the MMIP portfolio. Excluding the loss contribution from the MMIP business, our Company's NCI ratio would have been 52.4% (2012: 51.7%).

Management expense rose marginally to RM30.1 million in 2013 (2012: RM29.9 million), due to the normal increase in operational costs.

Our Company's underwriting profit recorded a slight reduction to RM8.3 million in 2013 (2012: RM9.5 million), after taking into account the Company's share, amounting to RM8.7 million, of the loss incurred by the MMIP. Accordingly, the Company recorded a Combined Ratio of 94.3% in 2013 (2012: 93%).

Our Company's total assets rose to RM519.6 million as at end of 2013, from RM492.8 million as at end of the previous year. On investment income, our Company registered a lower level of RM13.3 million in 2013 (2012: RM14.1 million), due to the lower gain from disposal of investments.

In line with the lower underwriting surplus and investment income, our profit before tax also recorded a lower amount of RM22.6 million in 2013, compared to RM23.3 million in 2012.

For the financial year ended 31 December 2013, the Board of Directors did not recommend any payment of dividend.

BUSINESS OPERATIONS REVIEW

In 2013, the Company focused on improving its underwriting position by developing profitable segments of business. In this regard, Management enhanced its effort to refine the Company's business portfolio by focusing on the FMMMM strategy to develop the Fire, Medical, Marine, Manpower (Foreign Workers) and Motorcycle Third Party businesses.

Changes in Regulatory Environment

The Financial Services Act 2013 ("FSA") came into force effective 30 June 2013 and it governs the conduct and supervision of the financial institutions in Malaysia. The FSA is aimed at promoting financial stability, strengthening the regulation of financial institutions and implementing recommendations under the Financial Sector Assessment Program ("FSAP"). The FSA amalgamated several separate laws under a single legislative framework, namely, the Banking and Financial Institutions Act 1989 (BAFIA), Islamic Banking Act 1983, Insurance Act 1996, Takaful Act 1984, Payment Systems Act 2003 and Exchange Control Act 1953, which were repealed simultaneously on the date the FSA came into effect.

"....on the ranking of individual Health Insurance, our Company continues to maintain its Number 1 spot in the industry...."

During the year under review, Bank Negara Malaysia issued and updated various guidelines and circulars for insurance companies including the guidelines on External Auditors,Fit and Proper Criteria, Information Requirement under Section 279(1) of the Financial Services Act 2013, Related Party Transactions, Management of Insurance Funds, Granting of Credit Facilities and Risk Governance. These guidelines and circulars were issued and updated to facilitate the operations of the insurance companies.

The Government also announced in the 2014 Malaysia Budget that the Goods and Services Tax (GST) will be implemented on 1 April 2015 to replace the existing Government Sales and Service Tax. Our Company has started on a project together with a consultancy firm to effect a smooth and successful transition to the GST.

The Personal Data Protection Act 2010 ("PDPA") came into effect on 15 November 2013. The Act regulates the processing of personal data in regard to commercial transactions and applies to customers', employees' and third party services providers' personal data. It affects the personal data life cycle management process from the point personal data are collected, used, stored and destroyed. Our Company has complied with the requirements of the Act and internal guidelines have been established to ensure the data submitted to us remain private and secure and is are used only for the purposes intended.

New Initiatives

During the year under review, the following fresh business initiatives were taken:

i) PHM VIP Medical "Top-Up" Extension – This product is an optional "Top-Up" cover on the existing insured coverage of the two popular products under PVM1a Plan and PVM2a Plan which were exclusively designed for one of our business partners.

ii) PHM Medical Plan and EVO Healthcare Insurance – The Company reviewed and re-priced these products during the year, following the increase in medical costs. We are targeting at further expanding our market share in Individual medical insurance and promoting our repack aged medical products.

iii) Intensified effort to grow Motorcycle Third Party insurance.

iv) Intensified effort to promote medical products particularly Medi Major.

In 2014, we embarked on new initiatives by introducing the following new products to the market:

i) Secure Credit Insurance – Our Company is working closely with one of the leading insurance and reinsurance brokers in the region to offer this product to the local market to provide cover against any default in repayment of personal loans by borrowers, in the event of accidental death, accidental permanent total disability, any disability due to critical illness and involuntary unemployment due to retrenchment or layoffs.

ii) Energy Surplus Treaty – This treaty agreement will allow our Company to gain wider access in the Oil and Gas sector of the business. It includes participation on all Marine Cargo, Marine Hull, Marine Liability (excluding Port Liability) and Energy risk business (specifically to cater for Oil & Gas support services).

Agency Force

Our agency force continues to remain as the core distribution channel of the Company. During the year under review, Management pursued in its effort to grow the number of quality and profitable agents. Many training programs were also provided to the agents to equip them with the necessary technical knowledge and skill needed. In 2013, the Company expended RM0.4 million on training and development of the agency force.

In appreciation of the agents' achievements and contributions, the 2013 Agency Convention was held at a resort in Penang in July 2013 during which, top and profitable agents were given recognition. In assisting our agents to do more on-line business and to reach out to more customers, the Company continues to provide computers, on a loan basis, to qualified agents to facilitate the issuing of e-Cover Note and issuance of Policy at the point-of-sale to the policyholders. On top of this, the agents are entitled to receive RM5 per policy issued by them as permitted by Bank Negara Malaysia.

Broking

Our Broking Department recorded gross written premium of RM43.7 million, representing 19.1% of the Company's total gross income for 2013 (2012: RM49.6 million). Despite the lower gross written premium, the Broking Department achieved an underwriting profit of RM0.7 million (2012: underwriting deficit of RM1.6 million). The Company will continue to tap-on profitable business and maintain a strong relationship with our business partners in the broking fraternity.

Relationship with Business Partners

During the year 2013, the Company continued its initiative to nurture strategic alliances and business relationships with its major business partners. Our prompt and efficient service, strong balance sheet and higher capacity continued to be driving points to grow our market share of premium income. As a member of the Fairfax Group, the Company has been able to intensify its continuing effort in establishing stronger relationships with brokers and large corporate clients.

Information Technology

The IT infrastructure is continually being enhanced, requiring fast and reliable IT information to support the fast growing number of users and business operations and to provide prompt services to our customers.

Good progress was made at our Company's IT front as the upgrade of the hardware and operating systems of the core applications was completed in September 2013.

Following the successful implementation of e-Motor and e-Policy for FWCS and FWHS, the Company is now focusing on the implementation of policy issuance at the point-of-sale for Foreign Workers Insurance Guarantee ("FWIG") and Drivers and Passenger Personal Accident Insurance. Work also centered on COGNOS for agent performance report and management financial reporting, which are targeted to be available online for agents in July 2014.

The enhancement of our core application systems and hardware has generated more sales and improved the efficiency of the day-to-day operations as well as the productivity of the staff, with 1,088 policies processed per staff in 2013, compared to 853 policies in 2012.

CAPITAL MANAGEMENT PLAN

The Capital Management Plan ("CMP") of the Company is in line with the Guideline on the Internal Capital Adequacy Assessment Process for Insurers issued by Bank Negara Malaysia ("BNM").

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 2013, the Company's CAR of 292% was much higher than the supervisory CAR of 130% set by the BNM and also exceeded our own Individual Target Capital Level.

GIVING BACK TO THE COMMUNITY

The Company's involvement in the community took many forms including special community events, contribution of funds to community organizations as well as environment preservation initiatives. Staff, agents, business partners and customers across the country volunteered their time to support events that enhance the health and well-being of people from all walks of life.

During 2013, the Company continued its practice of organising Jungle Walks at various sites in the Klang Valley and these events were always well attended by the staff, intermediaries, business partners and their families. During the year, our Company also continued its recycling efforts in the office and played our part in CSR and donated to various charity organizations.

OUTLOOK AND PROSPECTS

The Malaysian economy is expected to remain on a steady growth path with GDP growth of 4.5% to 5.5% forecasted for 2014. While the economy continues to benefit from the gradual global recovery, the private sector is expected to continue to lead the domestic demand and remains as the key driver of growth.

Growth in the construction and services sectors is expected to continue to lead the economic drive, supported by the implementation of the Economic Transformation Program ("ETP") projects. Given the continued growth of our economy, the Malaysian insurance industry is likely to remain resilient but increasingly competitive. Going forward, the Company will implement initiatives to enhance its resilience to business and competitive threats. We believe that the marketing and strategic initiatives and synergetic value created by the Company as a member of the Fairfax Group of Companies, will continue to be relevant and effective to sustain our growth and to better prepare for market liberalization in 2016.

With regard to the outlook for medical insurance, the amendment to the 13th Schedule of the Private Healthcare Facilities and Services Act 1988 (Private Hospitals and Other Private Healthcare Facilities Regulation 2006) was published in the Federal Gazette on 16 December 2013. It stipulates the maximum chargeable fees for registered medical and dental practitioners practicing in private hospitals, in particular, professional fees such as for consultation and performance of procedures. The amendment of the 13th Schedule fee structure has resulted in a 14.4% increase in medical fees. With the hike in the medical cost, we expect more individuals to turn to the insurance industry for financial protection of their healthcare requirements.

On the Motor business, MMIP losses will continue to affect the Company negatively, but the Company expects to reduce this negative impact by generating more profits from its own portfolio of Motor business.

We are confident that our Company's prospects in 2014 will be favorable, though challenging. With our sound strategies and financial strength, prudential approach coupled with an uncompromising commitment to ethics and integrity, and the strong commitment shown by Management as well as the synergy with the Fairfax Group of Companies, we are confident of both sustainable revenue and profit growth in 2014 and beyond.

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 dedication and hard work during the year. The commendable results achieved in 2013 are a testament to their commitment and professionalism.

I would 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.

The Board would like to thank Bank Negara Malaysia and the relevant Regulatory Authorities for their continued guidance and advice during the course of the year.

My heartfelt appreciation also goes out to all our customers, business partners and agents for their continued support to the Company.

Last but not least, I wish to take this opportunity to extent my appreciation to my fellow Directors for their wise counsel, unwavering support 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

• Honesty & Integrity • Professionalism • Teamwork

SEATED LEFT TO RIGHT

- **CHIN KIM YEN**
  Manager, Internal Audit
- **SONNY TAN SIEW HOCK**
  Chief Executive Officer
- **GRACE CHEONG MEE TIEN**
  Manager, Human Resource
- **ROHANA ISMAIL**
  Senior Manager,
  Information and communicaiton,
  Technology & Research

STANDING LEFT TO RIGHT

- **RICHARD LIANG LIP KIN**
  Senior Manager, Medical Insurance
- **FRANCIS CHAM HOCK SENG**
  Senior Manager, Non-Medical Claims
- **AHMAD AZHARI AWANG**
  Senior Manager, Underwriting
  & Reinsurance
- **MAZLAN MOHD TAHIR**
  Manager, Head Office Agency
- **ZAINAL ABIDIN MUHAMMAD**
  Senior Manager, Risk Management
  and Compliance

Driven By Passion.

• Customer Service Excellence • Corporate Governance

SEATED LEFT TO RIGHT

- **ONG BOON HOCK**
  Senior General Manager
- **TAY YEW LEAN**
  Senior Manager, Direct Business & Customer Care

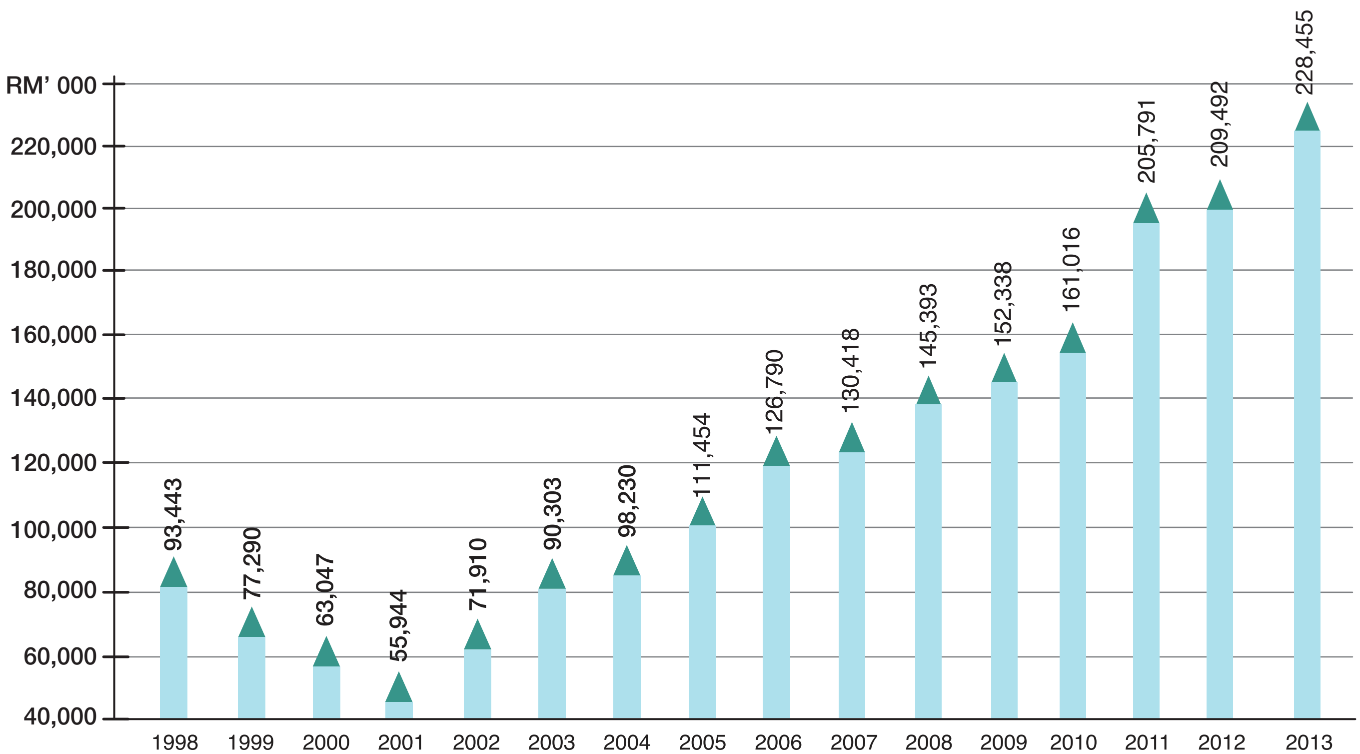
STANDING LEFT TO RIGHT

- **FREDDY WEE CHEE SUNG**
  Manager, Policy Processing
- **CHEONG YEW WING**
  Senior Manager, KL Agency
- **MICHAEL CHOO HENG SAI**
  Senior Manager, Broking
- **NORHAFIZAH AHMAD**
  Senior Manager, Financial Services
- **TEY CHIN LEA**
  Manager, Credit Control, Complaints Management and Special Project
- **VIJAYAKUMAR S MARIMUTHU**
  Assitant Manager, Centralised Filing Unit & Administration

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
Profit Before Tax	16,540	18,454	13,394	14,288
Total Equity	128,267	133,284	133,917	134,161
Total Assets	245,510	271,496	260,538	264,829
UW Surplus / (Deficit)	1,977	6,412	7,786	2,028

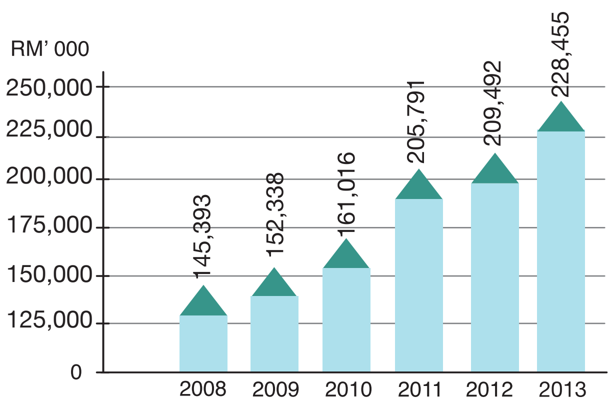
GROSSS PREMIUM FOR THE FINANCIAL YEAR ENDED 31 DECEMBER				
RM'000	**2003**	**2004**	**2005**	**2006**
Medical	27,312	33,892	32,423	39,416
Motor	22,463	23,038	31,143	34,770
Fire	17,505	17,835	19,532	21,215
Others	23,023	23,465	28,356	31,389
Total	90,303	98,230	111,454	126,790



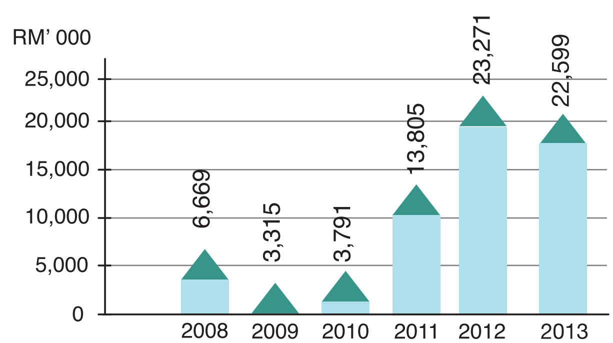
GROSS PREMIUMS
16 YEARS TRACK RECORD

	2007	2008	2009	2010	2011	2012	2013
	130,418	145,393	152,338	161,016	205,791	209,492	228,455
	14,463	6,669	3,315	3,791	13,805	23,271	22,599
	114,995	119,933	126,445	135,396	132,606	149,832	169,913
	241,585	247,991	309,743	350,436	456,279	492,811	519,533
	1,047	151	(8,606)	(7,442)	1,825	9,462	8,303

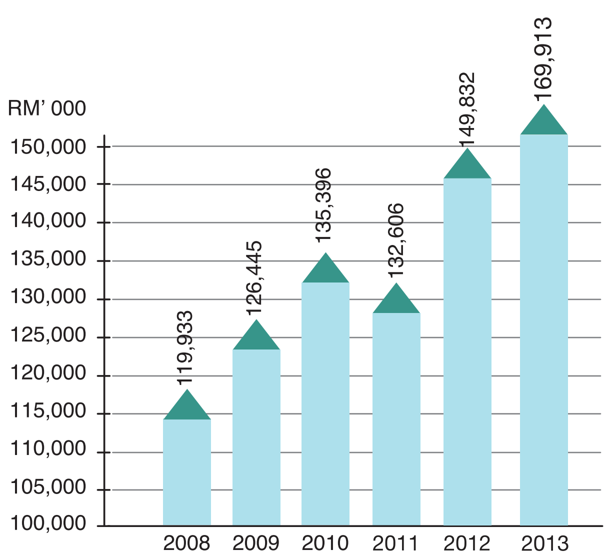
	2007	2008	2009	2010	2011	2012	2013
	41,744	49,975	48,688	50,767	68,167	58,604	56,372
	33,784	31,996	30,627	32,751	42,955	49,112	66,024
	22,009	20,594	23,054	26,320	31,527	35,934	36,710
	32,881	42,828	49,969	51,178	63,142	65,842	69,349
	130,418	145,393	152,338	161,016	205,791	209,492	228,455



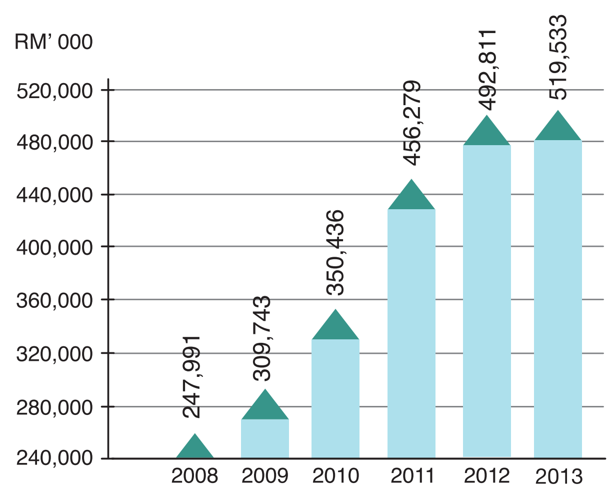
GROSS PREMIUMS



PROFIT BEFORE TAX
6 YEARS TRACK RECORD



TOTAL EQUITY



TOTAL ASSETS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Alone We Can
Do So Little.
Together
We Can Do
So Much.

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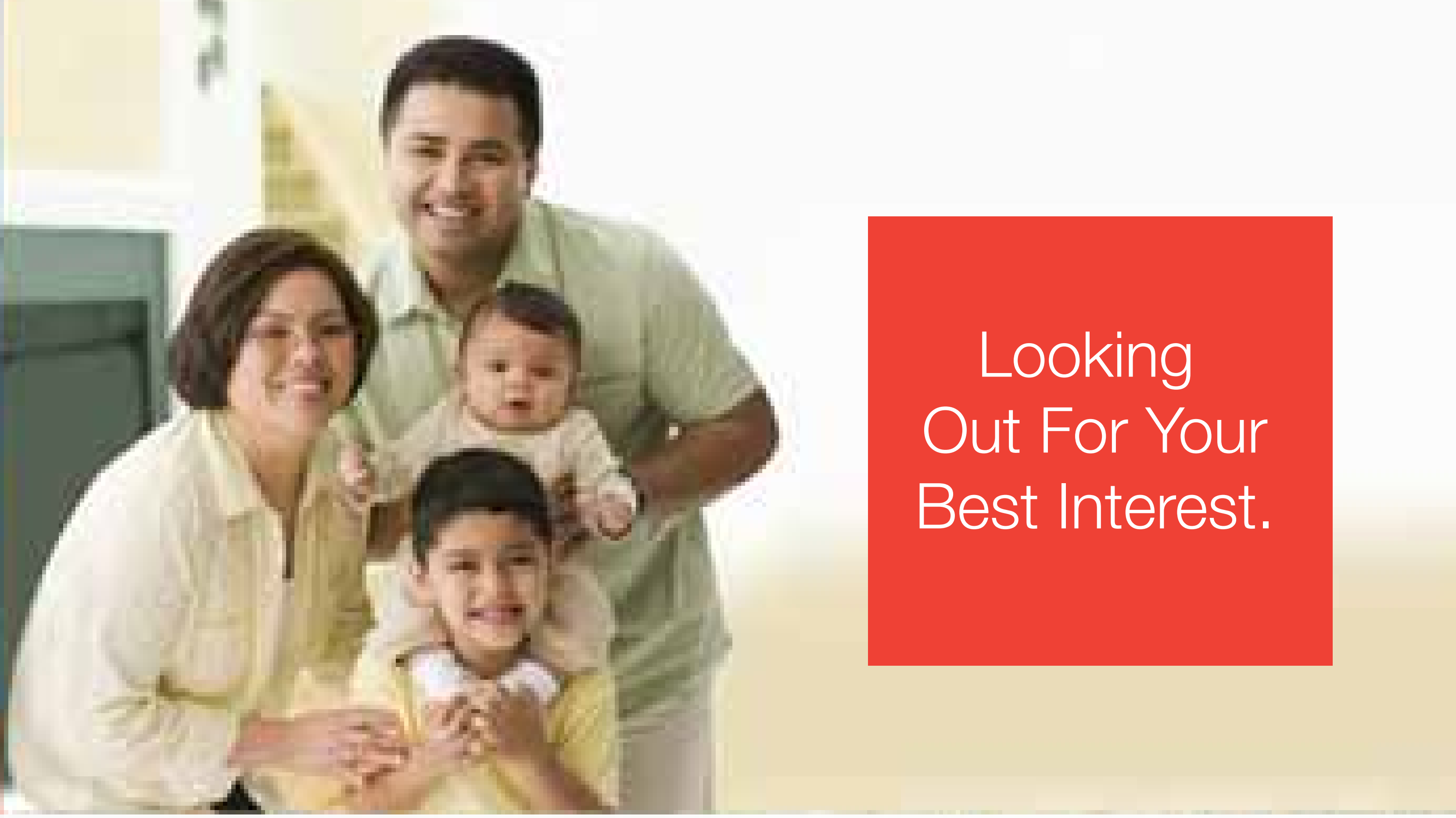
OUR RANGE OF PRODUCTS



Looking Out For Your Best Interest.

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 2013, 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-Major Plus 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

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
• PACIFIC Secure Credit Insurance

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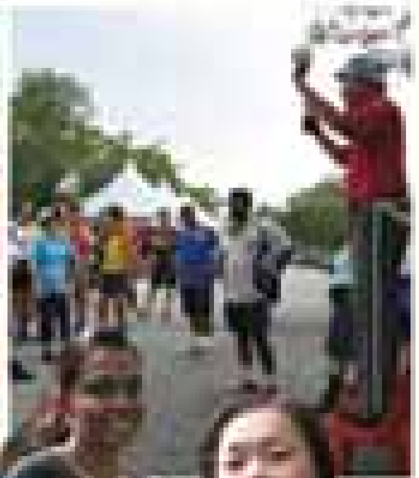
Agency Convention 2013 at Shangri-La Rasa Sayang Resort & Spa Penang 5 – 7 July 2013.


THE PACIFIC INSURANCE BERHAD

Chinese New Year Dinner at Concorde Hotel on 10 February 2014.

Jungle Walk Activities in Kuala Lumpur & Penang.

YES.
We Can.



FINANCIAL STATEMENTS

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the Group and 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

	Group RM	Company RM
Net profit for the financial year	21,430,224	21,421,456

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 Group and Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2013.

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

DIRECTORS (CONTINUED)

In accordance with Article 65 of the Company's Articles of Association, Ramaswamy Athappan and Dato' Huang Sin Cheng 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.

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.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Responsibility (continued)

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

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 and Section 60 of the Financial Services Act, 2013 which came into effect on 30 June 2013 on the fulfilment of the minimum criteria of a "fit and proper person". In accordance with Section 54 of the Financial Services Act, 2013, 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.

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 2013 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

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

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	6/6	100
Abdullah bin Tarmugi	6/6	100
Zainul Abidin bin Mohamed Rasheed	6/6	100

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

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees, namely Audit Committee and Risk Management Committee which operate within clearly defined terms of reference. The committees report to the Board on matters discussed at their meetings and make recommendations on items that require the Board's approval. On 29 April 2013, the Board approved the formation of the Board Committees where prior to the setting up of the Board Committees, the roles and responsibilities of the Board Committees have been assumed by the Board.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

(i) Audit Committee

The Audit Committee ("AC") comprises three members who are independent non-executive directors. The composition of the committee is as follows:

Members	Status of Directorship
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director, Chairman
Abdullah bin Tarmugi	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director

Following the formation of the AC on 29 April 2013, the AC met three (3) times during the financial year and the attendance of the members was as follows:

Name	Number of Meetings Attended	Percentage (%)
Datuk Abu Hassan bin Kendut	3/3	100
Abdullah bin Tarmugi	3/3	100
Zainul Abidin bin Mohamed Rasheed	3/3	100

The AC's terms of reference are in compliance with BNM/RH/GL/003-22 Guidelines for Audit Committees and Internal Audit Department (Part A). The Audit Committee ("AC") 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 AC 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 AC 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 AC also evaluated the effectiveness, independence and objectivity of the external auditors before recommending to the shareholders on their appointment or reappointment.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

(ii) Risk Management Committee

The Risk Management Committee ("RMC") supports the Board in the overall risk management oversight of the Company and comprises three members who are independent non-executive directors and two members who are non-independent non-executive directors. The composition of the committee is as follows:

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

The RMC met three (3) times during the financial year and the attendance of the members was as follows:

Name	Number of Meetings Attended	Percentage (%)
Zainul Abidin bin Mohamed Rasheed	3/3	100
Dato' Huang Sin Cheng	3/3	100
Ramaswamy Athappan	3/3	100
Sammy Chan Sum Yu	2/3	67
Abdullah bin Tarmugi	3/3	100

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

(ii) Risk Management Committee (continued)

BNM's Guidelines BNM/RH/GL 003-01 on Minimum Standards for Prudential Management of Insurers (Consolidated) requires the RMC 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 2013, the RMC reviewed periodic management reports on risk exposure, risk portfolio and management strategies, mitigation plans and control measures 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 RMC 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.

Nomination and Remuneration Committees

The terms of reference of both Nomination Committee ("NC") and Remuneration Committee ("RC") are in compliance with the guidelines on the functions and responsibilities of the committees for insurers issued under BNM's Guidelines BNM/RH/GL 003-01 on Minimum Standards for Prudential Management of Insurers (Consolidated).

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(i) Nomination Committee

The NC comprises three members who are independent non-executive directors and two members who are non-independent non-executive directors. The composition of the committee is as follows:

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

The NC met once (1) time during the financial year and the attendance of the members was as follows:

Name	Number of Meetings	
	Attended	Percentage (%)
Zainul Abidin bin Mohamed Rasheed	1/1	100
Dato' Huang Sin Cheng	1/1	100
Ramaswamy Athappan	1/1	100
Sammy Chan Sum Yu	1/1	100
Abdullah bin Tarmugi	1/1	100

The NC is entrusted with the responsibility to consider and evaluate the appointment of new directors and directors to sit on Board Committees of the Company and to recommend candidates to the Board for appointment and reappointment or re-election. The committee is also responsible to recommend to the Board the appointment of the chief executive officer and key senior officers of the Company.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(i) Nomination Committee

With regards to retiring directors, the NC reviewed the suitability and competencies and contributions of directors for re-election and reappointment before recommending them to the Board for approval and subsequently to the shareholders for approval at the Annual General Meeting.

The NC also annually reviews the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. It also assesses on an annual basis, the effectiveness of the Board as a whole and the Board Committees and the contributions of each individual director. In addition, the NC deliberated on Board succession plans as and when appropriate.

(ii) Remuneration Committee

The RC comprises two members who are independent non-executive directors and two members who are non-independent non-executive directors. The composition of the committee is as follows:

Members	Status of Directorship
Abdullah bin Tarmugi	Independent Non-Executive Director, Chairman
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Ramaswamy Athappan	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director

The RC met once (1) time during the financial year and the attendance of the members was as follows:

Name	Number of Meetings	
	Attended	Percentage (%)
Abdullah bin Tarmugi	1/1	100
Datuk Abu Hassan bin Kendut	1/1	100
Ramaswamy Athappan	1/1	100
Sammy Chan Sum Yu	1/1	100

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(ii) Remuneration Committee (continued)

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 RC 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, in accordance to the provisions of the Financial Services Act, 2013.

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 58 of the Financial Services Act, 2013.

(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 RMC and the Board.

CORPORATE GOVERNANCE (CONTINUED)

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

A formal risk management framework has been maintained in the Company by the Risk Management Unit ("RMU") which was headed by the Risk Management cum Compliance Officer who assumes the role and responsibilities as the Risk Management Officer ("RMO"). The RMU reports directly and independently to the RMC of the Company.

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 RMC and 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.

(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.

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)

During the financial year, with the approval of BNM, the Company had engaged the services of Crowe Horwath Governance Sdn. Bhd., 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.

(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)

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. On 17 December 2013 the Company engaged the services of a consultant, Pricewaterhouse Coopers Taxation Services Sdn Bhd to embark 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. Based on the projected timeline as provided by the consultant, the Company should be GST ready in time for the implementation of the GST regime by the Government effective 1 April 2015.

(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 designated a Compliance Department 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 Department 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 reports directly to the AC.

CORPORATE GOVERNANCE (CONTINUED)

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

The functions and responsibilities of the AC 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 AC and thereafter updated as and when necessary with the prior approval of the AC.

The internal audit reports were tabled at the AC'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 AC 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. professionalism, integrity, excellent customer service, teamwork and governance.

(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.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

(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.

(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.

CORPORATE GOVERNANCE (CONTINUED)

(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 2012-2020, 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.

(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 in Malaysia, the Insurance Regulations, 1996 and subsequently the Financial Services Act, 2013 which repealed the Insurance Act 1996 with effect from 30 June 2013 and relevant regulatory requirements.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that financial 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			
	1.1.2013	**Acquired**	**Exercised**	**31.12.2013**
Ultimate Holding Company – Fairfax Financial Holdings Limited ("FFHL")				
(Common or Subordinate voting shares of no par value each)				
Ramaswamy Athappan	5,781	–	–	5,781
Sammy Chan Sum Yu	24,820	113	–	24,933

	Holdings registered in name of nominee*			
	1.1.2013	**Acquired**	**Exercised**	**31.12.2013**
Fellow Subsidiary – First Capital Insurance Limited ("FCIL")				
(Ordinary shares of SGD1 each)				
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 Group and 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 Group and Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and 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 Group and Company misleading or inappropriate.

(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 Group and 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 Group and 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 Group and Company which has arisen since the end of the financial year.

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

(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 Group and 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 Group and 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 Group and Company.

(g) Before the financial statements of the Group and 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 ("RBC") Framework for Insurers issued by BNM.

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 13 March 2014.

DATO' HUANG SIN CHENG
DIRECTOR

DATUK ABU HASSAN BIN KENDUT
DIRECTOR

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	Group 31.12.2013 RM	Company 31.12.2013 RM	Group 31.12.2012 RM	Company 31.12.2012 RM	Group 1.1.2012 RM	Company 1.1.2012 RM
ASSETS							
Property and equipment	3	**1,165,519**	**1,165,519**	1,035,852	1,035,852	1,276,674	1,276,674
Investment properties	4	**88,667**	**88,667**	92,167	92,167	321,042	321,042
Intangible assets	5	**202,243**	**202,243**	24,013	24,013	25,571	25,571
Investments	6						
Available-for-sale financial assets		**177,515,532**	**184,154,235**	177,233,258	184,314,740	183,213,552	183,213,552
Held-for-trading financial assets		**18,413,447**	**18,413,447**	8,613,462	8,613,462	3,029,391	3,029,391
Loans and receivables		**111,816,966**	**107,378,325**	102,129,938	96,025,424	63,773,864	63,773,864
Asset held for sale	4	**–**	**–**	218,534	218,534	–	–
Reinsurance assets	8	**112,923,000**	**112,923,000**	137,064,000	137,064,000	134,333,000	134,333,000
Insurance and other receivables	9	**83,694,271**	**81,572,910**	54,297,676	53,365,024	56,672,732	56,672,732
Loans	10	**1,602,745**	**1,602,745**	1,730,306	1,730,306	1,733,993	1,733,993
Deferred tax asset	14	**–**	**–**	193,265	193,265	–	–
Tax recoverable		**5,513,505**	**5,513,505**	1,680,864	1,680,864	4,834,623	4,834,623
Cash and bank balances		**6,915,600**	**6,518,174**	8,787,486	8,453,295	7,064,085	7,064,085
TOTAL ASSETS		**519,851,495**	**519,532,770**	493,100,821	492,810,946	456,278,527	456,278,527

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

	Note	Group 31.12.2013 RM	Company 31.12.2013 RM	Group 31.12.2012 RM	Company 31.12.2012 RM	Group 1.1.2012 RM	Company 1.1.2012 RM
EQUITY AND LIABILITIES							
Equity attributable to owners of the Company							
Share capital	11	**100,000,000**	**100,000,000**	100,000,000	100,000,000	100,000,000	100,000,000
Available-for-sale reserves		**597,228**	**597,228**	1,938,187	1,938,187	3,204,252	3,204,252
Retained earnings		**69,315,420**	**69,315,420**	47,893,964	47,893,964	29,402,141	29,402,141
		169,912,648	**169,912,648**	149,832,151	149,832,151	132,606,393	132,606,393
Non-controlling interest		**261,623**	**–**	195,826	–	–	–
Total equity		**170,174,271**	**169,912,648**	150,027,977	149,832,151	132,606,393	132,606,393
Insurance contract liabilities	13	**308,358,000**	**308,358,000**	303,366,000	303,366,000	286,378,000	286,378,000
Deferred tax liabilities	14	**231,126**	**231,126**	–	–	807,509	807,509
Insurance and other payables	15	**41,088,098**	**41,030,996**	39,706,844	39,612,795	36,486,625	36,486,625
Total liabilities		**349,677,224**	**349,620,122**	343,072,844	342,978,795	323,672,134	323,672,134
TOTAL EQUITY AND LIABILITIES		**519,851,495**	**519,532,770**	493,100,821	492,810,946	456,278,527	456,278,527

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Group	Share capital RM	Available for-sale reserves RM	Retained earnings RM	Total equity attributable to owners of the Company RM	Non-controlling interest RM	Total equity RM
At 1 January 2012	100,000,000	3,204,252	29,402,141	132,606,393	–	132,606,393
Acquisition by non-controlling interest	–	–	–	–	190,429	190,429
Total comprehensive income for the financial year	–	(1,266,065)	18,491,823	17,225,758	5,397	17,231,155
At 31 December 2012	100,000,000	1,938,187	47,893,964	149,832,151	195,826	150,027,977
At 1 January 2013	**100,000,000**	**1,938,187**	**47,893,964**	**149,832,151**	**195,826**	**150,027,977**
Total comprehensive income for the financial year	**–**	**(1,340,959)**	**21,421,456**	**20,080,497**	**65,797**	**20,146,294**
At 31 December 2013	**100,000,000**	**597,228**	**69,315,420**	**169,912,648**	**261,623**	**170,174,271**

PACIFIC INSURANCE
A member of the Fairfax Group

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Company	Share capital RM	Non-distributable Available-for-sale reserves RM	Distributable Retained earnings RM	Total RM
At 1 January 2012	100,000,000	3,204,252	29,402,141	132,606,393
Total comprehensive income for the financial year	–	(1,266,065)	18,491,823	17,225,758
At 31 December 2012	100,000,000	1,938,187	47,893,964	149,832,151
At 1 January 2013	**100,000,000**	**1,938,187**	**47,893,964**	**149,832,151**
Total comprehensive income for the financial year	**–**	**(1,340,959)**	**21,421,456**	**20,080,497**
At 31 December 2013	**100,000,000**	**597,228**	**69,315,420**	**169,912,648**

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

PACIFIC INSURANCE
A member of the Fairfax Group

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	Group 2013 RM	Company 2013 RM	Group 2012 RM	Company 2012 RM
Gross earned premiums	16(a)	**228,780,977**	**228,780,977**	199,499,392	199,499,392
Premiums ceded to reinsurers	16(b)	**(81,832,557)**	**(81,832,557)**	(64,647,141)	(64,647,141)
Net earned premiums	16	**146,948,420**	**146,948,420**	134,852,251	134,852,251
Investment income	17	**12,393,896**	**11,048,421**	9,972,980	10,595,178
Realised gains and losses	18	**1,231,108**	**835,112**	3,221,188	2,494,895
Fair value gains and losses	19	**991,526**	**991,526**	(296,828)	(296,828)
Fee and commission income	20	**13,457,892**	**13,457,892**	12,836,821	12,836,821
Other operating income		**1,419,247**	**1,504,476**	1,249,479	1,101,479
Other revenue		**29,493,669**	**27,837,427**	26,983,640	26,731,545
Total revenue		**176,442,089**	**174,785,847**	161,835,891	161,583,796
Gross benefits and claims paid	13(i)	**(108,663,252)**	**(108,663,252)**	(107,296,976)	(107,296,976)
Claims ceded to reinsurers	13(i)	**40,365,054**	**40,365,054**	41,425,784	41,425,784
Gross change in contract liabilities		**(5,318,000)**	**(5,318,000)**	(6,995,000)	(6,995,000)
Change in contract liabilities ceded to reinsurers		**(18,899,000)**	**(18,899,000)**	(6,850,000)	(6,850,000)
Net claims		**(92,515,198)**	**(92,515,198)**	(79,716,192)	(79,716,192)

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	Note	Group 2013 RM	Company 2013 RM	Group 2012 RM	Company 2012 RM
Fee and commission expense		**(29,473,719)**	**(29,473,719)**	(28,616,825)	(28,616,825)
Management expenses	21	**(31,845,437)**	**(30,197,963)**	(30,231,913)	(29,979,818)
Other expenses		**(61,319,156)**	**(59,671,682)**	(58,848,738)	(58,596,643)
Profit before taxation		**22,607,735**	**22,598,967**	23,270,961	23,270,961
Taxation	22	**(1,177,511)**	**(1,177,511)**	(4,779,138)	(4,779,138)
Net profit for the financial year		**21,430,224**	**21,421,456**	18,491,823	18,491,823
Net profit attributable to:					
Owners of the Company		**21,421,456**	**21,421,456**	18,486,426	18,491,823
Non-controlling interest		**8,768**	**–**	5,397	–
		21,430,224	**21,421,456**	18,491,823	18,491,823
Earnings per share attributable to owner of the Company (sen)					
Basic	23	**21.4**	**21.4**	18.5	18.5

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Group 2013 RM	Company 2013 RM	Group 2012 RM	Company 2012 RM
Net profit for the financial year	**21,430,224**	**21,421,456**	18,491,823	18,491,823
Other comprehensive income:				
Items that may be subsequently reclassified to the income statement:				
Available-for-sale fair value reserves				
Net (loss)/gain arising during the financial year	**(1,434,951)**	**(1,434,951)**	743,259	743,259
Net realised gain transferred to Income Statement	**(352,995)**	**(352,995)**	(2,431,346)	(2,431,346)
	(1,787,946)	**(1,787,946)**	(1,688,087)	(1,688,087)
Tax effect thereon (Note 14)	**446,987**	**446,987**	422,022	422,022
	(1,340,959)	**(1,340,959)**	(1,266,065)	(1,266,065)
Total comprehensive income for the financial year	**20,089,265**	**20,080,497**	17,225,758	17,225,758
Total comprehensive income attributable to:				
Owner of the Company	**20,023,468**	**20,080,497**	17,220,361	17,225,758
Non-controlling interest	**65,797**	**–**	5,397	–
	20,089,265	**20,080,497**	17,225,758	17,225,758

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Group 2013 RM	Company 2013 RM	Group 2012 RM	Company 2012 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	**22,607,735**	**22,598,967**	23,270,961	23,270,961
Adjustment for:				
Depreciation of property and equipment	**440,085**	**440,085**	380,047	380,047
Gain on disposal of property and equipment	**(12,483)**	**(12,483)**	(26)	(26)
Gain on disposal of intangibles	**–**	**–**	(7)	(7)
Gain on disposal of investment property	**(121,466)**	**(121,466)**	–	–
Property and equipment written-off	**5,230**	**5,230**	68,102	68,102
Intangibles written-off	**–**	**–**	117	117
Change in fair value of FVTPL investments	**(991,526)**	**(991,526)**	296,828	296,828
Depreciation of investment properties	**3,500**	**3,500**	10,341	10,341
Amortisation of intangible assets	**34,169**	**34,169**	12,041	12,041
Net gain on disposal of:				
FVTPL securities	**(353,398)**	**(353,398)**	(131,734)	(131,734)
AFS investments	**(748,991)**	**(352,995)**	(3,157,639)	(2,431,346)
Investment income	**(12,393,896)**	**(11,048,421)**	(9,972,980)	(10,595,178)
Other interest income	**(42,076)**	**(42,076)**	(44,228)	(44,228)
Bad debts written-off	**2,221**	**2,221**	36,880	36,880
Provision/(write-back) of allowance for impairment losses:				
Insurance receivables	**40,040**	**40,040**	(94,487)	(94,487)
AFS investments	**1,250,000**	**–**	–	–

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	Group 2013 RM	Company 2013 RM	Group 2012 RM	Company 2012 RM
Profit from operations before changes in operating assets and liabilities	**9,719,144**	**10,201,847**	10,674,216	10,778,311
Purchase of investments	**(77,393,451)**	**(78,616,545)**	(111,392,356)	(112,369,322)
Proceeds from disposal/maturity of investments	**69,957,791**	**69,561,793**	102,592,182	101,865,890
Decrease in loans and receivables	**127,561**	**127,561**	3,687	3,687
Decrease/(increase) in reinsurance assets	**24,141,000**	**24,141,000**	(2,731,000)	(2,731,000)
(Increase)/decrease in insurance and other receivables	**(30,919,555)**	**(28,419,553)**	3,581,768	3,581,768
Increase in insurance contract liabilities	**4,992,000**	**4,992,000**	16,988,000	16,988,000
Increase in insurance and other payables	**1,381,254**	**1,418,201**	3,220,219	3,126,170
Cash generated from operations	**2,005,744**	**3,406,304**	22,936,716	21,243,504
Investment income received	**13,090,998**	**11,684,232**	9,262,398	10,811,846
Other interest income received	**42,076**	**42,076**	44,228	44,228
Income tax paid	**(4,138,775)**	**(4,138,775)**	(2,200,000)	(2,200,000)
Net cash generated from operating activities	**10,000,043**	**10,993,837**	30,043,342	29,899,578
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	**(578,949)**	**(578,949)**	(219,641)	(219,641)
Purchase of intangible assets	**(212,399)**	**(212,399)**	(10,640)	(10,640)
Proceeds from disposal of investment properties	**340,000**	**340,000**	–	–
Proceeds from disposal of property and equipment	**16,450**	**16,450**	12,340	12,340
Proceeds from disposal of intangibles	**–**	**–**	47	47
Distribution to non-controlling interest	**57,029**	**–**	190,427	–
Net cash used in investing activities	**(377,869)**	**(434,898)**	(27,467)	(217,894)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	Group 2013 RM	Company 2013 RM	Group 2012 RM	Company 2012 RM
NET INCREASE IN CASH AND CASH EQUIVALENT	**10,622,174**	**10,558,939**	30,015,875	29,681,684
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	**66,074,175**	**65,739,984**	36,058,300	36,058,300
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	**76,696,349**	**76,298,923**	66,074,175	65,739,984
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions	**69,780,749**	**69,780,749**	57,286,689	57,286,689
Cash and bank balance	**6,915,600**	**6,518,174**	8,787,486	8,453,295
	76,696,349	**76,298,923**	66,074,175	65,739,984

The accompanying notes form an integral part of the financial statements

1 CORPORATE INFORMATION

The principal activity of the Group and 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 13 March 2014.

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 Group and 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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 to the financial statements.

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

(a) The following standards have been adopted by the Group and Company for the first time for the financial year beginning on 1 January 2013;

- Amendment to MFRS 101 "Presentation of Items of Other Comprehensive Income requires entities to separate items presented in "Other Comprehensive Income" ("OCI") in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future.

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

- Amendment to MFRS 7 "Financial Instruments: Disclosure" requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) The following standards have been adopted by the Group and Company for the first time for the financial year beginning on 1 January 2013; (continued)

- MRFS 10 "Consolidated Financial Statements" builds existing principles by identifying the concept of control as the determining factor on whether an entity should be included within the consolidated financial statements of the parent company. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Other than MFRS 10, there were no materials changes to the Group and Company's accounting policies other than enhanced disclosures to the financial statements. Please refer to Note 7 to the financial statements for the impact of MFRS 10 to the financial statements.

(b) 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 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

(ii) Effective date yet to be determined by Malaysian Accounting Standards Board ("MASB")

- MFRS 9 "Financial instruments – classification and measurement of financial assets and financial liabilities" replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories; those measured as at fair value and those measured of amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristic of the instrument.

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

  The Company 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 2014 are not relevant to the Company.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group and Company have control. The Group and Company control an entity when the Group and Company are exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Group refers to the Company and its investments in structured entities.

(ii) Change in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions that are transactions with the owner in their capacity as owners. The difference between fair value of any consideration paid and relevant shares equivalent of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost with change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposed of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries (including structured entities) are carried at fair value in accordance with MFRS 139. Financial Instruments: Recognition and Measurement. On disposal of investment in subsidiaries, the difference between the disposal proceeds and the carrying amounts of the investment is recognised in the income statement.

(c) 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(f) to the financial statement.

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	$33^{1}/_{3}$%
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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Property and equipment (continued)

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.

(d) 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(f) to the financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Intangible assets

Intangible assets of the Group and 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(f) to the financial statements.

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.

(f) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment of non-financial assets (continued)

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.

(g) Investments and other financial assets

The Group and Company classify their 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 Group and Company determine 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 Group and Company initially recognise 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).

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

(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.

(h) 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.

(i) Impairment of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

(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 Group and Company first assess 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.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and Company consider 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

(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.

(j) Derecognition of financial assets

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

(k) 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.

(l) 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Product classification

The Group and Company issue 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.

(n) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Reinsurance (continued)

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.

(o) 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(ii) Premium liabilities (continued)

(b) Unearned premium reserves (continued)

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

(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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(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.

(p) 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 (i) to the financial statements.

(q) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Insurance contract liabilities (continued)

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.

(r) 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(r) Other revenue recognition (continued)

(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.

(s) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(t) 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.

(iii) Employee share ownership plan

Employee share ownership plan ("ESOP") is a long term investment plan for the employees within the Fairfax group to invest in the shares of Fairfax Financial Holdings Ltd through the employees' salary deduction. The Company makes contributions to the plan and such contributions are recognised as an expense in the income statement as incurred.

(u) 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) 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.

(w) 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.

(x) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(x) 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 2013 (CONTINUED)

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

Income and deferred taxes

Significant judgment is required in determining the income and deferred taxes applicable to the Company's business. There are transactions and calculations for which the ultimate tax determination is subject to agreement with the tax authorities. The Company recognises tax liabilities on anticipated issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(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.

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)

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.

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 2013 (CONTINUED)

3 PROPERTY AND EQUIPMENT

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
Group/Company				
31.12.2013				
Cost				
At 1 January 2013	1,355,637	402,970	5,564,023	7,322,630
Additions	–	–	578,949	578,949
Disposals	–	–	(80,650)	(80,650)
Write-offs	–	–	(1,802,876)	(1,802,876)
At 31 December 2013	1,355,637	402,970	4,259,446	6,018,053
Accumulated depreciation				
At 1 January 2013	1,263,290	96,477	4,927,011	6,286,778
Charge for the financial year	47,471	78,623	313,991	440,085
Disposals	–	–	(76,683)	(76,683)
Write-offs	–	–	(1,797,646)	(1,797,646)
At 31 December 2013	1,310,761	175,100	3,366,673	4,852,534
Net book value	44,876	227,870	892,773	1,165,519

3 PROPERTY AND EQUIPMENT (CONTINUED)

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
31.12.2012				
Cost				
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
Accumulated depreciation				
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
Net book value	92,347	306,493	637,012	1,035,852

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

4 INVESTMENT PROPERTIES

	2013 RM	2012 RM
Group/Company		
Cost		
At 1 January	**175,000**	475,000
Reclassification *	**–**	(300,000)
At 31 December	**175,000**	175,000
Accumulated depreciation		
At 1 January	**82,833**	153,958
Charge for the financial year	**3,500**	10,341
Reclassification *	**–**	(81,466)
31 December	**86,333**	82,833
Net book value	**88,667**	92,167
Fair value	**450,000**	450,000

* The assets and liabilities related to a three storey freehold shophouse property was presented as asset held for sale in the previous financial year, following the approval by 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 transaction was completed in December 2013.

As at 31 December 2013, 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

5 INTANGIBLE ASSETS

	Computer software	
	2013	**2012**
	RM	**RM**
Group/Company		
Cost		
At 1 January	**220,123**	211,796
Additions	**212,399**	10,640
Disposals	**–**	(1,303)
Write-offs	**(34,499)**	(1,010)
At 31 December	**398,023**	220,123
Accumulated amortisation		
At 1 January	**196,110**	186,225
Charge for the financial year	**34,169**	12,041
Disposals	**–**	(1,263)
Write-offs	**(34,499)**	(893)
At 31 December	**195,780**	196,110
Net book value	**202,243**	24,013

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Malaysian Government Securities	**25,250,000**	**25,250,000**	40,687,000	40,687,000
Corporate bonds	**125,222,656**	**34,127,749**	111,676,197	41,833,644
Unit trust investments (Note 7)	**25,556,033**	**124,776,486**	24,870,061	101,794,096
Short term commercial papers	**1,486,843**	**–**	–	–
Equity securities	**15,949,647**	**15,949,647**	5,837,812	5,837,812
Real Estate Investment Trusts (“REITs”)	**2,463,800**	**2,463,800**	2,775,650	2,775,650
Deposits with licensed financial institutions	**111,816,966**	**107,378,325**	102,129,938	96,025,424
	307,745,945	**309,946,007**	287,976,658	288,953,626

The financial investments are summarised by categories as follows:

	2013		2012	
	Group	Company	Group	Company
Available-for-sale financial assets (“AFS”)	**177,515,532**	**184,154,235**	177,233,258	184,314,740
Held-for-trading financial assets (“HFT”)	**18,413,447**	**18,413,447**	8,613,462	8,613,462
Loans and receivables (“LAR”)	**111,816,966**	**107,378,325**	102,129,938	96,025,424
	307,745,945	**309,946,007**	287,976,658	288,953,626
The following investments mature after 12 months:				
AFS	**141,651,656**	**49,306,749**	136,280,800	67,478,644

6 INVESTMENTS (CONTINUED)

(a) AFS

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Fair value				
Malaysian Government Securities	**25,250,000**	**25,250,000**	40,687,000	40,687,000
Quoted in Malaysia:				
Unit trust investments	**25,556,033**	**25,556,033**	24,870,061	24,870,061
Unquoted in Malaysia:				
Unit trust investments (Wholesale Fund)	**–**	**99,220,453**	–	76,924,035
Corporate bonds	**125,222,656**	**34,127,749**	111,676,197	41,833,644
Short term commercial papers	**1,486,843**	**–**	–	–
	177,515,532	**184,154,235**	177,233,258	184,314,740

(b) HFT

	2013 Group RM	2013 Company RM	2012 Group RM	2012 Company RM
Fair value				
Equity securities	**15,949,647**	**15,949,647**	5,837,812	5,837,812
REITs	**2,463,800**	**2,463,800**	2,775,650	2,775,650
	18,413,447	**18,413,447**	8,613,462	8,613,462

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(c) LAR

	2013		2012	
	Group	Company	Group	Company
Amortised cost				
Deposits with licensed financial institutions:				
Commercial banks	**59,206,223**	**54,767,582**	52,118,519	46,014,005
Other financial institutions	**52,610,743**	**52,610,743**	50,011,419	50,011,419
	111,816,966	**107,378,325**	102,129,938	96,025,424

(d) Carrying values of financial instruments

Group	**AFS RM**	**HFT RM**	**LAR RM**	**Total RM**
31.12.2013				
At 1 January 2013	**177,233,258**	**8,613,462**	**102,129,938**	**287,976,658**
Purchases	**32,371,929**	**9,089,819**	**567,087,788**	**608,549,536**
Maturities	**(15,000,000)**	**–**	**(557,400,760)**	**(572,400,760)**
Disposals	**(14,835,305)**	**(281,360)**	**–**	**(15,116,665)**
Fair value losses recorded in:				
Profit or loss	**–**	**991,526**	**–**	**991,526**
Other comprehensive income	**(1,787,946)**	**–**	**–**	**(1,787,946)**
Amortisation of premiums	**(466,404)**	**–**	**–**	**(466,404)**
At 31 December 2013	**177,515,532**	**18,413,447**	**111,816,966**	**307,745,945**

6 INVESTMENTS (CONTINUED)

(d) Carrying values of financial instruments (continued)

Group	AFS RM	HFT RM	LAR RM	Total RM
31.12.2012				
At 1 January 2012	183,213,552	3,029,391	63,773,864	250,016,807
Purchases	60,466,232	6,082,873	349,470,260	416,019,365
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	177,233,258	8,613,462	102,129,938	287,976,658

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(d) Carrying values of financial instruments (continued)

Company	AFS	HFT	LAR	Total
	RM	RM	RM	RM
31.12.2013				
At 1 January 2013	**184,314,740**	**8,613,462**	**96,025,424**	**288,953,626**
Purchases	**31,929,150**	**9,089,819**	**568,753,661**	**609,772,630**
Maturities	**(15,000,000)**	**–**	**(557,400,760)**	**(572,400,759)**
Disposals	**(14,835,305)**	**(281,360)**	**–**	**(15,116,665)**
Fair value losses recorded in:				
Profit or loss	**–**	**991,526**	**–**	**991,526**
Other comprehensive income	**(1,787,946)**	**–**	**–**	**(1,787,946)**
Amortisation of premiums	**(466,404)**	**–**	**–**	**(466,404)**
At 31 December 2013	**184,154,235**	**18,413,447**	**107,378,325**	**309,946,007**
31.12.2012				
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	184,314,740	8,613,462	96,025,424	288,953,626

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:

Group	AFS RM	HFT RM	Total RM
31.12.2013			
Quoted market price (Level 1)	**25,556,032**	**18,413,447**	**43,969,479**
Valuation techniques – market observable inputs (Level 2)	**151,959,500**	**–**	**151,959,500**
	177,515,532	**18,413,447**	**195,928,979**
31.12.2012			
Quoted market price (Level 1)	24,870,061	8,613,462	33,483,523
Valuation techniques – market observable inputs (Level 2)	152,363,197	–	152,363,197
	177,233,258	8,613,462	185,846,720

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

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

Company	**AFS RM**	**HFT RM**	**Total RM**
31.12.2013			
Quoted market price (Level 1)	**25,556,032**	**18,413,447**	**43,969,479**
Valuation techniques – market observable inputs (Level 2)	**158,598,203**	**–**	**158,598,203**
	184,154,235	**18,413,447**	**202,567,682**
31.12.2012			
Quoted market price (Level 1)	24,870,061	8,613,462	33,483,523
Valuation techniques – market observable inputs (Level 2)	159,444,679	–	159,444,679
	184,314,740	8,613,462	192,928,202

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 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 (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.

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

7 STRUCTURED ENTITIES

The Company has determined that its investment in wholesale unit trust funds amounting to RM99,220,453 (2012: RM76,924,035) as disclosed in Note 6 to the financial statements as investment in structured entities ("investee funds"). The Company invests in the investee funds whose objectives range from achieving medium to long-term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by appointed fund managers and apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund's net assets.

The Company holds 100% and 99.7% of units in the funds respectively and thus has control over these investee funds. The Company is exposed to, or has rights to variable returns from its involvement with the investee funds, which were established in 2012 and has the ability to affect those returns through its power over the investee funds.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

7 STRUCTURED ENTITIES (CONTINUED)

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

	2013 RM	2012 RM
Fair value of underlying assets:		
Corporate bonds	**91,094,907**	69,842,553
Short term commercial papers	**1,486,843**	–
Deposits with licensed financial institutions	**4,438,641**	6,104,514
Receivables	**2,121,361**	932,652
Cash equivalents	**397,426**	334,191
	99,539,178	77,213,910
Total fair gain incurred for the financial year	**395,996**	592,579

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

As the Company has control over these investee funds which are considered wholly owned structured entities, these structured entities are consolidated at Group level. The underlying assets of these structured entities are duly consolidated as shown in Note 6 to the financial statements.

8 REINSURANCE ASSETS

	2013 RM	2012 RM
Group/Company		
Reinsurance of insurance contracts (Note 13)	**112,923,000**	137,064,000

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

9 INSURANCE AND OTHER RECEIVABLES

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Insurance receivables:				
Due premiums including agents/brokers and co-insurers balances	**22,843,129**	**22,843,129**	25,972,003	25,972,003
Allowance for impairment`	**(376,247)**	**(376,247)**	(336,991)	(336,991)
	22,466,882	**22,466,882**	25,635,012	25,635,012
Amounts due from reinsurers/ ceding companies	**3,710,459**	**3,710,459**	5,223,307	5,223,307
Allowance for impairment	**(222,205)**	**(222,205)**	(221,422)	(221,422)
	3,488,254	**3,488,254**	5,001,885	5,001,885
Total insurance receivables	**25,955,136**	**25,955,136**	30,636,897	30,636,897
Other receivables:				
Other receivables, deposits and prepayments	**4,474,558**	**3,224,558**	2,838,647	2,838,647
Malaysian Motor Insurance Pool ("MMIP")				
– Cash call made by MMIP	**17,989,134**	**17,989,134**	–	–
– Other assets held in MMIP	**33,058,229**	**33,058,229**	18,374,220	18,374,220
Income due and accrued	**2,217,214**	**1,345,853**	2,447,912	1,515,260
Total other receivables	**57,739,135**	**55,617,774**	23,660,779	22,728,127
Total insurance and other receivables	**83,694,271**	**81,572,910**	54,297,676	53,365,024

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

MMIP as at 31 December 2013 is a net payable of RM6,213,212 (2012: RM16,558,425) after setting-off the amount receivable from MMIP against the Company's share of claims and premium liabilities included in Note 13 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

9 INSURANCE AND OTHER RECEIVABLES (CONTINUED)

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Financial assets				
Gross amount of recognised financial assets	**83,694,271**	**81,572,910**	54,297,676	53,365,024
Less: Gross amount of financial liabilities set off in the statement of financial position	**–**	**–**	–	–
Net amount	**83,694,271**	**81,572,910**	54,297,676	53,365,024

The were no financial assets that were subject to enforceable master netting arrangements or similar arrangements to financial instruments received as collateral or any cash collateral pledged or received.

10 LOANS

	31.12.2013 RM	31.12.2012 RM
Group/Company		
Staff loans:		
Secured	**1,581,099**	1,712,232
Unsecured	**21,646**	18,074
	1,602,745	1,730,306
Receivable after 12 months	**1,332,911**	1,351,536

The weighted average effective interest rate for staff loans as at 31 December 2013 was 2.27% (2012: 2.64%) per annum on the basis of monthly rest.

11 SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
	RM	RM	**RM**	RM
Group/Company				
Authorised:				
At beginning and end of financial year	**500,000,000**	500,000,000	**500,000,000**	500,000,000
Issued and paid up:				
At beginning and end of financial year	**100,000,000**	100,000,000	**100,000,000**	100,000,000

12 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.

Upon expiry of the transitional period as at 31 December 2013, the accumulated tax credit under Section 108 of the Income Tax Act, 1967 will be disregarded. Any future dividend payment made by the Company will be governed under a single-tier system. Pursuant to the single-tier system, any dividends distributed by the Company will be exempted from tax in the hand of the shareholders. The Company shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders.

13 INSURANCE CONTRACT LIABILITIES

Group/Company	31.12. 2013 Re- Gross RM	31.12. 2013 Re-insurance RM	31.12. 2013 Net RM	31.12. 2012 Gross RM	31.12. 2012 Re-insurance RM	31.12. 2012 Net RM
Provision for claims reported by policyholders	**136,180,905**	**(57,356,941)**	**78,823,964**	141,996,251	(77,300,667)	64,695,584
Provision for incurred but not reported claims ("IBNR")	**57,170,095**	**(12,201,059)**	**44,969,036**	46,036,749	(11,156,333)	34,880,416
Claim liabilities (i)	**193,351,000**	**(69,558,000)**	**123,793,000**	188,033,000	(88,457,000)	99,576,000
Premium liabilities (ii)	**115,007,000**	**(43,365,000)**	**71,642,000**	115,333,000	(48,607,000)	66,726,000
	308,358,000	**(112,923,000)**	**195,435,000**	303,366,000	(137,064,000)	166,302,000

3 INSURANCE CONTRACT LIABILITIES (CONTINUED)

Group/Company	31.12. 2013 Re- Gross RM	31.12. 2013 Re-insurance RM	31.12. 2013 Net RM	31.12. 2012 Gross RM	31.12. 2012 Re-insurance RM	31.12. 2012 Net RM
(i) Claim liabilities						
At 1 January	**188,033,000**	**(88,457,000)**	**99,576,000**	181,038,000	(95,307,000)	85,731,000
Claims incurred in the current accident year	**116,338,555**	**(39,810,651)**	**76,527,904**	135,203,325	(63,909,913)	71,293,412
Claims incurred in prior accident years	**(5,247,486)**	**17,282,324**	**12,034,838**	(22,331,969)	28,772,063	6,440,094
Movement in PRAD of claim liabilities at 75% confidence level	**2,124,056**	**1,062,273**	**3,186,329**	1,193,329	562,066	1,755,395
Movement in claims handling expenses	**766,127**	**–**	**766,127**	227,291	–	227,291
Claims paid during the financial year	**(108,663,252)**	**40,365,054**	**(68,298,198)**	(107,296,976)	41,425,784	(65,871,192)
At 31 December	**193,351,000**	**(69,558,000)**	**123,793,000**	188,033,000	(88,457,000)	99,576,000

3 INSURANCE CONTRACT LIABILITIES (CONTINUED)

Group/Company	31.12. 2013 Re- Gross RM	31.12. 2013 Re- insurance RM	31.12. 2013 Net RM	31.12. 2012 Gross RM	31.12. 2012 Re- insurance RM	31.12. 2012 Net RM
(ii) Premium liabilities						
At 1 January	**115,333,000**	**(48,607,000)**	**66,726,000**	105,340,000	(39,026,000)	66,314,000
Premiums written in the financial year (Note 16)	**228,454,977**	**(76,590,557)**	**151,864,420**	209,492,392	(74,228,141)	135,264,251
Premiums earned during the financial year (Note 16)	**(228,780,977)**	**81,832,557**	**(146,948,420)**	(199,499,392)	64,647,141	(134,852,251)
At 31 December	**115,007,000**	**(43,365,000)**	**71,642,000**	115,333,000	(48,607,000)	66,726,000

14 DEFERRED TAX ASSET/(LIABILITIES)

Group/Company	2013 RM	2012 RM
At 1 January	**193,265**	(807,509)
– Recognised in the income statement (Note 22)	**(871,378)**	578,752
– Recognised in other comprehensive income	**446,987**	422,022
At 31 December	**(231,126)**	193,265

	Receivables RM	Others RM	Total RM
31.12.2013			
Deferred tax asset			
At 1 January 2013	**33,966**	**1,086,374**	**1,120,340**
– Recognised in income statement	**10,681**	**(21,022)**	**(10,341)**
At 31 December 2013 (before offsetting)	**44,647**	**1,065,352**	**1,109,999**
Offsetting			**(1,109,999)**
Net deferred tax assets (after offsetting)			**–**

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

14 DEFERRED TAX ASSET/(LIABILITIES) (CONTINUED)

	Fair value changes on investments RM	Accelerated capital allowances RM	UPR RM	Total RM
Deferred tax liabilities				
At 1 January 2013	**746,176**	**180,899**	**–**	**927,075**
– Recognised in income statement	**247,882**	**105,492**	**507,663**	**861,037**
– Recognised in other comprehensive income	**(446,987)**	**–**	**–**	**(446,987)**
At 31 December 2013 (before offsetting)	**547,071**	**286,391**	**507,663**	**1,341,125**
Offsetting				**(1,109,999)**
Net deferred tax liabilities (after offsetting)				**231,126**

	Receivables RM	Others RM	Total RM
Group/Company			
31.12.2012			
Deferred tax asset			
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
Offsetting			(927,075)
Net deferred tax assets (after offsetting)			193,265

14 DEFERRED TAX ASSET/(LIABILITIES) (CONTINUED)

	Fair value changes on investments RM	Accelerated capital allowances RM	Total RM
Deferred tax liabilities			
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
Offsetting			(927,075)
Net deferred tax liabilities (after offsetting)			–

	2013 RM	2012 RM
Deferred tax asset:		
Utilised within 1 year	4,266,158	193,265
Utilised after 1 year	–	–

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

15 INSURANCE AND OTHER PAYABLES

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Group/Company				
Trade payables:				
Amount due to reinsurers/ ceding companies	**19,182,975**	**19,182,975**	21,170,949	21,170,949
Amount due to brokers, co-insurers and insureds	**10,752,539**	**10,752,539**	9,867,471	9,867,471
	29,935,514	**29,935,514**	31,038,420	31,038,420
Other payables:				
Accrual for agents' profit commission	**2,051,326**	**2,051,326**	1,590,321	1,590,321
Accrual for bonus (including EPF for bonus)	**3,120,087**	**3,120,087**	3,278,819	3,278,819
Service tax payable	**896,551**	**896,551**	494,750	494,750
Cash collateral held for bond business	**1,410,190**	**1,410,190**	490,351	490,351
Other payables and accrued liabilities	**3,674,430**	**3,617,328**	2,814,183	2,720,134
	11,152,584	**11,095,482**	8,668,424	8,574,375
Total insurance and other payables	**41,088,098**	**41,030,996**	39,706,844	39,612,795

15 INSURANCE AND OTHER PAYABLES (CONTINUED)

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

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Financial liabilities				
Gross amount of recognised financial liabilities	**41,088,098**	**41,030,996**	39,706,844	39,612,795
Less: Gross amount of financial assets set off in the statement of financial position	**–**	**–**	–	–
Net amount	**41,088,098**	**41,030,996**	39,706,844	39,612,795

16 NET EARNED PREMIUMS

Group/Company	2013 RM	2012 RM
(a) Gross premiums		
Written premiums (Note 13(ii))	**228,454,977**	209,492,392
Change in premium liabilities	**326,000**	(9,993,000)
	228,780,977	199,499,392
(b) Premium ceded		
Ceded premiums (Note 13(ii))	**(76,590,557)**	(74,228,141)
Change in premium liabilities	**(5,242,000)**	9,581,000
	(81,832,557)	(64,647,141)
Net earned premiums	**146,948,420**	134,852,251

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

17 INVESTMENT INCOME

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Rental income from investment properties	**39,848**	**39,848**	24,600	24,600
Financial assets at FVTPL				
Dividend income				
– equity securities	**183,323**	**183,323**	109,516	109,516
– REITs	**141,072**	**141,072**	73,744	73,744
AFS financial assets				
Interest income	**8,146,002**	**3,431,639**	6,523,726	3,848,715
Dividend income – unit trusts	**898,507**	**4,379,050**	981,608	4,325,218
Interest income from loans and receivables	**3,330,386**	**3,218,731**	2,606,627	2,560,226
Profit income from cash at bank	**121,162**	**121,162**	90,411	90,411
Amortisation of premiums, net of accretion of discounts	**(466,404)**	**(466,404)**	(437,252)	(437,252)
	12,393,896	**11,048,421**	9,972,980	10,595,178

18 REALISED GAINS AND LOSSES

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Financial assets at FVTPL				
Realised gains:				
Equity securities	**316,950**	**316,950**	70,485	70,485
REITs	**36,448**	**36,448**	61,249	61,249
Total realised gains for financial assets at FVTPL	**353,398**	**353,398**	131,734	131,734

18 REALISED GAINS AND LOSSES (CONTINUED)

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
AFS financial assets				
Realised gains:				
Corporate bonds	**748,991**	**352,995**	726,293	–
Unit trusts	**–**	**–**	2,431,346	2,431,346
Total realised gains for AFS financial assets	**748,991**	**352,995**	3,157,639	2,431,346
Property and equipment				
Realised gains	**12,483**	**12,483**	4,842	4,842
Realised losses	**(5,230)**	**(5,230)**	(73,027)	(73,027)
Total realised gains/(losses) for property and equipment	**7,253**	**7,253**	(68,185)	(68,185)
Investment properties				
Realised gains	**121,466**	**121,466**	–	–
	1,231,108	**835,112**	3,221,188	2,494,895

19 FAIR VALUE GAINS AND LOSSES

	2013 RM	2012 RM
Group/Company		
Financial assets at FVTPL	**991,526**	(296,828)

20 FEES AND COMMISSION INCOME

	2013 RM	2012 RM
Group/Company		
Reinsurance commission income	**13,457,892**	12,836,821

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

21 MANAGEMENT EXPENSES

	Note	2013 Group RM	2013 Company RM	2012 Group RM	2012 Company RM
Employee benefits expenses	21(a)	**20,472,549**	**20,472,549**	21,188,021	21,188,021
Directors' fees	21(b)	**321,275**	**321,275**	100,786	100,786
Auditors' remuneration					
– statutory audits		**161,958**	**150,000**	159,582	150,000
Depreciation of property and equipment	3	**440,085**	**440,085**	380,047	380,047
Depreciation of investment properties	4	**3,500**	**3,500**	10,341	10,341
Direct operating expenses of investment properties					
– revenue generating	4	**26,643**	**26,643**	25,942	25,942
Amortisation of intangible assets	5	**34,169**	**34,169**	12,041	12,041
Bad debts written-off		**2,221**	**2,221**	36,880	36,880
Provision for/(write-back of) allowance for impairment losses					
– insurance receivables		**40,040**	**40,040**	(94,487)	(94,487)
– AFS investments		**1,250,000**	**–**	–	–
Office rental		**1,717,801**	**1,717,801**	1,641,691	1,641,691
Office equipment rental		**369,164**	**369,164**	370,465	370,465
Computer maintenance		**1,297,170**	**1,297,170**	1,033,438	1,033,438
Entertainment		**434,915**	**434,915**	406,969	406,969
Transport and travelling		**400,474**	**400,474**	349,759	349,759
Printing and stationery		**242,456**	**242,456**	228,903	228,903
Padunet networking charges		**435,756**	**435,756**	400,437	400,437
Bank charges		**1,385,939**	**1,385,637**	1,427,825	1,427,701
Other expenses		**2,809,322**	**2,424,108**	2,553,273	2,310,884
		31,845,437	**30,197,963**	30,231,913	29,979,818

21 MANAGEMENT EXPENSES (CONTINUED)

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
(a) Employee benefits expense				
Wages and salaries	**16,401,581**	**16,401,581**	17,279,992	17,279,992
Social security contributions	**116,529**	**116,529**	113,427	113,427
Contributions to defined contribution plan, EPF	**2,514,589**	**2,514,589**	2,519,703	2,519,703
Employee share ownership Plan (“ESOP”)	**73,567**	**73,567**	–	–
Other benefits	**1,366,283**	**1,366,283**	1,274,899	1,274,899
	20,472,549	**20,472,549**	21,188,021	21,188,021

(b) Directors’ remuneration

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

	2013 RM	2012 RM
Group/Company		
Non-executive Directors’ fees	**321,275**	100,786

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

	Number of Directors	
	2013 RM	2012 RM
Group/Company		
Non-executive Directors:		
Below RM50,000	**4**	4

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

21 MANAGEMENT EXPENSES (CONTINUED)

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

Group/Company	2013 RM	2012 RM
Salary and other emoluments	**430,071**	405,642
Bonus	**364,446**	350,750
Contribution to defined contribution plan	**126,471**	119,800
Estimated money value of benefits-in-kind	**17,273**	18,790
	938,261	894,982

22 TAXATION

Group/Company	2013 RM	2012 RM
Income tax:		
Malaysian income tax	**101,666**	5,380,896
Under/(over) provision in respect of prior years	**204,467**	(23,006)
	306,133	5,357,890
Deferred tax relating to origination and reversal of temporary differences (Note 14)	**871,378**	(578,752)
Tax expense for the financial year	**1,177,511**	4,779,138

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2012: 25%) on the estimated assessable profit for the financial year.

22 TAXATION (CONTINUED)

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:

	2013 RM	2012 RM
Group		
Profit before taxation	**22,607,735**	23,270,961
Taxation at Malaysian statutory income tax rate of 25% (2012: 25%)	**5,651,934**	5,817,740
Expenses not deductible for tax purposes	**425,868**	170,417
Income not subject to tax	**(1,486,316)**	(1,186,013)
Tax credit from MMIP cash calls *	**(4,497,284)**	–
Under/(over) provision of income tax in prior years	**204,467**	(23,006)
Underprovision of deferred tax in prior years	**878,842**	–
Tax expense for the financial year	**1,177,511**	4,779,138
Company		
Profit before taxation	**22,598,967**	23,270,961
Taxation at Malaysian statutory income tax rate of 25% (2012: 25%)	**5,649,742**	5,817,740
Expenses not deductible for tax purposes	**117,605**	107,393
Income not subject to tax	**(1,175,861)**	(1,122,989)
Tax credit from MMIP cash calls *	**(4,497,284)**	–
Under/(over) provision of income tax in prior years	**204,467**	(23,006)
Underprovision of deferred tax in prior years	**878,842**	–
Tax expense for the financial year	**1,177,511**	4,779,138

* The tax credit from MMIP cash calls for the financial year of RM4,497,284 relates to the deduction allowed on MMIP contributions made during the financial year, pursuant to the Gazette Order issued by the Attorney General Chambers of Malaysia on 28 November 2012.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (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 over the number of shares in issue during the financial year of 100,000,000 (2012: 100,000,000).

	2013		2012	
	Group RM	Company RM	Group RM	Company RM
Profit after taxation	**21,430,224**	**21,421,456**	18,491,823	18,491,823

24 DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2013.

25 OPERATING LEASE ARRANGEMENTS

The Group and Company have 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:

	2013 RM	2012 RM
Future minimum rental payment:		
Not later than 1 year	**301,440**	40,080
Later than 1 year and not later than 5 years	**846,780**	76,380
	1,148,220	116,460

26 CAPITAL COMMITMENTS

Group/Company	2013 RM	2012 RM
Approved and contracted for:		
Computers	**7,260**	11,980
Furniture and fittings	**–**	1,892
Intangibles	**132,789**	–
Office equipment	**4,288**	–
	144,337	13,872

27 SIGNIFICANT RELATED PARTY DISCLOSURES

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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (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:

Group/Company	Significant transactions 2013 RM	Significant transactions 2012 RM	Carrying value 2013 RM	Carrying value 2012 RM
Fellow subsidiary:				
Income				
Commission receivable				
– First Capital Insurance Limited	**79,658**	54,517	**–**	–
– Falcon Insurance Co. (HK) Ltd	**673**	–	**–**	–
Expense				
Reinsurance premium ceded				
– First Capital Insurance Limited	**825,235**	597,867	**–**	
– Falcon Insurance Co. (HK) Ltd	**22,225**	19,007	**–**	
Payables				
Reinsurance balances due to				
– First Capital Insurance Limited	**–**	–	**507,717**	81,728
– Falcon Insurance Co. (HK) Ltd	**–**	–	**7,742**	19,007
Key management of the company:				
Secured staff loans outstanding	**–**	–	**98,810**	–

27 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Compensation of key management personnel

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

	2013 RM	2012 RM
Short-term employee benefits	**1,978,969**	1,621,614
Defined contribution plan	**338,842**	234,874
	2,317,811	1,856,488*

* Includes compensation payable to key management personnel at the end of reporting period of RM975,325 (2012: RM696,068).

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.

28 RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Group and Company's financial risk management policies seek to ensure that the outcomes of activities involving elements of risk are consistent with the Group and Company's objectives and risk tolerance, while maintaining an appropriate risk and reward balance and protecting the Group and 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

28 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Regulatory framework

Insurers have to comply with the Insurance Act, 1996, the Insurance Regulations, 1996, which have subsequently repealed and replaced by the Financial Services Act, 2013 which came into effect on 30 June 2013, 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 Group and 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 2013 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%.

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 13 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 Group and Company's reinsurance management strategy and policy are reviewed and approved by the Board.

29 INSURANCE RISK (CONTINUED)

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.

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

Group/Company	31.12.2013 Gross RM	31.12.2013 Re-insurance RM	31.12.2013 Net RM	31.12.2012 Gross RM	31.12.2012 Re-insurance RM	31.12.2012 Net RM
Claim liabilities						
Motor	**88,111,000**	**(1,727,000)**	**86,384,000**	64,325,000	(1,885,000)	62,440,000
Fire	**18,694,000**	**(12,727,000)**	**5,967,000**	56,181,000	(50,437,000)	5,744,000
Marine, Aviation and Transit	**24,054,000**	**(20,487,000)**	**3,567,000**	10,815,000	(9,724,000)	1,091,000
Medical and Health	**8,004,000**	**(132,000)**	**7,872,000**	10,010,000	(161,000)	9,849,000
Miscellaneous	**54,488,000**	**(34,485,000)**	**20,003,000**	46,702,000	(26,250,000)	20,452,000
	193,351,000	**(69,558,000)**	**123,793,000**	188,033,000	(88,457,000)	99,576,000
Premium liabilities						
Motor	**47,994,000**	**(15,667,000)**	**32,327,000**	27,862,000	(827,000)	27,035,000
Fire	**6,649,000**	**(2,748,000)**	**3,901,000**	10,572,000	(6,570,000)	4,002,000
Marine, Aviation and Transit	**4,876,000**	**(2,015,000)**	**2,861,000**	12,095,000	(11,080,000)	1,015,000
Medical and Health	**40,055,000**	**(16,556,000)**	**23,499,000**	26,792,000	(721,000)	26,071,000
Miscellaneous	**15,433,000**	**(6,379,000)**	**9,054,000**	38,012,000	(29,409,000)	8,603,000
	115,007,000	**(43,365,000)**	**71,642,000**	115,333,000	(48,607,000)	66,726,000

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

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.

29 INSURANCE RISK (CONTINUED)

Sensitivities (continued)

Group/Company	Change in assumptions RM	Impact on gross liabilities RM	Impact on net liabilities RM	Impact on profit before tax RM	Impact on equity
31.12.2013					
Provision for Risk Margin for Adverse Deviation ("PRAD")	**+5%**	**447,000**	**272,000**	**(272,000)**	**(204,000)**
Loss ratio	**+5%**	**16,635,000**	**6,456,000**	**(6,456,000)**	**(4,842,000)**
Claim handling expenses	**+5%**	**272,000**	**271,000**	**(271,000)**	**(203,250)**
31.12.2012					
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)

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.

29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2013:

Group/Company

	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		77,898,739	115,372,773	128,437,501	89,290,332	80,623,250	144,171,467	135,203,325	116,338,554	
One year later		75,864,402	85,828,743	79,515,985	92,169,233	87,820,763	120,667,544	119,708,428		
Two years later		53,444,656	108,881,419	76,147,747	89,143,709	79,606,318	121,099,270			
Three years later		71,750,374	108,411,966	75,274,487	87,570,573	75,096,778				
Four years later		71,278,686	108,312,090	74,915,371	86,212,216					
Five years later		70,866,751	108,033,202	74,346,645						
Six years later		70,897,996	107,518,171							
Seven years later		66,438,902								
Current estimate of cumulative claims incurred		66,438,902	107,518,171	74,346,645	86,212,216	75,096,778	121,099,270	119,708,428	116,338,554	

29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2013: (continued)

Group/Company

Accident year	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		(35,651,536)	(43,666,569)	(42,502,687)	(44,790,938)	(36,889,706)	(45,032,760)	(38,341,088)	(42,066,707)	
One year later		(58,977,943)	(81,768,206)	(65,226,954)	(66,629,520)	(64,369,651)	(100,846,814)	(87,538,028)		
Two years later		(62,694,290)	(98,501,691)	(69,928,864)	(77,625,072)	(68,499,657)	(108,290,519)			
Three years later		(64,536,458)	(103,112,378)	(71,506,197)	(79,800,667)	(70,835,395)				
Four years later		(66,091,734)	(104,527,673)	(72,485,699)	(81,358,071)					
Five years later		(66,413,002)	(105,826,990)	(72,716,879)						
Six years later		(66,605,175)	(106,102,270)							
Seven years later		(66,748,098)								
Cumulative payments to-date		(66,748,098)	(106,102,270)	(72,716,879)	(81,358,071)	(70,835,395)	(108,290,519)	(87,538,028)	(42,066,707)	
Gross general insurance outstanding liabilities (direct and facultative)	1,060,250	(309,196)	1,415,901	1,629,766	4,854,145	4,261,383	12,808,751	32,170,400)	74,271,847	132,163,247

29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2013: (continued)

Group/Company

Accident year	Note	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
Gross general insurance outstanding liabilities (treaty inward)											43,316,507
Best estimate of claim liabilities											175,479,754
Claims handling expenses											4,948,861
PRAD at 75% confidence level											12,922,385
Gross general insurance contract liabilities per statement of financial position	13										193,351,000

29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2013:

Group/Company

Accident year	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		66,582,424	71,729,810	68,953,095	67,842,838	65,160,963	70,626,359	71,293,412	76,527,904	
One year later		64,158,819	68,064,372	67,639,880	67,842,778	65,221,561	68,348,022	67,364,621		
Two years later		60,061,777	69,698,769	65,465,600	65,790,686	63,839,900	66,923,137			
Three years late		60,308,636	70,449,562	64,884,601	64,330,681	60,645,873				
Four years later		60,114,203	69,852,976	63,929,753	63,989,789					
Five years later		59,976,494	69,672,520	63,917,284						
Six years later		59,807,380	69,630,516							
Seven years later		58,824,096								
Current estimate of cumulative claims incurred		58,824,096	69,630,516	63,917,284	63,989,789	60,645,873	66,923,137	67,364,621	76,527,904	

29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2013: (continued)

Group/Company

Accident year	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		(32,641,681)	(37,256,847)	(38,288,857)	(38,768,160)	(34,150,025)	(36,266,616)	(35,186,016)	(36,078,103)	
One year later		(52,282,674)	(59,293,106)	(56,976,319)	(56,237,346)	(53,401,540)	(56,248,456)	(54,745,833)		
Two years later		(55,226,345)	(63,397,062)	(60,998,930)	(59,897,881)	(56,659,878)	(60,768,608)			
Three years later		(56,959,090)	(66,690,768)	(61,996,064)	(61,498,223)	(58,453,152)				
Four years later		(58,352,746)	(67,697,426)	(62,672,785)	(61,805,822)					
Five years later		(58,702,848)	(68,571,702)	(62,871,078)						
Six years later		(58,880,911)	(68,823,673)							
Seven years later		(59,061,747)								
Cumulative payments to-date		(59,061,747)	(68,823,673)	(62,871,078)	(61,805,822)	(58,453,152)	(60,768,608)	(54,745,833)	(36,078,103)	
Net general insurance outstanding liabilities (direct and facultative)	897,102	(237,651)	806,843	1,046,206	2,183,967	2,192,721	6,154,529	12,618,788	40,449,801	66,112,306

29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2013: (continued)

Group/Company

Accident year	Note	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
Net general insurance outstanding liabilities (treaty inwards)											43,316,507
Best estimate of claim liabilities											109,428,813
Claims handling expenses											4,948,861
PRAD at 75% confidence level											9,415,326
Net general insurance contract liabilities per statement of financial position	13										123,793,000

29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2012:

Group/Company

Accident year	Prior to 2005 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	Total RM
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								
Current estimate of cumulative claims incurred		66,076,440	70,897,996	108,033,202	74,915,371	87,570,573	79,606,318	120,667,544	135,203,325	

29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities for 2012: (continued)

Group/Company

Accident year	Prior to 2005 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2013 RM	Total RM
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 late		(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)								
Cumulative payments to-date		(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

29 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities for 2012: (continued)

Group/Company

Accident year	Note	Prior to 2005	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	13										188,033,000

29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2012:

Group/Company

Accident year	**Prior to 2005 RM**	**2005 RM**	**2006 RM**	**2007 RM**	**2008 RM**	**2009 RM**	**2010 RM**	**2011 RM**	**2012 RM**	**Total RM**
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 late		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								
Current estimate of cumulative claims incurred		51,954,284	59,807,380	69,672,520	63,929,753	64,330,681	63,839,900	68,348,022	71,293,412	

29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2012: (continued)

Group/Company

Accident year	Prior to 2005 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	Total RM
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)								
Cumulative payments to-date		(51,482,855)	(58,880,911)	(68,571,702)	(62,672,785)	(61,498,223)	(56,659,878)	(56,248,456)	(35,186,016)	
Net general insurance outstanding liabilities (direct and facultative)	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

29 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2012: (continued)

Group/Company

Accident year	Note	Prior to 2005	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	13										99,576,000

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

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 Group and 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 and Company are deposits with financial institutions, available-for-sale securities (unit trusts and bonds), loan receivables and trade receivables.

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

Trade receivables are monitored regularly and the Group and Company adopt 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 Group and 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.

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			
Group	**Investment grade RM**	**Not rated RM**	**Past-due but not impaired RM**	**Total RM**
31.12.2013				
LAR				
Fixed and call deposits	**104,765,382**	**7,051,584**	**–**	**111,816,966**
AFS financial investments				
Malaysian Government Securities	**–**	**25,250,000**	**–**	**25,250,000**
Corporate bonds	**125,222,656**	**–**	**–**	**125,222,656**
Unit trusts	**–**	**25,556,033**	**–**	**25,556,033**
Short term commercial papers	**1,486,843**	**–**	**–**	**1,486,843**
HFT financial investments				
Equity securities	**–**	**15,949,647**	**–**	**15,949,647**
REITs	**–**	**2,463,800**	**–**	**2,463,800**
Reinsurance assets	**–**	**112,923,000**	**–**	**112,923,000**
Insurance receivables	**–**	**–**	**25,955,136**	**25,955,136**
Cash and bank balances	**6,898,723**	**16,877**	**–**	**6,915,600**
	238,373,604	**189,210,941**	**25,955,136**	**453,539,681**

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (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			
Company	**Investment grade RM**	**Not rated RM**	**Past-due but not impaired RM**	**Total RM**
31.12.2013				
LAR				
Fixed and call deposits	**100,326,741**	**7,051,584**	**–**	**107,378,325**
AFS financial investments				
Malaysian Government Securities	**–**	**25,250,000**	**–**	**25,250,000**
Corporate bonds	**34,127,749**	**–**	**–**	**34,127,749**
Unit trusts	**–**	**124,776,486**	**–**	**124,776,486**
HFT financial investments				
Equity securities	**–**	**15,949,647**	**–**	**15,949,647**
REITs	**–**	**2,463,800**	**–**	**2,463,800**
Reinsurance assets	**–**	**112,923,000**	**–**	**112,923,000**
Insurance receivables	**–**	**–**	**25,955,136**	**25,955,136**
Cash and bank balances	**6,501,297**	**16,877**	**–**	**6,518,174**
	140,955,787	**288,431,394**	**25,955,136**	**455,342,317**

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Group	Neither past-due nor impaired			
	Investment grade RM	Not rated RM	Past-due but not impaired RM	Total RM
31.12.2012				
LAR				
Fixed and call deposits	95,313,955	6,815,983	–	102,129,938
AFS financial investments				
Malaysian Government Securities	–	40,687,000	–	40,687,000
Corporate bonds	111,676,197	–	–	111,676,197
Unit trusts	–	24,890,061	–	24,890,061
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	8,770,130	17,356	–	8,787,486
	215,760,282	218,087,862	30,636,897	464,485,041

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (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)

Company	Neither past-due nor impaired			
	Investment grade RM	Not rated RM	Past-due but not impaired RM	Total RM
31.12.2012				
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
	139,479,024	294,991,897	30,636,897	465,107,818

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.

Group	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
31.12.2013						
LAR						
Fixed and call deposits	13,145,706	77,730,136	13,889,540	–	7,051,584	111,816,966
AFS financial investments						
Malaysian Government Securities	–	–	–	–	25,250,000	25,250,000
Corporate bonds	26,360,924	87,094,092	11,767,640	–	–	125,222,656
Unit trusts	–	–	–	–	25,556,033	25,556,033
Short term commercial papers	1,486,843	–	–	–	–	1,486,843
HFT financial investments						
Equity securities	–	–	–	–	15,949,647	15,949,647
REITs	–	–	–	–	2,463,800	2,463,800
Reinsurance assets	–	–	–	–	112,923,000	112,923,000
Insurance receivables	–	–	1,663,374	143,288	24,148,474	25,955,136
Cash and bank balances	6,322,494	567,047	9,182	–	16,877	6,915,600
	47,315,967	165,391,275	27,329,736	143,288	213,359,415	453,539,681

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Group	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
31.12.2013						
Neither past-due nor impaired	47,315,967	165,391,275	25,666,362	–	189,210,941	427,584,545
Past-due but not impaired	–	–	1,663,374	143,288	24,148,474	25,955,136
	47,315,967	165,391,275	27,329,736	143,288	213,359,415	453,539,681

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Company 31.12.2013	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
LAR						
Fixed and call deposits	8,707,065	77,730,136	13,889,540	–	7,051,584	107,378,325
AFS financial investments						
Malaysian Government Securities	–	–	–	–	25,250,000	25,250,000
Corporate bonds	13,210,749	20,917,000	–	–	–	34,127,749
Unit trusts	–	–	–	–	124,776,486	124,776,486
HFT financial investments						
Equity securities	–	–	–	–	15,949,647	15,949,647
REITs	–	–	–	–	2,463,800	2,463,800
Reinsurance assets	–	–	–	–	112,923,000	112,923,000
Insurance receivables	–	–	1,663,374	143,288	24,148,474	25,955,136
Cash and bank balances	6,322,494	169,621	9,182	–	16,877	6,518,174
	28,240,308	98,816,757	15,562,096	143,288	312,579,868	455,342,317

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Company 31.12.2013	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
Neither past-due nor impaired	28,240,309	98,816,757	13,898,722	–	288,431,394	429,387,181
Past-due but not impaired	–	–	1,663,374	143,288	24,148,474	25,955,136
	28,240,308	98,816,757	15,562,096	143,288	312,579,868	455,342,317

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Group 31.12.2012	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
LAR						
Fixed and call deposits	16,054,940	35,343,051	43,915,964	–	6,815,983	102,129,938
AFS financial investments						
Malaysian Government Securities	–	–	–	–	40,687,000	40,687,000
Corporate bonds	29,152,044	64,868,554	17,655,599	–	–	111,676,197
Unit trusts	–	–	–	–	24,870,061	24,870,061
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	641,245	(92,770)	–	17,356	8,787,486
	53,428,639	100,852,850	64,664,545	330	245,518,677	464,465,041

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Group **31.12.2012**	**AAA** **RM**	**AA** **RM**	**A** **RM**	**B** **RM**	**Not rated** **RM**	**Total** **RM**
Neither past-due nor impaired	53,428,639	100,852,850	61,478,793	–	218,067,861	433,828,143
Past-due but not impaired	–	–	3,185,752	330	27,450,816	30,636,898
	53,428,639	100,852,850	64,664,545	330	245,518,677	464,465,041

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Company 31.12.2012	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
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
	31,397,625	64,258,205	47,008,946	330	322,442,712	465,107,818

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

Group 31.12.2012	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
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
	31,397,625	64,258,205	47,008,946	330	322,442,712	465,107,818

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
Group/Company						
31.12.2013						
Insurance receivables	**15,661,036**	**3,497,327**	**2,084,278**	**2,395,400**	**2,317,095**	**25,955,136**
31.12.2012						
Insurance receivables	13,772,824	5,979,420	3,481,418	6,222,006	1,181,229	30,636,897

At 31 December 2013, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM598,452 (2012: RM558,413). No collateral is held as security for any past-due or impaired assets. The Group and Company record 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	
	2013 RM	2012 RM
Group/Company		
At 1 January	**558,413**	652,899
Allowance for/(write back of) for the financial year	**42,260**	(57,606)
Bad debts written-off	**(2,221)**	(36,880)
At 31 December	**598,452**	558,413

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

Liquidity risk

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

The Group and Company actively manage 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 Group and Company maintain 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 Group and 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.

30 FINANCIAL RISKS (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 date RM	Total RM
31.12.2013								
Group								
Financial investments:								
LAR	111,816,966	113,536,211	–	–	–	–	–	113,536,211
AFS	177,515,532	27,849,290	49,089,430	22,924,813	79,707,350	3,565,100	25,556,033	208,692,016
HFT	18,413,447	–	–	–	–	–	18,413,447	18,413,447
Reinsurance assets on claim liabilities	69,558,000	40,180,697	16,822,688	11,284,516	1,270,099	–	–	69,558,000
Insurance receivables	25,955,136	25,955,136	–	–	–	–	–	25,955,136
Other receivables								
– staff loans	1,602,745	269,834	435,040	306,737	564,559	26,575	–	1,602,745
– bond collateral deposits placements	1,375,968	1,407,814	–	–	–	–	–	1,407,814
Cash and bank balances	6,915,600	–	–	–	–	–	6,915,600	6,915,600
Total financial assets	413,153,394	209,198,982	66,347,158	34,516,066	81,542,008	3,591,675	50,885,080	446,080,969

30 FINANCIAL RISKS (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 date RM	Total RM
31.12.2013								
Company								
Financial investments:								
LAR	107,378,325	109,096,851	–	–	–	–	–	109,096,851
AFS	184,154,235	10,254,700	14,102,330	5,954,000	39,335,000	–	124,776,486	194,422,516
HFT	18,413,447	–	–	–	–	–	18,413,447	18,413,447
Reinsurance assets on claim liabilities	69,558,000	40,180,697	16,822,688	11,284,516	1,270,099	–	–	69,558,000
Insurance receivables	25,955,136	25,955,136	–	–	–	–	–	25,955,136
Other receivables								
– staff loans	1,602,745	269,834	435,040	306,737	564,559	26,575	–	1,602,745
– bond collateral deposits placements	1,375,968	1,407,814	–	–	–	–	–	1,407,814
Cash and bank balances	6,518,174	–	–	–	–	–	6,518,174	6,518,174
Total financial assets	414,956,030	187,165,032	31,360,058	17,545,253	41,169,658	26,575	149,708,107	426,974,683

30 FINANCIAL RISKS (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 date RM	Total RM
31.12.2013								
Insurance contract liabilities – claim liabilities	193,351,000	125,563,154	35,871,931	27,446,923	4,468,992	–	–	193,351,000
Insurance payables	29,935,514	29,935,514	–	–	–	–	–	29,935,514
Other payables – cash collateral held for bond business	1,425,586	310,428	1,115,158	–	–	–	–	1,425,586
Total financial liabilities	224,712,100	155,809,096	36,987,089	27,446,923	4,468,992	–	–	224,712,100

30 FINANCIAL RISKS (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 date RM	Total RM
31.12.2012								
Group								
Financial investments:								
LAR	102,129,938	103,817,681	–	–	–	–	–	103,817,681
AFS	177,233,258	29,930,062	29,970,850	40,110,797	72,931,884	11,584,000	24,870,061	209,397,654
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	8,787,486	–	–	–	–	–	8,787,486	8,787,486
Total financial assets	418,207,171	209,589,285	50,754,064	51,629,498	86,183,591	11,641,289	42,271,009	452,068,736

30 FINANCIAL RISKS (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 date RM	Total RM
31.12.2012								
Company								
Financial investments:								
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
Total financial assets	418,849,948	188,831,219	43,649,064	20,459,891	63,497,287	57,289	118,860,853	435,355,603

30 FINANCIAL RISKS (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 date RM	Total RM
31.12.2012								
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
Total financial liabilities	219,584,062	126,471,495	52,938,452	20,505,480	19,668,635	–	–	219,584,062

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-current RM	Total RM
Group			
31.12.2013			
Financial investments:			
LAR	**111,816,966**	**–**	**111,816,966**
AFS	**52,967,666**	**124,547,866**	**177,515,532**
HFT	**18,413,447**	**–**	**18,413,447**
Reinsurance assets on claim liabilities	**40,180,697**	**29,377,303**	**69,558,000**
Insurance receivables	**25,955,136**	**–**	**25,955,136**
Other receivables			
– staff loans	**269,834**	**1,332,911**	**1,602,745**
– bond collateral deposits placements	**1,375,968**	**–**	**1,375,968**
Cash and bank balances	**6,915,600**	**–**	**6,915,600**
Total financial assets	**257,895,314**	**155,258,080**	**413,153,394**
31.12.2012			
Financial investments:			
LAR	102,129,938	–	102,129,938
AFS	54,321,398	122,911,860	177,233,258
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	8,787,486	–	8,787,486
Total financial assets	249,684,400	168,522,771	418,207,171

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-current RM	Total RM
Company			
31.12.2013			
Financial investments:			
LAR	**107,378,325**	**–**	**107,378,325**
AFS	**134,847,486**	**49,306,749**	**184,154,235**
HFT	**18,413,447**	**–**	**18,413,447**
Reinsurance assets on claim liabilities	**40,180,697**	**29,377,303**	**69,558,000**
Insurance receivables	**25,955,136**	**–**	**25,955,136**
Other receivables – staff loans	**269,834**	**1,332,911**	**1,602,745**
– bond collateral deposits placements	**1,375,968**	**–**	**1,375,968**
Cash and bank balances	**6,518,174**	**–**	**6,518,174**
Total financial assets	**334,939,067**	**80,016,963**	**414,956,030**
31.12.2012			
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
Total financial assets	305,760,393	113,089,555	418,849,948

30 FINANCIAL RISKS (CONTINUED)

Market price risk

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

The Group and 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 Group and Company's investments in equities are managed by licensed asset management companies. The Group and Company have 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 Group and Company are invested with unit trust funds governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Group and Company monitor the performance of the investments against the relevant performance benchmarks established by the Group and Company.

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 Group and Company. The impact on equity represents the changes in fair value of AFS financial assets.

	31 December 2013			31 December 2012		
	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM
Market value						
Available-for-sale securities:						
Unit trust investments	**+5%**	**–**	**4,679,118**	+5%	–	3,817,279
Unit trust investments	**–5%**	**–**	**(4,679,118)**	–5%	–	(3,817,279)
Held-for-trading securities:						
Equities	**+5%**	**797,482**	**598,112**	+5%	291,891	218,918
Equities	**–5%**	**(797,482)**	**(598,112)**	–5%	(291,891)	(218,918)
REITs	**+5%**	**123,190**	**92,392**	+5%	138,782	104,087
REITs	**–5%**	**(123,190)**	**(92,392)**	–5%	(138,782)	(104,087)

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

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 Group and 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 Group and Company to cash flow interest/profit risk, whereas fixed rate/yield instruments expose the Group and Company to fair value interest/profit risk.

The Group and Company manage 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 Group and Company:

	Impact on profit before tax RM	Impact on equity* RM
31.12.2013		
Change in interest rates		
+50 basis points	**506,441**	**(376,978)**
– 50 basis points	**(506,441)**	**398,364**
31.12.2012		
Change in interest rates		
+50 basis points	407,051	(1,044,948)
– 50 basis points	(407,051)	1,088,399

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

31 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2013, as prescribed under the Risk-Based Capital Framework is provided below:

	2013 RM	2012 RM
Eligible Tier 1 Capital		
Share capital (paid-up)	**100,000,000**	100,000,000
Reserves, including retained earnings	**69,315,420**	47,893,964
	169,315,420	147,893,964
Tier 2 Capital		
Available-for-sale-reserves	**597,228**	1,938,187
Amount deducted from capital	**(202,243)**	(217,278)
Total Capital Available	**169,710,405**	149,614,873

PACIFIC INSURANCE
A member of the Fairfax Group

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

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 42 to 153 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 2013 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 13 March 2014.

DATO' HUANG SIN CHENG
DIRECTOR

DATUK ABU HASSAN BIN KENDUT
DIRECTOR

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

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 42 to 153 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 13 March 2014,

TAN SIEW HOCK

Before me

PESURUHJAYA SUMPAH
(W 591)
YAP LEE CHIN
MALAYSIA
No. 1, Tingkat 2,
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50450 Kuala Lumpur.

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

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

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 2013, of the Group and Company and the statements of income, comprehensive income, changes in equity and cash flows of the Group and Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 153.

Directors' responsibility for the financial statements

The Directors of the Group and 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 provisions 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 (CONTINUED)

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

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 Group and Company as at 31 December 2013 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the register required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act;

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements an in term and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations acquired by us for those purposes; an

(c) Our audit report on the financial statements of the subsidiaries did not contain any qualification or any advance comment made under Section 174(3) of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

MANJIT SINGH
(No: 2954/03/15 (J))
Chartered Accountant

Kuala Lumpur
13 March 2014

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