Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2011

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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Company No.

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THE PACIFIC INSURANCE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITY

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

RESULTS

	RM
Net profit for the financial year	10,983,768

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

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

DIVIDENDS

The amount of dividends declared and paid by the Company since 31 December 2010 was as follows:

	RM
In respect of the financial year ended 31 December 2011:	
Interim dividend of 20.6 sen per share less 25% taxation, paid on 25 October 2011	15,483,000

The Directors do not propose any final dividend for the financial year ended 31 December 2011.

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 *
Tan Sri Dato' Wong Kum Choon **
Tan Sri Dato' Nasruddin Bin Bahari ***
David Wong Cheong Fook ***
George Lee Lap Wah ***
Wong Ah Wah ***
Ng Hon Soon ***

* *Appointed on 24 March 2011*
** *Resigned on 25 June 2011*
*** *Resigned on 24 March 2011*

In accordance with Article 65 of the Company's Articles of Association, Ramaswamy Athappan will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

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.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Responsibility (continued)

The Board has overall responsibility for the strategic direction and development plans in furthering the achievements of the Company. The Board meets regularly and has a formal schedule of matters specifically reserved for its consideration and approval, which includes the annual business and strategic plans, business operations, financial performance, risk management, investment, as well as compliance requirements under the Risk-Based Capital Framework. 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 and approves the authority levels for the Company's core functions, including expenditure approving authority, risk acceptance authority, claims approval authority, investment policies and reinsurance strategies.

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

Board Composition and Meetings

Following the completion of the acquisition of the Company by Fairfax Asia Limited from PacificMas Berhad on 24 March 2011, the Board was, with the approval of BNM, reconstituted to comprise an independent non-executive Chairman and two non-independent non-executive Directors. On a yearly basis, the Directors are subject to an internal declaration to review their status of compliance with Part XII of the Insurance Regulations 1996 on the fulfilment of the minimum criteria of a "fit and proper person". In accordance with section 70(1) of the Insurance Act 1996, all Directors are appointed and reappointed to the Board after prior approval has been obtained from BNM. All Directors comply with the prescribed maximum number of directorships held and none of them are active politicians.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

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

The Company's Board of Directors as at 31 December 2011 consists of three 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

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 *	5/5	100
Ramaswamy Athappan *	5/5	100
Sammy Chan Sum Yu *	5/5	100
Tan Sri Dato' Wong Kum Choon **	3/3	100
Tan Sri Dato' Nasruddin Bin Bahari ***	1/1	100
David Wong Cheong Fook ***	0/1	0
George Lee Lap Wah ***	1/1	100
Wong Ah Wah ***	1/1	100
Ng Hon Soon ***	1/1	100

* *Appointed on 24 March 2011*
** *Resigned on 25 June 2011*
*** *Resigned on 24 March 2011*

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

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

Board Committees

Effective 24 March 2011, the reconstituted Board assumed the responsibilities of the Audit Committee ("AC"), Risk Management Committee ("RMC"), Nomination Committee ("NC") and Remuneration Committee ("RC") pending the setting up of the Board Committees. The Company has received approval from BNM to set up the Board Committees by 24 March 2012. Prior to 24 March 2011, the Company had its own AC and RMC while the functions and responsibilities of the NC and RC were undertaken by the NC and RC of the previous holding company, PacificMas Berhad.

The AC's terms of reference are in compliance with Part A of BNM's Guidelines BNM/RH/GL 003-22 on Guidelines for Audit Committees and Internal Audit Department. The 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 reviews 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 reviews, 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 evaluates the effectiveness, independence and objectivity of the external auditors before nominating them to the Board for recommendation to the shareholders on their appointment or reappointment. The AC reviews and approves outsourcing of non-audit services provided by external auditors and internal audit services provided by any external service provider.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

The RMC supports the Board in the overall risk management oversight of the Company. BNM's Guidelines BNM/RH/GL 003-01 on Minimum Standards for Prudential Management of Insurers (Consolidated) requires the 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. The responsibilities of the RMC include reviewing periodic management reports on risk exposure, risk portfolio and management strategies, ensuring adequacy of infrastructure, resources and systems for effective risk management, assessing adequacy of policies and framework for identifying, measuring, monitoring and controlling risks, as well as reviewing the extent to which these are operating effectively. The RMC is also involved in the review of requirements under the Risk-Based Capital Framework in relation to the Company's capital management plan, internal capital target and results of periodic stress test. The Company had successfully implemented the Risk-Based Capital Framework since 2009 with a capital adequacy ratio well above the internal and supervisory capital targets.

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.

With regard to retiring Directors, the NC reviews 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 deliberates on Board succession plans as and when appropriate.

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 is responsible for reviewing and recommending the remuneration packages of the Directors, chief executive officer and key senior officers of the Company to the Board for consideration and approval.

CORPORATE GOVERNANCE (CONTINUED)

(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 senior officers of the Company responsible for processing credit facilities do not have any direct or indirect interest in the facilities, as referred to in Section 54 of the Insurance Act, 1996.

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

(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). All material related party transactions have been disclosed in the audited financial statements in accordance with FRS124 on Related Party Disclosures. Other than the provision of financial services which are on normal commercial terms and in the ordinary course of business, all related party transactions were tabled for review and approval at the AC meeting held in January 2011.

(d) Internal Controls and Operational Risk Management

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

A formal risk management framework has been maintained in the Company by the Risk Management Unit ("RMU") which is headed by the chief executive officer as the Risk Management Officer ("RMO") and consists of a Risk Management Coordinator and senior officers in the Company. The RMU presently reports to the Board.

CORPORATE GOVERNANCE (CONTINUED)

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

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

(i) On a quarterly basis, the RMU reviewed the risks identified and reported its risk assessment results to the RMC and Board prior to 24 March 2011 and to the Board effective 24 March 2011 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 and 29 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 an external audit service provider.

(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.

CORPORATE GOVERNANCE (CONTINUED)

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

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

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

(iv) The Credit Control Committee reviews credit risk, recoverability of trade receivables and reconciliation of accounts with third parties as well as studies the requirements of 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.

(vi) A Goods and Services Tax ("GST") Committee has been in place since 2007 in view of the proposed GST implementation. The early planning in this area serves to prepare the Company for the GST regime to implement necessary operational adjustments in the areas of business processes, system development and personnel training. The Company has embarked on the first phase of the project by mapping the GST input/output transactions and identifying the GST implications in the Company's business operations and management information system. These endeavours will be resumed pending further announcement on the implementation of the GST regime by the government.

(vii) The Occupational Safety and Health Management Committee is committed to provide a working environment that emphasises on the safety and health of the employees. The Company develops and adopts relevant policies and applicable best practices to improve the standard of safety and health environment of the Company.

CORPORATE GOVERNANCE (CONTINUED)

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

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 Unit 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 Unit submits a compliance statement to the Board on a quarterly basis.

Subsequent to the completion of the acquisition of the Company's shares by Fairfax Asia Limited on 24 March 2011, and with the approval received from BNM, PacificMas Berhad had extended the internal audit function under its Group Shared Services for a period of six months to facilitate a smooth transition. By October 2011, the Company has its own Internal Audit Department headed by an internal audit manager who works in consultation with the Fairfax Asia Limited internal audit head.

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.

The Internal Audit Department reports directly to the Board. The functions and responsibilities of the Board with respect to internal audit and the functions and responsibilities of the Internal Audit Department are in accordance with the 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/GL003-2 : Prudential Framework of Corporate Governance for Insurers.

The Company has in place a whistleblowing programme and 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.

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

CORPORATE GOVERNANCE (CONTINUED)

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

The internal audit reports were tabled at the Board 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 previous AC met with the external auditors once during the 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 senior management of the Company set the requirements for an effective control culture in the organisation through the Company's core corporate values i.e. quality, integrity, professionalism, results focus and teamwork.

(ii) Organisation Structure

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

(iii) Communication

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

(iv) Staff competency and succession planning

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

(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.

(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 AC, the Company only engages the services of the external auditors for audit assurance and corporate tax. The AC also reviews the total fees earned by the external auditors from non-audit services rendered to the Company for assurance that the independence of the external auditors is not impaired.

(e) Public Accountability and Fair Practices

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

(f) Financial Reporting

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

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Notes 21 and 26 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' INTEREST

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			
	24.3.2011/ (Date of appointment)	Acquired	Exercised	31.12.2011
Ultimate Holding Company				
- Fairfax Financial Holdings Limited ("FFHL")				
(Common or Subordinate voting shares of no par value each)				
Ramaswamy Athappan	-	3,300	-	3,300
Sammy Chan Sum Yu	24,770	-	-	24,770

DIRECTORS' INTEREST (CONTINUED)

	Holdings registered in name of nominee *			
	24.3.2011/ (Date of appointment)	Acquired	Exercised	31.12.2011
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 Company were made out, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts of the Company inadequate to any substantial extent; and

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

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

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

OTHER STATUTORY INFORMATION (CONTINUED)

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Company which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

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

HOLDING COMPANY

The Company was a wholly-owned subsidiary of PacificMas Berhad, a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad, up to 23 March 2011.

On 24 March 2011, Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77, acquired 100% of the equity of the Company and the Company became a wholly-owned subsidiary of Fairfax Asia Limited effective 24 March 2011.

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PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

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 21 February 2012.

DATO' HUANG SIN CHENG DIRECTOR	SAMMY CHAN SUM YU DIRECTOR

Company No.

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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 RM	2010 RM
ASSETS			
Property and equipment	3	1,276,674	901,788
Investment properties	4	321,042	652,298
Intangible assets	5	25,571	29,851
Investments	6		
Available-for-sale financial assets		183,213,552	146,118,017
Held-for-trading financial assets		3,029,391	1,497,003
Loans and receivables		63,773,864	92,747,175
Reinsurance assets	7	134,333,000	68,853,000
Insurance and other receivables	8	56,672,732	28,764,054
Loans	9	1,733,993	2,052,045
Deferred tax asset	13	-	524,572
Tax recoverable		4,834,623	4,117,354
Cash and bank balances		7,064,085	4,178,578
TOTAL ASSETS		456,278,527	350,435,735
EQUITY AND LIABILITIES			
Share capital	10	100,000,000	100,000,000
Available-for-sale reserves		3,204,252	1,494,611
Retained earnings		29,402,141	33,901,373
Total equity		132,606,393	135,395,984
Insurance contract liabilities	12	286,378,000	189,291,000
Deferred tax liabilities	13	807,509	-
Insurance and other payables	14	36,486,625	25,748,751
Total liabilities		323,672,134	215,039,751
TOTAL EQUITY AND LIABILITIES		456,278,527	350,435,735

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

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THE PACIFIC INSURANCE BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

		Non-distributable	Distributable	
	Share capital RM	Available-for-sale reserves RM	Retained earnings RM	Total RM
At 1 January 2010	100,000,000	(318,471)	26,763,560	126,445,089
Total comprehensive income for the financial year	-	1,813,082	7,137,813	8,950,895
At 31 December 2010	100,000,000	1,494,611	33,901,373	135,395,984
At 1 January 2011	100,000,000	1,494,611	33,901,373	135,395,984
Total comprehensive income for the financial year	-	1,709,641	10,983,768	12,693,409
Dividend paid during the financial year	-	-	(15,483,000)	(15,483,000)
At 31 December 2011	100,000,000	3,204,252	29,402,141	132,606,393

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

Company No.

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THE PACIFIC INSURANCE BERHAD
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INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Operating revenue	15	189,773,917	156,202,081
Gross earned premiums	16(a)	179,383,830	146,897,626
Premiums ceded to reinsurers	16(b)	(56,195,208)	(43,536,196)
Net earned premiums		123,188,622	103,361,430
Investment income	17	10,390,087	9,304,455
Realised gains and losses	18	349,295	1,522,745
Fair value gains and losses	19	473,647	223,636
Fee and commission income	20	13,189,506	10,001,564
Other operating income		853,057	377,469
Other revenue		25,255,592	21,429,869
Gross benefits and claims paid		(90,561,179)	(72,754,971)
Claims ceded to reinsurers		26,374,021	9,238,216
Gross change in contract liabilities		(70,680,000)	(8,483,000)
Change in contract liabilities ceded to reinsurers		55,642,000	3,809,000
Net claims		(79,225,158)	(68,190,755)
Fee and commission expense		(27,553,801)	(22,707,201)
Management expenses	21	(27,859,967)	(30,102,171)
Other expenses		(55,413,768)	(52,809,372)
Profit before taxation		13,805,288	3,791,172
Taxation	22	(2,821,520)	3,346,641
Net profit for the financial year		10,983,768	7,137,813
Earnings per share (sen)			
Basic	23	11.0	7.1

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	2011 RM	2010 RM
Net profit for the financial year	10,983,768	7,137,813
Other comprehensive income:		
Available-for-sale fair value reserves		
Net gain arising during the financial year	2,279,521	2,489,688
Net realised gain transferred to Income Statement	-	(72,245)
	2,279,521	2,417,443
Tax effect thereon (Note 13)	(569,880)	(604,361)
	1,709,641	1,813,082
Total comprehensive income for the financial year	12,693,409	8,950,895

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

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	2011 RM	2010 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	13,805,288	3,791,172
Adjustment for:		
Depreciation of property and equipment	325,202	381,557
Gain on disposal of property and equipment	(5,863)	(16,591)
Gain on disposal of investment property	(154,078)	(317,970)
Property and equipment written-off	7,592	5,931
Change in fair value of FVTPL investments	(473,647)	(223,636)
Depreciation of investment properties	20,246	22,503
Amortisation of intangible assets	12,442	16,775
Net gain on disposal of:		
FVTPL securities	(196,946)	(1,121,870)
AFS investments	-	(72,245)
Investment income	(10,390,087)	(9,304,455)
Other interest income	(49,011)	(63,032)
Bad debts (recovered)/written-off	(928)	53,297
Write-back in allowance for impairment losses	(95,649)	(262,128)
Profit/(loss) from operations before changes in operating assets and liabilities	2,804,561	(7,110,692)
Purchase of investments	(42,979,265)	(30,827,952)
Proceeds from disposal/maturity of investments	7,008,570	23,786,518
Decrease in loans	318,052	685,347
Increase in reinsurance assets	(65,480,000)	(11,815,000)
Increase in insurance and other receivables	(27,672,068)	(7,955,561)
Increase in insurance contract liabilities	97,087,000	22,601,000
Increase in insurance and other payables	10,737,874	9,151,164
Cash used in operations	(18,175,276)	(1,485,176)
Investment income received	10,537,998	9,616,782
Other interest income received	49,011	63,032
Income tax paid	(2,771,646)	(1,674,163)
Income tax refund received	-	2,432,694
Net cash (used in)/generated from operating activities	(10,359,913)	8,953,169

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

	2011 RM	2010 RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(849,156)	(136,817)
Purchase of intangible assets	(8,162)	(694)
Proceeds from disposal of investment properties	465,088	-
Proceeds from disposal of property and equipment	147,339	17,972
Net cash used in investing activities	(244,891)	(119,539)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	(15,483,000)	-
Net cash used in financing activities	(15,483,000)	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(26,087,804)	8,833,630
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	96,925,753	88,092,123
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	70,837,949	96,925,753
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions	63,773,864	92,747,175
Cash and bank balances	7,064,085	4,178,578
	70,837,949	96,925,753

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

1 CORPORATE INFORMATION

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

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

The Company was a wholly-owned subsidiary of PacificMas Berhad, a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad, up to 23 March 2011. The ultimate holding company was Oversea-Chinese Banking Corporation Limited, a public listed company incorporated in Singapore, up to 23 March 2011.

On 24 March 2011, Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77, acquired 100% of the equity of the Company. The Company became a wholly-owned subsidiary of Fairfax Asia Limited effective 24 March 2011. 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 21 February 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements comply with the Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Guidelines issued by BNM pursuant to the Insurance Act,1996 and the provisions of the Companies Act, 1965 in all material aspects.

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

The Company has met the minimum capital requirements as prescribed by the RBC Framework as at the date of the statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

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

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

(a) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Company's financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS 1 "First-time Adoption of Financial Reporting Standards"
- Revised FRS 3 "Business combinations"
- Revised FRS 127 "Consolidated and separate financial statements"
- Amendment to FRS 2 "'Share-based payment - Group cash-settled share-based payment transactions"
- Amendment to FRS 7 "Financial instruments: Disclosures - improving disclosures about financial instruments"
- Amendments to FRS 1 "First-time adoption of financial reporting standards"
- Amendment to FRS 132 "Financial instruments: Presentation – Classification of rights issues"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- IC Interpretation 12 "Service concession arrangements"
- IC Interpretation 16 "Hedges of a net investment in a foreign operation"
- IC Interpretation 17 "Distribution of non-cash assets to owners"
- IC Interpretation 18 "Transfers of assets from customers"
- Improvements to FRSs (2010)

The adoption of the new accounting standards, amendments and improvements to published standards and interpretations do not have any significant impact on the financial statements of the Company except for certain enhanced disclosures.

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

In the following financial year, the Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). In adopting the new framework, the Company will be applying MFRS 1 "First-time adoption of MFRS". 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 2012

- The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

  The Company will apply this standard from financial periods beginning on 1 January 2012.

- Amendment to MFRS 112 "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn. The Company will apply this standard from financial periods beginning on 1 January 2012.

- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss. The Company will apply this standard from financial periods beginning on 1 January 2012.

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) Financial year beginning on/after 1 January 2013

- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2013) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

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

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

- Amendment to MFRS 1 “First time adoption on fixed dates and hyperinflation” (effective from 1 July 2011) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to MFRSs’, thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation. The Company will apply this standard from financial periods beginning on 1 January 2013.

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

- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. The Company will apply this standard from financial periods beginning on 1 January 2013.

- Amendment to MFRS 101 “Financial statement presentation” (effective from 1 July 2012) requires entities to separate items presented in other comprehensive income in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in other comprehensive income. The Company will apply this standard from financial periods beginning on 1 January 2013.

- Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment. The Company will apply this standard from financial periods beginning on 1 January 2013.

The Company has completed its preliminary review of the MFRS requirements. No critical conversion issues were identified, hence, it is expected that there would not be any significant impact from the adoption of the above MFRS.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Property and equipment

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Investment properties

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

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

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

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

(c) Intangible assets

Intangible assets of the Company consist of computer software.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Impairment of non-financial assets

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

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

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

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

(e) Investments and other financial assets

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Investments and other financial assets (continued)

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 on the settlement date.

(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.

(iii) 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.

(iv) 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.

(v) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Fair value of financial instruments

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

(g) Impairment of financial assets

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

(i) Financial assets carried at amortised cost

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) 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.

(h) Derecognition of financial assets

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

(i) 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.

(j) Product classification

The Company issues contracts that transfer insurance risk only.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(k) Reinsurance

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

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

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

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

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

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

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

(l) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(l) 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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(l) Underwriting results (continued)

(iii) Claim liabilities

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

(iv) Acquisition costs

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

(m) Insurance receivables

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

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

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

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

(o) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Other revenue recognition (continued)

(ii) Interest income

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

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

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

(iv) Net realised gain/loss on investment

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

(p) 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)

(q) 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.

(r) 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.

(s) 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.

(t) 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 cash flow statement has been prepared using the indirect method.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(u) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting estimates and judgements

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

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

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

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

(b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Valuation of insurance contract liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting estimates and judgements (continued)

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

(i) Valuation of insurance contract liabilities (continued)

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

3 PROPERTY AND EQUIPMENT

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

3 PROPERTY AND EQUIPMENT (CONTINUED)

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

4 INVESTMENT PROPERTIES

	2011 RM	2010 RM
Cost		
At 1 January	886,700	1,006,700
Disposals	(411,700)	(120,000)
At 31 December	475,000	886,700
Accumulated depreciation		
At 1 January	234,402	239,869
Charge for the financial year	20,246	22,503
Disposals	(100,690)	(27,970)
31 December	153,958	234,402
Net book value	321,042	652,298
Fair value	780,000	1,158,000

The fair values of investment properties are based on the market values of the properties as assessed by an independent professional valuer. One of the properties was assessed during the current financial year and the other was last assessed in 2010.

As at 31 December 2011, investment properties comprise 2 commercial properties, of which one is leased to a third party. Rental income from the property is included in Note 17 to the financial statements.

Direct operating expenses (included within Management Expenses, Note 21 to the financial statements) arising in respect of such properties during the financial year was RM36,583 (2010: RM39,177).

5 INTANGIBLE ASSETS

	Computer software	
	2011	2010
	RM	RM
Cost		
At 1 January	203,634	203,949
Additions	8,162	694
Disposals	-	(210)
Write-offs	-	(799)
At 31 December	211,796	203,634
Accumulated amortisation		
At 1 January	173,783	158,017
Charge for the year	12,442	16,775
Disposals	-	(210)
Write-offs	-	(799)
At 31 December	186,225	173,783
Net book value	25,571	29,851

6 INVESTMENTS

	2011	2010
	RM	RM
Malaysian Government Securities	44,581,561	40,657,543
Government investment issues	-	5,046,823
Corporate bonds	41,921,506	9,757,457
Unit trust investments	96,710,485	90,656,194
Equity securities	730,611	1,091,303
Real estate investment trusts ("REITs")	2,298,780	405,700
Deposits with financial institutions	63,773,864	92,747,175
	250,016,807	240,362,195

6 INVESTMENTS (CONTINUED)

	2011 RM	2010 RM
The Company's financial investments are summarised by categories as follows:		
Loans and receivables ("LAR")	63,773,864	92,747,175
Available-for-sale financial assets ("AFS")	183,213,552	146,118,017
Held-for-trading ("HFT")	3,029,391	1,497,003
	250,016,807	240,362,195
The following investments mature after 12 months:		
AFS	82,960,006	49,291,582

(a) LAR

	2011 RM	2010 RM
Amortised cost		
Deposits with licensed financial institutions:		
Commercial banks	35,713,772	49,212,591
Other financial institutions	28,060,092	43,534,584
	63,773,864	92,747,175

(b) AFS

	2011 RM	2010 RM
Fair value		
Malaysian Government Securities	44,581,561	40,657,543
Government investment issues	-	5,046,823
Quoted in Malaysia:		
Unit trust investments	96,710,485	90,656,194
Unquoted in Malaysia:		
Corporate bonds	41,921,506	9,757,457
	183,213,552	146,118,017

6 INVESTMENTS (CONTINUED)

	2011 RM	2010 RM
(c) FVTPL		
Fair value		
Held-for-trading		
Equity securities	730,611	1,091,303
REITs	2,298,780	405,700
	3,029,391	1,497,003

(d) Carrying values of financial instruments

	LAR RM	AFS RM	HFT RM	Total RM
At 1 January 2011	92,747,175	146,118,017	1,497,003	240,362,195
Purchases	752,977,060	41,228,900	1,750,365	795,956,325
Maturities	(781,950,372)	(6,120,000)	-	(788,070,372)
Disposals	-	-	(691,624)	(691,624)
Fair value gains/ (losses) recorded in:				
Profit or loss	-	-	473,647	473,647
Other comprehensive income	-	2,279,521	-	2,279,521
Amortisation of premiums	-	(292,886)	-	(292,886)
At 31 December 2011	63,773,863	183,213,552	3,029,391	250,016,806
At 1 January 2010	85,620,790	136,957,091	-	222,577,881
Purchases	558,753,694	18,189,174	12,638,778	589,581,646
Maturities	(551,627,309)	-	-	(551,627,309)
Disposals	-	(11,226,992)	(11,365,411)	(22,592,403)
Fair value gains/ (losses) recorded in:				
Profit or loss	-	-	223,636	223,636
Other comprehensive income	-	2,417,443	-	2,417,443
Amortisation of premiums	-	(218,699)	-	(218,699)
At 31 December 2010	92,747,175	146,118,017	1,497,003	240,362,195

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 as follows:

	AFS RM	HFT RM	Total RM
31 December 2011			
Quoted market price	96,710,485	3,029,391	99,739,876
Valuation techniques - market observable inputs	86,503,067	-	86,503,067
	183,213,552	3,029,391	186,242,943
31 December 2010			
Quoted market price	90,656,194	1,497,003	92,153,197
Valuation techniques - market observable inputs	55,461,823	-	55,461,823
	146,118,017	1,497,003	147,615,020

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.

The table below analyses the financial instruments carried at fair value by valuation methods as described above.

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
31 December 2011				
HFT	3,029,391	-	-	3,029,391
AFS	96,710,485	86,503,067	-	183,213,552
	99,739,876	86,503,067	-	186,242,943

6 INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

	Level 1	Level 2	Level 3	Total
	RM	RM	RM	RM
31 December 2010				
HFT	1,497,003	-	-	1,497,003
AFS	90,656,194	55,461,823	-	146,118,017
	92,153,197	55,461,823	-	147,615,020

7 REINSURANCE ASSETS

	2011	2010
	RM	RM
Reinsurance of insurance contracts (Note 12)	134,333,000	68,853,000

8 INSURANCE AND OTHER RECEIVABLES

	2011	2010
	RM	RM
Insurance receivables:		
Due premiums including agents/brokers and co-insurers balances	32,614,512	15,520,265
Allowance for impairment	(410,221)	(521,697)
	32,204,291	14,998,568
Amount due from reinsurers/ceding companies	7,664,331	2,242,763
Allowance for impairment	(242,678)	(226,851)
	7,421,653	2,015,912
Total insurance receivables	39,625,944	17,014,480
Other receivables:		
Other receivables, deposits and prepayments	2,964,242	3,407,164
Share of net assets in Malaysian Motor Insurance Pool ("MMIP")	12,783,740	7,154,900
Income due and accrued	1,298,806	1,187,510
Total other receivables	17,046,788	11,749,574
Total insurance and other receivables	56,672,732	28,764,054

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

9 LOANS

	2011 RM	2010 RM
Staff loans:		
Secured	1,717,224	2,026,174
Unsecured	16,769	25,871
	1,733,993	2,052,045
Receivable after 12 months	1,335,422	1,615,546

The weighted average effective interest rate for staff loans as at 31 December 2011 was 2.50% (2010: 2.59%) per annum on the basis of monthly rest.

10 SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2011 RM	2010 RM	2011 RM	2010 RM
Authorised:				
At 1 January / 31 December	500,000,000	500,000,000	500,000,000	500,000,000
Issued and paid up:				
At 1 January / 31 December	100,000,000	100,000,000	100,000,000	100,000,000

11 RESERVES

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

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

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained earnings as at 31 December 2011. As at 31 December 2011, the Company has a tax exempt account of RM1,574,146 (2010: RM1,570,906) from which it can declare tax exempt dividends. These amounts are however subject to agreement by the Inland Revenue Board.

12 INSURANCE CONTRACT LIABILITIES

	2011			2010		
	Gross RM	Re-insurance RM	Net RM	Gross RM	Re-insurance RM	Net RM
Provision for claims reported by policyholders	130,614,005	(71,983,601)	58,630,404	90,174,364	(37,899,250)	52,275,114
Provision for incurred but not reported claims ("IBNR")	50,423,995	(23,323,399)	27,100,596	20,183,636	(1,765,750)	18,417,886
Claim liabilities (i)	181,038,000	(95,307,000)	85,731,000	110,358,000	(39,665,000)	70,693,000
Premium liabilities (ii)	105,340,000	(39,026,000)	66,314,000	78,933,000	(29,188,000)	49,745,000
	286,378,000	(134,333,000)	152,045,000	189,291,000	(68,853,000)	120,438,000

(i) Claim liabilities

At 1 January	110,358,000	(39,665,000)	70,693,000	101,875,000	(35,856,000)	66,019,000
Claims incurred in the current accident year	158,270,188	(73,545,107)	84,725,081	80,623,250	(15,462,286)	65,160,964
Claims incurred in prior accident years	2,178,524	(6,179,265)	(4,000,741)	(1,427,664)	2,408,163	980,499
Movement in PRAD of claim liabilities at 75% confidence level	3,470,000	(2,291,649)	1,178,351	1,374,000	6,907	1,380,907
Movement in claims handling expenses	(2,677,533)	-	(2,677,533)	668,385	-	668,385
Claims paid during the financial year	(90,561,179)	26,374,021	(64,187,158)	(72,754,971)	9,238,216	(63,516,755)
At 31 December	181,038,000	(95,307,000)	85,731,000	110,358,000	(39,665,000)	70,693,000

(ii) Premium liabilities

At 1 January	78,933,000	(29,188,000)	49,745,000	64,815,000	(21,182,000)	43,633,000
Premiums written in the financial year	205,790,830	(66,033,208)	139,757,622	161,015,626	(51,542,196)	109,473,430
Premiums earned during the financial year	(179,383,830)	56,195,208	(123,188,622)	(146,897,626)	43,536,196	(103,361,430)
At 31 December	105,340,000	(39,026,000)	66,314,000	78,933,000	(29,188,000)	49,745,000

13 DEFERRED TAX ASSET/(LIABILITIES)

	2011 RM	2010 RM
At 1 January	524,572	(10,415)
- Recognised in the income statement (Note 22)	(762,201)	1,139,348
- Recognised in other comprehensive income	(569,880)	(604,361)
	(807,509)	524,572

	Fair value changes on investments RM	Accelerated capital allowances RM	Total RM
2011			
Deferred tax liabilities			
At 1 January 2011	554,113	185,555	739,668
- Recognised in income statement	118,412	25,963	144,375
- Recognised in other comprehensive income	569,880	-	569,880
At 31 December 2011 (before offsetting)	1,242,405	211,518	1,453,923

	Receivables RM	Others RM	Total RM
2011			
Deferred tax asset			
At 1 January 2011	79,437	1,184,803	1,264,240
- Recognised in income statement	(28,870)	(588,956)	(617,826)
At 31 December 2011 (before offsetting)	50,567	595,847	646,414
Net deferred tax liabilities (after offsetting)			807,509

13 DEFERRED TAX ASSET/(LIABILITIES) (CONTINUED)

	Fair value changes on investments RM	Accelerated capital allowances RM	Total RM
2010			
Deferred tax liabilities			
At 1 January 2010	-	218,898	218,898
- Recognised in income statement	55,909	(33,343)	22,566
- Recognised in other comprehensive income	498,204	-	498,204
At 31 December 2010 (before offsetting)	554,113	185,555	739,668

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

14 INSURANCE AND OTHER PAYABLES

	2011 RM	2010 RM
Trade payables:		
Amount due to reinsurers/ceding companies	20,008,544	9,916,226
Amount due to brokers, co-insurers and insureds	8,848,755	6,311,354
	28,857,299	16,227,580
Other payables:		
Provision for agents' profit commission	1,137,490	859,491
Provision for bonus (including EPF for bonus)	1,753,963	4,739,211
Service tax payable	1,584,622	883,952
Takaful and Insurance Benefits Protection Scheme ("TIPS")/ Insurance Guarantee Scheme Fund ("IGSF")	547,886	338,437
Cash collateral held for bond business	608,310	796,699
Other payables and accrued liabilities	1,997,055	1,903,381
	7,629,326	9,521,171
Total insurance and other payables	36,486,625	25,748,751

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

15 OPERATING REVENUE

	2011 RM	2010 RM
Gross premiums (Note 16)	179,383,830	146,897,626
Investment income (Note 17)	10,390,087	9,304,455
	189,773,917	156,202,081

16 NET EARNED PREMIUMS

	2011 RM	2010 RM
(a) Gross premiums		
Written premiums (Note 12(ii))	205,790,830	161,015,626
Change in premium liabilities	(26,407,000)	(14,118,000)
	179,383,830	146,897,626
(b) Premium ceded		
Ceded premiums (Note 12(ii))	(66,033,208)	(51,542,196)
Change in premium liabilities	9,838,000	8,006,000
	(56,195,208)	(43,536,196)
Net earned premiums	123,188,622	103,361,430

17 INVESTMENT INCOME

	2011 RM	2010 RM
Rental income from investment properties	25,361	62,750
Financial assets at FVTPL		
Dividend income - equity securities	38,419	226,056
- REITs	19,414	15,422
AFS financial assets		
Interest income	2,939,649	2,487,078
Dividend income – unit trusts	4,930,335	4,556,670
Interest income from loans and receivables	2,685,038	2,157,801
Profit income from cash at bank	44,757	17,377
Amortisation of premiums, net of accretion of discounts	(292,886)	(218,699)
	10,390,087	9,304,455

18 REALISED GAINS AND LOSSES

	2011 RM	2010 RM
Financial assets at FVTPL		
Realised gains:		
Equity securities	152,511	1,213,444
REITs	44,435	34,212
Realised losses:		
Equity securities	-	(125,786)
Total realised gains for financial assets at FVTPL	196,946	1,121,870
AFS financial assets		
Realised gains:		
Unit trusts	-	78,755
Realised losses:		
Unit trusts	-	(6,510)
Total realised gains for AFS financial assets	-	72,245
Property and equipment		
Realised gains	5,863	16,590
Realised losses	(7,592)	(5,930)
Total realised (losses)/gains for property and equipment	(1,729)	10,660
Investment properties		
Realised gains	154,078	317,970
	349,295	1,522,745

19 FAIR VALUE GAINS AND LOSSES

	2011 RM	2010 RM
Financial assets at FVTPL	473,647	223,636

20 FEES AND COMMISSION INCOME

	2011 RM	2010 RM
Reinsurance commission income	13,189,506	10,001,564

21 MANAGEMENT EXPENSES

	Note	2011 RM	2010 RM
Employee benefits expenses	21(a)	17,934,628	20,166,819
Directors' fees	21(b)	131,500	189,500
Auditors' remuneration			
- statutory audits		150,000	120,000
- other services		-	13,000
Depreciation of property and equipment	3	325,202	381,557
Depreciation of investment properties	4	20,246	22,503
Direct operating expenses of investment properties - revenue generating	4	36,583	39,177
Amortisation of intangible assets	5	12,442	16,775
Bad debts (recovered)/written-off		(928)	53,297
Write-back of allowance for impairment losses		(95,649)	(262,128)
Office rental		1,655,053	1,616,223
Office equipment rental		388,564	412,754
Computer maintenance		925,674	907,899
Entertainment		338,113	363,852
Transport and travelling		346,388	339,576
Printing and stationery		382,074	271,846
Padunet networking charges		605,055	596,065
Shared services expenses		1,022,630	1,482,338
Bank charges		1,305,457	1,118,890
Other expenses		2,376,935	2,252,228
		27,859,967	30,102,171

(a) Employee benefits expense

	2011 RM	2010 RM
Wages and salaries	14,537,078	16,511,486
Social security contributions	115,409	113,349
Contributions to defined contribution plan, EPF	2,196,861	2,532,129
Other benefits	1,085,280	1,009,855
	17,934,628	20,166,819

21 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

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

	2011	2010
	RM	RM
Non-executive Directors' fees	131,500	189,500

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

	Number of Directors	
	2011	2010
	RM	RM
Non-executive Directors:		
Below RM50,000	4	6

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

	2011	2010
	RM	RM
Salary and other emoluments	384,780	359,781
Bonus	228,571	546,500
Contribution to defined contribution plan	97,051	144,080
Estimated money value of benefits-in-kind	16,902	16,471
	727,304	1,066,832
Amount included in employee benefits expense	710,402	1,050,361

22 TAXATION

	2011 RM	2010 RM
Income tax:		
Malaysian income tax	1,465,976	218,655
Under/(over) provision in respect of prior years	593,343	(2,425,948)
	2,059,319	(2,207,293)
Deferred tax relating to origination and reversal of temporary differences (Note 13)	762,201	(1,139,348)
Tax expense/(income) for the financial year	2,821,520	(3,346,641)

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 25%) on the estimated assessable profit for the financial year.

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

	2011 RM	2010 RM
Profit before taxation	13,805,288	3,791,172
Taxation at Malaysian statutory income tax rate of 25% (2010: 25%)	3,451,322	947,793
Expenses not deductible for tax purposes	102,775	92,626
Income not subject to tax	(1,241,784)	(1,975,800)
Under/(over) provision of income tax in prior years	593,343	(2,425,949)
(Over)/under provision of deferred tax in prior years	(84,136)	14,689
Tax expense/(income) for the financial year	2,821,520	(3,346,641)

23 EARNINGS PER SHARE

The calculation of basic earnings per ordinary share of RM1.00 each is based on the profit after taxation for the financial year of RM10,983,768 (2010: RM7,137,813) over the number of shares in issue during the year of 100,000,000 (2010: 100,000,000).

24 OPERATING LEASE ARRANGEMENTS

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

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

	2011 RM	2010 RM
Future minimum rental payment:		
Not later than 1 year	188,095	180,697
Later than 1 year and not later than 5 years	116,460	164,815
	304,555	345,512

25 CAPITAL COMMITMENTS

	2011 RM	2010 RM
Approved and contracted for:		
Furniture and fittings	6,480	-
Computers	48,835	22,080
	55,315	22,080

26 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The Company was a wholly-owned subsidiary of PacificMas Berhad, a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad while the ultimate holding company was Oversea-Chinese Banking Corporation Limited, a public listed company incorporated in Singapore, up to 23 March 2011.

On 24 March 2011, Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77, acquired 100% of the equity of the Company. The Company became a wholly-owned subsidiary of Fairfax Asia Limited effective 24 March 2011. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.

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

	Significant transactions		Carrying value	
	2011	2010	2011	2010
	RM	RM	RM	RM
FELLOW SUBSIDIARY:				
Income				
Commission receivable	63,344	-	-	-
Expense				
Reinsurance premium ceded	921,025	-	-	-
Payables				
Reinsurance balances due to	-	-	846,169	-
KEY MANAGEMENT OF THE COMPANY:				
Secured staff loans outstanding	-	-	22,000	36,400

26 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:

	2011 RM	2010 RM
Short-term employee benefits	1,405,940	2,049,028
Defined contribution plan	197,134	287,327
	1,603,074*	2,336,355*

* Includes compensation payable to key management personnel at the end of reporting period of RM487,894 (2010: RM1,268,860).

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 Finance.

27 RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

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

(b) Regulatory framework

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

27 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Capital management

The Company's capital management policy is to create shareholder value, deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth. The Risk-Based Capital Framework for the insurance industry came into effect on 1 January 2009. Under the framework, 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%.

28 INSURANCE RISK

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

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

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

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

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

	2011			2010		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM	RM	RM	RM	RM	RM
Claim liabilities						
Motor	55,009,000	(3,793,000)	51,216,000	47,419,000	(5,279,000)	42,140,000
Fire	52,359,000	(45,844,000)	6,515,000	17,038,000	(11,127,000)	5,911,000
Marine, Aviation and Transit	32,040,000	(31,020,000)	1,020,000	9,614,000	(8,868,000)	746,000
Medical and Health	8,322,000	(161,000)	8,161,000	6,897,000	(217,000)	6,680,000
Miscellaneous	33,308,000	(14,489,000)	18,819,000	29,390,000	(14,174,000)	15,216,000
	181,038,000	(95,307,000)	85,731,000	110,358,000	(39,665,000)	70,693,000

28 INSURANCE RISK (CONTINUED)

	2011			2010		
	Gross RM	Re-insurance RM	Net RM	Gross RM	Re-insurance RM	Net RM
Premium liabilities						
Motor	24,470,000	(78,000)	24,392,000	23,491,000	(3,014,000)	20,477,000
Fire	10,222,000	(5,264,000)	4,958,000	8,563,000	(4,504,000)	4,059,000
Marine, Aviation and Transit	4,830,000	(4,382,000)	448,000	6,578,000	(6,091,000)	487,000
Medical and Health	28,997,000	(106,000)	28,891,000	22,559,000	(3,105,000)	19,454,000
Miscellaneous	36,821,000	(29,196,000)	7,625,000	17,742,000	(12,474,000)	5,268,000
	105,340,000	(39,026,000)	66,314,000	78,933,000	(29,188,000)	49,745,000

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 had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

28 INSURANCE RISK (CONTINUED)

Sensitivities (continued)

	Change in assumptions	Impact on gross liabilities RM	Impact on net liabilities RM	Impact on profit before tax RM	Impact on equity RM
31 December 2011					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	480,000	223,000	(223,000)	(167,250)
Loss ratio	+5%	7,443,000	3,390,000	(3,390,000)	(2,542,500)
Claim handling expenses	+5%	215,000	215,000	(215,000)	(161,250)
31 December 2010					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	307,000	165,000	(165,000)	(123,750)
Loss ratio	+5%	3,978,000	2,794,000	(2,794,000)	(2,095,500)
Claim handling expenses	+5%	331,000	331,000	(331,000)	(248,250)

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

28 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2011:

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

28 INSURANCE RISK (CONTINUED)

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

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28 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2011:

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

28 INSURANCE RISK (CONTINUED)

Accident year	Note	Prior to 2004 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	Total RM
Net general insurance outstanding liabilities (treaty inwards)											16,864,819
Best estimate of claim liabilities											77,301,956
Claims handling expenses											3,955,443
PRAD at 75% confidence level											4,473,601
Net general insurance contract liabilities per statement of financial position	12										85,731,000

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28 INSURANCE RISK (CONTINUED)

Gross general insurance contract liabilities in 2010:

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

28 INSURANCE RISK (CONTINUED)

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

28 INSURANCE RISK (CONTINUED)

Net general insurance contract liabilities for 2010:

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

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

28 INSURANCE RISK (CONTINUED)

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

29 FINANCIAL RISKS

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

(i) Credit risk

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

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

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

Credit exposure

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

29 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			
	Investment grade	Not rated	Past-due but not impaired	Total
	RM	RM	RM	RM
31 December 2011				
LAR				
Fixed and call deposits	61,345,774	2,428,090	-	63,773,864
AFS financial investments				
Malaysian Government Securities	-	44,581,561	-	44,581,561
Corporate bonds	41,921,506	-	-	41,921,506
Unit trusts	-	96,710,485	-	96,710,485
Financial investments at FVTPL				
Equity securities	-	730,611	-	730,611
REITs	-	2,298,780	-	2,298,780
Reinsurance assets	-	134,333,000	-	134,333,000
Insurance receivables	-	-	39,625,944	39,625,944
Cash and bank balances	7,037,781	26,304	-	7,064,085
	110,305,061	281,108,831	39,625,944	431,039,836
31 December 2010				
LAR				
Fixed and call deposits	89,198,622	3,548,553	-	92,747,175
AFS financial investments				
Malaysian Government Securities	-	40,657,543	-	40,657,543
Government investment issues	-	5,046,823	-	5,046,823
Corporate bonds	9,757,457	-	-	9,757,457
Unit trusts	-	90,656,194	-	90,656,194
Financial investments at FVTPL				
Equity securities	-	1,091,303	-	1,091,303
REITs	-	405,700	-	405,700
Reinsurance assets	-	68,853,000	-	68,853,000
Insurance receivables	-	-	17,014,480	17,014,480
Cash and bank balances	4,142,681	35,897	-	4,178,578
	103,098,760	210,295,013	17,014,480	330,408,253

29 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit ratings of counterparties obtained from Rating Agency of Malaysia ("RAM"), Malaysian Rating Corporation Berhad ("MARC"), A.M. Best Company ("A.M. Best") and Standard & Poor's ("'S&P"). AAA is the highest possible rating.

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
31 December 2011						
LAR						
Fixed and call deposits	9,671,214	26,378,069	25,296,491	-	2,428,090	63,773,864
AFS financial investments						
Malaysian Government Securities	-	-	-	-	44,581,561	44,581,561
Corporate bonds	13,126,806	28,794,700	-	-	-	41,921,506
Unit trusts	-	-	-	-	96,710,485	96,710,485
Financial investments at FVTPL						
Equity securities	-	-	-	-	730,611	730,611
REITs	-	-	-	-	2,298,780	2,298,780
Reinsurance assets	-	-	-	-	134,333,000	134,333,000
Insurance receivables	-	292,925	4,182,692	25	35,150,302	39,625,944
Cash and bank balances	6,777,133	215,392	45,256	-	26,304	7,064,085
	29,575,153	55,681,086	29,524,439	25	316,259,133	431,039,836
31 December 2011						
Neither past-due nor impaired	29,575,153	55,388,161	25,341,747	-	281,108,831	391,413,892
Past-due but not impaired	-	292,925	4,182,692	25	35,150,302	39,625,944
	29,575,153	55,681,086	29,524,439	25	316,259,133	431,039,836

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

29 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
31 December 2010						
LAR						
Fixed and call deposits	13,770,143	31,701,843	43,726,636	-	3,548,553	92,747,175
AFS financial investments						
Malaysian Government Securities	-	-	-	-	40,657,543	40,657,543
Government investment issues	-	-	-	-	5,046,823	5,046,823
Corporate bonds	2,319,220	7,438,237	-	-	-	9,757,457
Unit trusts	-	-	-	-	90,656,194	90,656,194
Financial investments at FVTPL						
Equity securities	-	-	-	-	1,091,303	1,091,303
REITs	-	-	-	-	405,700	405,700
Reinsurance assets	-	-	-	-	68,853,000	68,853,000
Insurance receivables	-	-	680,847	228	16,333,405	17,014,480
Cash and bank balances	3,975,076	112,778	54,827	-	35,897	4,178,578
	20,064,439	39,252,858	44,462,310	228	226,628,418	330,408,253
31 December 2010						
Neither past-due nor impaired	20,064,439	39,252,858	43,781,463	-	210,295,013	313,393,773
Past-due but not impaired	-	-	680,847	228	16,333,405	17,014,480
	20,064,439	39,252,858	44,462,310	228	226,628,418	330,408,253

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.

29 FINANCIAL RISKS (CONTINUED)

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
31 December 2011						
Insurance receivables	16,052,148	9,555,802	2,787,907	8,498,042	2,732,045	39,625,944
31 December 2010						
Insurance receivables	11,398,897	2,077,379	456,320	2,592,379	489,505	17,014,480

At 31 December 2011, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM652,899 (2010: RM748,548). No collateral is held as security for any past-due or impaired assets. The Company records impairment allowance for insurance receivables in separate "allowance for impairment losses" account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	Allowance for impairment losses 2011 RM	2010 RM
At 1 January	748,548	1,010,675
Write-back for the financial year	(96,577)	(208,830)
Bad debts recovered, net of written-off/(written-off, net of recovery)	928	(53,297)
At 31 December	652,899	748,548

Liquidity risk

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

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

29 FINANCIAL RISKS (CONTINUED)

Maturity profiles

The following table summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest/profit payable and receivable.

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

29 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 December 2011								
Financial investments:								
LAR	63,773,864	64,985,893	-	-	-	-	-	64,985,893
AFS	183,213,552	3,595,623	27,106,000	15,201,650	58,766,270	-	96,710,485	201,380,028
FVTPL	3,029,391	-	-	-	-	-	3,029,391	3,029,391
Reinsurance assets on claim liabilities	95,307,000	54,747,789	19,917,984	5,167,144	15,474,083	-	-	95,307,000
Insurance receivables	39,625,944	39,625,944	-	-	-	-	-	39,625,944
Other receivables								
- staff loans	1,733,993	398,569	502,250	307,318	465,000	60,856	-	1,733,993
- bond collateral deposits placements	753,717	768,004	-	-	-	-	-	768,004
Cash and bank balances	7,064,085	-	-	-	-	-	7,064,085	7,064,085
Total financial assets	394,501,546	164,121,822	47,526,234	20,676,112	74,705,353	60,856	106,803,961	413,894,338
Insurance contract liabilities – claim liabilities	181,038,000	93,827,767	49,194,377	15,723,899	22,291,957	-	-	181,038,000
Insurance payables	28,857,297	28,857,297	-	-	-	-	-	28,857,297
Other payables								
- cash collateral held for bond business	641,154	603,185	37,969	-	-	-	-	641,154
Total financial liabilities	210,536,451	123,288,249	49,232,346	15,723,899	22,291,957	-	-	210,536,451

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

29 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 December 2010								
Financial investments:								
LAR	92,747,175	94,059,523	-	-	-	-	-	94,059,523
AFS	146,118,017	6,372,784	14,651,868	24,743,850	19,926,370	-	90,656,194	156,351,066
FVTPL	1,497,003	-	-	-	-	-	1,497,003	1,497,003
Reinsurance assets on claim liabilities	39,665,000	13,205,941	5,607,755	4,695,991	16,155,313	-	-	39,665,000
Insurance receivables	17,014,480	17,014,480	-	-	-	-	-	17,014,480
Other receivables								
- staff loans	2,052,045	436,499	591,293	290,992	612,717	120,544	-	2,052,045
- bond collateral deposits placements	712,696	724,848	-	-	-	-	-	724,848
Cash and bank balances	4,178,578	-	-	-	-	-	4,178,578	4,178,578
Total financial assets	303,984,994	131,814,075	20,850,916	29,730,833	36,694,400	120,544	96,331,775	315,542,543
Insurance contract liabilities – claim liabilities	110,358,000	47,049,195	24,312,755	15,083,615	23,912,435	-	-	110,358,000
Insurance payables	16,227,580	16,227,580	-	-	-	-	-	16,227,580
Other payables								
- cash collateral held for bond business	826,999	700,545	126,454	-	-	-	-	826,999
Total financial liabilities	127,412,579	63,977,320	24,439,209	15,083,615	23,912,435	-	-	127,412,579

29 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-current RM	Total RM
31 December 2011			
Financial investments:			
LAR	63,773,864	-	63,773,864
AFS	100,253,546	82,960,006	183,213,552
FVTPL	3,029,391	-	3,029,391
Reinsurance assets on claim liabilities	54,747,789	40,559,211	95,307,000
Insurance receivables	39,625,944	-	39,625,944
Other receivables			
- staff loans	398,569	1,335,424	1,733,993
- bond collateral deposits placements	753,717	-	753,717
Cash and bank balances	7,064,085	-	7,064,085
Total financial assets	269,646,905	124,854,641	394,501,546
31 December 2010			
Financial investments:			
LAR	92,747,175	-	92,747,175
AFS	96,826,435	49,291,582	146,118,017
FVTPL	1,497,003	-	1,497,003
Reinsurance assets on claim liabilities	13,205,941	26,459,059	39,665,000
Insurance receivables	17,014,480	-	17,014,480
Other receivables			
- staff loans	436,499	1,615,546	2,052,045
- bond collateral deposits placements	712,696	-	712,696
Cash and bank balances	4,178,578	-	4,178,578
Total financial assets	226,618,807	77,366,187	303,984,994

29 FINANCIAL RISKS (CONTINUED)

Market price risk

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

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

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

	31 December 2011			31 December 2010		
	Changes in variables	Impact on profit before tax	Impact on equity*	Changes in variables	Impact on profit before tax	Impact on equity*
	RM	RM	RM	RM	RM	RM
Market value						
Available-for-sale securities:						
Unit trust investments	+5%	-	3,626,643	+5%	-	3,399,608
Unit trust investments	-5%	-	(3,626,643)	-5%	-	(3,399,608)

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

29 FINANCIAL RISKS (CONTINUED)

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

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

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

	Impact on profit before tax RM	Impact on equity* RM
31 December 2011		
Change in interest rates		
+50 basis points	421,477	(777,588)
- 50 basis points	(421,477)	813,004
31 December 2010		
Change in interest rates		
+50 basis points	404,304	(393,073)
- 50 basis points	(404,304)	411,638

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

30 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2011, as prescribed under the Risk-Based Capital Framework is provided below:

	2011 RM	2010 RM
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000,000	100,000,000
Reserves, including retained earnings	29,402,141	33,901,373
	129,402,141	133,901,373
Tier 2 Capital		
Available-for-sale-reserves	3,204,252	1,494,611
Amount deducted from capital	(25,571)	(29,851)
	3,178,681	1,464,760
Total Capital Available	132,580,822	135,366,133

Company No.	
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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Dato' Huang Sin Cheng and Sammy Chan Sum Yu, 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 17 to 86 are drawn up in accordance with the Financial Reporting Standards, being the MASB for Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Guidelines issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2011 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 21 February 2012.

DATO' HUANG SIN CHENG
DIRECTOR

SAMMY CHAN SUM YU
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 17 to 86 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.

TAN SIEW HOCK

Subscribed and solemnly declared by the abovenamed Tan Siew Hock at Kuala Lumpur in Wilayah Persekutuan on 21 February 2012, before me

PESURUHJAYA SUMPAH
(W 591)
YAP LEE CHIN
MALAYSIA

COMMISSIONER FOR OATHS

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

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

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

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 2011, and the statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 86.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards, being the MASB Approved Accounting Standards for Entities Other than Private Entities in Malaysia, and the provisions of the Companies Act, 1965, 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.

PricewaterhouseCoopers (AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)

(Company No. 91603 K)
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REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, being the MASB Approved Accounting Standards for Entities Other than Private Entities in Malaysia, and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS (No. AF: 1146) Chartered Accountants	SRIDHARAN NAIR (No: 2656/05/12 (J)) Chartered Accountant

Kuala Lumpur
21 February 2012