Ernst & Young

Tune Insurance Malaysia Berhad

(Formerly known as Oriental Capital Assurance Berhad)

(30686 K)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 December 2012

30686 K

Tune Insurance Malaysia Berhad
(Formerly known as Oriental Capital Assurance Berhad)
(Incorporated in Malaysia)

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Tune Insurance Malaysia Berhad
(Formerly known as Oriental Capital Assurance Berhad)
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Directors' report

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

Principal activities

The Company is engaged principally in the underwriting of all classes of general insurance business.

The subsidiary company is dormant.

There have been no significant changes in the nature of the principal activities during the financial year.

Results

	Group and Company RM'000
Net profit for the year	28,563

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

No dividend has been declared or paid since the end of the previous financial year.

The directors do not recommend the payment of any dividend in respect of the current financial year.

Tune Insurance Malaysia Berhad
(Formerly known as Oriental Capital Assurance Berhad)
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Directors

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

Ng Soon Lai @ Ng Siek Chuan
Chee Siew Eng (appointed on 23 May 2012)
Ooi Say Teng (appointed on 23 May 2012)
Mohd Yusof Bin Hussian (appointed on 23 May 2012)
Peter Dixon Miller (appointed on 23 May 2012)
Albert Saychuan Cheok (resigned on 18 June 2012)
Mohan a/l Ramalingam (resigned on 18 June 2012)
Datuk Kunasingam a/l V. Sittampalam (resigned on 18 June 2012)

Corporate governance

The directors confirmed that the Company has complied with all prescriptive requirements and adopts management practices that are consistent with the corporate governance principles set out in BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers as follows:

(a) Responsibility of the Board of Directors

The Board of Directors ("the Board") is charged with the responsibility of providing direction on corporate objectives and business strategies, proper stewardship over Company resources, achievement of corporate objectives, and good corporate citizenship. The Board ensures that there is a sound decision making process and business operating environment, with proper risk management and internal control frameworks.

The Board ensures that it complies with the Insurance Act, 1996 ("the Act"), Insurance Regulations, 1996 ("the Regulations") and Bank Negara Malaysia ("BNM") minimum standards for Prudential Management of Insurers (BNM/RH/GL/003-1), other guidelines or directives issued by BNM, and other statutory and regulatory requirements. The Board had set up Board Committees to oversee and report on functional performances as part of its stewardship and oversight functions.

Corporate governance (cont'd.)

(b) Composition and meetings

The Board comprises one (1) Non-Independent Non-Executive Chairman, two (2) Non-Independent Non-Executive Directors and two (2) Independent Non-Executive Directors. All appointments are in accordance with the Act and BNM guidelines.

The directors bring with them various skills, experience and knowledge in the insurance business to undertake stewardship and oversight of the Company.

The attendance for Directors is calculated based on their tenure of service in the company during the financial year.

During the financial year the members of the Board met ten (10) times, with attendance recorded as follows:

	Attendance
Chairman:	
Ng Soon Lai @ Ng Siek Chuan	10/10
Members:	
Chee Siew Eng (appointed on 23 May 2012)	4/4
Ooi Say Teng (appointed on 23 May 2012)	4/4
Mohd Yusof Bin Hussian (appointed on 23 May 2012)	4/4
Peter Dixon Miller (appointed on 23 May 2012)	4/4
Albert Saychuan Cheok (resigned on 18 June 2012)	6/6
Mohan a/l Ramalingam (resigned on 18 June 2012)	6/6
Datuk Kunasingam a/l V. Sittampalam (resigned on 18 June 2012)	3/6

(c) Board Committees

The Board had set up and delegated certain responsibilities to the Board Committees to facilitate the execution of its duties and responsibilities. These committees have their respective terms of reference. The Chairman of the respective committees reports regularly to the Board.

Corporate governance (cont'd.)

(c) Board Committees (cont'd.)

(i) Risk Management Committee ("RMC")

The RMC comprises two (2) Independent Non-Executive Directors (INED) and one (1) Non-Independent Non-Executive Director (NINED) as follows:

	Attendance
Chairman:	
Chee Siew Eng (INED) (appointed on 23 May 2012)	2/2
Members:	
Mohd Yusof Bin Hussian (INED) (appointed on 23 May 2012)	2/2
Peter Dixon Miller (NINED) (appointed on 23 May 2012)	1/2
Albert Saychuan Cheok (INED) (resigned on 18 June 2012)	2/2
Ng Soon Lai @ Ng Siek Chuan (NINED)	2/2

The RMC oversees the risk management activities - ensures that an appropriate and effective risk framework is in place, deliberates risk management strategies and tolerance limits for the various business activities, reviewing and ensuring adequate reinsurance arrangements are in place for risks written and recommends policies to be adopted to contain Company wide risks.

The RMC met four (4) times during the financial year.

(ii) Audit Committee ("AC")

The AC comprises two (2) INED and one (1) NINED as follows:

	Attendance
Chairman:	
Mohd Yusof Bin Hussian (INED) (appointed on 23 May 2012)	3/3
Members:	
Chee Siew Eng (INED) (appointed on 23 May 2012)	3/3
Ooi Say Teng (NINED) (appointed on 23 May 2012)	3/3
Albert Saychuan Cheok (INED) (resigned on 18 June 2012)	3/3
Mohan a/l Ramalingam (INED) (resigned on 18 June 2012)	3/3
Ng Soon Lai @ Ng Siek Chuan (NINED)	3/3

Corporate governance (cont'd.)

(c) Board Committees (cont'd.)

(ii) Audit Committee ("AC") (cont'd.)

The AC's terms of reference include ensuring an independent, effective and appropriately resourced internal audit department is in place to provide reasonable assurance that the Company's internal control and risk frameworks are preserved, assets are safeguarded, and obligations are met. In addition, the Committee reviews and recommends the adoption of the annual financial statements, and reviews the disclosure of related party transactions. The AC also assesses the work of the external auditors and recommends their appointment/re-appointment.

The AC met six (6) times during the financial year.

(iii) Nomination and Remuneration Committee ("NRC")

The NRC comprises one (2) INED and two (3) NINED as follows:

	Attendance
Chairman:	
Ng Soon Lai @ Ng Siek Chuan (NINED)	4/4
Members:	
Chee Siew Eng (INED) (appointed on 23 May 2012)	2/2
Ooi Say Teng (NINED) (appointed on 23 May 2012)	2/2
Peter Dixon Miller (NINED) (appointed on 23 May 2012)	2/2
Mohd Yusof Bin Hussian (INED) (appointed on 23 May 2012)	2/2
Mohan a/l Ramalingam (INED) (resigned on 18 June 2012)	2/2
Datuk Kunasingam a/l V. Sittampalam (NINED) (resigned on 18 June 2012)	1/2

Corporate governance (cont'd.)

(c) Board Committees (cont'd.)

(iii) Nomination and Remuneration Committee ("NRC") (cont'd.)

The NRC is empowered to evaluate the performance of individual directors and recommend the appointment of Chairman and members of the Board Committees. The NRC proposes first to the Board new directors followed by submission to BNM for appointment and existing directors for re-appointment or re-election. Suitability, competencies and contributions of directors are reviewed prior to any recommendation. The NRC also performs annual review to assess if the composition and size of the Board and skills of individual directors taken together will facilitate effective discharge of Board duties and oversight function. The NRC is responsible for reviewing and recommending remuneration packages for the Chief Executive Officer "CEO" and senior management and changes to staff remuneration policies. The NRC is also charged with the responsibility of ensuring that the remuneration packages commensurate with industry practices, and address the need for retention and motivation of staff.

The NRC also evaluates and recommends appointment of the CEO and key senior officers of the Company.

The NRC met four (4) times during the financial year.

(iv) Investment Committee ("IC")

The IC members comprise one (1) INED and two (2) NINED as follows:

	Attendance
Chairman:	
Ooi Say Teng (NINED) (appointed on 23 May 2012)	4/4
Members:	
Ng Soon Lai @ Ng Siek Chuan (NINED)	6/6
Mohd Yusof Bin Hussian (INED) (appointed on 23 May 2012)	4/4
Albert Saychuan Cheok (INED) (resigned on 18 June 2012)	2/2
Mohan a/l Ramalingam (INED) (resigned on 18 June 2012)	2/2

Corporate governance (cont'd.)

(c) Board Committees (cont'd.)

(iv) Investment Committee ("IC") (cont'd.)

The terms of reference of this Committee is to monitor and manage the investment portfolio, review and recommend investment policies, and review and evaluate the performance of both the internal and external fund management function in view of optimisation of investment returns. This Committee is guided by the Company's Investment Guidelines, business strategies and market conditions and outlook.

The Committee is responsible for the appointment and retention of fund managers as well as evaluation of their performance.

The IC met six (6) times during the financial year.

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 or debentures of 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 or the fixed salary of a full-time employee of the Company as shown in Note 24 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Directors' interests

According to the register of directors' shareholdings, none of the directors in office at the end of the financial year had any interest in shares in the Company or its related companies during the financial year.

Other statutory information

(a) Before the statements of financial position, income statements and statements of comprehensive income of the Group and 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 satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

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

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

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

   (ii) render the values attributed to current assets in the financial statements of the Group and 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 Group and 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 Group and of the Company which would render any amount stated in the financial statements misleading.

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

   (i) any charge on the assets of the Group and 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 in respect of the Group or of the Company which has arisen since the end of the financial year.

Tune Insurance Malaysia Berhad
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Other statutory information (cont'd.)

(f) In the opinion of the directors:

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

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

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

(g) Before the statements of financial position, income statements and statements of comprehensive income 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 prescribed under Part D of the Risk-Based Capital ("RBC") Framework for insurers issued by BNM.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 March 2013.

Ng Soon Lai @ Ng Siek Chuan

Peter Dixon Miller

Kuala Lumpur, Malaysia

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Tune Insurance Malaysia Berhad
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Statement by Directors
Pursuant to Section 169(15) of the Companies Act, 1965

We, Ng Soon Lai @ Ng Siek Chuan and Peter Dixon Miller, being two of the directors of Tune Insurance Malaysia Berhad (formerly known as Oriental Capital Assurance Berhad), do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 14 to 89 are drawn up in accordance with Malaysian Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 March 2013.

Ng Soon Lai @ Ng Siek Chuan

Peter Dixon Miller

Kuala Lumpur, Malaysia

Statutory Declaration
Pursuant to Section 169(16) of the Companies Act, 1965

I, Su Tieng Teck, being the officer primarily responsible for the financial management of tune Insurance Malaysia Berhad (formerly known as Oriental Capital Assurance Berhad), do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 89 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed Su Tieng Teck at)
Kuala Lumpur in the Federal Territory)
on 18 March 2013)

Su Tieng Teck

Before me,

COMMISSIONER FOR OATHS
AGONG SIA
W460
MALAYSIA

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Independent auditors' report to the board of directors of Tune Insurance Malaysia Berhad (Formerly known as Oriental Capital Assurance Berhad) (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Tune Insurance Malaysia Berhad (formerly known as Oriental Capital Assurance Berhad), which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 89.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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Independent auditors' report to the board of directors
Tune Insurance Malaysia Berhad (cont'd.)
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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on other legal and regulatory requirements

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

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

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

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Independent auditors' report to the board of directors
Tune Insurance Malaysia Berhad (cont'd.)
(Formerly known as Oriental Capital Assurance Berhad)
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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.

Ernst & Young
AF: 0039
Chartered Accountants

Abdul Rauf Bin Rashid
No. 2305/05/14(J)
Chartered Accountant

Kuala Lumpur, Malaysia
18 March 2013

Tune Insurance Malaysia Berhad
(Formerly known as Oriental Capital Assurance Berhad)
(Incorporated in Malaysia)

Statements of financial position
As at 31 December 2012

Group and Company	Note	2012 RM'000	2011 RM'000
Assets			
Property and equipment	3	10,273	10,267
Investment property	4	2,395	2,417
Intangible assets	5	157	153
Investment in subsidiary	6	-	-
Investments	7	448,403	430,686
Reinsurance assets	8	163,585	157,966
Insurance receivables	9	60,524	36,805
Other receivables	10	31,160	22,825
Cash and bank balances		2,215	5,152
Total assets		718,712	666,271
Equity			
Share capital	11	100,013	100,013
Share premium		3,335	3,335
Available-for-sale reserves		5,452	7,128
Retained earnings	12	80,068	51,505
Total equity		188,868	161,981
Liabilities			
Insurance contract liabilities	13	431,521	433,817
Retirement benefits	14	1,148	1,336
Deferred tax liabilities	15	508	1,266
Insurance payables	16	73,394	51,053
Other payables	17	23,273	16,818
Total liabilities		529,844	504,290
Total equity and liabilities		718,712	666,271

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

Tune Insurance Malaysia Berhad
(Formerly known as Oriental Capital Assurance Berhad)
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Statements of comprehensive income
For the financial year ended 31 December 2012

Group and Company	Note	2012 RM'000	2011 RM'000
Operating revenue	18	279,135	263,461
Gross earned premiums	19(a)	261,727	245,770
Premiums ceded to reinsurers	19(b)	(112,641)	(89,345)
Net earned premiums		149,086	156,425
Investment income	20	17,408	17,691
Realised gains and losses	21	8,055	6,060
Fee and commission income		20,122	13,551
Other operating income	22	450	130
Other revenue		46,035	37,432
Gross claims paid	23(a)	(165,719)	(137,170)
Claims ceded to reinsurers	23(b)	72,109	55,849
Gross change to contract liabilities	23(c)	(9,007)	11,821
Change in contract liabilities ceded to reinsurers	23(d)	5,477	(38,444)
Net claims		(97,140)	(107,944)
Fee and commission expense		(30,292)	(26,010)
Management expenses	24	(28,897)	(22,782)
Other operating expenses		(255)	(2,150)
Other expenses		(59,444)	(50,942)
Profit before taxation		38,537	34,971
Taxation	25	(9,974)	(8,718)
Net profit for the year		28,563	26,253
Other comprehensive income:			
Movements in available-for-sale fair value reserves:			
Gain on fair value changes of AFS investments		5,813	6,616
Realised gain transferred to profit or loss		(8,049)	(6,032)
Deferred tax relating to components of other comprehensive income		560	(146)
Net other comprehensive (loss)/income for the year		(1,676)	438
Total comprehensive income for the year		26,887	26,691
Earnings per share (sen)			
Basic	26	28.6	26.2

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

Tune Insurance Malaysia Berhad
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Statements of changes in equity
For the financial year ended 31 December 2012

		|--- Non-distributable ----|		Dis-tributable	
Group and Company	**Share capital RM'000**	**Share premium RM'000**	**Available-for-sale reserves RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2012	100,013	3,335	7,128	51,505	161,981
Total comprehensive income for the year	-	-	(1,676)	28,563	26,887
At 31 December 2012	100,013	3,335	5,452	80,068	188,868
At 1 January 2011	100,013	3,335	6,690	25,252	135,290
Total comprehensive income for the year	-	-	438	26,253	26,691
At 31 December 2011	100,013	3,335	7,128	51,505	161,981

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

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Tune Insurance Malaysia Berhad
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Statements of cash flows
For the financial year ended 31 December 2012

	Group and Company	
Group and Company	**2012 RM'000**	**2011 RM'000**
Profit before taxation	38,537	34,971
Investment income	(17,414)	(17,716)
Realised gain on disposal of investments	(8,049)	(6,032)
Purchases of AFS financial assets	(100,255)	(52,225)
Proceeds from maturity/disposal of AFS financial assets	67,941	39,960
Proceeds from maturity/disposal of HTM financial assets	-	30,000
Increase in LAR	22,747	(56,998)
Non-cash items		
Gain on disposal of property and equipment	(6)	(28)
Depreciation of property and equipment	409	504
Depreciation of investment property	22	22
Amortisation of intangible assets	80	148
Impairment loss of property and equipment	255	2,150
Net amortisation of premiums on investment	6	25
Reversal of allowance for impairment losses of insurance receivables	(1,934)	(3,728)
Insurance receivables written off	-	(31)
Changes in working capital:		
Reinsurance assets	(5,619)	25,367
Insurance receivables	(21,785)	3,584
Other receivables	(654)	(3,235)
Insurance contract liabilities	(2,296)	4,093
Insurance payables	22,341	1,748
Retirement benefits	89	85
Other payables	6,455	(6,949)
Cash generated/(used) from operating activities	870	(4,285)
Net interest received	15,258	15,159
Net dividend received	1,320	1,858
Rental received	363	346
Retirement benefits paid	(277)	(297)
Income tax paid	(9,331)	(3,419)
Net cash flows generated from operating activities	8,203	9,362

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Statements of cash flows (cont'd.)
For the financial year ended 31 December 2012

	Group and Company	
Group and Company	**2012 RM'000**	**2011 RM'000**
Investing activities		
Proceeds from disposal of property and equipment	6	29
Purchase of property and equipment	(670)	(489)
Purchase of intangibles	(84)	(186)
Net cash flows used in investing activities	(748)	(646)
Net increase in cash and cash equivalents	7,455	8,716
Cash and cash equivalents at beginning of year	85,143	76,427
Cash and cash equivalents at end of year	92,598	85,143
Cash and cash equivalents comprise:		
Fixed and call deposits (with maturity of less than three months) with licensed financial institutions (Note 7(a))	90,383	79,991
Cash and bank balances	2,215	5,152
	92,598	85,143

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

1. Corporate information

The Company is principally engaged in the underwriting of all classes of general insurance business.

The subsidiary company is dormant.

There have been no significant changes in the nature of the principal activities during the financial period.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Bangunan Tune Insurance, 36, Jalan Ampang, 50450 Kuala Lumpur.

The immediate and ultimate holding companies are Tune Ins Holdings Berhad ("TIH") (formerly known as Tune Ins Holdings Sdn. Bhd.) and Tune Money Sdn Bhd ("TMSB"), respectively. Both the aforesaid holding companies are incorporated and domiciled in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 March 2013.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS").

The financial statements of the Group and the Company have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

2. Significant accounting policies (cont'd.)

2.1 Basis of preparation (cont'd.)

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position only when there is legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group and of the Company.

The Company has met the minimum capital adequacy requirements as prescribed by the Risk-Based Capital Framework ("RBC Framework"') at end of the financial year.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 Basis of consolidation

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at the reporting date.

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to any non-controlling interest, even if this results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

2. Significant accounting policies (cont'd.)

2.2 Basis of consolidation (cont'd.)

(b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group has an option to measure any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. No reclassification of insurance contracts is required as part of the accounting for the business combination.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or a liability, will be recognised as measurement period adjustments in accordance with the applicable MFRS. If the contingent consideration is classified as equity, it will not be remeasured and its subsequent settlement will be accounted for within equity.

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the Group's share in the net identifiable assets acquired and liabilities assumed and net of the fair value of any previously held equity interest in the acquiree. Fair values for general reinsurance contracts are derived by calculating the present value of claims reserves. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to an appropriate cash-generating unit that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2. Significant accounting policies (cont'd.)

2.2 Basis of consolidation (cont'd.)

(b) Business combinations and goodwill (cont'd.)

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

2.3 Summary of significant accounting policies

(a) Property and equipment

Property and equipment includes property occupied by the Group, renovations, furniture, fittings, office equipment, computers and motor vehicles. Freehold land is not depreciated and is carried at cost. Other property and equipment are stated at cost less accumulated depreciation and any impairment losses. Residual values, useful life and depreciation method are reviewed, and adjusted if appropriate, at each reporting date 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. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.3(e).

The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is charged to profit or loss in the period in which it is incurred. Subsequent costs are included in the assets' carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

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

Buildings	2%
Renovations	10%
Motor vehicles	20%
Furniture, fittings and office equipment	12% - 17%
Computers	25%

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(a) Property and equipment (cont'd.)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Upon the disposal of a property and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in profit and loss.

(b) Intangible assets

Intangible assets of the Group and of the Company consist of computer software. These intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least once annually at each reporting date.

(c) Subsidiary

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investment in a subsidiary is stated at cost less any accumulated impairment losses.

(d) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that are not significantly occupied by the Group, for use by, or in the operations of the Group, are classified as investment property. If an investment property becomes owner-occupied, it is reclassified to property and equipment at its carrying value on the date of transfer.

Investment property is initially measured at cost, including related transaction costs. Subsequent to initial recognition, the investment property is carried 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 2.3(e).

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(d) Investment property (cont'd.)

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

Any gains or losses on the retirement or disposal of an investment property are recognised when it has been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

(e) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date 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 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 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 is allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(e) Impairment of non-financial assets (cont'd.)

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An impairment loss for an asset other than goodwill 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 asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(f) Investments and financial assets

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

Financial assets are classified as FVTPL where the Group's documented investment strategy is to manage financial assets on a fair value basis. The AFS and HTM categories are used when the relevant liability is passively managed and/or carried at amortised cost.

All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Group and the Company commit to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading and those designated as FVTPL at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. For investments designated as FVTPL, the following must be met:

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(f) Investments and financial assets (cont'd.)

Financial assets at FVTPL (cont'd.)

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition these investments are measured at the fair value. Fair value adjustments and realised gains and losses are recognised in profit or loss.

HTM financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group and the Company have the positive intention and ability to hold until maturity. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, HTM financial assets are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

LAR

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

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(f) Investments and financial assets (cont'd.)

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. These investments are initially recorded at fair value.

After initial measurement, AFS financial assets are measured at fair value. Fair value gains and losses of monetary and non-monetary securities are reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired. Fair value gains and losses of monetary securities denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to profit or loss.

(g) Fair value of financial assets

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets at the close of business on the reporting date.

For investments in unit and property trusts, fair value is determined by reference to published bid values.

The fair values of floating rate over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placements.

The fair values of Malaysian Government Securities, Cagamas Papers and unquoted corporate bonds are determined by reference to Bond Pricing Agency Malaysia.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(h) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Objective evidence that an investment security is impaired includes observable data about loss events like significant financial difficulty of the issuer or obligor; significant adverse changes in the business environment in which the issuer or obligor operates and the disappearance of an active market for that investment security because of financial difficulties which indicate that there is measurable decrease in the estimated future cash flows. However, it may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events is considered in determining whether an investment securities is impaired.

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 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 and the loss is recorded in profit or loss.

The Group 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 the 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 each reporting date.

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 is recognised in profit and loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(h) Impairment of financial assets (cont'd.)

Assets carried at cost

If there is objective evidence that an impairment loss on an investment security carried at cost has been incurred, the amount of the loss is measured as the difference between the security carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar security. Such impairment losses are recognised in profit or loss and not reversed in subsequent periods.

AFS financial assets

If an AFS 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 other comprehensive income, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through profit or loss 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 profit or loss.

When assessing the impairment of an equity instrument, the Group considers, in addition to observable data about loss events, whether there is significant or prolonged decline in the fair value of the equity instrument, and whether the cost of the investment in the equity instrument may be recovered. Where there is evidence that the cost of the investment in the equity instrument may not be recovered, impairment loss is provided.

(i) Derecognition of financial assets

A financial asset is derecognised when:

- the contractual right to receive cash flows from the financial asset has expired.

- the Group retains the contractual rights to receive cash flow from the asset but has assumed obligation to pay them in full without material delay to a third party.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(i) Derecognition of financial assets (cont'd.)

- the Group has transferred its rights to receive cash flows from the asset and either:
  (a) has transferred substantially all the risks and rewards of the asset, or
  (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(j) Equity instruments

Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

(k) Product Classification

The Group currently only issues contracts that transfer insurance risk.

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

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(k) Product Classification (cont'd.)

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired.

When insurance contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the statements of financial position similar to investment contracts.

Investment contracts are those contracts that do not transfer significant insurance risk.

(l) Reinsurance

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

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

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

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

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(l) Reinsurance (cont'd.)

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. Premiums and claims are presented on 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 is recognised when there is objective evidence as a result of an event that occurs after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in profit or loss.

(m) General insurance underwriting results

The general reinsurance underwriting results are determined after taking into account premiums, movements in premium liabilities and claims liabilities and commissions.

(i) Gross premiums

Gross premiums are recognised as income in a financial period in respect of risks assumed during that particular financial period.

Inwards facultative reinsurance premiums are recognised in the financial period in respect of the facultative risks assumed during that particular financial period, as in the case of direct policies, following individual risks' inception dates.

Inward treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inception dates of these risks and contractually accounted for, as such to reinsurers under the terms of the proportional treaties. In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premiums are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(m) General insurance underwriting results (cont'd.)

(ii) Premium liabilities

Premium liabilities represent the insurance subsidiary's future obligations on insurance contracts as represented by premiums received for risks that have not yet expired. The movement in premium liabilities is released over the term of the insurance contracts and is recognised as premium income.

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business or the best estimate value of the re/insurance subsidiary's unexpired risk reserves ("URR") at the end of the financial period and PRAD calculated at 75% confidence level at the overall level for the insurance subsidiary.

(a) Unexpired risk reserves

The URR is a 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.

URR is estimated via an actuarial valuation performed by a qualified actuary, using a mathematical method of estimation similar to incurred but not reported claims ("IBNR").

(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 period.

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

- 25% method for marine, aviation cargo and transit business.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(m) General reinsurance underwriting results (cont'd.)

(ii) Premium liabilities (cont'd.)

(b) Unearned premium reserves (cont'd.)

- 1/24th method for all other classes of Malaysian policies reduced by the corresponding percentage of accounted gross direct business commissions and agency-related expenses not exceeding the limits specified by BNM as follows:

Motor	10%
Fire, engineering, aviation and marine hull	15%
Medical and health	
- Standalone individuals	15%
- Group of 3 or more	10%
Workmen's compensation and employers' liability	
- Foreign workers	10%
- Other workers	25%
- Employers' Liability	25%
Other classes	25%

- 1/8th method for all other classes of overseas inward treaty business with a deduction of 20% for commission.

- Non-annual policies are time apportioned over the period of the risks.

(iii) Claims 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. The value is the best estimate value of claim liabilities which includes 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 the provision of risk margin for adverse deviation ("PRAD") at 75% confidence level calculated at the overall insurance subsidiary 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.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(m) General reinsurance underwriting results (cont'd.)

(iv) Liability adequacy test

At each reporting date, the Group reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Group, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Group compares all contractual cash flows against the carrying value of insurance contract liabilities. Any deficiency is recognised in the statement of comprehensive income.

The estimation of claim and premium liabilities performed at reporting date is part of the liability adequacy tests performed by the Group. Based on this, all insurance contract liabilities as at the reporting date are deemed to be adequate.

(v) Acquisition cost

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

(n) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.3(h).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.3(i), have been met.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(o) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Derecognition of insurance payables

Insurance payables are derecognised when the obligation under the liabilities is settled, cancelled or expired.

(p) Other revenue recognition

Other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Rental income

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

Dividend income represents gross dividends and is recognised on a declared basis when the shareholder's right to receive payment is established.

Realised gain and losses on investments

Realised gains and losses recorded in profit or loss on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original, revalued or amortised cost and are recorded on occurrence of the sale transaction.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(p) Other revenue recognition (cont'd.)

Commission income

Commission income derived from reinsurers in the course of ceding of premiums to reinsurers are charged to profit or loss in the period in which they are incurred.

(q) Income tax

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

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 is not a business combination and 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 or substantively enacted at the reporting date.

Deferred tax is recognised as income or an expense and included in profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(r) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the correct best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflect, where appropriate the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(s) Employee benefits

Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees. 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.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, the Group makes such contributions to the Employees Provident Fund ("EPF").

Staff retirement benefits

Provision for retirement benefits is made for all eligible staff in the Group from the date of employment under an unfunded defined contribution plan. For eligible executive staff, gratuity is calculated based on the last drawn monthly salary of an employee multiplied by years of service up to a maximum of 15 years. For eligible clerical staff, an additional 3% over and above the Group's monthly statutory EPF contribution is provided. The staff will be entitled to this gratuity upon completion of 5 years of service in the Group.

Other staff are entitled to additional EPF contribution between 1% to 5% over the Group's monthly statutory EPF contribution rate after completion of 1 year of service. This benefit is charged to profit or loss as incurred.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(t) Foreign currencies

Transaction in foreign currencies are initially converted into RM at rates of exchange approximating those ruling at the transaction dates. At each reporting date, foreign currency monetary items are translated into RM at exchange rates ruling at that date. All exchange differences are taken to profit or loss.

(u) Other financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

All financial liabilities of the Group and the Company, comprising insurance payables, retirement benefits and other payables, except for those covered under MFRS 4, are classified as other financial liabilities.

Insurance payables, retirement benefits and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(v) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with financial institutions with original maturities of three months or less.

2. Significant accounting policies (cont'd.)

2.4 Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following MFRSs, amendments to MFRSs and IC Interpretations have been issued by the MASB but are not yet effective and have not been adopted by the Group and Company.

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)	1 July 2012
Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)	1 January 2013
Amendment to IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)	1 January 2013

2. Significant accounting policies (cont'd.)

2.4 Standards issued but not yet effective (cont'd.)

Description	Effective for annual periods beginning on or after
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Government Loans	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 116: Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 132: Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance	1 January 2013
Amendments to MFRS 11: Joint Arrangements: Transition Guidance	1 January 2013
Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
MFRS 9 Financial Instruments	1 January 2015

The Group plans to adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Group and the Company upon their initial application.

2. Significant accounting policies (cont'd.)

2.5 Significant accounting judgements, estimates and assumptions

(a) Critical judgements made in applying accounting policies

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 Group'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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may cause material adjustments to the carrying amounts of assets and liabilities within the next financial period such as those discussed below:

(i) Deferred tax assets

Deferred tax assets are recognised for unutilised business losses, unutilised capital allowances, various allowances and provisions to the extent that it is probable that taxable profit will be available against which these losses, allowances and provisions can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits together with future tax planning strategies.

(ii) Income taxes

The Group and the Company are subject to income taxes in Malaysia. Significant judgement is required in determining the allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

(iii) Property and equipment

The Group and the Company are required to review of the residual value and remaining useful life of an item of property and equipment at least at each financial period end.

Management estimates that the residual values and remaining useful lives are applicable for the current financial period.

2. Significant accounting policies (cont'd.)

2.5 Significant accounting judgements, estimates and assumptions (cont'd.)

(b) Key sources of estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(i) Valuation of general insurance contract liabilities

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

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 liability at the reporting date. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Link Ratios.

The main assumption underlying these techniques is that the Group's and the 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 ratios. 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 once-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.

2. Significant accounting policies (cont'd.)

2.5 Significant accounting judgements, estimates and assumptions (cont'd.)

(b) Key sources of estimation uncertainty and assumptions (cont'd.)

(ii) Uncertainty in accounting estimates for general insurance business

The principal uncertainty in the Group's and the Company's general insurance business arises from the technical provisions which include the premium liabilities and claim liabilities. The premium liabilities comprise unearned premium reserves, unexpired risk reserves and provision for risk margin for adverse deviation while claim liabilities comprise provision for outstanding claims.

Generally, premium and claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premiums and claims liabilities will not exactly develop as projected and may vary from the Group's and the Company's projections.

The estimates of premium and claim liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premiums and claims liabilities may vary from the initial estimates.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported to the Group and the Company. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim.

There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations, legislative changes and claims handling procedures.

At each reporting date, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the liability.

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3. Property and equipment

	Properties							
Group and Company	Freehold land RM'000	Leasehold land RM'000	Buildings on Freehold land RM'000	Buildings on Leasehold land RM'000	Renovation RM'000	Motor vehicles RM'000	Furniture, fittings, office equipment and computers RM'000	Total RM'000
Cost								
At 1 January 2011	9,263	567	3,536	168	2,075	1,037	17,085	33,731
Additions	-	-	-	-	138	78	273	489
Disposals	-	-	-	-	-	(160)	(108)	(268)
At 31 December 2011	9,263	567	3,536	168	2,213	955	17,250	33,952
Additions	-	-	-	-	176	-	494	670
Disposals	-	-	-	-	-	-	(927)	(927)
At 31 December 2012	9,263	567	3,536	168	2,389	955	16,817	33,695

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3. Property and equipment (cont'd.)

	Properties							
Group and Company	**Freehold land RM'000**	**Leasehold land RM'000**	**Buildings on Freehold land RM'000**	**Buildings on Leasehold land RM'000**	**Renovation RM'000**	**Motor vehicles RM'000**	**Furniture, fittings, office equipment and computers RM'000**	**Total RM'000**
Accumulated depreciation and impairment loss								
At 1 January 2011	-	136	1,672	40	1,979	1,036	16,435	21,298
Charge for year	-	12	71	4	38	16	363	504
Disposals	-	-	-	-	-	(160)	(107)	(267)
Impairment loss during the year	2,150	-	-	-	-	-	-	2,150
At 31 December 2011	2,150	148	1,743	44	2,017	892	16,691	23,685
Charge for the year	-	12	71	4	47	15	260	409
Disposals	-	-	-	-	-	-	(927)	(927)
Impairment loss during the year	255	-	-	-	-	-	-	255
At 31 December 2012	2,405	160	1,814	48	2,064	907	16,024	23,422
Net carrying amount								
At 31 December 2011	7,113	419	1,793	124	196	63	559	10,267
At 31 December 2012	6,858	407	1,722	120	325	48	793	10,273

4. Investment property

Group and Company	2012 RM'000	2011 RM'000
Freehold land and building:		
Cost		
At 1 January	2,665	2,665
Less: Accumulated depreciation	(270)	(248)
At 31 December	2,395	2,417
Fair value	2,950	3,000

The fair value is determined based on the discounted cash flow of the expected rental income from the investment property, which has been estimated using a valuation technique based on certain assumptions of rental income and discount rate. Management believes the estimated fair value resulting from the valuation technique are reasonable and the most appropriate at the reporting date.

5. Intangible assets

Group and Company	2012 RM'000	2011 RM'000
Computer software		
Cost		
At 1 January	2,158	1,972
Additions	84	186
At 31 December	2,242	2,158
Accumulated amortisation		
At 1 January	2,005	1,857
Amortisation	80	148
At 31 December	2,085	2,005
Net carrying amount	157	153

6. Investment in subsidiary

Company	2012 RM'000	2011 RM'000
Unquoted shares	-*	-*

** Denotes share capital of RM2*

6. Investment in subsidiary (cont'd.)

TIMB has a 100% interest (31.12.2011: 100%) in the subsidiary, Capital OCA Berhad, a company incorporated in Malaysia. The subsidiary company is dormant.

7. Investments

Group and Company	2012 RM'000	2011 RM'000
Debt securities	137,800	131,581
Equity securities	9,028	26,508
Unit and property trust funds	69,146	27,813
Loans	682	821
Deposits with licensed financial institutions	231,747	243,963
	448,403	430,686

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

Group and Company	2012 RM'000	2011 RM'000
LAR (Note (a))	232,429	244,784
AFS financial assets (Note (b))	215,974	185,902
	448,403	430,686

(a) LAR

Group and Company	2012 RM'000	2011 RM'000
At amortised cost:		
Fixed and call deposits with licensed financial institutions	231,747	243,963
Loans receivable:		
Staff mortgage loans	636	759
Other staff loans:		
Secured	23	46
Unsecured	23	16
	682	821
	232,429	244,784

7. Investments (cont'd.)

(a) LAR (cont'd.)

Included in fixed and call deposits with licensed financial institutions are short term deposits with maturity periods of less than 3 months amounting to RM90,383,000 (31.12.2011: RM79,991,000) which have been classified as cash and cash equivalents for the purpose of the statement of cash flows.

The carrying value of the fixed and call deposits approximates fair value due to the relatively short term maturities.

The carrying value of the staff mortgage loans and other staff loans are reasonable approximations of fair value due to the insignificant impact of discounting.

(b) AFS financial assets

Group and Company	2012 RM'000	2011 RM'000
At fair value:		
Equity securities:		
Quoted in Malaysia	8,889	26,287
Unit and property trust funds:		
Quoted in Malaysia	69,146	27,813
Debt securities:		
Unquoted in Malaysia	137,800	131,581
	215,835	185,681
At cost less impairment:		
Equity securities:		
Unquoted in Malaysia	139	221
	215,974	185,902

7. Investments (cont'd.)

(c) Carrying values of financial instruments

Group and Company	HTM RM'000	LAR RM'000	AFS RM'000	Total RM'000
At 1 January 2011	30,135	181,080	172,942	384,157
Purchases	-	2,024,400	52,225	2,076,625
Maturities/disposals	(30,000)	(1,960,696)	(39,960)	(2,030,656)
Fair value gains recorded in other comprehensive income	-	-	6,616	6,616
Realised gain transferred to profit or loss	-	-	(6,032)	(6,032)
Amortisation of investments	(135)	-	111	(24)
At 31 December 2011	-	244,784	185,902	430,686
At 1 January 2012	-	244,784	185,902	430,686
Purchases	-	2,124,905	100,255	2,225,160
Maturities/disposals	-	(2,137,260)	(67,941)	(2,205,201)
Fair value gains recorded in other comprehensive income	-	-	5,813	5,813
Realised gain transferred to profit or loss	-	-	(8,049)	(8,049)
Amortisation of investments	-	-	(6)	(6)
At 31 December 2012	-	232,429	215,974	448,403

(d) Fair values of financial investments

The following tables show financial investments recorded at fair value analysed by the different bases as follows:

Group and Company	AFS RM'000	Total RM'000
31.12.2012		
Quoted market bid price	78,035	78,035
Valuation techniques - market observable inputs	137,800	137,800
At cost less impairment	139	139
	215,974	215,974
31.12.2011		
Quoted market bid price	54,100	54,100
Valuation techniques - market observable inputs	131,581	131,581
At cost less impairment	221	221
	185,902	185,902

7. Investments (cont'd.)

(d) Fair values of financial investments (cont'd.)

Included in the quoted category are financial instruments that are measured in whole or in part by reference to quoted market bid prices. 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.

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.

For the Group and Company's unquoted equity securities, fair value cannot be measured reliably. These financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The fair value hierarchy for financial investments carried at fair value are disclosed in Note 34.

(e) Average effective interest rates

The average effective interest rates, at the earlier of the contractual re-pricing or maturity dates for each class of interest-bearing investment and placements with licensed financial institutions, are as below:

Group and Company	2012 %	2011 %
Debt securities	4.67	4.64
Loans	5.00	5.00
Deposits with licensed financial institutions	3.31	3.31

8. Reinsurance assets

Group and Company	2012 RM'000	2011 RM'000
Claims liabilities (Note 13)	127,485	122,008
Premium liabilities (Note 13)	36,100	35,958
	163,585	157,966

9. Insurance receivables

Group and Company	2012 RM'000	2011 RM'000
Due premiums including agents, brokers and co-insurers balances	38,973	21,323
Due from reinsurers and cedants	40,979	38,487
	79,952	59,810
Accumulated impairment loss	(19,428)	(23,005)
	60,524	36,805

Movement in allowance accounts:

At 1 January	23,005	26,764
Written off	(1,643)	(232)
Reversal of allowance for impairment losses	(1,934)	(3,527)
At 31 December	19,428	23,005

10. Other receivables

Group and Company	2012 RM'000	2011 RM'000
Financial assets:		
Income due and accrued	3,710	3,256
Assets held under the Malaysian Motor Insurance Pool ("MMIP")	25,698	17,085
Malaysian Institute of Insurance ("MII") bonds	260	260
Other receivables	1,492	1,676
	31,160	22,277
Non-financial asset:		
Tax recoverable	-	548
	31,160	22,825

The carrying amounts of financial assets included under other receivables (excluding net assets held under MMIP) approximate their respective fair values due to the relatively short-term maturity of these balances.

11. Share capital

Company	Number of ordinary shares of RM1 each 2012 RM'000	2011 RM'000	Amount 2012 RM'000	2011 RM'000
Authorised:				
At beginning and end of year	200,000	200,000	200,000	200,000
Issued and fully paid:				
At beginning and end of year	100,013	100,013	100,013	100,013

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company residual assets.

12. Retained earnings

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 ("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 credits under Section 108 of the 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 credits in the Section 108 balance as at 31 December 2012 to distribute cash dividend payments to ordinary shareholder as defined under the Finance Act, 2007. The Company has sufficient Section 108 balance to frank the payment of dividends out of its entire retained earnings as at 31 December 2012, subject to meeting the capital adequacy requirements as stipulated under the RBC Framework.

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13. Insurance contract liabilities

Group and Company	Note	2012 Gross RM'000	2012 Reinsurance RM'000	2012 Net RM'000	2011 Gross RM'000	2011 Reinsurance RM'000	2011 Net RM'000
Provision for claims reported by policyholders		255,672	(106,799)	148,873	239,584	(90,000)	149,584
Provision for IBNR claims and PRAD		71,173	(20,686)	50,487	78,254	(32,008)	46,246
Claims liabilities	(i)	326,845	(127,485)	199,360	317,838	(122,008)	195,830
Premium liabilities	(ii)	104,676	(36,100)	68,576	115,979	(35,958)	80,021
		431,521	(163,585)	267,936	433,817	(157,966)	275,851
(i) Claims liabilities							
At 1 January		317,838	(122,008)	195,830	329,659	(160,452)	169,207
Claims incurred in the current accident year		244,137	(109,761)	134,376	164,447	(29,449)	134,998
Adjustment to claims incurred in prior accident years due to changes in assumptions		(69,411)	32,175	(37,236)	(39,098)	12,044	(27,054)
Claims paid during the year (Note 23)		(165,719)	72,109	(93,610)	(137,170)	55,849	(81,321)
At 31 December		326,845	(127,485)	199,360	317,838	(122,008)	195,830
(ii) Premium liabilities							
At 1 January		115,979	(35,958)	80,021	100,065	(22,881)	77,184
Premiums written in the year (Note 19)		250,424	(112,783)	137,641	261,684	(102,422)	159,262
Premiums earned during the year		(261,727)	112,641	(149,086)	(245,770)	89,345	(156,425)
At 31 December		104,676	(36,100)	68,576	115,979	(35,958)	80,021

14. Retirement benefits

Group and Company	2012 RM'000	2011 RM'000
At 1 January	1,336	1,548
Provision for the year	89	85
	1,425	1,633
Payments during the year	(277)	(297)
At 31 December	1,148	1,336
Amount payable after 12 months	1,075	1,105

15. Deferred tax (liabilities)/assets

Group and Company	2012 RM'000	2011 RM'000
At 1 January	(1,266)	39
Recognised in:		
Profit or loss (Note 25)	198	(1,159)
Other comprehensive income	560	(146)
At 31 December	(508)	(1,266)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

Group and Company	2012 RM'000	2011 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	(1,045)	(1,578)
Deferred tax assets	537	312
	(508)	(1,266)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

15. Deferred tax (liabilities)/assets (cont'd.)

Group and Company	Accelerated capital allowance on property and equipment RM'000	Fair value of AFS financial assets RM'000	Total RM'000
Deferred tax liabilities			
At 1 January 2011	(113)	(1,345)	(1,458)
Recognised in:			
Profit or loss	26	-	26
Other comprehensive income	-	(146)	(146)
At 31 December 2011	(87)	(1,491)	(1,578)
Recognised in:			
Profit or loss	(27)	-	(27)
Other comprehensive income	-	560	560
At 31 December 2012	(114)	(931)	(1,045)

Group and Company	Premium liabilities RM'000	Receivables RM'000	Others RM'000	Total RM'000
Deferred tax assets				
At 1 January 2011	-	730	767	1,497
Recognised in:				
Profit or loss	311	(730)	(766)	(1,185)
At 31 December 2011	311	-	1	312
Recognised in:				
Profit or loss	(49)	-	274	225
At 31 December 2012	262	-	275	537

16. Insurance payables

Group and Company	2012 RM'000	2011 RM'000
Due to agents, brokers, co-insurers and insureds	12,385	12,336
Due to reinsurers and cedants	61,009	38,717
	73,394	51,053

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

17. Other payables

Group and Company	2012 RM'000	2011 RM'000
Financial liabilities:		
Claims payable	6,304	4,603
Reinsurance deposits	3,721	3,478
Others	7,208	4,658
	17,233	12,739
Non-financial liabilities:		
Provision for taxation	458	-
Accrued expenses	5,582	4,079
	23,273	16,818

The carrying amounts of financial liabilities disclosed above approximate their fair values at the reporting date.

18. Operating revenue

Group and Company	2012 RM'000	2011 RM'000
Gross earned premiums (Note 19)	261,727	245,770
Investment income (Note 20)	17,408	17,691
	279,135	263,461

19. Net earned premiums

Group and Company	2012 RM'000	2011 RM'000
(a) Gross earned premiums		
General insurance contracts	250,424	261,684
Change in premium liabilities	11,303	(15,914)
	261,727	245,770
(b) Premiums ceded to reinsurers		
General insurance contracts	112,783	102,422
Change in premium liabilities	(142)	(13,077)
	112,641	89,345
Net earned premiums	149,086	156,425

20. Investment income

Group and Company	2012 RM'000	2011 RM'000
Rental income from investment property	363	346
Interest income:		
- HTM financial assets	-	638
- AFS financial assets	6,027	5,892
- LAR	8,443	6,456
- Others	1,308	2,561
Dividend income	1,273	1,823
	17,414	17,716
Net amortisation of premiums on investments	(6)	(25)
	17,408	17,691

21. Realised gains and losses

Group and Company	2012 RM'000	2011 RM'000
Property and equipment:		
Realised gain on disposal of property and equipment	6	28
AFS financial assets:		
Realised gains:		
Equity securities		
- quoted in Malaysia	8,605	5,976
Debts securities		
- unquoted in Malaysia	275	760
Realised losses:		
Equity securities		
- quoted in Malaysia	(831)	(704)
Debts securities		
- unquoted in Malaysia	-	-
Total realised gains for AFS financial assets	8,049	6,032
Total realised gains	8,055	6,060

22. Other operating income/(expense)

Group and Company	2012 RM'000	2011 RM'000
Other operating income:		
Sundry income	450	130
Other operating expenses:		
Impairment loss of property and equipment	(255)	(2,150)

23. Net claims

Group and Company	2012 RM'000	2011 RM'000
(a) Gross claims paid		
General insurance contracts	(165,719)	(137,170)
(b) Claims ceded to reinsurers		
General insurance contracts	72,109	55,849
Net claims paid (a)	(93,610)	(81,321)
(c) Gross change in contract liabilities		
General insurance contracts	(9,007)	11,821
(d) Change in contract liabilities ceded to reinsurers		
General insurance contracts	5,477	(38,444)
Net change in contract liabilities (b)	(3,530)	(26,623)
Net claims (a) + (b)	(97,140)	(107,944)

24. Management expenses

Group and Company	2012 RM'000	2011 RM'000
Employee benefits expense (Note 24(a))	18,470	14,607
Directors' remuneration (Note 24(b))	452	356
Auditors' remuneration:		
- statutory audits	215	163
- other services	15	42

24. Management expenses (cont'd.)

Group and Company	2012 RM'000	2011 RM'000
Depreciation of property and equipment	409	504
Depreciation of investment property	22	22
Amortisation of intangible assets	80	148
Reversal of allowance for impairment losses on insurance receivables	(1,934)	(3,728)
Provision for Takaful and Insurance Benefits Protection System ("TIPS")	205	204
Rental of premises	828	746
Printing charges	585	796
Publicity expenses	1,582	2,278
Communication expenses	710	695
Computer expenses	1,063	1,249
Administration and general expenses	6,195	4,700
	28,897	22,782

(a) Employee benefits expense

	2012 RM'000	2011 RM'000
Wages and salaries	12,327	10,115
Social security contributions	148	136
Contributions to defined contribution plan-EPF	1,937	1,493
Other benefits	4,058	2,863
	18,470	14,607

Included in employee benefits expense is Chief Executive Officer's ("CEO") remuneration of RM740,000 (2011: RM652,000) as detailed out in Note 24(c).

(b) Directors' remuneration

The details of directors' remuneration for the year are as follows:

Group and Company	2012 RM'000	2011 RM'000
Non-executive directors:		
Fees	358	109
Allowances and other emoluments	94	247
	452	356

24. Management expenses (cont'd.)

(b) Directors' remuneration (cont'd.)

The number of non-executive directors of the Group whose remuneration during the financial year fell within the following bands is analysed below:

Group	**Number of directors 2012**	**2011**
Non-executive directors:		
RM0 - RM50,000	4	4
RM50,001 - RM100,000	4	1
RM100,001 - RM150,000	-	1

(c) CEO's remuneration

The details of remuneration received by the CEO during the year are as follows:

Group and Company	**2012 RM'000**	**2011 RM'000**
Salary	524	462
EPF	76	70
Bonus	140	120
Total remuneration excluding the benefits-in-kind	740	652
Estimated money value of benefits-in-kind	14	30
Total remuneration (Note24(a))	754	682

25. Taxation

Group and Company	**2012 RM'000**	**2011 RM'000**
Current income tax:		
Malaysian income tax	10,284	8,964
Overprovision in prior years	(112)	(1,405)
	10,172	7,559

25. Taxation

Group and Company	**2012 RM'000**	**2011 RM'000**
Deferred tax (Note 15):		
Relating to origination and reversal of temporary differences	(192)	553
Overprovision in prior years	(6)	606
	(198)	1,159
	9,974	8,718

The income tax is based on the tax rate of 25% (2011: 25%) of the estimated assessable profit for the financial year.

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

Group and Company	**2012 RM'000**	**2011 RM'000**
Profit before taxation	38,537	34,971
Taxation at Malaysian statutory tax rate of 25%	9,634	8,743
Expenses not deductible for tax purposes	458	774
Overprovision of taxation in prior year	(112)	(1,405)
Overprovision of deferred taxation in prior year	(6)	606
Tax expense for the year	9,974	8,718

26. Earnings per share

Earnings per share is calculated by dividing profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the financial year.

Group and Company	**2012 RM'000**	**2011 RM'000**
Profit attributable to ordinary equity holders	28,563	26,253
Number/weighted average number of ordinary shares in issue during the year ('000)	100,013	100,013
Basic earnings per share (sen)	28.6	26.2

26. Earnings per share (cont'd.)

There were no dilutive potential ordinary shares as at the end of the relevant reporting dates. There have been no other transactions involving ordinary shares between the reporting date and the date of these financial statements.

27. Operating lease arrangements

(a) The Company as lessee

The Company has entered into a lease agreement for rental of office premises.

The future aggregate minimum lease payments under operating lease contracted for as at the reporting date but not recognised as liabilities are as follows:

Future minimum rental payments:

Group and Company	2012 RM'000	2011 RM'000
Rental of office premises:		
Payable within one year	557	740
Payable after one year	186	520
	743	1,260

(b) The Company as lessor

The Company has entered into a non-cancellable operating lease arrangement on its investment property. The lease have remaining non-cancellable lease term of 3 years.

The future minimum lease payments receivable under a non-cancellable operating lease contracted for as at the reporting date but not recognised as receivables, are as follows:

Group and Company	2012 RM'000	2011 RM'000
Receivable within one year	338	338
Receivable after one year	196	532
	534	870

Rental income on investment property recognised in the profit or loss during the relevant financial years is disclosed in Note 20.

28. Capital commitment

The commitments of the Group as at the reporting date are as follows:

	2012 RM'000	2011 RM'000
Capital expenditure:		
Approved but not contracted for:		
Property and equipment	10,000	-
	10,000	-

29. Related party disclosures

(a) Significant related party transactions

The Company had the following significant transactions with related parties during the year:

	2012 RM'000	2011 RM'000
Shareholder of the holding company, AirAsia Berhad:		
Fee and commission expense	(3,152)	-
Fellow subsidiary:		
Tune Money Genre Ltd. Labuan		
Premiums ceded to reinsurers	(12,728)	-
Fee and commission income	3,182	-
Claims paid	77	
Other income	8	-
Related companies:		
Tune Talk Sdn Bhd		
Gross written premium	1,070	-
Air Asia X Berhad		
Fee and commission expense	(599)	-

29. Related party disclosures (cont'd.)

(b) Compensation of key management personnel

The remuneration of key management personnel during the period/year was as follows:

Group and Company	**2012 RM'000**	**2011 RM'000**
Non-executive directors' remuneration (Note 24(b))	452	356
CEO's remuneration (Note 24(c))	754	682
Other key management personnel:		
Short term employee benefits	1,288	747
EPF expenses	155	90
Gratuity	16	21
Benefits-in-kind	28	15
	2,693	1,911

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel of the Group includes the Directors, Chief Executive Officer, Chief Financial Officer, Senior General Manager, General Manager and Assistant General Managers.

30. Regulatory capital requirement

The capital structure of the Company as at the reporting date, as prescribed under the RBC Framework, is provided as below:

	2012 RM'000	**2011 RM'000**
Company		
Eligible Tier 1 capital		
Share capital (paid-up)	100,013	100,013
Reserves, including retained earnings	83,403	54,840
	183,416	154,853
Tier 2 capital		
Eligible reserves	5,452	7,128
Amount deducted from capital	365	344
Total capital available	188,503	161,637

31. Risk management framework

As a general insurance company, the Company is in the business of absorbing the risk of financial loss on behalf of its clients.

In meeting these requirements, the Board of Directors ("Board") of the Company, which has the ultimate responsibility for ensuring an adequate system of risk management, has established a Risk Management Committee ("RMC") of 3 members, comprising two Non-Executive Directors, the Chief Executive Officer and other members of staff. The Committee is responsible for regularly identifying risks, ensuring that adequate risk management policies and procedures are in place, and monitoring compliance with policies and procedures.

The Committee has worked with the Management to develop these policies and both Management and Board have agreed to adopt these policies to govern the running of the business.

Risk appetite

The Company's risk appetite has been established as 3% of shareholders funds i.e. approximately RM4 million on any one event or series of events arising from a single cause.

Overview of risk management policies

The key risks facing the Company are well categorised and are covered by the following policies. However, recognising new risks requires constant vigilance.

A. Underwriting

i. Risk

Acceptance of poor insurance risks, risks with low profit margins and inadequate reinsurance arrangements contribute to low profitability and inadequate capital growth. Insurance risk is also the risk of outstanding insurance contract liabilities being greater than estimated.

ii. Policy

The following outlines the Company's policies to safeguard against these risks:

(a) Underwrite only classes of risks which have been approved by the Board;

(b) Accept risks within the approved classes only according to comprehensive underwriting guidelines and within limits of delegated authority;

31. Risk management framework (cont'd.)

Overview of risk management policies (cont'd.)

A. Underwriting (cont'd.)

ii. Policy (cont'd.)

(c) Expand into new lines only where there is adequate experience within the Company and after management has obtained appropriate Board authority;

(d) Price risks with sufficient margin to ensure ongoing viability of the business, and maintaining a professional approach to this function;

(e) Retain risks according to guidelines on maximum risks to be retained;

(f) Mitigate foreign currency risks on reinsurance by all significant reinsurance arrangements being entered into in Malaysian Ringgit;

(g) Ensure compliance with treaty arrangements in accepting risks;

(h) Maintain a balanced portfolio to yield a reasonable level of profits; and

(i) Review on a regular basis the reserves for unearned premiums and IBNR.

The Company does not accept risks of an economic or political nature or those that have a long gestation period.

B. Reinsurance

Maintain prudent reinsurance arrangements with reputable reinsurers to safeguard the ongoing viability of the business including its capacity to meet obligations to policyholders and shareholders.

Assess the credit worthiness of reinsurance counterparties and their ability to service their claims obligations.

C. Claims

i. Risk

Exposure to unexpected or excessive losses, fraudulent claims and inadequate provisions for outstanding claims could affect the Company's profitability, financial position, capital and reputation.

31. Risk management framework (cont'd.)

Overview of risk management policies (cont'd.)

C. Claims (cont'd.)

ii. Policy

The Company's policies to guard against these risks are:

(a) Identify claims exposures and properly assess them, and routinely review them upon advent of further information and at least once a year.

(b) Maintain good claims administration and settlement processes to ensure prudent claims estimation and appropriate loss adjustment.

(c) Make adequate provisions for all claims liabilities, especially for long-tail liabilities and the effect of superimposed inflation and adverse foreign exchange movements on such liabilities.

(d) Assess exposure to fraud periodically and employ measures to minimise potential losses through accepting claims outside contractual obligations for fraudulent reasons and for detecting fraudulent claims.

(e) Ensure that losses are mitigated and potential recovery action is followed up in a professional and timely fashion.

D. Investments

i. Risk

Investment risk is the risk of inadequate investment returns from poor investment strategies and adverse movements in the value of investments. Investment risk is derived from market risk, credit risk, investment concentration risk, liquidity risk, and asset/liability mismatch risk.

ii. Policy

Returns from investment of premium income are an important source of income to the Company and maintenance of the market value of the investments is essential for the financial stability of the Company. Absence of prudent investment strategies and investment decision framework could result in poor investment return which would affect the Company's profitability and competitiveness and also result in the Company not being able to meet its obligations as they fall due. It is the Company's policy to:

31. Risk management framework (cont'd.)

Overview of risk management policies (cont'd.)

D. Investments (cont'd.)

ii. Policy (cont'd.)

(a) Implement an investment strategy to ensure appropriate asset allocation, concentration of investments and matching of asset and liability portfolios.

(b) Ensure that investments are held in different classes within limits specified by the Investment Committee.

(c) Undertake a thorough analysis before making an investment to minimise market risk and continuously monitor the performance and risk of the investment.

(d) Manage disposal of investments to optimise the returns on realisation.

(e) Limit exposure to interest rate risk by investing in term deposits, corporate bonds and government securities on a long and short-term basis at competitive rates.

(f) Ensure liquidity by maintaining sufficient cash float at any time and regularly matching expected duration of liabilities and investment; and uncertainties arising from timing and amount of cash flows.

(g) Minimise credit risk and investment concentration risk by investing with institutions that have a minimum rating of "B" within specific overall limits for each institution.

(h) Monitor investment portfolio and performance weekly or at other shorter intervals and report investment exposure and performance to the Board monthly.

The Company does not use derivatives.

E. Credit Quality

i. Risk

Risk associated with credit exposure that increase the risk profile of the Company and can adversely affect the Company's viability. The risk arises mainly from default of premiums due and large exposures.

31. Risk management framework (cont'd.)

Overview of risk management policies (cont'd.)

E. Credit Quality (cont'd.)

ii. Policy

Policies to limit credit risks include the following:

(a) Maintain credit control in accordance with appropriate policies and procedures which governs the extension of credit to brokers, agents and reinsurance partners and specifies guidelines for setting limits on credit.

(b) Limit exposure to single parties or groups of related entities to 30% of the Company's capital base. However, specific Board approval is required to sanction exposures including facultative reinsurance placements which exceed 30% of the Company's capital base as well as exposure arrangements made in exception cases.

(c) Monitor compliance with such established credit limits.

(d) Collect amounts due in accordance with agreed credit terms, enforce prompt collection of overdue amounts in the case of premiums due, consider the cancellation of insurance policies at the expiry of credit terms.

F. Operations

i. Risk

Non-financial or operational risks the Company faces include technology risk, risk to reputation, fraud, compliance, legal risk, physical damage to property, poor outsourcing arrangements, threat to business continuity, and key person risk.

ii. Policy

The policies to monitor and minimise these risks are as follows:

(a) Undertake annual risk audits to identify material operations risks to which the Company is exposed.

(b) Effect appropriate insurance cover for all identified operations risks which can be cost-effectively insured.

(c) Maintain a business continuity plan for events that may lead to a disruption in business including a computer disaster, together with appropriate insurance.

31. Risk management framework (cont'd.)

Overview of risk management policies (cont'd.)

F. Operations (cont'd.)

ii. Policy (cont'd.)

(d) Maintain an IT security management policy that identifies the rules and procedures that all person accessing computer resources must adhere to in order to ensure confidentiality, integrity and availability of data resources and protects the data resources from viruses.

(e) Closely monitor the external relationships.

(f) Retain records in accordance with an approved document retention policy and safeguard such documents from accidental damage or destruction.

(g) Ensure at all times that compliance with regulatory requirements and fulfilment of material obligations under the total legislative framework that applies is maintained.

(h) Maintain an ethics and personal conduct policy to conduct the affairs of the Company in a manner that would avoid any action by the Company or its officers that would bring disrepute to the Company.

(i) Implement adequate security procedures to prevent unauthorised access, damage, loss to assets and facilities and harm to employees and undertake staff training in relation to those procedures.

(j) Ensure that division and responsibility is clear and mutually understood where any part of the Company's business is outsourced to third parties whilst ultimate control over the outsourced operations is retained by the Company.

(k) Identify the types of fraud the Company is exposed to and develop and maintain effective controls to prevent them and to take appropriate and prompt action if fraud occurs.

G. Regulatory compliance and corporate governance

The Management is responsible to follow a systematic approach to the business and effectively manage the risks. The key risks that have been identified are monitored and their status communicated as appropriate throughout all levels of the organisation and also incorporated in the Company's performance management reporting.

The Company maintains a register of risks and follows a project management approach toward mitigation of risk.

31. Risk management framework (cont'd.)

Overview of risk management policies (cont'd.)

G. Regulatory compliance and corporate governance (cont'd.)

The Internal Audit Department, which reports independently to the Board, undertakes a wide ranging programme of work designed to keep the Board fully informed on the compliance of the business with agreed risk management policies, controls and procedures.

Regular reports are submitted to the Board with Key Performance Indicators covering the Company's performance and the key risks identified.

A Compliance Department is formed to ensure regulatory compliance. The department is under the responsibility of the Manager - Quality Audit/Compliance who shall monitor compliance to regulatory requirements.

The Manager – Quality Audit/Compliance shall take responsibility to ensure regulatory compliance is adhered to and any changes to policy and practices are communicated appropriately to all parties concerned.

H. Regulations of risk management

In accordance with these policies a procedural framework for management of these risks has been developed for the effective management of risk.

Effective and efficient operation of the organisation would be ensured through:

(a) Providing a framework for an organisation that enables for activities to be undertaken in a consistent and controlled manner.

(b) A management structure that clearly identifies the roles and responsibilities of the staff at all levels.

(c) Development of procedures to ensure that the risk management strategies are implemented.

(d) Retention of a well-qualified level of staff through appropriate recruitment, training and staff development systems and procedures.

(e) Improving motivation of staff through a suitable communication, review, feed back and reward systems.

(f) Prompt and comprehensive management reporting systems to assess performance and progress of the business and the utilisation of its resources.

32. Insurance risk

The Company has in place comprehensive underwriting guidelines and limits of authority to ensure that risks are accepted in accordance with the authorised limits. The retention of risks is protected by proportional and non-proportional treaties with reputable reinsurers and brokers, and premised on the risk appetite of the Company.

(a) Concentration of risks by class of business

The table below shows the concentration of premium liabilities by class of business:

Group and Company	Gross premium liabilities RM'000	Re-insurance premium liabilities RM'000	Net premium liabilities RM'000
2012			
Motor	64,514	(10,974)	53,540
Fire	7,615	(3,025)	4,590
Marine, Aviation and Transit ("MAT")	18,734	(16,639)	2,095
Others	13,813	(5,462)	8,351
	104,676	(36,100)	68,576
2011			
Motor	78,606	(10,009)	68,597
Fire	6,395	(3,832)	2,563
Marine, Aviation and Transit ("MAT")	21,636	(18,983)	2,653
Others	9,342	(3,134)	6,208
	115,979	(35,958)	80,021

Group and Company	Gross claim liabilities RM'000	Re-insurance claim liabilities RM'000	Net claim liabilities RM'000
2012			
Motor	161,139	(6,502)	154,637
Fire	23,869	(17,617)	6,252
Marine, Aviation and Transit ("MAT")	91,058	(75,954)	15,104
Others	50,779	(27,412)	23,367
	326,845	(127,485)	199,360
2011			
Motor	155,110	(7,617)	147,493
Fire	24,096	(18,304)	5,792
Marine, Aviation and Transit ("MAT")	78,924	(60,076)	18,848
Others	59,708	(36,011)	23,697
	317,838	(122,008)	195,830

32. Insurance risk (cont'd.)

(b) Sensitivity analysis

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 key assumptions such as the adopted Ultimate Loss Ratios ("ULR"), risk margin percentages (i.e. Provision of Risk Margin for Adverse Deviation ("PRAD")) and provision for claims handling costs and other overheads expenses.

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. Judgement is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates.

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.

- Adopted ULR;
- PRAD; and
- Provision for expenses (which includes claims handling cost and other overheads).

The analysis below is performed for reasonably possible movements in key assumptions (i.e. a 10% increase) with all other assumptions held constant, showing the impact on Gross and Net Liabilities, Profit before Tax and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

32. Insurance risk (cont'd.)

(b) Sensitivity analysis (cont'd.)

Group and Company	Changes in variable	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before taxation RM'000	Impact on equity RM'000
		Increase/(decrease)			
2012					
Loss ratio	+10%	143,119	71,037	(71,037)	(53,278)
PRAD	+10%	1,834	1,274	(1,274)	(956)
Provision for expenses	+10%	495	495	(495)	(371)
2011					
Loss ratio	+10%	57,635	36,159	(36,159)	(27,119)
PRAD	+10%	2,040	1,797	(1,797)	(1,348)
Provision for expenses	+10%	525	1,118	(1,118)	(839)

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32. Insurance risk (cont'd.)

(c) Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each 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.

Gross general insurance contract liabilities for 2012:

Accident year	**2005 RM'000**	**2006 RM'000**	**2007 RM'000**	**2008 RM'000**	**2009 RM'000**	**2010 RM'000**	**2011 RM'000**	**2012 RM'000**	**Total RM'000**
At end of accident year	215,703	171,487	168,880	231,999	174,026	170,544	164,136	244,139	
One year later	206,489	189,062	158,065	251,136	124,814	168,597	150,123		
Two years later	199,753	238,023	161,822	211,179	117,799	146,125			
Three years later	185,568	190,660	157,899	206,783	106,592				
Four years later	185,137	192,144	152,896	201,353					
Five years later	190,674	190,249	153,684						
Six years later	186,659	186,940							
Seven years later	199,609								
Current estimate of cumulative claims incurred	199,609	186,940	153,684	201,353	106,592	146,125	150,123	244,139	1,388,565
At end of accident year	(56,005)	(39,651)	(52,065)	(43,395)	(39,747)	(38,182)	(30,815)	(76,857)	
One year later	(108,271)	(111,344)	(97,631)	(146,308)	(73,127)	(95,372)	(75,244)		
Two years later	(147,832)	(131,382)	(120,035)	(173,375)	(88,940)	(110,466)			
Three years later	(158,615)	(172,851)	(133,779)	(188,104)	(100,378)				
Four years later	(166,057)	(177,927)	(140,857)	(193,255)					
Five years later	(170,840)	(178,884)	(145,024)						
Six years later	(173,027)	(180,024)							
Seven years later	(180,472)								
Cumulative payments to-date	(180,472)	(180,024)	(145,024)	(193,255)	(100,378)	(110,466)	(75,244)	(76,857)	(1,061,720)
Gross general insurance contract liabilities per statement of financial position	19,137	6,916	8,660	8,098	6,214	35,659	74,879	167,282	326,845

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32. Insurance risk (cont'd.)

(c) Claims development table (cont'd.)

Net general insurance contract liabilities for 2012:

Accident year	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year	86,749	93,390	90,326	102,392	100,098	114,029	134,687	134,376	
One year later	90,534	96,896	85,079	96,959	88,388	106,956	121,263		
Two years later	88,846	87,560	84,387	89,334	87,742	98,737			
Three years later	79,869	85,438	84,684	85,705	82,173				
Four years later	79,430	86,228	80,836	83,684					
Five years later	80,828	84,087	79,412						
Six years later	77,700	81,511							
Seven years later	80,204								
Current estimate of cumulative claims incurred	80,204	81,511	79,412	83,684	82,173	98,737	121,263	134,376	761,360
At end of accident year	(27,106)	(34,194)	(32,810)	(34,131)	(36,105)	(34,592)	(28,737)	(34,057)	
One year later	(57,734)	(64,307)	(60,380)	(63,502)	(62,444)	(67,182)	(66,529)		
Two years later	(65,144)	(70,765)	(66,712)	(71,614)	(70,711)	(77,525)			
Three years later	(68,029)	(74,012)	(71,819)	(75,894)	(75,656)				
Four years later	(70,604)	(77,293)	(74,337)	(78,497)					
Five years later	(72,926)	(77,821)	(75,595)						
Six years later	(73,708)	(78,546)							
Seven years later	(75,595)								
Cumulative payments to-date	(75,595)	(78,546)	(75,595)	(78,497)	(75,656)	(77,525)	(66,529)	(34,057)	(562,000)
Net general insurance contract liabilities per statement of financial position	4,609	2,965	3,817	5,187	6,517	21,212	54,734	100,319	199,360

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32. Insurance risk (cont'd.)

(c) Claims development table (cont'd.)

Gross general insurance contract liabilities for 2011:

Accident year	**2004 RM'000**	**2005 RM'000**	**2006 RM'000**	**2007 RM'000**	**2008 RM'000**	**2009 RM'000**	**2010 RM'000**	**2011 RM'000**	**Total RM'000**
At end of accident year	303,677	215,703	171,487	168,880	231,999	174,026	170,544	164,136	
One year later	315,814	206,489	189,062	158,065	251,136	124,814	168,597		
Two years later	303,539	199,753	238,023	161,822	211,179	117,799			
Three years later	310,463	185,568	190,600	157,899	206,783				
Four years later	298,651	185,137	192,144	152,896					
Five years later	283,421	190,674	190,249						
Six years later	286,545	186,659							
Seven years later	309,785								
Current estimate of cumulative claims incurred	309,785	186,659	190,249	152,896	206,783	117,799	168,597	164,136	1,496,904
At end of accident year	(75,031)	(56,005)	(39,651)	(52,065)	(43,395)	(39,747)	(38,182)	(30,815)	
One year later	(213,832)	(108,271)	(111,344)	(97,631)	(146,308)	(73,127)	(95,372)		
Two years later	(249,244)	(147,832)	(131,382)	(120,035)	(173,375)	(88,940)			
Three years later	(265,409)	(158,615)	(172,851)	(133,779)	(188,104)				
Four years later	(269,059)	(166,057)	(177,927)	(140,857)					
Five years later	(272,534)	(170,840)	(178,884)						
Six years later	(274,978)	(173,027)							
Seven years later	(283,067)								
Cumulative payments to-date	(283,067)	(173,027)	(178,884)	(140,857)	(188,104)	(88,940)	(95,372)	(30,815)	(1,179,066)
Gross general insurance contract liabilities per statement of financial position	26,718	13,632	11,365	12,039	18,679	28,859	73,225	133,321	317,838

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32. Insurance risk (cont'd.)

(c) Claims development table (cont'd.)

Net general insurance contract liabilities for 2011:

Accident year	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year	99,947	86,749	93,390	90,326	102,392	104,437	114,029	134,687	
One year later	99,776	90,534	96,896	85,079	92,619	88,388	106,956		
Two years later	101,532	88,846	87,560	84,387	89,334	87,742			
Three years later	102,721	79,869	85,438	84,684	85,705				
Four years later	93,982	79,430	86,228	80,836					
Five years later	91,252	80,828	84,087						
Six years later	93,194	77,700							
Seven years later	96,654								
Current estimate of cumulative claims incurred	96,654	77,700	84,087	80,836	85,705	87,742	106,956	134,687	754,367
At end of accident year	(39,398)	(27,106)	(34,194)	(32,810)	(34,131)	(36,105)	(34,592)	(28,737)	
One year later	(66,242)	(57,734)	(64,307)	(60,380)	(63,502)	(62,444)	(67,182)		
Two years later	(75,465)	(65,144)	(70,765)	(66,712)	(71,614)	(70,711)			
Three years later	(82,227)	(68,029)	(74,012)	(71,819)	(75,894)				
Four years later	(83,721)	(70,604)	(77,293)	(74,337)					
Five years later	(85,375)	(72,926)	(77,821)						
Six years later	(86,838)	(73,708)							
Seven years later	(90,147)								
Cumulative payments to-date	(90,147)	(73,708)	(77,821)	(74,337)	(75,894)	(70,711)	(67,182)	(28,737)	(558,537)
Net general insurance contract liabilities per statement of financial position	6,507	3,992	6,266	6,499	9,811	17,031	39,774	105,950	195,830

33. Financial risks

(a) Credit risk

Treaty reinsurers and brokers credit ratings are evaluated prior to entering into treaty arrangements. The Group and the Company observe the Bank Negara Malaysia Guidelines and internal Group policies in assessing the credit ratings of reinsurers and brokers.

The settlement risks are also mitigated through prompt reconciliations of records and recovery actions, avoiding at all times delays in collection from reinsurers and entering into commutations for run off reinsurers. The Group and the Company have tightened the credit collection and recovery policies to expedite collections. The Group and the Company are unable to avoid any deterioration in credit ratings of reinsurers after inception of treaties.

Credit exposure

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the maximum amount of each class of financial assets recognised in the statement of financial position as shown in the table below:

Group and Company	**Note**	**2012 RM'000**	**2011 RM'000**
LAR:			
Fixed and call deposits with licensed financial institutions	7(a)	231,747	243,963
Loans receivable:			
Staff mortgage loans	7(a)	636	759
Other staff loans:			
Secured	7(a)	23	46
Unsecured	7(a)	23	16
AFS financial assets:			
Debt securities	7(b)	137,800	131,581
Reinsurance assets	8	163,585	157,966
Insurance receivables	9	60,524	36,805
Other receivables	10	31,160	22,825
Cash and bank balances		2,215	5,152
		627,713	599,113

33. Financial risks (cont'd.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating

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

	Neither impaired nor past-due						
Group and Company	**AAA RM'000**	**AA RM'000**	**A RM'000**	**BBB and lower RM'000**	**Not rated RM'000**	**Past-due but not impaired RM'000**	**Total RM'000**
2012							
LAR:							
Fixed and call deposits with licensed financial institutions	83,205	31,410	50,028	-	67,104	-	231,747
Loans receivable:							
Staff mortgage loans	-	-	-	-	636	-	636
Other staff loans:							
Secured	-	-	-	-	23	-	23
Unsecured	-	-	-	-	23	-	23
AFS financial assets:							
Debt securities	60,664	68,813	1,038	-	7,285	-	137,800
Reinsurance assets	-	215	74,467	6,473	82,430	-	163,585
Insurance receivables	-	19	11,420	207	10,353	38,525	60,524
Other receivables	1,400	862	600	-	28,298	-	31,160
Cash and bank balances	(320)	1,370	1,524	-	(359)	-	2,215
	144,949	102,689	139,077	6,680	195,793	38,525	627,713

33. Financial risks (cont'd.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating (cont'd.)

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

	Neither impaired nor past-due						
Group and Company	**AAA RM'000**	**AA RM'000**	**A RM'000**	**BBB and lower RM'000**	**Not rated RM'000**	**Past-due but not impaired RM'000**	**Total RM'000**
2011							
LAR:							
Fixed and call deposits with licensed financial institutions	77,886	75,871	16,604	-	73,602	-	243,963
Loans receivable:							
Staff mortgage loans	-	-	-	-	759	-	759
Other staff loans:							
Secured	-	-	-	-	46	-	46
Unsecured	-	-	-	-	16	-	16
AFS financial assets:							
Debt securities	55,675	68,545	-	-	7,361	-	131,581
Reinsurance assets	-	934	47,040	8,757	101,235	-	157,966
Insurance receivables	1,416	1,080	6,076	578	(562)	28,217	36,805
Other receivables	1,357	1,285	112	-	20,071	-	22,825
Cash and bank balances	4,042	756	1,352	-	(998)	-	5,152
	140,376	148,471	71,184	9,335	201,530	28,217	599,113

33. Financial risks (cont'd.)

(a) Credit risk (cont'd.)

Age analysis of financial assets past-due but not impaired

		Past due but not impaired				
Group and Company	**< 30 days RM'000**	**31 to 60 days RM'000**	**61 to 90 days RM'000**	**91 to 180 days RM'000**	**More than 180 days RM'000**	**Total RM'000**
2012						
Insurance receivables:						
Due premium including agents, brokers and co-insurers balances	3,808	11,659	1,516	2,183	3,730	22,896
Due from reinsurers and cedants	6,540	271	(2)	365	8,455	15,629
	10,348	11,930	1,514	2,548	12,185	38,525
2011						
Insurance receivables:						
Due premium including agents, brokers and co-insurers balances	2,960	1,097	947	677	3,872	9,553
Due from reinsurers and cedants	6,805	113	1,027	1,809	8,910	18,664
	9,765	1,210	1,974	2,486	12,782	28,217

As at 31 December 2012 based on the assessment of the receivables, there were impaired insurance receivable of RM19,428,000 (2011: RM23,005,000). A reconciliation of the allowance for the impairment losses for the insurance receivables is disclosed in Note 9.

33. Financial risks (cont'd.)

(b) Liquidity risk

Liquidity risk is the risk where the Group and the Company are unable to meet its obligations in a timely manner at a reasonable cost at any time. The Group maintains a large tranche of liquid asset instruments, primarily bank deposits and Malaysian Government Securities, to ensure high liquidity.

Maturity profiles

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

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

Group and Company	Carrying value RM'000	Less than 1 year RM'000	Over 1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
LAR:						
Fixed and call deposits with licensed financial institutions	231,747	234,415	-	-	-	234,415
Loans receivable:						
Staff mortgage loans	636	32	33	571	-	636
Other staff loans:						
Secured	23	4	19	-	-	23
Unsecured	23	23	-	-	-	23
AFS financial assets:						
Equity securities	9,028	-	-	-	9,028	9,028
Unit and property trust funds	69,146	-	-	-	69,146	69,146
Debt securities	137,800	32,482	102,565	16,671	-	151,718
Reinsurance assets	163,585	66,963	37,200	23,322	36,100	163,585
Insurance receivables	60,524	60,524	-	-	-	60,524
Other receivables	31,160	3,843	-	-	27,317	31,160
Cash and bank balances	2,215	-	-	-	2,215	2,215
	705,887	398,286	139,817	40,564	143,806	722,473

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33. Financial risks (cont'd.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

Group and Company	Carrying value RM'000	Less than 1 year RM'000	Over 1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
Insurance contract liabilities	431,521	167,282	124,850	34,713	104,676	431,521
Insurance payables	73,394	73,394	-	-	-	73,394
Other payables	23,273	15,689	574	-	7,010	23,273
Retirement benefits	1,148	73	343	732	-	1,148
	529,336	256,438	125,767	35,445	111,686	529,336
2011						
LAR:						
Fixed and call deposits with licensed financial institutions	243,963	247,663	-	-	-	247,663
Loans receivable:						
Staff mortgage loans	759	-	25	734	-	759
Other staff loans:						
Secured	46	5	41	-	-	46
Unsecured	16	16	-	-	-	16
AFS financial assets:						
Equity securities	26,508	-	-	-	26,508	26,508
Unit and property trust funds	27,813	-	-	-	27,813	27,813
Debt securities	131,581	32,117	111,420	-	-	143,537
Reinsurance assets	157,966	89,989	66,505	1,472	-	157,966
Insurance receivables	36,805	36,805	-	-	-	36,805
Other receivables	22,825	3,472	2	-	19,351	22,825
Cash and bank balances	5,152	-	-	-	5,152	5,152
	653,434	410,067	177,993	2,206	78,824	669,090
Insurance contract liabilities	433,817	171,530	140,771	5,537	115,979	433,817
Insurance payables	51,053	51,053	-	-	-	51,053
Other payables	16,818	10,162	437	-	6,219	16,818
Retirement benefits	1,336	231	676	429	-	1,336
	503,024	232,976	141,884	5,966	122,198	503,024

33. Financial risks (cont'd.)

(b) Liquidity risk (cont'd.)

The table below summarises the expected utilisation or settlement of assets

Group and Company	Current* RM'000	Non-current RM'000	Total RM'000
2012			
Property and equipment	-	10,273	10,273
Investment property	-	2,395	2,395
Intangible assets	-	157	157
Investments:			
LAR	231,806	623	232,429
AFS financial assets	18,564	197,410	215,974
Reinsurance assets	66,963	96,622	163,585
Insurance receivables	60,524	-	60,524
Other receivables	3,843	27,317	31,160
Cash and bank balances	2,215	-	2,215
	383,915	334,797	718,712
2011			
Property and equipment	-	10,267	10,267
Investment property	-	2,417	2,417
Intangible assets	-	153	153
Investments:			
LAR	243,984	800	244,784
AFS financial assets	20,161	165,741	185,902
Reinsurance assets	89,989	67,977	157,966
Insurance receivables	36,805	-	36,805
Other receivables	3,472	19,353	22,825
Cash and bank balances	5,152	-	5,152
	399,563	266,708	666,271

* *Expected utilisation or settlement within 12 months from the reporting date.*

33. Financial risks (cont'd.)

(c) Market risk

Market risk arises with changes in equity and bond prices. This risk is mitigated through proper initial and continuous credit evaluation of bonds and shares respectively, purchase of high grade shares and bonds, and constant watch on investment portfolio for adverse changes and opportunities.

Credit risk, especially settlement risk is mitigated with proper credit monitoring of bonds held.

Fund managers' performance are monitored constantly, parameters are prescribed to fund managers according to the Group's risk appetite on purchase of equity, bonds and unit trusts, and by placing limits on categories of purchase.

Holding of unquoted shares is progressively reduced, with an emphasis on risk and return.

Equity price risk

Management's best estimate of the effect on the net income for the year and equity due to a reasonably possible change in the FTSE Bursa Malaysia KLCI Index ("FBMKLCI") with all other variables held constant is indicated in the table below:

		|---- Increase/(decrease) ---|	
Group and Company	**Change in FBMKLCI %**	**Effect on net income for the year RM'000**	**Effect on equity RM'000**
2012			
Market indices:			
FBMKLCI	+10	-	5,853
FBMKLCI	-10	-	(5,853)
2011			
Market indices:			
FBMKLCI	+10	-	4,058
FBMKLCI	-10	-	(4,058)

33. Financial risks (cont'd.)

(c) Market risk (cont'd.)

Interest rate risk

The Group and the Company have no borrowings, hence limiting its exposure to interest risk to holdings in term deposits, corporate bonds and government securities. The interest and capital value of the latter may be affected by changes in the interest yield curve. The Group has an investment policy that investments are made at competitive interest rates.

Sensitivity analysis:

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income or loss and impact on equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate yield risk but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		|---- Increase/(decrease) ---|	
Group and Company	**Changes in basis points**	**Effect on net income for the year RM'000**	**Effect on equity RM'000**
2012			
Interest rates	+ 100 bps	(1,738)	(5,284)
Interest rates	- 100 bps	1,738	4,943
2011			
Interest rates	+ 100 bps	(1,830)	(4,539)
Interest rates	- 100 bps	1,830	4,446

(d) Operational Risk

Good internal control framework, compliance to regulatory guidelines and observance to best practices enable the Group and the Company to mitigate its operational risks. Internal audit plan and risk based audits coupled with periodic reviews on compliance to policies and procedures provide assurance that the Group and the Company has the best processes in a controlled environment.

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34. Fair values of financial assets and liabilities

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	|---------- Valuation technique using	--------	--------|	
Group and Company	**Quoted market price (Level 1) RM'000**	**Observable inputs (Level 2) RM'000**	**Un-observable inputs (Level 3) RM'000**	**Total RM'000**
AFS financial assets:				
2012				
Equity securities:				
Quoted in Malaysia	8,889	-	-	8,889
Unit and property trust funds:				
Quoted in Malaysia	69,146	-	-	69,146
Debt securities:				
Unquoted in Malaysia	-	137,800	-	137,800
	78,035	137,800	-	215,835
2011				
Equity securities:				
Quoted in Malaysia	26,287	-	-	26,287
Unit and property trust funds:				
Quoted in Malaysia	27,813	-	-	27,813
Debt securities:				
Unquoted in Malaysia	-	131,581	-	131,581
	54,100	131,581	-	185,681