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**PACIFIC & ORIENT INSURANCE
CO. BERHAD
(12557-W)
(Incorporated in Malaysia)**

**Directors' Report and Audited Financial
Statements
30 September 2013**

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

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PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 September 2013.

PRINCIPAL ACTIVITY

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

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

RESULTS

	RM'000
Net profit for the year	<u>55,102</u>

DIVIDEND

The amount of dividends paid or declared by the Company since 30 September 2012 were as follows:

	RM'000
<u>In respect of the financial year ended 30 September 2012</u>	
4th interim dividend of 16 sen per share less tax at 25% declared on 12 November 2012 and paid on 16 November 2012	12,000
<u>In respect of the financial year ended 30 September 2013</u>	
1st interim dividend of 10.65 sen per share less tax at 25% declared on 7 February 2013 and paid on 8 February 2013	7,987
2nd interim dividend of 13.3 sen per share less tax at 25% declared on 25 April 2013 and paid on 26 April 2013	9,975
3rd interim dividend of 18.13 sen per share less tax at 25% declared on 26 June 2013 and paid on 28 June 2013	13,598
	<u>43,560</u>

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

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

BAD AND DOUBTFUL DEBTS

Before the income statement, statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no bad debts and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would require any amount to be written off as bad debts or render the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due. For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

DIRECTORS

The Directors in office since the date of the last report are:

Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth
Mr. Chan Thye Seng
Mr. Michael Yee Kim Shing
En. Mohammad Nizar Bin Idris
En. Abdul Rahman Bin Talib
Mr. William Robertson Dommissie (Appointed w.e.f. 17 May 2013)

In accordance with Section 129(6) of the Companies Act, 1965, Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim, Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth, Mr. Michael Yee Kim Shing and En. Mohammad Nizar Bin Idris retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

In accordance with Article 74 of the Company's Articles of Association, Mr. Chan Thye Seng retires from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 80 of the Company's Articles of Association, Mr. William Robertson Dommissie retires from the Board by rotation, at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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 as a full-time employee of the Company as shown in Notes 29 and 30 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 the director is a member, or with a company in which the director has a substantial financial interest.

Company No: 12557 W

DIRECTORS' INTERESTS

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

	Number of Ordinary Shares of RM1.00 Each			
	At 1 October <u>2012</u>	<u>Acquired</u>	<u>Disposed</u>	At 30 September <u>2013</u>
<u>Pacific & Orient Berhad</u> <u>(Holding Company)</u>				
Mr. Chan Thye Seng				
- Direct interest	27,898,736	-	-	27,898,736
- Indirect interest	108,771,818	-	-	108,771,818
Mr. Michael Yee Kim Shing				
- Indirect interest	1,442,802	-	-	1,442,802

Mr. Chan Thye Seng, by virtue of his interest in the holding company, is deemed to have an interest in the shares of all the subsidiary companies within the Pacific & Orient Berhad Group to the extent the holding company has an interest.

Other than as stated above, none of the Directors who were in office at the end of the financial year had any interest in shares of the Company or its related corporations during the financial year.

STATEMENT ON CORPORATE GOVERNANCE

The Board and management have considered Bank Negara Malaysia's ("BNM") 'Prudential Framework of Corporate Governance for Insurers' ("the Framework") [BNM/RH/GL/003-2] and reviewed the state of the Company's corporate governance structures and procedures. They are of the opinion that the Company has generally complied with all the prescriptive requirements of the Framework.

BOARD OF DIRECTORS

Board Composition and Balance

As at 30 September 2013, the Board comprises seven (7) directors. There is a balance in the Board represented by the presence of one (1) Executive Director, four (4) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors.

The Board possesses a complementary blend of expertise with professionals drawn from varied backgrounds, such as legal, accounting, banking, civil service and the armed forces, bringing with them in-depth and diversity in experience, expertise and perspectives to the Company's business operations.

The presence of the four (4) Independent Non-Executive Directors provides a check and balance in the effective functioning of the Board. Together, they bring an unbiased and independent view, advice and judgment to take into account the interest, not only of the Company but also of shareholders, employees, agencies, insureds and communities in which the Company conducts business.

The Board had conducted an assessment of its composition for financial year 2013 and was satisfied that the Board composition in terms of size, the balance between Executive, Non-Executive and Independent Directors and mix of skills were adequate. The appointment of a Non-Independent Non-Executive Director to the Board consequent to the divestment of 49% of the equity interest in the Company by the holding company, Pacific & Orient Berhad, to Sanlam Emerging Markets Proprietary Limited in the financial year just ended has further strengthened the Board composition.

The roles of the Chairman and Chief Executive Officer ("CEO") are distinct and separate, each has a clearly accepted division of responsibilities to ensure a balance of power and authority.

The Independent Directors have complied with the requirements of Independent Director prescribed by BNM. Further, all Directors have complied with the requirements on restriction of directorships imposed by BNM and also fulfilled the minimum criteria of 'fit and proper person' prescribed under the Financial Services Act 2013 and BNM's policy document on Fit and Proper Criteria [BNM/RH/GL 018-5].

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

BOARD OF DIRECTORS (CONTD.)

Board Responsibilities

The Board is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Financial Services Act 2013, BNM's guidelines on 'Minimum Standards for Prudential Management of Insurers' [BNM/RH/GL/003-1], [BNM/RH/GL/003-2], and other policy documents and directives, in addition to adopting other best practices on corporate governance.

Board Meetings and Attendance

Board meetings for the ensuing financial year are scheduled in advance before the end of the current financial year so as to enable the Directors to plan ahead. The Board holds regular meetings of no less than six (6) times annually to receive, deliberate and decide on matters reserved for its decision. These include approval of the Company's strategic plan, acquisitions and disposals of assets that are material to the Company, as well as adoption of key policies and procedures. Additional meetings are convened as and when necessary to consider urgent matters that require the Board's expeditious review and consideration.

The Board met seven (7) times during the financial year ended 30 September 2013 to review and deliberate on various matters, including the Company's performance, the strategic plan of the Company, the Company's quarterly financial results and annual financial statements and strategic issues that affect the Company's business operation. All the Directors had complied with the 75% minimum attendance requirement at such meetings. The details of attendance of each of the Directors at the Board meetings are as follows:

	<u>Attendance</u>
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Chairman) Independent, Non-Executive Director	7/7
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth Independent, Non-Executive Director	7/7
Mr. Chan Thye Seng Non-Independent, Non-Executive Director	7/7
Mr. Michael Yee Kim Shing Independent, Non-Executive Director	7/7

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

BOARD OF DIRECTORS (CONTD.)

Board Meetings and Attendance (Contd.)

	<u>Attendance</u>
En. Mohammad Nizar Bin Idris Independent, Non-Executive Director	7/7
En. Abdul Rahman Bin Talib Executive Director, Chief Executive Officer	7/7
Mr. William Robertson Domnisse Non-Independent, Non-Executive Director (Appointed w.e.f. 17 May 2013)	3/3

Supply of Information

The Directors are provided with the relevant agenda and Board papers in sufficient time prior to Board meetings for their perusal and consideration and to enable them to obtain further explanations and clarification on matters to be deliberated, to facilitate informed decision-making.

The Board has unrestricted access to timely and accurate information. All Directors have access to the advice of the Company Secretary and the Senior Management personnel in the Company and may obtain independent professional advice at the Company's expense in furtherance of their duties.

The Directors are regularly updated on new statutory as well as regulatory requirements relating to the duties and responsibilities of the Directors and the operation of the Company.

Appointments to the Board

Pursuant to guidelines issued by BNM, the appointment of a new Director is subject to the prior approval of BNM, and BNM approval will be for a specified term of appointment. The Nominating Committee ("NC") is responsible for identifying, assessing and recommending to the Board suitable nominees for appointment to the Board and Board Committees. In making its recommendation, the NC is guided by a comprehensive Procedures for Appointment of New Directors, Chief Executive Officer and Key Senior Officers, which it had previously adopted. The final decision on the appointment of a candidate recommended by the NC rests with the whole Board before the application is submitted to BNM for approval.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Reappointment and Re-election

The reappointment of a Director upon expiry of his current term of office is also subject to the prior approval of BNM.

The Articles of Association of the Company provides that at least one-third (1/3) of the Directors will retire by rotation at each Annual General Meeting ("AGM"). A retiring Director is eligible for re-election at the AGM.

Directors who are seventy (70) years of age or above are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

The NC is responsible for assessing the performance of Directors whose term of appointment as approved by BNM is due to expire, as well as those Directors who are subject to re-appointment and re-election at the AGM of the Company and submitting their recommendation to the Board for decision.

Directors' Training

All new Non-Executive Directors are required to attend an orientation programme to familiarise themselves with the insurance industry and the Company in order to ensure that the Directors are equipped to discharge their responsibilities.

Except for two (2) Directors, all of the Directors have attended the high level Finance Institutions Directors' Education ("FIDE") Programme developed by BNM and Perbadanan Insurans Deposit Malaysia in collaboration with the International Centre for Leadership in Finance. Of the remaining two (2) Directors, one (1) is in the midst of completing the programme, whilst the other Director, who was newly appointed, will be attending the programme in the next financial year. Apart from the FIDE programme, the Directors had also attended training covering areas such as corporate governance, fraud oversight, corporate disclosure and goods and service tax.

Existing Non-Executive Directors are kept informed of regulatory developments, new regulatory requirements or changes to existing regulations, which include laws, BNM guidelines and circulars as well as Persatuan Insurans Am Malaysia circulars.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES

The Board has established Board Committees to assist the Board in performing its duties and discharging its responsibilities more efficiently and effectively. The Board Committees operate on Terms of Reference approved by the Board and have the authority to examine pertinent issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters lies with the Board. The details of the Board Committees are as follows:

1. Audit Committee ("AC")

The AC was established by the Board on 22 May 1995 to review the Company's processes for producing financial data, its internal control, the independence of the Company's External Auditors and maintain an open line of communication and consultation between the Board, the Internal Auditors, the External Auditors and management.

As at 30 September 2013, the AC comprises five (5) Directors, all of whom are Non-Executive Directors. A majority of the Directors are Independent.

The principal duties and functions of the AC are as follows:

- (i) To review and recommend for the Board's approval, the Internal Audit Charter which defines the independence, purpose, authority, scope and responsibility of the Internal Audit function in the Company.
- (ii) To review the following and report to the Board:
 - (a) Co-ordination with the External Auditors, including matters pertaining to their audit plan, fees, auditors' reports, management letters and liaison with Internal Audit.
 - (b) The suitability for nomination, appointment and re-appointment of the External Auditors, including assessment of the various relationships between the External Auditors and the Company or any other entity that may impair or appear to impair the External Auditors' objectivity, performance and independence.
 - (c) The internal audit plan of work programme, including the appropriateness of the risk management methodology employed to determine the frequency and scope of audit.
 - (d) Independence and reporting relationships of the internal audit function as well as the adequacy and relevance of the scope, functions, competency and resources and the necessary authority to carry out its work.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

1. Audit Committee ("AC") (Contd.)

The principal duties and functions of the AC are as follows: (Cont'd)

(ii) To review the following and report to the Board: (Cont'd)

(e) The quarterly and annual results of the Company prior to presentation for approval to the Board of Directors. The AC also reviews the disclosure in the Directors' Report on the manner in which applications of [BNM/RH/GL/003-2] principles through prescriptive applications and best practice standards have been achieved.

(f) The propriety of any related party transaction and conflict of interest situation that may arise within the Company, including any transaction, procedure or course of conduct that may raise questions of management integrity.

(iii) To prepare the AC Report for submission to BNM, not later than 31 January of each year covering the composition of the Committee, number of meetings held and attendance thereon, as well as the activities undertaken by the AC and Internal Audit function during the year.

(iv) To perform any other work required or empowered by statutory legislation or guidelines issued by the relevant government or regulatory authorities.

The AC held four (4) meetings during the financial year. Attendance of the members at the meetings are as follows:

	<u>Attendance</u>
Mr. Michael Yee Kim Shing (Chairman)	4/4
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	4/4
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	4/4
En. Mohammad Nizar Bin Idris	4/4
Mr. William Robertson Dommissie (Appointed w.e.f. 5 July 2013)	1/1

During the financial year, the AC had reviewed internal audit (including risk management) and corporate governance reports as well as the unaudited quarterly and half yearly financial results and the results of the annual audit, including the External Auditor's audit report and management letter.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONTD.)

1. Audit Committee ("AC") (Contd.)

Risk Management Process, Internal Control System and Governance Practices

Management has established risk management process, internal control system and governance practices to manage risks and achieve business objectives. The AC reports to the Board on the effectiveness of the process, system and practices established by management.

2. Nominating Committee ("NC")

The NC was set up by the Board on 30 January 2002 to establish a documented, formal and transparent procedure for the appointment of Directors, Chief Executive Officer ("CEO") and key senior officers and to assess the effectiveness of Directors, the Board as a whole and the various committees of the Board, the CEO and key senior officers.

As at 30 September 2013, the NC comprises seven (7) Directors, with a majority of them being Independent Non-Executive Directors.

The principal duties and functions of the NC are as follows:

- (i) To assist the Board in an annual review of the overall composition of the Board in terms of appropriate size and required mix of skills, the balance between Executive, Non-Executive and Independent Directors, mix of expertise and experience, and other core competencies required.
- (ii) To assess and recommend to the Board the nominees for directorships, the Directors to fill Board Committees as well as nominees for the Board Chairman and CEO.
- (iii) To establish a mechanism for the formal assessment of the effectiveness of the Board as a whole, the contribution of each Director to the effectiveness of the Board, as well as the contribution of the various Board committees and the performance of the CEO. These assessments are to be carried out on an annual basis.
- (iv) To make recommendation to the Board on the removal of a Director/CEO if he is ineffective, errant or negligent in discharging his responsibilities.
- (v) To identify and recommend suitable programmes to ensure all Directors receive continuous training or enhancement of knowledge particularly pertaining to regulatory developments from time to time.
- (vi) To oversee the appointment, management succession planning and performance evaluation of key senior officers, and recommend to the Board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

2. Nominating Committee ("NC") (Cont'd.)

The NC held five (5) meetings during the financial year. Attendance of the members at the meetings are as follows:

<u>Membership:</u>	<u>Attendance</u>
En. Mohammad Nizar Bin Idris (Chairman)	5/5
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	5/5
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	5/5
Mr. Chan Thye Seng	5/5
Mr. Michael Yee Kim Shing	5/5
En. Abdul Rahman Bin Talib	5/5
Mr. William Robertson Dommissie (Appointed w.e.f. 5 July 2013)	1/1

During the financial year, the NC had conducted an annual assessment of the performance of the Board as a whole, the Board Committee, the individual directors including the CEO and the Chief Operating Officer ("COO"). The NC has also assessed the performance of existing Directors/CEO prior to their reappointment, subject to BNM's approval.

Procedures for New Appointment, Re-appointment of Directors, Assessment of Effectiveness of the Board, Board Committees and Individual Directors and Assessment of Fitness and Propriety

The process of assessing the Directors is an ongoing responsibility of the NC. The NC has established procedures for assessment of the effectiveness of individual Directors, the Board as a whole, the Board Committees, the CEO and key responsible persons.

In respect of the assessment for the current financial year, the Board was satisfied that the Board and the individual Directors have discharged their duties and responsibilities effectively.

3. Remuneration Committee ("RC")

The RC was established by the Board on 3 October 2001 to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and key senior officers and ensuring their compensation is competitive and consistent with the Company's culture, objectives and strategy.

As at 30 September 2013, the RC comprises six (6) Directors, all of whom are Non-Executive Directors. A majority of the Directors are Independent.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

3. Remuneration Committee ("RC") (Cont'd.)

The principal duties and functions of the RC are as follows:

- (i) To determine and recommend for approval of the Board, the framework or broad policies relating to terms of employment and remuneration of the Non-Executive Directors, CEO and COO. The framework/policies are consistent with the requirements of [BNM/RH/GL/003-1].
- (ii) To recommend to the Board the remuneration packages of the CEO and COO. The remuneration packages for the CEO and COO are structured such that they link rewards to corporate and individual performances to encourage high performance standards.
- (iii) To review and recommend to the Board the remuneration of the Non-Executive Directors within the limits set by the shareholders. A Non-Executive Director shall abstain from discussions relating to his remuneration. The remuneration of a Non-Executive Director should reflect the level of responsibilities undertaken and contributions to the effectiveness of the Board.

The RC held one (1) meeting during the financial year. Attendance of the members at the meeting are as follows:

<u>Membership:</u>	<u>Attendance</u>
En. Mohammad Nizar Bin Idris (Chairman)	1/1
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	1/1
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	1/1
Mr. Chan Thye Seng	1/1
Mr. Michael Yee Kim Shing	1/1
Mr. William Robertson Dommissie (Appointed w.e.f. 11 July 2013)	-

In the meeting of the RC during the financial year, the RC had reviewed and recommended to the Board the remuneration of the CEO and COO. Directors do not participate in decisions regarding their own remuneration.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

3. Remuneration Committee ("RC") (Cont'd.)

Remuneration Policy

A remuneration policy has been established to govern the remuneration of the Non-Executive Directors, CEO and COO.

4. Risk Management Committee ("RMC")

The RMC was established by the Board on 17 June 2003 to oversee the senior management's activities in managing the key risk areas of the Company and ensuring that the risk management process is in place and functioning effectively.

As at 30 September 2013, the RMC comprises six (6) Directors, all of whom are Non-Executive Directors. A majority of the Directors are Independent.

The principal duties and functions of the RMC are as follows:

- (i) To review and recommend risk management strategies, policies and risk tolerance limits for the Board's approval.
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which the framework is operating effectively.
- (iii) To ensure adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staff responsible for implementing risk management perform those duties independently of the Company's risk taking activities.
- (iv) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

4. Risk Management Committee ("RMC") (Cont'd.)

The RMC held six (6) meetings during the financial year. Attendance of the members at the meetings are as follows:

<u>Membership:</u>	<u>Attendance</u>
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth (Chairman)	6/6
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	6/6
Mr. Chan Thye Seng	6/6
Mr. Michael Yee Kim Shing	6/6
En. Mohammad Nizar Bin Idris	6/6
Mr. William Robertson Dommissie (Appointed w.e.f. 5 July 2013)	2/2

During the financial year, the RMC had conducted a review of the strategic risks of the Company as well as all known risks identified by the individual business units.

Risk Management Framework

The RMC was established to oversee the formulation of an effective enterprise risk management framework and to monitor risk management activities. In accordance with the risk management framework, a Risk Management Department was established to assist the RMC in implementing the risk management policy, developing and monitoring risk management procedures and measurement methodologies as well as monitoring the progress of risk mitigation plans.

Directors' Responsibility Statement

The Directors are required by the Companies Act, 1965 to prepare financial statements for each year which have been made out in accordance with the Malaysian Financial Reporting Standards and give a true and fair view of the financial position of the Company as at 30 September 2013 and of the results and cash flows of the Company for the year then ended.

The Directors have the responsibility for ensuring that the Company keeps accounting records that disclose with reasonable accuracy their financial position and which enable them to ensure that the financial statements comply with the Companies Act, 1965 in Malaysia, Financial Services Act, 2013 and the guidelines/circulars issued by BNM.

The Directors have the overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Management Accountability

The Company has in place a documented and updated organisation structure with clear reporting lines and job description for management and executive employees. In addition, there are also well documented policies and procedures in the operating manuals for all major functions within the Company.

Corporate Independence

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions [BNM/RH/GL/003-3] in respect of all its related party transactions. Related party transactions, if any, are disclosed to the Board and they are on terms and conditions no more favourable than those available for similar transactions to the Company's other customers.

Financial Reporting

The Board aims to ensure that the quarterly reports and annual financial statements are presented in a manner which provides balanced and comprehensive assessment of the Company's performance and prospect. The Board is assisted by the AC to oversee the financial reporting process of the Company. The AC also reviews the appropriateness of the Company's accounting policies and the changes to these policies to ensure compliance with the accounting and regulatory requirements.

Internal Control and Enterprise Risk Management

The Board acknowledges its responsibilities over the system of internal controls, which includes financial, operational and compliance controls maintained by the Company that provides reasonable assurance regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, regulations and contracts, as well as with internal procedures and guidelines. While acknowledging their responsibility for the system of internal control, the Board is aware that such a system is designed to manage rather than eliminate risks and therefore cannot provide an absolute assurance against material misstatement or loss. The Board regards risk management as an integral part of the Company's business operations and has accordingly implemented an enterprise risk management across the Company. In this respect, the Company has established a risk management framework and has in place an ongoing process of identifying, evaluating, managing and reporting of significant risks that may affect the achievement of its business objectives throughout the financial year under review and up to the date of this report.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Internal Control and Enterprise Risk Management (Cont'd)

The Board is assisted by an Audit Committee ("AC") to review audit issues concerning internal controls identified by the Internal Auditors, External Auditors and regulatory examiners. The Internal Audit function is provided by the Internal Audit Department of the holding company, Pacific & Orient Berhad, based on the Audit Planning Memorandum approved by the Company's AC. The activities of this Department, which reports regularly to the AC, provides the Board with much of the assurance it requires regarding the adequacy and integrity of the risk management and internal control system.

The Board is also assisted by a Risk Management Committee, which meets regularly to oversee the development of risk management policies and procedures, monitor and evaluate the numerous risks that may arise from the business activities. A Risk Management Department has also been established to assist the Risk Management Committee to discharge its duties. The Risk Management Committee receives regular reports from the Risk Management Department, which in turn receives regular information on risks from the respective risk owners.

To assist the Board in its risk management and internal control responsibilities, the Board also receives periodic reports from the CEO on the scope and performance of the risk management and internal control system. The periodic reports from the CEO are prepared based on an assessment process derived from a system of direct and indirect assessment of the risk management and internal control system implemented. For the current year under review, the CEO has intimated that the Company's risk management and internal control system was adequate and generally effective in addressing the identified risk of the Company. Although minor lapses were noted, these did not have a significant impact on the Company.

Such reporting is intended to aid the Board in discharging its responsibilities for the risk management and internal control system of the Company and serves to provide additional comfort in addition to the Internal and External Auditors' and regulatory examiner's reports received regularly.

Relationship with External Auditors

The Company, through the AC, has an appropriate and transparent relationship with the External Auditors. In the course of the audit of the Company's financial statements, the External Auditors have highlighted to the AC and the Board, matters that require the Board's attention. AC meetings are attended by the external auditors for purposes of presenting their audit plan and report and for presenting their comments on the audited financial statements. The AC meets at least twice a year with the External Auditors to discuss their audit plan, Company's financial statements and the audit findings. The AC also meets with the External Auditors whenever it deems necessary. In the financial year ended 30th September 2013, the AC had met with the External Auditors twice without the presence of any Executive and Non-Independent Board members.

Company No: 12557 W

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

HOLDING AND ULTIMATE HOLDING COMPANY

The Directors regard Pacific & Orient Berhad, a company incorporated in Malaysia, as the holding and ultimate holding company.

SIGNIFICANT EVENT

Details of the significant event during the financial year is disclosed in Note 43 to the financial statements.

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 28 November 2013.


DATO' SERI DATUK DR. HAJI
JALALUDDIN BIN ABDUL RAHIM


ABDUL RAHMAN BIN TALIB

Kuala Lumpur

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, DATO' SERI DATUK DR. HAJI JALALUDDIN BIN ABDUL RAHIM and ABDUL RAHMAN BIN TALIB, being two of the Directors of PACIFIC & ORIENT INSURANCE CO. BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 23 to 110, are properly drawn up in accordance with Malaysian Financial Reporting Standards, International 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 Company as at 30 September 2013 and of the results and cash flows of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 28 November 2013.


DATO' SERI DATUK DR. HAJI
JALALUDDIN BIN ABDUL RAHIM


ABDUL RAHMAN BIN TALIB

STATUTORY DECLARATION

I, ABDUL RAHMAN BIN TALIB, being the Director primarily responsible for the financial management of PACIFIC & ORIENT INSURANCE CO. BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 23 to 110 are, to the best of my knowledge and belief, 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 ABDUL RAHMAN BIN TALIB)
at Kuala Lumpur in Wilayah Persekutuan)
on 28 November 2013)


ABDUL RAHMAN BIN TALIB

Before me,

Commissioner for Oaths



20
No. 86, Tingkat Bawah
Jalan Putra
50350 Kuala Lumpur

12557-W

**Independent auditors' report to the members of
Pacific & Orient Insurance Co. Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Pacific & Orient Insurance Co. Bhd ("the Company"), which comprise the statement of financial position as at 30 September 2013 of the Company, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Company for the year ended 30 September 2013, and a summary of significant accounting policies and other explanatory information, as set out on pages 23 to 110.

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 and International Financial Reporting Standards. 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.

12557-W

**Independent auditors' report to the members of
Pacific & Orient Insurance Co. Berhad (cont'd.)
(Incorporated in Malaysia)**

Opinion

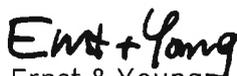
In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 30 September 2013 and of its financial performance and cash flows for the year ended 30 September 2013 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on other legal and regulatory requirements

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

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

Kuala Lumpur, Malaysia
28 November 2013


Brandon Bruce Sta Maria
No. 2937/09/15(J)
Chartered Accountant

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2013

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
ASSETS				
Property, plant and equipment	5	20,450	21,388	17,194
Investment properties	6	695	750	645
Prepaid land lease payments	7	314	318	322
Intangible assets	8	221	77	97
Deferred tax	9	1,875	2,471	4,450
Investments	10	790,273	772,335	616,934
Reinsurance assets	11	229,483	230,978	182,404
Insurance receivables	12	23,679	19,944	109,385
Other receivables	13	53,176	32,410	18,684
Cash and cash equivalents	14	4,482	17,166	55,693
TOTAL ASSETS		<u>1,124,648</u>	<u>1,097,837</u>	<u>1,005,808</u>
EQUITY AND LIABILITIES				
Share capital	15	100,000	100,000	100,000
Revaluation reserve		8,799	8,799	5,222
Available-for-sale reserve		(1,345)	687	(1,611)
Retained profits	16	146,347	134,805	117,660
TOTAL EQUITY		<u>253,801</u>	<u>244,291</u>	<u>221,271</u>
Insurance contract liabilities	17	786,537	761,452	674,485
Insurance payables	18	8,744	16,229	23,432
Hire purchase creditors	19	657	897	893
Tax payable		-	-	10,648
Borrowings	20	68,263	68,130	69,606
Other payables	21	6,646	6,838	5,473
TOTAL LIABILITIES		<u>870,847</u>	<u>853,546</u>	<u>784,537</u>
TOTAL LIABILITIES AND EQUITY		<u>1,124,648</u>	<u>1,097,837</u>	<u>1,005,808</u>

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2013

		<----- Non-Distributable ----->	Distributable			
	<u>Note</u>	<u>Share capital</u>	<u>Revaluation reserve</u>	<u>Available -for-sale reserve</u>	<u>Retained profits</u>	<u>Total</u>
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2012		100,000	8,799	687	134,805	244,291
Net profit for the year		-	-	-	55,102	55,102
Other comprehensive loss for the year		-	-	(2,032)	-	(2,032)
Total comprehensive income for the year		-	-	(2,032)	55,102	53,070
Dividends	33	-	-	-	(43,560)	(43,560)
At 30 September 2013		<u>100,000</u>	<u>8,799</u>	<u>(1,345)</u>	<u>146,347</u>	<u>253,801</u>
At 1 October 2011		100,000	5,222	(1,611)	117,660	221,271
Net profit for the year		-	-	-	47,130	47,130
Other comprehensive income for the year		-	3,577	2,298	-	5,875
Total comprehensive income for the year		-	3,577	2,298	47,130	53,005
Dividends	33	-	-	-	(29,985)	(29,985)
At 30 September 2012		<u>100,000</u>	<u>8,799</u>	<u>687</u>	<u>134,805</u>	<u>244,291</u>

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2013

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
Operating revenue	22	<u>553,416</u>	<u>556,628</u>
Gross earned premiums	23 (a)	525,435	530,344
Premiums ceded to reinsurers	23 (b)	<u>(172,729)</u>	<u>(184,005)</u>
Net earned premiums		<u>352,706</u>	<u>346,339</u>
Investment income	24	27,981	26,284
Realised gains	25	3,422	643
Commission income		31,835	45,591
Fair value losses	26	(929)	(200)
Other operating revenue	27	<u>820</u>	<u>868</u>
Other revenue		<u>63,129</u>	<u>73,186</u>
Gross claims paid	28	(285,216)	(237,445)
Claims ceded to reinsurers	28	78,496	59,588
Gross change in insurance contract liabilities	28	(34,642)	(99,994)
Change in insurance contract liabilities ceded to reinsurers	28	<u>10,641</u>	<u>46,596</u>
Net claims incurred		<u>(230,721)</u>	<u>(231,255)</u>
Commission expense		(56,038)	(56,685)
Management expenses	29	(53,208)	(64,671)
Finance costs	35	<u>(5,500)</u>	<u>(5,658)</u>
Other expenses		<u>(114,746)</u>	<u>(127,014)</u>
Profit before taxation		70,368	61,256
Taxation	31	<u>(15,266)</u>	<u>(14,126)</u>
Net profit for the year		<u>55,102</u>	<u>47,130</u>
Basic earnings per share (sen)	32	<u>55.10</u>	<u>47.13</u>

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2013

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
Net profit for the year		55,102	47,130
Other comprehensive income:			
<u>Items that will not be reclassified to income statement in subsequent periods:</u>			
Surplus from revaluation of land and buildings,		-	4,770
Deferred tax		-	(1,193)
Net gain		-	3,577
<u>Items that may be reclassified to income statement in subsequent periods:</u>			
Fair value changes on available-for-sale ("AFS") financial assets		(2,710)	3,064
Deferred tax		678	(766)
Net gain		(2,032)	2,298
Other comprehensive (loss)/income for the year, net of tax	34	(2,032)	5,875
Total comprehensive income for the year		53,070	53,005

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2013

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	70,368	61,256
Adjustments for:		
Depreciation of property, plant and equipment	1,070	936
Amortisation of prepaid land lease payments	4	4
Amortisation of intangible assets	47	33
Amortisation of premiums, net of accretion of discounts	94	75
Transaction costs of borrowing	134	427
Loss on disposal of property, plant and equipment	17	116
Impairment loss of AFS financial assets	929	415
Bad debt written off	-	20,746
Gain on disposal of investments	(3,452)	(774)
Gain from fair value adjustments of investment properties	-	(105)
Write off of property, plant and equipment	-	2
Short term accumulating compensated absences	31	(42)
Reversal of revaluation deficit	-	(110)
Dividend income	(998)	(1,385)
Interest income	(25,676)	(23,936)
Allowance for impairment of insurance receivables	760	456
Write back in allowance for impairment:		
- insurance receivables	(131)	(5,605)
- reinsurance assets	-	(1,068)
Interest expense	5,363	5,598
Operating profit before working capital changes	48,560	57,039
Changes in working capital:		
Purchase of investments	(185)	(10,293)
Disposal of investments	20,550	26,719
Decrease in bankers acceptances	-	1,564
Increase in deposits and placements with financial institutions	(38,269)	(169,720)
(Increase)/decrease in insurance receivables	(4,363)	73,844
Increase in other receivables	(23,450)	(7,089)
Decrease/(increase) in reinsurance assets	1,495	(47,505)

CASH FLOW STATEMENT (CONT'D.)
FOR THE YEAR ENDED 30 SEPTEMBER 2013

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd.)			
Changes in working capital: (Cont'd.)			
Increase in insurance contract liabilities		25,085	86,967
Decrease in insurance payables		(7,484)	(7,203)
Decrease in other payables		(5,544)	(2,935)
Cash generated from operations		<u>16,395</u>	<u>1,388</u>
Net tax paid		(11,774)	(28,753)
Dividends received		1,258	350
Interest received		25,560	22,011
Interest paid		(43)	(1,452)
Net cash generated from/(used in) operating activities		<u>31,396</u>	<u>(6,456)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		9	90
Disposal of investment property		60	-
Purchase of property, plant and equipment	5(c)	(88)	(148)
Purchase of intangible assets	8	(191)	(13)
Net cash used in investing activities		<u>(210)</u>	<u>(71)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(43,560)	(29,985)
Repayment of borrowings		-	(1,709)
Decrease in hire purchase creditors		(310)	(306)
Net cash used in financing activities		<u>(43,870)</u>	<u>(32,000)</u>
Net decrease in cash and cash equivalents		(12,684)	(38,527)
Cash and cash equivalents at beginning of year		<u>17,166</u>	<u>55,693</u>
Cash and cash equivalents at end of year	14	<u>4,482</u>	<u>17,166</u>

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 SEPTEMBER 2013

1. CORPORATE INFORMATION

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

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

The Company is a public company, incorporated and domiciled in Malaysia. The registered office of the Company is located at 11th Floor, Wisma Bumi Raya, No. 10, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding company is Pacific & Orient Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements of the company were authorised for issue on 28 November 2013 pursuant to a resolution by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia, Financial Services Act, 2013 and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM"). As these are the Company's first financial statements prepared in accordance with MFRSs, MFRS 1: First-Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") has been applied.

In the previous financial years, the financial statements of the Company were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia. The transition from FRSs to MFRSs does not have any financial impact to the financial statements of the Company.

The financial statements of the Company have been prepared on the historical basis unless disclosed otherwise in the significant accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(a) Basis of Preparation (Cont'd.)

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a 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 expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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

(b) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the general insurance revenue account during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land and buildings and leasehold buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and buildings and leasehold buildings are stated at revalued amounts, which are the fair values at the date of the revaluation less subsequent accumulated depreciation (except for freehold land which has an unlimited useful life and therefore is not depreciated) and any subsequent accumulated impairment losses. Fair values are determined from market-based evidence by appraisals that are undertaken by professionally qualified valuers. Revaluations are performed once in every five years or earlier if the carrying values of the revalued properties are materially different from their market values. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same property previously recognised in income statement, in which case the increase is recognised in income statement to the extent of the decrease previously recognised.

A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same property and the balance is thereafter recognised in income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Property, Plant and Equipment and Depreciation (Cont'd.)

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount of the property. Upon disposal or retirement of a property, any revaluation reserve relating to the particular property is transferred directly to retained earnings.

Depreciation of other property, plant and equipment 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.

The principal annual rates of depreciation are:

Buildings	2%
Computer equipment	10%
Motor vehicles	20%
Office equipment	10%
Furniture, fixtures and fittings	10%

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The difference between the net disposal proceeds and the net carrying amount is recognised in the general insurance revenue account and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(c) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is determined by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Investment Properties (Cont'd.)

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rental or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either they have been disposed of 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 the general insurance revenue account in the year in which they arise.

(d) Intangible Assets

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. The useful lives of intangible assets are assessed to be either finite or indefinite. 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 at each reporting date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

The useful lives of computer software and licences are considered to be finite because computer software and licences are susceptible to technological obsolescence.

The acquired computer software and licences are amortised using the straight line method over their estimated useful lives not exceeding 10 years. Impairment is assessed whenever there is indication of impairment and the amortisation period and method are also reviewed at least at each reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Financial Instruments

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are categorised and measured using accounting policies as mentioned below:

(i) Financial assets

Financial assets are categorised and measured as follows:

(a) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statement. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in the income statement as part of other losses or other income.

(b) Held-to-maturity ("HTM") investments

HTM investments are non-derivative securities with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold until maturity.

HTM investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial recognition, HTM investments are measured at amortised cost, using the effective interest method less impairment loss. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd)

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially measured at cost plus transaction costs and subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

(d) Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivative financial assets not classified in any of the above categories.

AFS financial assets are initially measured at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently measured at their fair values.

Fair value gains or losses of AFS financial assets are recognised in AFS reserve in the statement of changes in equity, except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in the income statement accordingly. The cumulative gain or loss previously recognised in equity is reclassified into the income statement when the AFS financial assets is derecognised.

Investments in equity instruments that are classified as AFS financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment as described in Note 2(f).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Financial Instruments (Cont'd.)

(ii) Financial liabilities

Financial liabilities are classified as either (a) financial liabilities at fair value through profit or loss or (b) other financial liabilities.

(a) Financial liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses on derivatives recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Company has not designated any financial liabilities as at fair value through profit or loss.

(b) Other financial liabilities

The Company's financial liabilities comprise insurance payables, other payables and borrowings.

Insurance payables, other payables and borrowings are recognised initially at their respective fair value net of directly attributable transaction costs and subsequently measured at amortised cost using the cost effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised and through the amortisation process.

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

All the financial assets of the Company are recognised using trade date, the date that the Company commits to purchase or sell the asset except for debt instruments which are recognised using settlement date, the date the Company receives or delivers the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Financial Instruments (Cont'd.)

(iv) Derecognition

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

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

(f) Impairment

(i) Financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence that a financial asset is impaired includes observable data about loss events such as 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 financial asset because of financial difficulties, which indicate that there is a measurable decrease in the estimated future cash flows.

(a) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of impairment loss is measured as the difference between the financial 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. The carrying amount of the financial asset is reduced and the loss is recorded in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Impairment (Cont'd)

(i) Financial assets (Cont'd.)

(a) Financial assets carried at amortised cost (Cont'd)

The Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in 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 loss is recognised in income statement, to the extent that the carrying value of asset does not exceed its amortised cost at the reversal date.

(b) 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, is transferred to the income statement.

Impairment loss in respect of an equity instrument classified as AFS financial asset is not reversed through the income statement.

Impairment loss on debt instruments classified as AFS financial asset is reversed through the income statement if the increase in the fair value of the debt instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Impairment (Cont'd)

(ii) Non - financial assets

The carrying amounts of non-financial assets, other than investment properties and deferred tax 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 impairment loss.

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

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

An impairment loss is recognised in the income statement in the period in which it arises.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(g) 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. It excludes deposits which are held for investment purpose.

The statement of cashflow is prepared using the indirect method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(h) Insurance Payables

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

(i) Borrowings

Borrowings (including subordinated notes) are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. Any difference between initial recognised amount and redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

(j) Product Classification

The Company issues contracts that transfer insurance risk.

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

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 this 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 statement of financial position similar to investment contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Reinsurance

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Insurance Receivables

Insurance receivables are amounts receivable under the contractual terms of an insurance contract. On initial recognition, insurance receivables are measured at fair value based on the consideration given. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method.

Insurance receivables are assessed at each reporting date for objective evidence of impairment. If any such evidence exists, 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 discounted at the insurance receivable's original effective interest rate. The impairment loss is recognised in the income statement. The basis for recognition of such impairment loss is as described in Note 2(f)(i)(a).

Insurance receivables are derecognised when the rights to receive cash flows from them have expired or when they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

(m) Commission Expenses and Commission Income

Gross commission expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the income statement in the period in which they are incurred.

(n) Equity Instruments

Ordinary shares are recorded at nominal value and are classified as equity. Dividends on ordinary shares are recognised in equity in the periods in which they are declared.

Costs incurred directly attributable to the issuance of shares are accounted for as deduction from equity.

(o) General Insurance Underwriting Results

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

(i) Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) General Insurance Underwriting Results (Cont'd.)

(ii) Insurance contract liabilities

Insurance contract liabilities comprise premium liabilities and claims liabilities.

Premium liabilities

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall level of the Company.

- UPR

The UPR represents the portion of premium income not yet earned at balance sheet date. UPR is computed on the following bases:

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method for fire, engineering, and marine hull with a deduction of 15%, bonds and motor with a deduction of 10%, medical with a deduction of 10% - 15% and all other classes of business with a deduction of 25% or actual commission incurred, whichever is lower
- 1/8th method for overseas inward treaty business with a deduction of 20% for acquisition costs
- Non-annual policies with a duration of cover extending beyond one year is time apportioned over the period of the risks.

- URR

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) General Insurance Underwriting Results (Cont'd.)

(ii) Insurance contract liabilities (Cont'd.)

Claims liabilities

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

(p) Liability Adequacy Test

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

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

(q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(r) Other Revenue Recognition

- (i) Interest income on loans are recognised on an accrual basis except where a loan is considered non-performing, i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.
- (ii) Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.
- (iii) Interest income from money market instruments and deposits and placements with financial institutions are recognised on an accrual basis.
- (iv) Dividend income is recognised when the right to receive payment is established.
- (v) Income from Islamic corporate bonds is recognised using the effective interest method.

(s) Foreign Currencies

(i) Functional and presentation currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

(ii) Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated using the exchange rates prevailing at the dates of transactions. Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in the income statement for the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(t) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income tax payable in respect of the taxable profit for the year and is measured using the tax rate as 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, unused capital allowances 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, unused capital allowances and unused tax credits can be utilised.

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 enacted or substantively enacted at the reporting date.

Deferred tax is recognised in the income statement as income or expense, 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.

(u) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

All leases that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases, with the following exceptions:

- A property held under an operating lease that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease, and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(u) Leases (Cont'd)

(ii) Finance leases - the Company as lessee

Assets acquired by way of hire purchase agreements are stated at an amount equal to the lower of their fair values and the present value of the minimum payments at the inception of the agreements, less accumulated depreciation and impairment losses.

The corresponding liability is included in the statement of financial position as hire purchase creditors. In calculating the present value of the minimum payments, the discount factor used is the interest rate implicit in the agreements, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are charged to income statement.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are recognised in the income statements over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2 (b).

(iii) Operating leases - the Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Employee Benefits

(i) Short term benefits

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

Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, the Company makes contributions to the national pension scheme, the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement as incurred.

(w) Contingent Liabilities and Contingent Assets

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Company.

Contingent liabilities and assets are not recognised in the statements of financial position of the Company.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs, AMENDMENTS TO MFRSs AND IC INTERPRETATIONS

- (a) The audited financial statements for the financial year ended 30 September 2012 were prepared in accordance with FRSs in Malaysia. As the requirements under FRSs and MFRSs that affect the Company are similar, the significant accounting policies adopted in preparing these audited financial statements are consistent with those of the audited financial statements for the financial year ended 30 September 2012 except for the adoption of the following revised MFRS and Amendments to MFRSs:

Effective for financial periods beginning on or after 1 January 2012

MFRS 124	Related Party Disclosures (revised)
Amendments to MFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters
Amendments to MFRS 7	Disclosures – Transfer of Financial Assets
Amendments to MFRS 112	Deferred Tax – Recovery of Underlying Assets

Effective for financial periods beginning on or after 1 July 2012

Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income
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Other than the implications as disclosed below, the adoption of the above revised MFRS and Amendments to MFRSs did not have any significant impact on the financial statements of the Company.

- Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income

Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income requires entities to separate items presented as other comprehensive income in the statement of other comprehensive income into two groups, based on whether or not they may be reclassified to income statement in the future.

The Company has complied with the above requirement in the financial statements. As the amendment affects presentation only, there is no impact to the Company's financial position or performance.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs, AMENDMENTS TO MFRSs AND IC INTERPRETATIONS (CONT'D.)

- (b) The Company has not adopted the following MFRSs, Amendments to MFRSs and IC Interpretations which have been issued but are not yet effective:

Effective for financial periods beginning on or after 1 January 2013

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 13	Fair Value Measurement
MFRS 101	Presentation of Financial Statements (Annual Improvements 2009 - 2011 Cycle)
MFRS 116	Property, Plant and Equipment (Annual Improvements 2009 - 2011 Cycle)
MFRS 119	Employee Benefits (revised)
MFRS 127	Consolidated and Separate Financial Statements (revised)
MFRS 128	Investments in Associates and Joint Ventures (revised)
MFRS 132	Financial Instruments: Presentation (Annual Improvements 2009 - 2011 Cycle)
MFRS 134	Interim Financial Reporting (Annual Improvements 2009 - 2011 Cycle)
Amendments to MFRS 1	First-time Adoption to MFRS 1 – Government Loans
Amendments to MFRS 1	First-time Adoption to MFRS 1 (Annual Improvements 2009 - 2011 Cycle)
Amendments to MFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10	Consolidated Financial Statements: Transition Guidance
Amendments to MFRS 11	Joint Arrangements: Transition Guidance

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs, AMENDMENTS TO MFRSs AND IC INTERPRETATIONS (CONT'D.)

- (b) The Company has not adopted the following MFRSs, Amendments to MFRSs and IC Interpretations which have been issued but are not yet effective: (Cont'd)

Effective for financial periods beginning on or after 1 January 2013 (Cont'd)

Amendments to MFRS 12	Disclosure of Interest in Other Entities: Transition Guidance
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009 - 2011 Cycle)
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine

Effective for financial periods beginning on or after 1 January 2014

Amendments to MFRS 10	Consolidated Financial Statements: Investment Entities
Amendments to MFRS 12	Disclosure of Interest in Other Entities: Investment Entities
Amendments to MFRS 127	Consolidated and Separate Financial Statements: Investment Entities
Amendments to MFRS 132	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21	Levies

Effective for financial periods beginning on or after 1 January 2015

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009)
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in October 2010)

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs, AMENDMENTS TO MFRSs AND IC INTERPRETATIONS (CONT'D.)

- (b) The Company has not adopted the following MFRSs, Amendments to MFRSs and IC Interpretations which have been issued but are not yet effective: (Cont'd)

Effective for financial periods beginning on or after 1 January 2015 (Cont'd)

Amendments to MFRS 7	Mandatory Effective Date of MFRS 9 and Transition Disclosures (Amendments to MFRS 9 (IFRS 9 issued by IASB in November 2009), MFRS 9 (IFRS 9 issued by IASB in October 2010) and MFRS 7)
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The adoption of the above MFRSs and Amendments to MFRSs and IC Interpretations are not expected to result in significant financial impact to the Company, except as disclosed below:

(i) MFRS 9: Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on classification and measurement of financial assets. Upon adoption of MFRS 9, all financial assets will be measured at either fair value or amortised cost.

(ii) MFRS 13: Fair Value Measurement

MFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how to measure fair value when fair value is required or permitted by other standards.

The Company is currently assessing the financial impact of adopting MFRSs 9 and 13.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical Judgement Made in Applying Accounting Policies

The following is the judgement made by management in the process of applying the Company's accounting policies that have the most significant effect on the amount recognised in the financial statements.

(i) Classification between Investment Properties and Property, Plant and Equipment

The Company has developed certain criteria based on MFRS 140 in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rental or for capital appreciation or both.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Company would account for the portions separately.

If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

(b) Key Sources of Estimation Uncertainty

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 year are discussed below:

(i) Depreciation and amortisation

Depreciation and amortisation is based on management's estimates of the future estimated average useful lives and residual values of property, plant and equipment and intangible assets. Estimates may change due to technological developments, expected level of usage, competition, market conditions and other factors, and could impact the estimated average useful lives and the residual values of these assets. This may result in future changes in the estimated useful lives and in the depreciation or amortisation expenses.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

(b) Key Sources of Estimation Uncertainty (Cont'd)

(ii) Impairment of AFS Financial Assets

The Company reviews its financial assets classified as AFS financial assets at each reporting date to assess whether they are impaired. The Company also records impairment charges on AFS financial assets when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and the duration and extent to which fair value of the financial assets is less than its carrying amount. During the year, the Company impaired quoted and unquoted financial assets with significant decline in fair value greater than 30%, based on the historical or expected volatility of fair values of its respective investments or prolonged period of decline in fair value greater than 12 months.

(iii) Impairment of Loans and Receivables

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers among other factors, the probability of insolvency and significant financial difficulties of the debtors.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(iv) Impairment of non-financial assets

Non-financial assets are tested for impairment when indications of potential impairment exist. Indicators of impairment which could trigger an impairment review include evidence of obsolescence or physical damage, significant fall in market values, significant underperformance relative to historical or projected future operating results, significant changes in the use of assets or the strategy of the business, significant adverse industry or economic changes.

Recoverable amounts of assets are based on management's estimates and assumptions of the net realisable value, cash flows arising from the future operating performance and revenue generating capacity of the assets and CGUs and future market conditions. Changes in circumstances may lead to revision in estimates and assumptions. This may result in changes to the recoverable amounts of assets and impairment losses.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

(b) Key Sources of Estimation Uncertainty (Cont'd.)

(v) Uncertainty in accounting estimates in the general insurance business

The principal uncertainty in the general insurance business arises from technical provisions for premium and claims liabilities.

Premium liabilities comprise the higher of UPR or URR while claims liabilities comprise outstanding claims case estimates and Incurred But Not Reported (“IBNR”) claims.

UPR is determined based on estimates of the portion of premium income not yet earned at each reporting date whilst URR is determined based on estimates of expected future payments arising from future events insured under policies in force at each reporting date, including expected future premium refunds.

Generally, claims 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.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. 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 interpretation, legislative changes, and claims handling procedures.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium and claims liabilities may vary from the initial estimates.

The estimates of premium and claims liabilities are therefore sensitive to various factors and uncertainties.

(vi) Deferred tax assets

Deferred tax assets are recognized for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the benefits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Details of deferred tax assets are disclosed in Note 9.

5. PROPERTY, PLANT AND EQUIPMENT

	<-----Valuation----->			<-----Cost----->				<u>Total</u> RM'000
	<u>Freehold land</u> RM'000	<u>Buildings</u> <u>Freehold</u> RM'000	<u>Leasehold</u> RM'000	<u>Computer equipment</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Furniture, fixtures and fittings</u> RM'000	
2013								
<u>Valuation/Cost:</u>								
At 1 October 2012	1,860	681	16,559	6,147	2,191	1,649	3,380	32,467
Additions	-	-	-	-	86	27	45	158
Disposals	-	-	-	-	(45)	-	-	(45)
Write-offs	-	-	-	(75)	-	(13)	(1)	(89)
At 30 September 2013	1,860	681	16,559	6,072	2,232	1,663	3,424	32,491
<u>Accumulated Depreciation:</u>								
At 1 October 2012	-	-	-	6,129	562	1,332	3,056	11,079
Charge for the year	-	20	713	7	206	59	65	1,070
Disposals	-	-	-	-	(19)	-	-	(19)
Write-offs	-	-	-	(75)	-	(13)	(1)	(89)
At 30 September 2013	-	20	713	6,061	749	1,378	3,120	12,041
<u>Net carrying value:</u>								
At 30 September 2013	1,860	661	15,846	11	1,483	285	304	20,450

5. PROPERTY, PLANT AND EQUIPMENT

	<-----Valuation----->			<-----Cost----->				Total RM'000
	Freehold land RM'000	Buildings Freehold RM'000	Leasehold RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture, fixtures and fittings RM'000	
2012								
<u>Valuation/Cost:</u>								
At 1 October 2011	520	541	15,380	6,147	2,201	1,646	3,355	29,790
Revaluation surplus	1,340	193	3,237	-	-	-	-	4,770
Reversal of revaluation deficit	-	-	110	-	-	-	-	110
Transfer*	-	(53)	(2,168)	-	-	-	-	(2,221)
Additions	-	-	-	-	400	33	25	458
Disposals	-	-	-	-	(410)	(2)	-	(412)
Write-offs	-	-	-	-	-	(28)	-	(28)
At 30 September 2012	1,860	681	16,559	6,147	2,191	1,649	3,380	32,467
<u>Accumulated Depreciation:</u>								
At 1 October 2011	-	40	1,603	6,115	551	1,304	2,983	12,596
Charge for the year	-	13	565	14	216	55	73	936
Transfer*	-	(53)	(2,168)	-	-	-	-	(2,221)
Disposals	-	-	-	-	(205)	(1)	-	(206)
Write-offs	-	-	-	-	-	(26)	-	(26)
At 30 September 2012	-	-	-	6,129	562	1,332	3,056	11,079
<u>Net carrying value:</u>								
At 30 September 2012	1,860	681	16,559	18	1,629	317	324	21,388

*Transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

- (a) Freehold land and buildings and leasehold buildings were revalued as at 30 September 2012 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

The net book values of the freehold land and buildings and leasehold buildings of the Company had the cost model been applied, compared to the revaluation model as at 30 September 2013 are as follows:

	<u>Net Carrying Value</u>		<u>Net Carrying Value</u>		<u>Net Carrying Value</u>	
	<u>2013</u>		<u>2012</u>		<u>1.10.2011</u>	
	Under Revaluation Model RM'000	Under Cost Model RM'000	Under Revaluation Model RM'000	Under Cost Model RM'000	Under Revaluation Model RM'000	Under Cost Model RM'000
Freehold land	1,860	380	1,860	380	520	380
Freehold buildings	661	280	681	289	501	297
Leasehold buildings	15,846	7,586	16,559	7,905	13,777	8,225
	<u>18,367</u>	<u>8,246</u>	<u>19,100</u>	<u>8,574</u>	<u>14,798</u>	<u>8,902</u>

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(b) The net book value of motor vehicles held under hire purchase arrangements are RM1,221,000 (2012: RM1,575,000; 1 October 2011: RM1,384,000).

(c) During the year, the Company acquired property, plant and equipment by:

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Cash	88	148	281
Hire purchase	70	310	135
	<u>158</u>	<u>458</u>	<u>416</u>

6. INVESTMENT PROPERTIES

	<u>2013</u> RM'000	<u>2012</u> RM'000
At 1 October 2012/2011	750	645
Gain on fair value adjustments (Note 26)	-	105
Disposal during the year	(55)	-
At 30 September	<u>695</u>	<u>750</u>
Analysed as:		
Freehold buildings	400	455
Leasehold buildings	295	295
	<u>695</u>	<u>750</u>

Investment properties were revalued as at 30 September 2012 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

There were no significant changes in the fair values of investment properties during the current financial year.

7. PREPAID LAND LEASE PAYMENTS

		<u>2013</u>	<u>2012</u>
	Note	RM'000	RM'000
Long term leasehold land:			
At 1 October 2012/2011		318	322
Amortisation	29	(4)	(4)
At 30 September		<u>314</u>	<u>318</u>

8. INTANGIBLE ASSETS

		<u>2013</u>	<u>2012</u>
		RM'000	RM'000
Computer software and licences:			
<u>Cost</u>			
At 1 October 2012/2011		1,115	1,102
Additions		191	13
At 30 September		<u>1,306</u>	<u>1,115</u>
<u>Accumulated amortisation</u>			
At 1 October 2012/2011		1,038	1,005
Amortisation	29	47	33
At 30 September		<u>1,085</u>	<u>1,038</u>
Net Book Value		<u>221</u>	<u>77</u>

9. DEFERRED TAX

		<u>2013</u>	<u>2012</u>
		RM'000	RM'000
At 1 October 2012/2011		2,471	4,450
Transfer from income statement	31	(1,274)	(20)
Transfer to AFS reserve	34	678	(766)
Transfer to revaluation reserve	34	-	(1,193)
At 30 September		<u>1,875</u>	<u>2,471</u>

Presented after appropriate offsetting as follows:

Deferred tax assets		5,018	5,847
Deferred tax liabilities		(3,143)	(3,376)
At 30 September		<u>1,875</u>	<u>2,471</u>

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9. DEFERRED TAX (CONT'D.)

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

Deferred Tax Assets

	Revaluation deficit RM'000	Premium liabilities RM'000	Changes in fair value of AFS financial assets RM'000	Accumulated impairment loss RM'000	Others RM'000	Total RM'000
<u>2013</u>						
At 1 October 2012	60	7	-	5,780	-	5,847
Recognised in the income statement	-	(3)	-	(3,065)	1,790	(1,278)
Recognised in the AFS reserve	-	-	449	-	-	449
At 30 September 2013	60	4	449	2,715	1,790	5,018
<u>2012</u>						
At 1 October 2011	88	6	537	5,788	-	6,419
Recognised in the income statement	(28)	1	-	(8)	-	(35)
Recognised in the AFS reserve	-	-	(537)	-	-	(537)
At 30 September 2012	60	7	-	5,780	-	5,847

9. DEFERRED TAX (CONT'D.)

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

Deferred Tax Liabilities

	Changes in fair value of investments RM'000	Revaluation surplus RM'000	Accelerated capital allowances RM'000	Total RM'000
<u>2013</u>				
At 1 October 2012	(229)	(2,933)	(214)	(3,376)
Recognised in the income statement	-	-	4	4
Recognised in the AFS reserve	229	-	-	229
At 30 September 2013	<u>-</u>	<u>(2,933)</u>	<u>(210)</u>	<u>(3,143)</u>
<u>2012</u>				
At 1 October 2011	-	(1,740)	(229)	(1,969)
Recognised in the income statement	-	-	15	15
Recognised in the AFS reserve	(229)	-	-	(229)
Recognised in the revaluation reserve	-	(1,193)	-	(1,193)
At 30 September 2012	<u>(229)</u>	<u>(2,933)</u>	<u>(214)</u>	<u>(3,376)</u>

10. INVESTMENTS

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
(a) Available-for-sale ("AFS") financial assets:			
<u>At fair value:</u>			
Quoted shares	16,599	24,107	12,187
Unquoted shares	-	803	816
Warrants	4	-	-
Unit trusts	11,887	13,817	13,403
Total available-for-sale financial assets	<u>28,490</u>	<u>38,727</u>	<u>26,406</u>
(b) Held-to-maturity ("HTM") investments:			
<u>At amortised cost:</u>			
Malaysian Government Securities*	5,378	15,557	40,364
Amortisation of premiums, net of accretion of discount	(335)	(420)	(151)
Total held-to-maturity investments	<u>5,043</u>	<u>15,137</u>	<u>40,213</u>

10. INVESTMENTS (CONTD.)

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
(c) Loans and receivables ("L&R"):			
<u>At amortised cost:</u>			
Deposits and placements with licensed financial institutions:			
Commercial banks	573,988	559,096	465,451
Investment banks	182,752	159,375	83,300
Bankers acceptances	-	-	1,564
	<u>756,740</u>	<u>718,471</u>	<u>550,315</u>
Total investments	<u>790,273</u>	<u>772,335</u>	<u>616,934</u>
<u>At fair value:</u>			
* Malaysian Government Securities	<u>5,060</u>	<u>15,186</u>	<u>40,423</u>

(d) Carrying value of investments

	<u>AFS</u> RM'000	<u>HTM</u> RM'000	<u>L&R</u> RM'000	<u>Total</u> RM'000
<u>2013</u>				
At 1 October 2012	38,727	15,137	718,471	772,335
Additions	505	-	-	505
Placements	-	-	682,649	682,649
Disposals	(7,103)	-	-	(7,103)
Maturities	-	(10,000)	(644,380)	(654,380)
Fair value losses recorded in other comprehensive income (Note 34)	(2,710)	-	-	(2,710)
Movement in impairment loss	(929)	-	-	(929)
Amortisation of premiums, net of accretion of discount	-	(94)	-	(94)
At 30 September 2013	<u>28,490</u>	<u>5,043</u>	<u>756,740</u>	<u>790,273</u>

10. INVESTMENTS (CONTD.)

(d) Carrying value of investments

	<u>AFS</u> RM'000	<u>HTM</u> RM'000	<u>L&R</u> RM'000	<u>Total</u> RM'000
<u>2012</u>				
At 1 October 2011	26,406	40,213	550,315	616,934
Additions	10,631	-	-	10,631
Placements	-	-	801,368	801,368
Disposals	(959)	-	-	(959)
Redemption	-	(5,001)	-	(5,001)
Maturities	-	(20,000)	(633,212)	(653,212)
Fair value gains recorded in other comprehensive income (Note 34)	3,064	-	-	3,064
Movement in impairment loss	(415)	-	-	(415)
Amortisation of premiums, net of accretion of discount	-	(75)	-	(75)
At 30 September 2012	<u>38,727</u>	<u>15,137</u>	<u>718,471</u>	<u>772,335</u>

Included in deposits and placements of the Company is an amount of RM90,397 (2012: RM191,850; 1 October 2011: RM250,210) representing placements of deposits received from insureds as collateral for bond guarantees granted to third parties.

11. REINSURANCE ASSETS

	Note	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Reinsurance of insurance contracts				
Claims liabilities	17.1	165,419	154,778	108,182
Premium liabilities	17.2	64,064	76,200	75,290
		<u>229,483</u>	<u>230,978</u>	<u>183,472</u>
Allowance for impairment		-	-	(1,068)
		<u>229,483</u>	<u>230,978</u>	<u>182,404</u>

12. INSURANCE RECEIVABLES

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Outstanding premiums including agents, brokers' and co-insurers' balance	9,663	9,700	10,779
Due from reinsurers and ceding companies	15,647	11,311	108,084
	<u>25,310</u>	<u>21,011</u>	<u>118,863</u>
Allowance for impairment	(1,631)	(1,067)	(9,478)
	<u>23,679</u>	<u>19,944</u>	<u>109,385</u>

13. OTHER RECEIVABLES

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Due from fellow subsidiary company*	274	289	352
Accrued income	5,214	5,779	3,166
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	44,029 **	20,247	12,057
Deposits and prepayments	953	1,277	1,885
Tax recoverable	2,280	4,390	368
Others	426	428	856
	<u>53,176</u>	<u>32,410</u>	<u>18,684</u>

* The amount due from fellow subsidiary company is unsecured, interest free and repayable on demand.

** This includes the Company's contribution of RM10,827,000 to MMIP, following a cash call made by the Pool during the current financial year. The contribution was made in respect of the Company's share of MMIP's accumulated losses up to 31 December 2011.

The Company's normal trade credit term is up to 60 days. Other credit terms are assessed and approved on a case by case basis.

14. CASH AND CASH EQUIVALENTS

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Deposits and placements with licensed commercial banks (with maturity of less than three months)	680	11,500	50,894
Cash and bank balances	3,802	5,666	4,799
	<u>4,482</u>	<u>17,166</u>	<u>55,693</u>

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15. SHARE CAPITAL

	Number of shares			Amount		
	<u>2013</u> '000	<u>2012</u> '000	<u>1.10.2011</u> '000	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Authorised shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid ordinary shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

16. RETAINED PROFITS

Prior to the year of assessment 2008, Malaysian companies adopted 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 dividends paid, credited or distributed to their shareholders, and such dividends are not taxable in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances.

Companies also have an irrevocable option to disregard their accumulated tax credit under Section 108 of 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. Accordingly, during the transitional period, the Company may utilise the credits in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act, 2007. As at 30 September 2013, the Company has sufficient tax credits in the Section 108 balance to pay franked dividends out of its entire retained earnings.

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position below its internal target.

As at 30 September 2013, the Company has a Capital Adequacy Ratio in excess of the minimum requirement as stipulated in the RBC Framework.

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17. Insurance Contract Liabilities

	<----- 2013 ----->			<----- 2012 ----->			<----- 1.10.2011 ----->		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
		(Note 11)			(Note 11)			(Note 11)	
General insurance	786,537	(229,483)	557,054	761,452	(230,978)	530,474	674,485	(183,472)	491,013

The general insurance contract liabilities and its movements are further analysed as follows:

	Note	<----- 2013 ----->			<----- 2012 ----->			<----- 1.10.2011 ----->		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net	Gross	Reinsurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provisions for claims reported		411,759	(124,400)	287,359	384,593	(108,123)	276,470	309,698	(74,913)	234,785
Provision for Incurred But Not Reported ("IBNR")		93,386	(25,097)	68,289	84,147	(28,850)	55,297	69,817	(20,208)	49,609
Provision of Risk Margin for Adverse Deviation ("PRAD")		45,977	(15,922)	30,055	47,740	(17,805)	29,935	36,971	(13,061)	23,910
Claims Liabilities	17.1	551,122	(165,419)	385,703	516,480	(154,778)	361,702	416,486	(108,182)	308,304
Premium Liabilities	17.2	235,415	(64,064)	171,351	244,972	(76,200)	168,772	257,999	(75,290)	182,709
		786,537	(229,483)	557,054	761,452	(230,978)	530,474	674,485	(183,472)	491,013

17. Insurance Contract Liabilities (Cont'd)

17.1 Claims Liabilities

	Note	<----- 2013 ----->			<----- 2012 ----->		
		Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 October 2012/2011		516,480	(154,778)	361,702	416,486	(108,182)	308,304
Claims incurred in the current accident year (direct and facultative)		181,542	(60,995)	120,547	176,474	(63,592)	112,882
Adjustment to claims incurred in prior accident years (direct and facultative)		121,540	(30,104)	91,436	133,743	(36,923)	96,820
Claims incurred during the year (treaty inwards claims)		17,825	-	17,825	14,964	-	14,964
Movement in Provision of Risk Margin for Adverse Deviation ("PRAD") claims liabilities at 75% confidential level		(1,763)	1,883	120	10,769	(4,744)	6,025
Movement in claims handling expenses		714	79	793	1,489	(925)	564
Claims paid during the year	28	(285,216)	78,496	(206,720)	(237,445)	59,588	(177,857)
At 30 September		<u>551,122</u>	<u>(165,419)</u>	<u>385,703</u>	<u>516,480</u>	<u>(154,778)</u>	<u>361,702</u>

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17. Insurance Contract Liabilities (Cont'd)

17.2 Premium Liabilities

	Note	<----- 2013 ----->			<----- 2012 ----->		
		Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 October 2012/2011		244,972	(76,200)	168,772	257,999	(75,290)	182,709
Premiums written during the year	23	515,878	(160,593)	355,285	517,317	(184,915)	332,402
Premiums earned during the year	23	(525,435)	172,729	(352,706)	(530,344)	184,005	(346,339)
At 30 September		235,415	(64,064)	171,351	244,972	(76,200)	168,772

18. INSURANCE PAYABLES

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Due to reinsurers and ceding companies	6,092	14,104	21,363
Due to agents, brokers, co-insurers and insureds	<u>2,652</u>	<u>2,125</u>	<u>2,069</u>
	<u><u>8,744</u></u>	<u><u>16,229</u></u>	<u><u>23,432</u></u>

19. HIRE PURCHASE CREDITORS

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Future minimum payments:			
Not later than 1 year	318	331	303
Later than 1 year and not later than 2 years	368	563	486
Later than 2 years and not later than 5 years	<u>12</u>	<u>82</u>	<u>199</u>
Total future minimum payments	698	976	988
Less: Future finance charges	<u>(41)</u>	<u>(79)</u>	<u>(95)</u>
Present value of hire purchase liabilities	<u><u>657</u></u>	<u><u>897</u></u>	<u><u>893</u></u>
Analysis of present value of hire purchase liabilities:			
Not later than 1 year	291	292	260
Later than 1 year and not later than 2 years	354	526	439
Later than 2 years and not later than 5 years	<u>12</u>	<u>79</u>	<u>194</u>
	<u><u>657</u></u>	<u><u>897</u></u>	<u><u>893</u></u>

The hire purchase arrangements at the reporting date bore interest between 0.28% and 5.10% (2012: 2.72% and 5.48%; 1 October 2011: 3.40% and 5.80%) per annum.

20. BORROWINGS

	Note	Effective interest rate per annum	Maturity	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
<u>Unsecured</u>						
Term loan	(a)	8.09 %	2020	-	-	69,606
Subordinated Notes	(b)	8.01%	2022	<u>68,263</u>	<u>68,130</u>	-
				<u>68,263</u>	<u>68,130</u>	<u>69,606</u>
Amount due more than 5 years				<u>68,263</u>	<u>68,130</u>	-

- (a) During the financial year ended 30 September 2011, the Company obtained a 10-year unsecured term loan of RM70,000,000 less transaction costs from its holding company at an interest rate of 8.00 % per annum. The term loan was fully repaid on 27 June 2012.
- (b) During the last financial year ended 30 September 2012, the Company established a Subordinated Notes (“Sub Notes”) Programme with an aggregate nominal value of RM150,000,000 issuable in tranches.

The first tranche of Sub Notes was issued on 27 June 2012 with a nominal value of RM70,000,000 at a discounted subscription price of RM99.05. The Sub Notes were issued for a tenure of 10 years on a 10 non-callable 5 basis, with a coupon rate of 7.60% per annum.

Of the RM70,000,000 Sub Notes, RM35,000,000 were subscribed by the holding company whilst the remaining RM35,000,000 were subscribed by a third party.

The proceeds from the issuance of the Sub Notes were used to repay the unsecured term loan disclosed in (a) above, of RM70,000,000 previously granted by the holding company.

21. OTHER PAYABLES

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Due to holding company*	38	39	105
Accruals	669	785	776
Collateral deposits	94	188	246
Refund premiums	244	204	192
Service tax payable	252	128	323
Short term accumulating compensated absences	445	413	455
Stamp duty payable	1,693	1,704	1,843
Unclaimed monies	270	251	224
Accrual of directors' fees	262	245	263
Sundry creditors	1,136	1,063	738
Interest payable on Subordinated Notes**	1,399	1,399	-
Others	144	419	308
	<u>6,646</u>	<u>6,838</u>	<u>5,473</u>

* The amount due to holding company is unsecured, interest free and repayable on demand.

Carrying value of amount due to holding company approximates fair value as the amount is repayable on demand.

** Interest payable on Subordinated Notes represents interest accrued for three months.

The normal trade credit terms granted to the Company is up to 90 days.

22. OPERATING REVENUE

	Note	<u>2013</u> RM'000	<u>2012</u> RM'000
<u>Insurance fund</u>			
Gross earned premiums	23(a)	525,435	530,344
Investment income	24	27,981	26,284
		<u>553,416</u>	<u>556,628</u>

23. NET EARNED PREMIUMS

	Note	<u>2013</u> RM'000	<u>2012</u> RM'000
(a) Gross premiums	17.2	515,878	517,317
Change in premium liabilities		9,557	13,027
Gross earned premiums		<u>525,435</u>	<u>530,344</u>
(b) Gross premiums ceded to reinsurers	17.2	(160,593)	(184,915)
Change in premium liabilities		(12,136)	910
Premiums ceded to reinsurers		<u>(172,729)</u>	<u>(184,005)</u>
Net earned premiums		<u>352,706</u>	<u>346,339</u>

24. INVESTMENT INCOME

	<u>2013</u> RM'000	<u>2012</u> RM'000
Dividend income:		
- shares quoted in Malaysia	678	1,062
- unit trusts	320	324
Interest income:		
- Malaysian Government Securities	473	1,192
- deposits and placements with financial institutions	25,203	22,743
Amortisation of premiums, net of accretion of discounts	(94)	(75)
Rental of properties:		
- third parties	13	14
- related company	29	-
- holding company	256	256
Investment income from:		
- MMIP	1,089	672
- Malaysian Reinsurance Berhad ("MRB")	14	96
	<u>27,981</u>	<u>26,284</u>

25. REALISED GAINS

	Note	<u>2013</u> RM'000	<u>2012</u> RM'000
Realised (losses)/gains:			
- Property, plant and equipment		(17)	(116)
- AFS financial assets:			
Quoted in Malaysia		2,957	775
Unquoted in Malaysia		199	-
Unit trusts		291	-
- HTM investments:			
Malaysian Government Securities		-	(2)
- Investment properties		5	-
- Foreign exchange		(13)	(14)
		<u>3,422</u>	<u>643</u>

26. FAIR VALUE LOSSES

		<u>2013</u> RM'000	<u>2012</u> RM'000
Fair value (losses)/gains:			
Investment properties	6	-	105
Reversal of revaluation deficit of property, plant and equipment		-	110
Impairment loss of AFS financial assets	34	(929)	(415)
		<u>(929)</u>	<u>(200)</u>

27. OTHER OPERATING REVENUE

		<u>2013</u> RM'000	<u>2012</u> RM'000
Other operating revenue/(expenses):			
Sundry income		820	1,206
Tax penalty		-	(334)
Assets written off		-	(2)
Other expenses		-	(2)
		<u>820</u>	<u>868</u>

28. NET CLAIMS INCURRED

		<u>2013</u> RM'000	<u>2012</u> RM'000
Gross claims paid	17.1	(285,216)	(237,445)
Claims ceded to reinsurers	17.1	78,496	59,588
Gross change to insurance contract liabilities		(34,642)	(99,994)
Change in insurance contract liabilities ceded to reinsurers		10,641	46,596
		<u>(230,721)</u>	<u>(231,255)</u>

29. MANAGEMENT EXPENSES

	Note	2013 RM'000	2012 RM'000
Executive Directors' remuneration	30	789	676
Staff salaries and bonus		16,981	16,313
Staff short term accumulating compensated absences		42	(42)
Pension costs - defined contribution plan		2,155	2,028
Other staff benefits		1,853	1,928
Depreciation of property, plant and equipment		1,070	936
Amortisation:			
- prepaid land lease payments	7	4	4
- intangible assets	8	47	33
Auditors' remuneration			
- Statutory audit		140	135
- Other regulatory related services		28	25
- Other services		125	-
Non-Executive Directors' remuneration	30	262	245
Directors' training		83	-
Allowance for impairment of insurance receivables	40	760	456
Bad debt written off		-	20,746 *
Write back in allowance for impairment of :			
- insurance receivables	40	(131)	(5,605)
- reinsurance assets		-	(1,068)
Rental of properties:			
- third parties		492	477
- fellow subsidiary company		150	142
Perbadanan Insurans Deposit Malaysia levy		333	811
Management fees to holding company		947	913
Call centre service charges to:			
- third parties		30	-
- fellow subsidiary company		492	542
Rental of equipment:			
- third party		131	138
- fellow subsidiary company		3,148	2,491
Printing and information system expenses		10,556	8,930
Business development		1,291	1,753
Bank charges		36	43
Credit card charges		5,058	5,039
Office administration and utilities		1,672	1,584
MMIP expenses		814	1,151
Professional fees		1,015	546
Motor vehicle expenses		674	655
Travelling and transport expenses		245	320
Road Transport Department access fees		818	890
Other expenses		1,098	1,436
		<u>53,208</u>	<u>64,671</u>

* The one-off bad debt written off in the financial year ended 30 September 2012 of RM20,746,000 was in respect of the commutation of a reinsurance contract with a reinsurer.

30. DIRECTORS' REMUNERATION

	<u>2013</u> RM'000	<u>2012</u> RM'000
<u>Executive Director:</u>		
- Salary	493	433
- Bonus	185	135
- Pension costs - defined contribution plan	86	72
- Benefits-in-kind	33	32
- Short term accumulating compensated absences	(11)	-
- Allowance	36	36
	<u>822</u>	<u>708</u>
<u>Non-Executive Directors:</u>		
- Fees	262	245
- Benefits-in-kind	11	15
Total Directors' remuneration	<u>1,095</u>	<u>968</u>
Total Executive Directors' remuneration excluding benefits-in-kind	<u>789</u>	<u>676</u>

The number of executive and non-executive directors whose total remuneration received during the year falls within the following bands is:

	<u>2013</u>	<u>2012</u>
<u>Executive Director:</u>		
RM300,001 - RM600,000	1	1
<u>Non-executive Directors:</u>		
Below RM40,000	2	1
RM40,001 - RM50,000	3	3
RM50,001 - RM60,000	1	1

31. INCOME TAX EXPENSE

	<u>2013</u> RM'000	<u>2012</u> RM'000
Current income tax:		
Malaysian		
- Current	13,582	14,516
- Under/(Over) provision in prior years	410	(410)
	<u>13,992</u>	<u>14,106</u>

31. INCOME TAX EXPENSE (CONT'D)

	<u>2013</u> RM'000	<u>2012</u> RM'000
Current income tax: (Cont'd)		
Deferred tax:		
Relating to timing differences		
- Current	1,375	10
- (Over)/Under provision in prior years	(101)	10
Transfer to deferred taxation (Note 9)	<u>1,274</u>	<u>20</u>
	<u>15,266</u>	<u>14,126</u>

Malaysian current income tax is calculated at the statutory tax rate of 25% of the estimated assessable profit for the financial year.

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

	<u>2013</u> RM'000	<u>2012</u> RM'000
Profit before taxation	<u>70,368</u>	<u>61,256</u>
Taxation at Malaysian statutory tax rate of 25%	17,592	15,314
Under/(Over) provision of income tax in prior years	410	(410)
(Over)/Under provision of deferred tax in prior years	(101)	10
Income not subject to tax	(142)	(1,164)
Expenses not deductible for tax purposes	2,004	376
Double tax deduction in respect of cash contribution to MMIP	(4,497)	-
Tax expense for the year	<u>15,266</u>	<u>14,126</u>

As at 30 September 2013, the Company has:

- a tax exempt account balance of approximately RM60,295,000 (2012: RM60,140,000), subject to agreement with the Inland Revenue Board, which is available for distribution.
- sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt account balance to frank the payment of net dividends out of its entire retained profits.

32. BASIC EARNINGS PER SHARE (SEN)

Basic earnings per share of the Company is calculated by dividing the net profit of RM55,102,000 (2012: RM47,130,000) for the financial year by 100,000,000 ordinary shares.

33. DIVIDENDS

The amount of dividends paid or declared by the Company on ordinary shares of RM1.00 each are as follows:

	Sen per share (net of tax)	Total amount RM'000	<u>Date of payment</u>
<u>2013</u>			
4th interim dividend of 16.00 sen per share less tax at 25%, declared on 12 November 2012.	12.00	12,000	16 November 2012
1st interim dividend of 10.65 sen per share less tax at 25%, declared on 7 February 2013.	7.99	7,987	8 February 2013
2nd interim dividend of 13.30 sen per share less tax at 25%, declared on 25 April 2013.	9.98	9,975	26 April 2013
3rd interim dividend of 18.13 sen per share less tax at 25%, declared on 26 June 2013.	13.60	13,598	28 June 2013
		<u>43,560</u>	
<u>2012</u>			
1st interim dividend of 13.33 sen per share less tax at 25%, declared on 3 February 2012.	10.00	9,997	8 February 2012
2nd interim dividend of 16.00 sen per share less tax at 25%, declared on 4 May 2012.	12.00	12,000	8 May 2012
3rd interim dividend of 10.65 sen per share less tax at 25%, declared on 16 July 2012.	7.99	7,988	18 July 2012
		<u>29,985</u>	

34. OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX

	Note	<u>2013</u> RM'000	<u>2012</u> RM'000
- Surplus from revaluation of land and buildings			
- Gross surplus from revaluation		-	4,770
- Deferred tax	9	-	(1,193)
Net gain		-	3,577
- Fair value changes on Available-for-Sale ("AFS") financial assets:			
- Gross (loss)/gain on fair value changes		(192)	3,424
- Impairment loss	26	929	415
- Transferred to income statement upon disposal		(3,447)	(775)
		(2,710)	3,064
- Deferred tax	9	678	(766)
		(2,032)	2,298
Other comprehensive (loss)/income for the year, net of tax		<u>(2,032)</u>	<u>5,875</u>

35. FINANCE COSTS

	<u>2013</u> RM'000	<u>2012</u> RM'000
Hire-purchase interest	43	56
Interest expense on borrowings	5,454	5,597
Others	3	5
	<u>5,500</u>	<u>5,658</u>

36. COMMITMENTS AND CONTINGENCIES

	<u>2013</u> RM'000	<u>2012</u> RM'000
(a) Non-cancellable operating lease commitments		
Future minimum lease payments are as follows:		
Not later than 1 year	2,782	1,991
Later than 1 year and not later than 5 years	2,832	1,747
	<u>5,614</u>	<u>3,738</u>

These represent operating lease commitments for computer and office equipment of the Company.

37. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The significant transactions of the Company with its related parties are as follows:

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>(Income)/ expense:</u>		
<u>Holding company:</u>		
Rental income	(256)	(256)
Management fees	947	913
Interest expenses on term loan	-	4,143
Interest expenses on Subordinated Notes	2,660	700
<u>Fellow subsidiaries of Pacific & Orient Berhad Group:</u>		
Office rental	150	145
Information technology service fees	4,232	2,631
Call centre service charges	492	542
Leasing of office equipment	2,240	1,801
Repair and maintenance	225	125
Rental of equipment	3,552	3,246
Purchase of intangible assets	191	-
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Capital transaction:</u>		
Holding company-Subordinated Notes	<u>-</u>	<u>34,065</u>

Information regarding outstanding balances arising from related party transactions as at 30 September 2013 are disclosed in Notes 13, 20 and 21.

The Directors are of the opinion that the related party transactions above have been entered into in the normal course of business on terms and conditions which are not materially different from that obtainable in transactions with unrelated parties.

37. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(b) Key Management Personnel Compensation:

The key management personnel is defined as the Executive Director.

The remuneration of key management personnel during the year are as follows:

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Short-term employee benefits		
Salary and other remuneration	493	433
Bonus	185	135
Allowances	36	36
Short term accumulating compensated absences	(11)	-
Benefits-in-kind	33	32
Post-employment benefits:		
Pension cost-defined contribution plan	86	72
	<u>822</u>	<u>708</u>

38. RISK MANAGEMENT FRAMEWORK

(a) Risk Management Framework

The Board of Directors, with the assistance of the Management, had implemented a risk management framework within the Company in June 2004. The primary goal of the framework are to provide a consistent approach to risks and to support the overall business objectives of the Company. The Framework was drawn up in line with the Joint Australian/New Zealand Standard AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines and was last updated in February 2013.

The Board is supported in its role by a Risk Management Committee (“RMC”), which was set up with clear terms of reference from the Board. The RMC is assisted by a Risk Management Department (“RMD”).

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

The responsibilities of the various parties for risk management within the Company are summarised below:

Processes	Parties responsible
Board of Directors	Approving the Risk Management Framework and risk philosophy/policy. Concurring with risk appetite. Ensuring adequate resources and knowledge of management and staff involved in the risk management process. Reviewing risk portfolio and being apprised of most significant risks.
Risk Management Committee (“RMC”)	Overseeing risk management activities. Approving risk management procedures and measurement methodologies. Ensuring effective implementation of objectives outlined in risk management framework. Reporting higher risk exposures to the Board.
Risk Management Department (“RMD”)	Ensuring effective implementation and maintenance of Risk Management Framework. Implementing risk management philosophy/policy. Acting as central contact and guide to enterprise risk management (“ERM”) issues. Coordinating ERM among the various business units. Monitoring progress of risk mitigation plans. Preparing quarterly reports to RMC. Maintaining documentation of ERM process. Communicating ERM information to create risk awareness within the Company.
Management	Directly responsible for all ERM activities of the Company. Ensuring presence of positive internal environment.
Business Units / Risk Owners	Performing operational risk management, monitoring and reporting risk exposures in areas/activities within their control.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

Processes	Parties responsible
Staff	Taking cognisance of operational risks. Reporting any new or escalating risks identified to the risk owners.
Internal Audit Department	Providing independent assurance on adequacy and effectiveness of risk management process established by the Company and recommending improvements thereto.

The Company's Risk Management Framework requires that all of its businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Company. The Framework is based on the concept of 'three lines of defence' i.e. day-to-day risk management by the risk owners, risk oversight by the RMD and RMC and independent assurance by the Audit Committee, supported by the Internal Audit function.

Regular reports on key risks identified and the management of such risks are presented regularly to the RMC for its review and endorsement. Periodically, the RMC also reviews the adequacy and continued relevance of the Risk Management Framework, particularly in relation to mechanisms for principal risks identification, assessment, treatment, monitoring and review and communication.

(b) Capital Management

The Company is subject to the capital adequacy requirements of the Risk Based Capital ("RBC") Framework as implemented by Bank Negara Malaysia to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The RBC capital adequacy requirements involves the Company maintaining an adequate level of capital based on the risk exposures of the Company. This externally imposed capital requirement has been complied with by the Company to-date.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(b) Capital Management (Cont'd)

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The Company's capital management policy for its insurance business is to hold sufficient capital to cover the statutory requirements based on the RBC Framework, including any additional amounts required by the regulator.

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach to manage capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds and borrowings. The Company also utilises, where efficient to do so, sources of capital such as reinsurance and securitisation in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis, and assessed against both the forecast available capital and the expected internal rate of return including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Board is provided with regular updates on the Company's capital adequacy position.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(c) Governance and Regulatory Framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or national disasters.

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

(d) Asset Liability Management (“ALM”) Framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk.

The Company manages these positions within an ALM Framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principle technique of the Company’s ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company’s ALM is:

- Integrated with the management of the financial risks associated with the Company’s other financial assets and liabilities not directly associated with insurance and investment liabilities; and
- Forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

39. INSURANCE RISK

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities.

Insurance contracts transfer risk to the Company by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events.

The Company underwrites various general insurance contracts which are mostly on an annual coverage and annual premium basis with the exception of short term policies such as Marine Cargo which covers the duration in which the cargo is being transported.

The Company also underwrites some non-annual policies with coverage period more than one year such as Extended Warranty Programme (EWP), Contractor's All Risks and Engineering, Bonds and Workmen Compensation.

The majority of the insurance business written by the Company is Motor and Personal Accident insurance. Other insurance business includes Fire, EWP, Contractor's All Risks and Engineering, Workmen Compensation, Professional Indemnity and other miscellaneous classes of insurance.

The principal insurance risks faced by the Company include risks of actual claims and benefit payments differing from expectation, risks arising from natural disasters, risks arising from the fluctuations in timing, frequency and severity of claims, as well as the adequacy of premiums and reserves. For longer tail claims that take some years to settle, there is also inflation risk.

The Company's objectives of managing insurance risks are to enhance the long-term financial performance of the business to achieve sustainable growth in profitability, strong asset quality and to continually optimise shareholders' value. The Company seeks to write those risks that it understands and that provide a reasonable opportunity to earn an acceptable profit.

The Company has the following policies and processes to manage its insurance risks:

- An underwriting policy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility to ensure underwriting profitability. Acceptance of risk is guided by a set of underwriting guidelines with set limits on underwriting capacity, and authority to individuals based on their specific expertise.
- A claim management and control system to pay claims and control waste or fraud.
- Claim review policies to assess all new and ongoing claims and possible fraudulent claims are investigated to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

39. INSURANCE RISK(CONT'D.)

The Company has the following policies and processes to manage its insurance risks: (Cont'd)

- The Company purchases reinsurance as part of its risks mitigation programme. The objectives for purchasing reinsurance are to control exposure to insurance losses, reduce volatility and optimise the Company's capital efficiency. Reinsurance is ceded on quota share, proportional and non-proportional basis. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The table below sets out the concentration of the Company's business by type of insurance products.

	<u>2013</u>			<u>2012</u>		
	Gross earned premium	Reinsurance	Net	Gross earned premium	Reinsurance	Net
<u>General insurance business</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	447,699	(136,536)	311,163	446,579	(150,495)	296,084
Personal Accident	28,922	(653)	28,269	33,210	(1,889)	31,321
Fire	1,778	(717)	1,061	1,944	(854)	1,090
Miscellaneous	47,036	(34,823)	12,213	48,611	(30,767)	17,844
	<u>525,435</u>	<u>(172,729)</u>	<u>352,706</u>	<u>530,344</u>	<u>(184,005)</u>	<u>346,339</u>

The table below sets out the concentration of the Company's insurance contract liabilities by type of insurance products.

	<u>2013</u>			<u>2012</u>			<u>1.10.2011</u>		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<u>Premium liabilities</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	203,979	(47,326)	156,653	207,342	(62,607)	144,735	211,686	(67,129)	144,557
Personal Accident	9,965	(487)	9,478	9,636	(52)	9,584	10,217	(292)	9,925
Fire	785	(248)	537	784	(238)	546	868	(307)	561
Miscellaneous	20,686	(16,003)	4,683	27,210	(13,303)	13,907	35,228	(7,562)	27,666
	<u>235,415</u>	<u>(64,064)</u>	<u>171,351</u>	<u>244,972</u>	<u>(76,200)</u>	<u>168,772</u>	<u>257,999</u>	<u>(75,290)</u>	<u>182,709</u>

39. INSURANCE RISK(CONT'D.)

The table below sets out the concentration of the Company's insurance contract liabilities by type of insurance products. (Cont'd)

<u>Claims Liabilities</u>	<u>2013</u>			<u>2012</u>			<u>1.10.2011</u>		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	510,263	(133,989)	376,274	474,533	(123,477)	351,056	378,876	(84,055)	294,821
Personal Accident	2,943	(148)	2,795	3,235	(195)	3,040	3,057	(384)	2,673
Fire	321	(127)	194	716	(183)	533	954	(133)	821
Miscellaneous	37,595	(31,155)	6,440	37,996	(30,923)	7,073	33,599	(23,610)	9,989
	<u>551,122</u>	<u>(165,419)</u>	<u>385,703</u>	<u>516,480</u>	<u>(154,778)</u>	<u>361,702</u>	<u>416,486</u>	<u>(108,182)</u>	<u>308,304</u>

Key Assumptions

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

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

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

39. INSURANCE RISK(CONT'D.)Sensitivities

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

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

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		<----- Increase/(Decrease) ----->			
<u>2013</u>					
Average claim cost	+1%	5,511	3,857	(3,857)	(2,893)
Average number of claims	+1%	5,511	3,857	(3,857)	(2,893)
Average claim settlement period	decreased by 6 months	8,021	5,629	(5,629)	(4,222)
<u>2012</u>					
Average claim cost	+1%	5,165	3,617	(3,617)	(2,713)
Average number of claims	+1%	5,165	3,617	(3,617)	(2,713)
Average claim settlement period	decreased by 6 months	7,503	5,422	(5,422)	(4,067)
<u>1.10.2011</u>					
Average claim cost	+1%	4,165	3,083	(3,083)	(2,312)
Average number of claims	+1%	4,165	3,083	(3,083)	(2,312)
Average claim settlement period	decreased by 6 months	7,078	5,604	(5,604)	(4,203)

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

Claims development table

The following tables show the Company's estimated cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date.

39. INSURANCE RISK(CONT'D.)Claims development table (Cont'd)

While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The management of the Company believes that the estimate of total claims outstanding as of 30 September 2013 are adequate. However, the possibility of inadequacy of such balances should not be ruled out as the actual experience is likely to differ from the projected results to different degrees, depending on the level of uncertainty. This is primarily due to the nature of the reserving process and the elements of uncertainty inherent in the exercise.

Gross general insurance contract liabilities for 2013:

<u>Accident year</u>	Before	2007	2008	2009	2010	2011	2012	2013	Total	
	2007									
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
At end of accident year		151,087	162,214	196,979	244,459	248,638	258,790	253,244		
One year later		147,069	167,906	219,140	224,613	258,486	262,480	-		
Two years later		150,671	175,999	229,690	248,128	281,919	-	-		
Three years later		155,691	184,415	240,169	256,861	-	-	-		
Four years later		156,174	189,681	243,320	-	-	-	-		
Five years later		159,278	193,043	-	-	-	-	-		
Six years later		160,660	-	-	-	-	-	-		
Current estimate of cumulative claims incurred		<u>160,660</u>	<u>193,043</u>	<u>243,320</u>	<u>256,861</u>	<u>281,919</u>	<u>262,480</u>	<u>253,244</u>		
At end of accident year		(44,902)	(49,370)	(50,154)	(53,559)	(56,892)	(59,518)	(52,326)		
One year later		(88,759)	(97,337)	(115,161)	(128,273)	(139,326)	(142,024)	-		
Two years later		(99,359)	(131,466)	(167,843)	(176,648)	(205,996)	-	-		
Three years later		(141,543)	(161,286)	(198,971)	(217,237)	-	-	-		
Four years later		(150,637)	(173,133)	(216,653)	-	-	-	-		
Five years later		(150,864)	(179,568)	-	-	-	-	-		
Six years later		(154,347)	-	-	-	-	-	-		
Cumulative payments to date		<u>(154,347)</u>	<u>(179,568)</u>	<u>(216,653)</u>	<u>(217,237)</u>	<u>(205,996)</u>	<u>(142,024)</u>	<u>(52,326)</u>		
Gross general insurance outstanding liability (direct and facultative)		<u>12,896</u>	<u>6,313</u>	<u>13,475</u>	<u>26,667</u>	<u>39,624</u>	<u>75,923</u>	<u>120,456</u>	<u>200,918</u>	496,272
Gross general insurance outstanding liability (treaty inward)										<u>43,768</u>
Best estimate of claims liabilities										540,040
Claims handling expenses										10,801
PRAD at 75% confidence level										45,977
Effects of discounting										(45,696)
Gross general insurance contract liabilities per statement of financial position										<u>551,122</u>

39. INSURANCE RISK(CONT'D.)Net general insurance contract liabilities for 2013:

<u>Accident year</u>	Before								Total RM'000
	2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	
At end of accident year		136,809	149,493	181,995	200,596	173,248	168,193	168,742	
One year later		138,655	154,419	191,742	191,470	177,930	178,771	-	
Two years later		138,977	159,251	206,975	209,032	189,370	-	-	
Three years later		143,414	167,316	215,442	217,861	-	-	-	
Four years later		143,648	172,480	218,001	-	-	-	-	
Five years later		147,232	174,665	-	-	-	-	-	
Six years later		148,066	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>148,066</u>	<u>174,665</u>	<u>218,001</u>	<u>217,861</u>	<u>189,370</u>	<u>178,771</u>	<u>168,742</u>	
At end of accident year		(42,701)	(45,880)	(47,147)	(47,979)	(41,748)	(42,761)	(36,504)	
One year later		(84,274)	(90,963)	(107,204)	(111,233)	(99,202)	(99,449)	-	
Two years later		(93,739)	(122,373)	(155,194)	(153,500)	(143,286)	-	-	
Three years later		(132,197)	(150,088)	(183,493)	(186,845)	-	-	-	
Four years later		(139,280)	(159,150)	(197,967)	-	-	-	-	
Five years later		(139,031)	(164,829)	-	-	-	-	-	
Six years later		(142,202)	-	-	-	-	-	-	
Cumulative payments to date		<u>(142,202)</u>	<u>(164,829)</u>	<u>(197,967)</u>	<u>(186,845)</u>	<u>(143,286)</u>	<u>(99,449)</u>	<u>(36,504)</u>	
Net general insurance outstanding liability (direct and facultative)	9,918	5,864	9,836	20,034	31,016	46,084	79,322	132,238	334,312
Net general insurance outstanding liability (treaty inward)									<u>43,768</u>
Best estimate of claims liabilities									378,080
Claims handling expenses									9,638
PRAD at 75% confidence level									30,055
Effects of discounting									(32,070)
Net general insurance contract liabilities per statement of financial position									<u>385,703</u>

39. INSURANCE RISK(CONT'D.)Gross general insurance contract liabilities for 2012:

Accident year	Before								Total
	2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	
At end of accident year		148,941	151,087	162,214	196,979	244,459	248,638	258,790	
One year later		154,577	147,069	167,906	219,140	224,613	258,486	-	
Two years later		152,267	150,671	175,999	229,690	248,128	-	-	
Three years later		156,386	155,691	184,415	240,169	-	-	-	
Four years later		161,649	156,174	189,681	-	-	-	-	
Five years later		168,863	159,278	-	-	-	-	-	
Six years later		169,998	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>169,998</u>	<u>159,278</u>	<u>189,681</u>	<u>240,169</u>	<u>248,128</u>	<u>258,486</u>	<u>258,790</u>	
At end of accident year		(41,663)	(44,902)	(49,370)	(50,154)	(53,559)	(56,892)	(59,518)	
One year later		(91,570)	(88,759)	(97,337)	(115,161)	(128,273)	(139,326)	-	
Two years later		(102,259)	(99,359)	(131,466)	(167,843)	(176,648)	-	-	
Three years later		(117,503)	(141,543)	(161,286)	(198,971)	-	-	-	
Four years later		(151,465)	(150,637)	(173,133)	-	-	-	-	
Five years later		(161,885)	(150,864)	-	-	-	-	-	
Six years later		(161,352)	-	-	-	-	-	-	
Cumulative payments to date		<u>(161,352)</u>	<u>(150,864)</u>	<u>(173,133)</u>	<u>(198,971)</u>	<u>(176,648)</u>	<u>(139,326)</u>	<u>(59,518)</u>	
Gross general insurance outstanding liability (direct and facultative)	13,387	8,646	8,414	16,548	41,198	71,480	119,160	199,272	478,105
Gross general insurance outstanding liability (treaty inward)									<u>25,971</u>
Best estimate of claims liabilities									504,076
Claims handling expenses									10,082
PRAD at 75% confidence level									47,740
Effects of discounting									(45,418)
Gross general insurance contract liabilities per statement of financial position									<u><u>516,480</u></u>

39. INSURANCE RISK(CONTD.)Net general insurance contract liabilities for 2012:

<u>Accident year</u>	Before								Total RM'000
	2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	
At end of accident year		135,820	136,809	149,493	181,995	200,596	173,248	168,193	
One year later		146,840	138,655	154,419	191,742	191,470	177,930	-	
Two years later		144,957	138,977	159,251	206,975	209,032	-	-	
Three years later		148,670	143,414	167,316	215,442	-	-	-	
Four years later		150,836	143,648	172,480	-	-	-	-	
Five years later		153,671	147,232	-	-	-	-	-	
Six years later		154,962	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>154,962</u>	<u>147,232</u>	<u>172,480</u>	<u>215,442</u>	<u>209,032</u>	<u>177,930</u>	<u>168,193</u>	
At end of accident year		(39,761)	(42,701)	(45,880)	(47,147)	(47,979)	(41,748)	(42,761)	
One year later		(87,471)	(84,274)	(90,963)	(107,204)	(111,233)	(99,202)	-	
Two years later		(97,702)	(93,739)	(122,373)	(155,194)	(153,500)	-	-	
Three years later		(112,157)	(132,197)	(150,088)	(183,493)	-	-	-	
Four years later		(144,465)	(139,280)	(159,150)	-	-	-	-	
Five years later		(150,819)	(139,031)	-	-	-	-	-	
Six years later		(150,120)	-	-	-	-	-	-	
Cumulative payments to date		<u>(150,120)</u>	<u>(139,031)</u>	<u>(159,150)</u>	<u>(183,493)</u>	<u>(153,500)</u>	<u>(99,202)</u>	<u>(42,761)</u>	
Net general insurance outstanding liability (direct and facultative)	11,776	4,842	8,201	13,330	31,949	55,532	78,728	125,432	329,790
Net general insurance outstanding liability (treaty inward)									<u>25,971</u>
Best estimate of claims liabilities									355,761
Claims handling expenses									8,830
PRAD at 75% confidence level									29,935
Effects of discounting									(32,824)
Net general insurance contract liabilities per statement of financial position									<u><u>361,702</u></u>

39. INSURANCE RISK(CONT'D.)Gross general insurance contract liabilities for 2011:

<u>Accident year</u>	Before								Total
	2005 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	
At end of accident year		146,428	148,941	151,087	162,214	196,979	244,459	248,638	
One year later		134,687	154,577	147,069	167,906	219,140	224,613	-	
Two years later		135,812	152,267	150,671	175,999	229,690	-	-	
Three years later		135,019	156,386	155,691	184,415	-	-	-	
Four years later		139,167	161,649	156,174	-	-	-	-	
Five years later		145,353	168,863	-	-	-	-	-	
Six years later		153,139	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>153,139</u>	<u>168,863</u>	<u>156,174</u>	<u>184,415</u>	<u>229,690</u>	<u>224,613</u>	<u>248,638</u>	
At end of accident year		(42,917)	(41,663)	(44,902)	(49,370)	(50,154)	(53,559)	(56,892)	
One year later		(83,533)	(91,570)	(88,759)	(97,337)	(115,161)	(128,273)	-	
Two years later		(94,470)	(102,259)	(99,359)	(131,466)	(167,843)	-	-	
Three years later		(104,235)	(117,503)	(141,543)	(161,286)	-	-	-	
Four years later		(116,522)	(151,465)	(150,637)	-	-	-	-	
Five years later		(140,875)	(161,885)	-	-	-	-	-	
Six years later		(150,700)	-	-	-	-	-	-	
Cumulative payments to date		<u>(150,700)</u>	<u>(161,885)</u>	<u>(150,637)</u>	<u>(161,286)</u>	<u>(167,843)</u>	<u>(128,273)</u>	<u>(56,892)</u>	
Gross general insurance outstanding liability (direct and facultative)	13,793	2,439	6,978	5,537	23,129	61,847	96,340	191,746	401,809
Gross general insurance outstanding liability (treaty inward)									<u>11,009</u>
Best estimate of claims liabilities									412,818
Claims handling expenses									8,523
PRAD at 75% confidence level									36,971
Effects of discounting									(41,826)
Gross general insurance contract liabilities per statement of financial position									<u><u>416,486</u></u>

39. INSURANCE RISK(CONT'D.)Net general insurance contract liabilities for 2011:

<u>Accident year</u>	Before								Total RM'000
	2005 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	
At end of accident year		129,951	135,820	136,809	149,493	181,995	200,596	173,248	
One year later		125,883	146,840	138,655	154,419	191,742	191,470	-	
Two years later		127,566	144,957	138,977	159,251	206,975	-	-	
Three years later		127,511	148,670	143,414	167,316	-	-	-	
Four years later		131,064	150,836	143,648	-	-	-	-	
Five years later		136,168	153,671	-	-	-	-	-	
Six years later		138,520	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>138,520</u>	<u>153,671</u>	<u>143,648</u>	<u>167,316</u>	<u>206,975</u>	<u>191,470</u>	<u>173,248</u>	
At end of accident year		(40,394)	(39,761)	(42,701)	(45,880)	(47,147)	(47,979)	(41,748)	
One year later		(79,033)	(87,471)	(84,274)	(90,963)	(107,204)	(111,233)	-	
Two years later		(8,930)	(97,702)	(93,739)	(122,373)	(155,194)	-	-	
Three years later		(98,633)	(112,157)	(132,197)	(150,088)	-	-	-	
Four years later		(110,174)	(144,465)	(139,280)	-	-	-	-	
Five years later		(132,741)	(150,819)	-	-	-	-	-	
Six years later		(136,808)	-	-	-	-	-	-	
Cumulative payments to date		<u>(136,808)</u>	<u>(150,819)</u>	<u>(139,280)</u>	<u>(150,088)</u>	<u>(155,194)</u>	<u>(111,233)</u>	<u>(41,748)</u>	
Net general insurance outstanding liability (direct and facultative)	8,521	1,712	2,852	4,368	17,228	51,781	80,237	131,500	298,199
Net general insurance outstanding liability (treaty inward)									<u>11,009</u>
Best estimate of claims liabilities									309,208
Claims handling expenses									8,304
PRAD at 75% confidence level									23,910
Effects of discounting									(33,118)
Net general insurance contract liabilities per statement of financial position									<u><u>308,304</u></u>

40. FINANCIAL RISKS

The Company is exposed to a variety of financial risks arising from their operations. The key financial risks are credit risk, liquidity risk, and market risk.

The Company's overall financial risk management objective is to ensure that the Company creates value for its shareholders whilst minimising potential exposure to adverse effects on its financial performance and positions.

The policies and processes taken by the Company to manage these risks are set out below:

(a) Credit Risk

Credit risk is the risk of financial loss that may arise from the failure of counterparties in meeting their contractual obligations.

The Company's primary exposure to credit risk arises through its investments in debt instruments, receivables arising from sales of insurance policies and obligations of reinsurers through reinsurance contracts.

The Company has the following policies and processes to manage and mitigate its credit risks:

- Financial loss from an investment in debt instrument may arise from a change in the value of the investment due to a rating downgrade or default. Before acquiring a debt instrument from an issuer, an evaluation of the issuer's credit risk is undertaken by the Company. Ratings assigned by external rating agencies are also used in the evaluation to ensure optimal credit quality of the individual debt instrument concerned. The Company also has an Investment Policy which sets out the limits on which the Company may invest in each counterparty so as to ensure that there is no concentration of credit risk.
- Insurance receivables which arise mainly from premiums collected on behalf of the Company by appointed agents, brokers and other intermediaries are monitored on daily basis to ensure adherence to the Company's Credit Policy. Internal guidelines are also established to evaluate the Company's intermediaries before their appointment as well as setting credit terms/limits to the appointees concerned.
- Receivables from reinsurance contracts are monitored on a monthly basis to ensure compliance with payment terms. The Company also monitors the credit quality and financial conditions of its reinsurers on an ongoing basis to reduce the risk exposure. When selecting its reinsurers, the Company considers their relative financial security which is assessed based on public rating information, annual reports and other financial data.

40. FINANCIAL RISKS (CONT'D.)(a) Credit Risk (Cont'd)Credit exposure

The table below shows the maximum exposure to credit risk for the financial assets components on the statement of financial position.

	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>1.10.2011</u> RM'000
Held-to-maturity investments	5,043	15,137	40,213
Reinsurance assets	229,483	230,978	182,404
Insurance receivables	23,679	19,944	109,385
Deposits and placements with financial institutions	756,740	718,471	550,315
Other receivables	53,176	32,410	18,684
Cash and cash equivalents	4,482	17,166	55,693
	<u>1,072,603</u>	<u>1,034,106</u>	<u>956,694</u>

The above financial assets are not secured by any collaterals or credit enhancements.

Credit exposure by credit quality

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

	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not Rated RM '000	Total RM '000
<u>2013</u>						
Held-to-maturity investments	-	-	-	-	5,043	5,043
Reinsurance assets	-	93,778	84,543	40	51,122	229,483
Insurance receivables	12,813	180	1,656	226	8,804	23,679
Other receivables	-	-	-	-	53,176	53,176
Deposits and placements with financial institutions	278,240	362,644	115,856	-	-	756,740
Cash and cash equivalents	3,766	681	-	-	35	4,482
	<u>294,819</u>	<u>457,283</u>	<u>202,055</u>	<u>266</u>	<u>118,180</u>	<u>1,072,603</u>

40. FINANCIAL RISKS (CONT'D.)(a) Credit Risk (Cont'd)Credit exposure by credit quality (Cont'd)

	AAA	AA	A	BBB	Not Rated	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<u>2012</u>						
Held-to-maturity investments	-	-	-	-	15,137	15,137
Reinsurance assets	-	82,447	83,456	441	64,634	230,978
Insurance receivables	3,483	986	5,988	138	9,349	19,944
Other receivables	-	-	-	-	32,410	32,410
Deposits and placements with financial institutions	288,595	305,436	23,543	-	100,897	718,471
Cash and cash equivalents	15,896	1,235	-	-	35	17,166
	<u>307,974</u>	<u>390,104</u>	<u>112,987</u>	<u>579</u>	<u>222,462</u>	<u>1,034,106</u>

	AAA	AA	A	BBB	Not Rated	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<u>1.10.2011</u>						
Held-to-maturity investments	-	-	-	-	40,213	40,213
Reinsurance assets	366	64,855	83,354	897	32,932	182,404
Insurance receivables	92,613	2,034	2,913	3	11,822	109,385
Other receivables	-	-	-	-	18,684	18,684
Deposits and placements with financial institutions	178,060	183,590	103,801	-	84,864	550,315
Cash and cash equivalents	48,447	723	6,518	-	5	55,693
	<u>319,486</u>	<u>251,202</u>	<u>196,586</u>	<u>900</u>	<u>188,520</u>	<u>956,694</u>

40. FINANCIAL RISKS (CONT'D.)

(a) Credit Risk (Cont'd)

Age analysis of financial assets that are past due but not impaired

		< 30 days	31-60 days	61-90 days	91-180 days	> 180 days	Total
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2013</u>							
Insurance receivables	12	7,868	89	27	1,239	1,405	10,628
<u>2012</u>							
Insurance receivables	12	8,005	88	162	1,736	6,900	16,891
<u>1.10.2011</u>							
Insurance receivables	12	9,296	34	358	27,040	30,298	67,026

Financial assets that are neither past due nor impaired

	<u>2013</u>	<u>2012</u>	<u>1.10.2011</u>
	RM'000	RM'000	RM'000
Insurance receivables	<u>13,051</u>	<u>3,053</u>	<u>42,359</u>

Insurance receivables that are past due but not impaired are creditworthy debtors.

Insurance receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Company.

The insurance receivables are not secured by any collaterals or credit enhancements.

40. FINANCIAL RISKS (CONT'D.)

(a) Credit Risk (Cont'd)

Impaired

The Company's insurance receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Note	Individually impaired RM'000	Collectively impaired RM'000	Total RM'000
Movement in allowance accounts:-				
<u>2013</u>				
At 1 October 2012		1,067	-	1,067
Allowance for impairment loss	29	760	-	760
Write back of impairment loss	29	(131)	-	(131)
Write off		(65)	-	(65)
At 30 September 2013		<u>1,631</u>	<u>-</u>	<u>1,631</u>
<u>2012</u>				
At 1 October 2011		9,478	-	9,478
Allowance for impairment loss	29	456	-	456
Write back of impairment loss	29	(5,605)	-	(5,605)
Write off		(3,262)	-	(3,262)
At 30 September 2012		<u>1,067</u>	<u>-</u>	<u>1,067</u>

Insurance receivables that are individually impaired at the reporting date relate to debtors that are in significant financial difficulties or have defaulted on payments. These insurance receivables are not secured by any collaterals or credit enhancements.

40. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Company's policy is to maintain adequate liquidity to meet its liquidity needs under normal and stressed conditions.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A Company-wide liquidity risk management policy setting out the assessment and determination of what constitutes liquidity risk for the Company is established. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Risk Management Committee.
- Guidelines on asset allocations, portfolio limit structures and maturity profiles of assets are implemented in order to ensure sufficient funding is available to meet insurance, investment contract and other payment obligations. As part of its liquidity management, the Company maintains sufficient level of cash and cash equivalents to meet expected and to a lesser extent unexpected outflows.
- Contingency funding plans were established to mitigate funding requirements arising from emergency and other unforeseen cash calls. Such funding plans include the arrangement of credit line with banks and funding from the holding company.
- The Company has entered into treaty reinsurance contracts that contain a "cash call" clause which permits the Company to make cash call on claims and receive immediate payments for large losses without waiting for usual periodic payment procedures to occur.

40. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk (Cont'd)

Maturity Analysis

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

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

	Carrying Value RM '000	Up to a year* RM '000	1 - 2 years RM '000	2 - 5 years RM '000	5 - 15 years RM '000	Over 15 years RM '000	Total RM '000
<u>2013</u>							
Insurance contract liabilities	551,122	194,242	94,776	171,987	88,845	1,272	551,122
Insurance payables	8,744	8,744	-	-	-	-	8,744
Hire Purchase Creditors	657	291	354	12	-	-	657
Borrowings	68,263	-	-	-	68,263	-	68,263
Other payables	6,646	6,646	-	-	-	-	6,646
Total liabilities	635,432	209,923	95,130	171,999	157,108	1,272	635,432
<u>2012</u>							
Insurance contract liabilities	516,480	191,050	91,806	138,159	92,744	2,721	516,480
Insurance payables	16,229	16,229	-	-	-	-	16,229
Hire Purchase	897	292	526	79	-	-	897
Borrowings	68,130	-	-	-	68,130	-	68,130
Other payables	6,838	6,838	-	-	-	-	6,838
Total liabilities	608,574	214,409	92,332	138,238	160,874	2,721	608,574

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40. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk (Cont'd)

Maturity Analysis (Cont'd)

	Carrying Value RM '000	Up to a year* RM '000	1 - 2 years RM '000	2 - 5 years RM '000	5 - 15 years RM '000	Over 15 years RM '000	Total RM '000
<u>1.10.2011</u>							
Insurance contract liabilities	416,486	139,151	63,189	142,697	71,233	216	416,486
Insurance payables	23,432	23,432	-	-	-	-	23,432
Hire Purchase	893	260	439	194	-	-	893
Borrowings	69,606	-	-	-	69,606	-	69,606
Other payables	5,473	5,473	-	-	-	-	5,473
Total liabilities	<u>515,890</u>	<u>168,316</u>	<u>63,628</u>	<u>142,891</u>	<u>140,839</u>	<u>216</u>	<u>515,890</u>

* Expected settlement is within 12 months from the reporting date.

40. FINANCIAL RISKS (CONT'D.)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of exposures: foreign exchange rates (currency risk), market interest rates (interest rate/profit yield risk) and market prices (price risk).

The key features of the Company's market risk management practices and policies are as follows:

- A Company wide market-risk policy setting out the evaluation and determination of what constitutes market risk for the Company is established.
- Policies and limits have been established to manage market risk. Market risk is managed through portfolio diversification and changes in asset allocation. The Company's policies on asset allocation, portfolio limit structure and diversification benchmark have been set in line with the Company's risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As the Company's business is conducted primarily in Malaysia, the Company's functional and presentation currency is Malaysian Ringgit. The Company's main foreign exchange risk arises from its reinsurance activities and overseas claims settlements which are normally settled and realised within 12 months and accordingly the impact arising from sensitivity in changes in foreign exchange rates is deemed to be minimal.

(ii) Interest rate/profit yield risk

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

The Company is exposed to interest rate risk primarily through its investments in fixed income securities and deposits placements. Interest rate risk is managed by the Company on an ongoing basis.

The Company has no significant concentration of interest rate/profit yield risk.

The impact on profit before tax at +/- 25 basis points change in the interest rate, with all other variables held consistent, is insignificant to the Company given that it has minimal floating rate financial instruments.

40. FINANCIAL RISKS (CONT'D.)

(c) Market risk (Cont'd.)

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), regardless whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting similar financial instruments traded in the market.

The Company's exposure to price risk arises mainly from its investments in quoted shares and unit trusts whose values will fluctuate as a result of changes in market prices.

The Company manages its price risk by ensuring that its investments in quoted shares and unit trusts are within the limits set out in the Company's Investment Policy. The Company does not have any major concentration of price risk related to such investments.

The analysis below is performed for reasonably possible movements in equity price with all other variables held constant, showing the impact on equity (due to changes in fair value of available-for-sale financial assets).

		<u>2013</u>	<u>2012</u>	<u>1.10.2011</u>
	Changes in variables	Impact on equity* RM'000	Impact on equity* RM'000	Impact on equity* RM'000
		<----- Increase/(Decrease) ----->		
Market price	+10%	1,761	2,905	1,980
Market price	-10%	(1,761)	(2,905)	(1,980)

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

40. FINANCIAL RISKS (CONT'D.)

(d) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but mitigates them by establishing a control framework and by monitoring and responding to potential risks. Controls include segregation of duties, access controls, authorisation, reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit. Business risk, such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

41. REGULATORY CAPITAL REQUIREMENTS

The Company's capital management policy is to optimise the efficient and effective use of resources to maximise the return on equity and provide an appropriate level of capital to protect policyholders and meet regulatory requirements.

The Company is required to comply with the regulatory capital requirement prescribed in the RBC Framework which is imposed by the Minister of Finance as a licensing condition for insurers. Under the RBC Framework guidelines issued by BNM, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. The Company has a capital adequacy ratio in excess of the minimum requirement.

The capital structure of the Company as at 30 September 2013, as prescribed under the RBC Framework is provided below:

	<u>2013</u>	<u>2012</u>	<u>1.10.2011</u>
	RM'000	RM'000	RM'000
<u>Eligible Tier 1 Capital</u>			
Share capital (paid-up)	100,000	100,000	100,000
Retained earnings	146,347	134,805	117,660
	<u>246,347</u>	<u>234,805</u>	<u>217,660</u>
<u>Tier 2 Capital</u>			
Capital instruments which qualify as Tier 2 Capital	68,263	68,130	69,606
Revaluation reserve	8,799	8,799	5,222
AFS reserve	(1,345)	687	(1,611)
	<u>75,717</u>	<u>77,616</u>	<u>73,217</u>
Amounts deducted from Capital	<u>(1,875)</u>	<u>(2,471)</u>	<u>(4,450)</u>
Total Capital Available	<u>320,189</u>	<u>309,950</u>	<u>286,427</u>

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

FRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of the Company's financial instruments:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Inputs that are based on observable market data, either directly or indirectly

Level 3 Inputs that are not based on observable market data

In accordance with the transitional provisions of Amendments to FRS 7 - Improving Disclosures about Financial Instruments, the Company had applied the disclosure requirements of the Standard prospectively and, hence, comparative disclosures have not been provided.

As at 30 September 2013, the Company held the following financial assets that are measured at fair value:

<u>AFS financial assets</u>	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<u>2013</u>				
Quoted shares	16,599	-	-	16,599
Unit trusts	11,887	-	-	11,887
Warrants	4	-	-	4
	<u>28,490</u>	<u>-</u>	<u>-</u>	<u>28,490</u>
<u>2012</u>				
Quoted shares	24,107	-	-	24,107
Unit trusts	13,817	-	-	13,817
Unquoted shares	-	803	-	803
	<u>37,924</u>	<u>803</u>	<u>-</u>	<u>38,727</u>
<u>1.10.2011</u>				
Quoted shares	12,187	-	-	12,187
Unit trusts	13,403	-	-	13,403
Unquoted shares	-	816	-	816
	<u>25,590</u>	<u>816</u>	<u>-</u>	<u>26,406</u>

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42. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(a) The carrying amounts of financial assets and financial liabilities of the general business and shareholder's fund at the reporting date approximated their fair values except as set out below:

	<u>2013</u> Carrying amount RM'000	<u>2012</u> Carrying amount RM'000	<u>1.10.2011</u> Carrying amount RM'000	<u>2013</u> Fair value RM'000	<u>2012</u> Fair value RM'000	<u>1.10.2011</u> Fair value RM'000
<u>Financial Assets</u>						
HTM investments	5,043	15,137	40,213	5,060	15,186	40,423
<u>Financial Liabilities</u>						
Hire purchase creditors	657	897	893	664	913	906

42. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(b) Determination of fair value

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

- (i) Cash and bank balances, deposits and placements with financial institutions, bankers acceptances, insurance receivables/payables, and other receivables/payables:

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

The carrying value of amount due from/to holding and fellow subsidiary companies approximate their fair values as the amounts are recoverable/repayable on demand.

- (ii) HTM investments

- Malaysian Government Securities

The fair values of Malaysian Government Securities are indicative values obtained from the secondary market.

- (iii) AFS financial assets

- Quoted shares/warrants

The fair values of quoted shares/warrants are determined by reference to the stock exchange quoted market closing prices at the close of the business at the reporting date.

- Unit trusts

The fair value of quoted units in the unit trust funds are determined by reference to market quotations by the manager of the unit trust funds.

- (iv) Hire purchase creditors

The fair value of hire purchase creditors is estimated by discounting the expected future cash flows using the current interest rates for liabilities with similar risk profiles.

- (v) Subordinated Notes

The fair value of Subordinated Notes is determined by the present value of the estimated future cash flows at the end of the tenure of the Subordinated Notes.

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43. SIGNIFICANT EVENT

Disposal of 49% Equity Interest in The Company

During the financial year, the holding company, Pacific & Orient Berhad, has disposed 49% of its equity interest in the Company to Sanlam Emerging Markets Proprietary Limited. The disposal had been completed on 17 May 2013.