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Pacific & Orient Insurance Co. Berhad
(12557-W)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
30 September 2014

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 2014.

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	48,914

DIVIDENDS

The amount of dividends paid or declared by the Company since 30 September 2013 were as follows:

	RM'000
In respect of the financial year ended 30 September 2014	
1st and 2nd interim single tier dividends of 2.99 sen and 27.00 sen per share respectively declared on 16 January 2014 and paid on 21 January 2014	29,988
3rd interim single tier dividend of 20.80 sen per share declared on 23 June 2014 and paid on 25 June 2014	20,800
	50,788

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 known 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:

En. Mohammad Nizar Bin Idris (Appointed as Chairman on 28 May 2014)
Mr. Chan Thye Seng
Mr. William Robertson Dommisse
Mr. Michael Yee Kim Shing
Dato' Dr. Zaha Rina Binti Zahari (Appointed on 12 June 2014)
En. Abdul Rahman Bin Talib
Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Deceased on 9 January 2014)
Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth (Retired on 26 February 2014)

In accordance with Section 129(6) of the Companies Act, 1965, En. Mohammad Nizar Bin Idris and Mr. Michael Yee Kim Shing retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment.

In accordance with Article 74 of the Company's Articles of Association, En. Abdul Rahman Bin Talib 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, Dato' Dr. Zaha Rina Binti Zahari retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement 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.

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 2013/ Date of Appointment	Acquired	Disposed	At 30 September 2014
Pacific & Orient Berhad (Holding Company)				
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	-	(831,784)	611,018
Dato' Dr. Zaha Rina Binti Zahari				
- Direct interest (Appointed on 12 June 2014)	500,000	100,000	-	600,000

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 the shares of the Company or its related corporations during the financial year.

STATEMENT ON CORPORATE GOVERNANCE

The Board and management have considered BNM's '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 2014, the Board comprises six (6) Directors. There is a balance in the Board represented by the presence of one (1) Executive Director, three (3) 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, insurance, banking and business administration, bringing with them in-depth and diversity in experience, expertise and perspectives to the Company's business operations.

The presence of the three (3) 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 during the financial year 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 an Independent, Non-Executive Director to the Board in June 2014 had 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 (CONT'D.)

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 (Consolidated)' [BNM/RH/GL/003-1], 'Prudential Framework of Corporate Governance for Insurers' [BNM/RH/GL/003-2] and other policy documents and directives, in addition to adopting other best practices on corporate governance.

The roles and responsibilities of the Board are clearly set out in a Board Charter. The Board is principally responsible for, amongst others, overseeing the conduct of the Company's business to evaluate whether the business is properly managed and sustained; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; and reviewing the adequacy and integrity of the Company's internal control system and management information system, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board has adopted a Directors' Code of Ethical Conduct which outlines the standards of ethical behaviour which the Directors should possess in discharging their duties and responsibilities.

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 five (5) times during the financial year ended 30 September 2014 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. The sixth meeting, which was supposed to be the first meeting of the Board for the financial year to review and deliberate on the strategic plan of the Company, was brought forward from October 2013 to September 2013, and hence was not taken into account when computing the number of meetings held during the financial year.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD OF DIRECTORS (CONT'D.)

Board Meetings and Attendance (Cont'd.)

All the Directors had complied with the 75% minimum attendance requirement. The details of attendance of each of the Directors at the Board meetings are as follows:

	Attendance
En. Mohammad Nizar Bin Idris (Chairman) (Appointed on 28 May 2014) Independent, Non-Executive Director	5/5
Mr. Chan Thye Seng Non-Independent, Non-Executive Director	5/5
Mr. William Robertson Dommisse Non-Independent, Non-Executive Director	5/5
Mr. Michael Yee Kim Shing Independent, Non-Executive Director	4/5
Dato' Dr. Zaha Rina Binti Zahari Independent, Non-Executive Director (Appointed on 12 June 2014)	1/1
En. Abdul Rahman Bin Talib Executive Director, Chief Executive Officer	4/5
Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim Independent, Non-Executive Director (Deceased on 9 January 2014)	1/1
Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth Independent, Non-Executive Director (Retired on 26 February 2014)	2/2

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's 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.

Reappointment and Re-election

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

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

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 reappointment 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.

All of the Directors have attended the high level Financial Institutions Directors' Education ("FIDE") Programme developed by BNM and Perbadanan Insurans Deposit Malaysia ("PIDM") in collaboration with the International Centre for Leadership in Finance. Apart from the FIDE programme, the Directors had also attended training covering areas such as corporate governance, leadership, strategic and risk management.

Existing Non-Executive Directors are kept informed of regulatory developments, new regulatory requirements or changes to existing regulations, which include laws, BNM and PIDM 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 2014, the AC comprises four (4) Directors, all of whom are Non-Executive Directors, with a majority being Independent Directors.

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 reappointment 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") (Cont'd.)

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:

	Attendance
Mr. Michael Yee Kim Shing (Chairman)	4/4
En. Mohammad Nizar Bin Idris	4/4
Mr. William Robertson Dommisse	4/4
Dato' Dr. Zaha Rina Binti Zahari (Appointed on 19 August 2014)	1/1
Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Deceased on 9 January 2014)	1/1
Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth (Retired on 26 February 2014)	2/2

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 (CONT'D.)

1. Audit Committee ("AC") (Cont'd.)

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 2014, the NC comprises six (6) Directors, with a majority of them being 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/she is ineffective, errant or negligent in discharging his/her 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.

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

The NC held three (3) meetings during the financial year. Attendance of the members at the meetings are as follows:

Membership:	Attendance
En. Mohammad Nizar Bin Idris (Chairman)	3/3
Mr. Michael Yee Kim Shing	2/3
Mr. Chan Thye Seng	3/3
Mr. William Robertson Dommisse	3/3
Dato’ Dr. Zaha Rina Binti Zahari (Appointed on 28 August 2014)	-
En. Abdul Rahman Bin Talib	2/3
Dato’ Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Deceased on 9 January 2014)	1/1
Gen (R) Tan Sri Dato’ Mohd Ghazali Bin Dato’ Mohd Seth (Retired on 26 February 2014)	2/2

During the financial year, the NC had conducted an annual assessment of the performance of the Board as a whole, the Board Committees, 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, Reappointment 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 conducted during the financial year, the Board was satisfied that the Board, Board Committees 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 2014, the RC 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 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:

Membership:	Attendance
En. Mohammad Nizar Bin Idris (Chairman)	1/1
Mr. Michael Yee Kim Shing	1/1
Mr. Chan Thye Seng	1/1
Mr. William Robertson Dommisse	1/1
Dato' Dr. Zaha Rina Binti Zahari (Appointed on 28 August 2014)	-
Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Deceased on 9 January 2014)	1/1
Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth (Retired on 26 February 2014)	1/1

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

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.

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 2014, the RMC 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 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 four (4) meetings during the financial year. Attendance of the members at the meetings are as follows:

Membership:	Attendance
Dato' Dr. Zaha Rina Binti Zahari (Chairman) (Appointed on 19 August 2014)	1/1
En. Mohammad Nizar Bin Idris	4/4
Mr. Michael Yee Kim Shing	3/4
Mr. Chan Thye Seng	4/4
Mr. William Robertson Dommisse	4/4
Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Deceased on 9 January 2014)	-
Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth (Retired on 26 February 2014)	1/1

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 2014 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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Directors’ Responsibility Statement (Cont'd.)

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.

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 allocating job duties and responsibilities to staff, the Company takes into consideration appropriate segregation of duties and that potentially conflicting responsibilities are not assigned to the same staff. 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/018-6] in respect of all its related party transactions. Related party transactions, if any, are disclosed to the Board.

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 controls, 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 further 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, the 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 30 September 2014, the AC had met with the External Auditors once without the presence of any Executive and Non-Independent Board members.

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

There were no significant events during or subsequent events after the financial year.

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 27 November 2014.

MOHAMMAD NIZAR BIN IDRIS

ABDUL RAHMAN BIN TALIB

Kuala Lumpur

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

STATEMENT BY DIRECTORS

We, MOHAMMAD NIZAR BIN IDRIS 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 108, 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 2014 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 27 November 2014.

MOHAMMAD NIZAR BIN IDRIS　　　　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 108 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 27 November 2014	)	ABDUL RAHMAN BIN TALIB

Before me,

Commissioner for Oaths

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 2014 of the Company, 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 2014, and a summary of significant accounting policies and other explanatory information, as set out on pages 23 to 108.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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 2014 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

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

Ernst & Young
AF: 0039
Chartered Accountants

Megat Iskandar Shah Bin Mohamad Nor
No. 3083/07/15(J)
Chartered Accountant

Kuala Lumpur, Malaysia
27 November 2014

Company No: 12557 W

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

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2014

	Note	2014 RM'000	2013 RM'000
ASSETS			
Property, plant and equipment	5	20,150	20,450
Investment properties	6	840	695
Prepaid land lease payments	7	310	314
Intangible assets	8	321	221
Deferred tax assets	9	-	1,875
Investments	10	790,951	790,273
Reinsurance assets	11	215,849	229,483
Insurance receivables	12	24,246	23,679
Other receivables	13	66,272	53,176
Cash and cash equivalents	14	3,993	4,482
TOTAL ASSETS		1,122,932	1,124,648
EQUITY AND LIABILITIES			
Share capital	15	100,000	100,000
Revaluation reserve		8,799	8,799
Available-for-sale reserve		5,238	(1,345)
Retained profits	16	144,473	146,347
TOTAL EQUITY		258,510	253,801
Insurance contract liabilities	17	772,657	786,537
Deferred tax liabilities	9	884	-
Insurance payables	18	11,488	8,744
Hire purchase creditors	19	716	657
Tax payable		3,587	-
Borrowings	20	68,396	68,263
Other payables	21	6,694	6,646
TOTAL LIABILITIES		864,422	870,847
TOTAL LIABILITIES AND EQUITY		1,122,932	1,124,648

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 2014

	Note	Share capital	Revaluation reserve	Available -for-sale reserve	Retained profits	Total
		<--------- Non-Distributable		------->	Distributable	
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2013		100,000	8,799	(1,345)	146,347	253,801
Net profit for the year		-	-	-	48,914	48,914
Other comprehensive income for the year	34	-	-	6,583	-	6,583
Total comprehensive income for the year		-	-	6,583	48,914	55,497
Dividends	33	-	-	-	(50,788)	(50,788)
At 30 September 2014		100,000	8,799	5,238	144,473	258,510
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	34	-	-	(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		100,000	8,799	(1,345)	146,347	253,801

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 2014

	Note	2014 RM'000	2013 RM'000
Operating revenue	22	525,750	553,416
Gross earned premiums	23(a)	496,321	525,435
Premiums ceded to reinsurers	23(b)	(146,588)	(172,729)
Net earned premiums		349,733	352,706
Investment income	24	29,429	27,981
Realised gains	25	370	3,422
Commission income		23,595	31,835
Fair value losses	26	(1,710)	(929)
Other operating revenue	27	520	820
Other revenue		52,204	63,129
Gross claims paid	28	(291,988)	(285,216)
Claims ceded to reinsurers	28	85,129	78,496
Gross change in insurance contract liabilities	28	(12,875)	(34,642)
Change in insurance contract liabilities ceded to reinsurers	28	(2,956)	10,641
Net claims incurred		(222,690)	(230,721)
Commission expense		(50,569)	(56,038)
Management expenses	29	(54,829)	(53,208)
Finance costs	35	(5,492)	(5,500)
Other expenses		(110,890)	(114,746)
Profit before taxation		68,357	70,368
Taxation	31	(19,443)	(15,266)
Net profit for the year		48,914	55,102
Basic earnings per share (sen)	32	48.91	55.10

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 2014

	Note	2014 RM'000	2013 RM'000
Net profit for the year		48,914	55,102
Other comprehensive income/(loss):			
Items that may be reclassified to income statement in subsequent periods:			
Fair value changes on available-for-sale ("AFS") financial assets		8,778	(2,710)
Deferred tax		(2,195)	678
Net gain/(loss)	34	6,583	(2,032)
Total comprehensive income for the year		55,497	53,070

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 2014

	Note	2014 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		68,357	70,368
Adjustments for:			
Depreciation of property, plant and equipment	29	1,080	1,070
Amortisation:			
- prepaid land lease payments	29	4	4
- intangible assets	29	426	47
- premiums, net of accretion of discounts	24	43	94
Transaction costs of borrowing		132	134
Loss on disposal of property, plant and equipment	25	76	17
Impairment loss of AFS financial assets	26	1,855	929
Gain on disposal of investments		(446)	(3,452)
Gain from fair value adjustments of investment properties	26	(145)	-
Write off of property, plant and equipment	27	1	-
Short term accumulating compensated absences		60	31
Dividend income		(973)	(998)
Interest income		(26,568)	(25,676)
Allowance for impairment of insurance receivables	29	867	760
Write back in allowance for impairment of insurance receivables	29	(139)	(131)
Interest expense		5,356	5,363
Operating profit before working capital changes		49,986	48,560
Changes in working capital:			
Purchase of investments		-	(185)
Disposal of investments		6,145	20,550
Capital repayment in respect of AFS financial assets		36	-
Decrease/(increase) in deposits and placements with financial institutions		863	(38,269)
Increase in insurance receivables		(1,295)	(4,363)
Increase in other receivables		(11,685)	(23,450)
Decrease in reinsurance assets		13,634	1,495

CASH FLOW STATEMENT (CONT'D.)
FOR THE YEAR ENDED 30 SEPTEMBER 2014

	Note	2014 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd.)			
Changes in working capital: (Cont'd.)			
(Decrease)/increase in insurance contract liabilities		(13,880)	25,085
Increase/(decrease) in insurance payables		2,744	(7,484)
Decrease in other payables		(5,331)	(5,544)
Cash generated from operations		41,217	16,395
Net tax paid		(16,040)	(11,774)
Dividends received		530	1,258
Interest received		25,952	25,560
Interest paid		(36)	(43)
Net cash generated from operating activities		51,623	31,396
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		152	9
Disposal of investment property		-	60
Purchase of property, plant and equipment	5(d)	(625)	(88)
Purchase of intangible assets	8	(526)	(191)
Net cash used in investing activities		(999)	(210)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(50,788)	(43,560)
Decrease in hire purchase creditors		(325)	(310)
Net cash used in financing activities		(51,113)	(43,870)
Net decrease in cash and cash equivalents		(489)	(12,684)
Cash and cash equivalents at beginning of year		4,482	17,166
Cash and cash equivalents at end of year	14	3,993	4,482

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 2014

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 27 November 2014 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 (“IFRSs”), the requirements of the Companies Act, 1965 in Malaysia, Financial Services Act 2013 and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

At the beginning of the current financial year, the Company had adopted new and revised MFRSs, amendments to MFRSs and Issues Committee ("IC") Interpretations as described fully in Note 3.

The financial statements of the Company have been prepared under 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 ("RM'000") except when otherwise indicated.

(b) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the assumption that the transaction to sell asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances for which different data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised into one of the three different levels of the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Fair Value Measurement (Cont'd.)

The Company analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs in the latest valuation by agreeing the information to the relevant valuation reports and other related documents.

(c) 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 income statement 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.

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 profits.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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 values, useful lives and depreciation methods 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 income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

(d) 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. Revaluations are performed once in every three years or earlier if the carrying values of the revalued properties are materially different from their market values.

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.

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 income statement in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) 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.

(f) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd.)

(a) Financial assets at fair value through profit or loss ("FVTPL") (Cont'd.)

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 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd.)

(d) Available-for-sale ("AFS") financial assets (Cont'd.)

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(g)(i).

(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 ("FVTPL")

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(ii) Financial liabilities (Cont'd.)

(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 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) 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.

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 similiar credit risk characteristics and that group of finacial 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

(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 in subsequent periods.

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(ii) Non - financial assets (Cont'd.)

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.

(h) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and at banks, and 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 cash flow is prepared using the indirect method.

(i) 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.

(j) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) 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.

(l) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Reinsurance (Cont'd.)

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 was 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.

(m) 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(g)(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.

(n) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) 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.

(p) 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.

(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

UPR represents the portion of premium income not yet earned at reporting 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

Premium liabilities (Cont'd.)

- URR

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.

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.

(q) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(r) 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.

(s) Other Revenue Recognition

(i) 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.

(ii) Interest income from money market instruments and deposits and placements with financial institutions are recognised using the effective interest rate method.

(iii) Dividend income is recognised when the right to receive payment is established.

(iv) Income from Islamic corporate bond is recognised using the effective interest method.

(t) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(t) Foreign Currencies (Cont'd.)

(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.

(u) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) 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.

(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(c).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Leases (Cont'd.)

(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.

(w) 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.

(x) 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 significant accounting policies adopted in this set of financial statements are consistent with those adopted in the audited financial statements for the year ended 30 September 2013 except for the adoption of the following MFRSs, Amendments to MFRSs and Issues Committee ("IC") Interpretations:

Effective for financial periods beginning on or after 1 January 2013

MFRS 3	Business Combinations
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	Separate Financial Statements (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

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

(a) The significant accounting policies adopted in this set of financial statements are consistent with those adopted in the audited financial statements for the year ended 30 September 2013 except for the adoption of the following MFRSs, Amendments to MFRSs and Issues Committee ("IC") Interpretations (Cont'd.):

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

Amendments to MFRS 10	Consolidated Financial Statements: Transition Guidance
Amendments to MFRS 11	Joint Arrangements: Transition Guidance
Amendments to MFRS 12	Disclosure of Interests 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

The adoption of the above MFRSs, Amendments to MFRSs and IC Interpretations did not have any significant impact on the financial statements of the Company.

(b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective

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 2014

Amendments to MFRS 10	Consolidated Financial Statements: Investment Entities
Amendments to MFRS 12	Disclosure of Interests in Other Entities: Investment Entities
Amendments to MFRS 127	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

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

(b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective (Cont'd.)

Effective for financial periods beginning on or after 1 January 2014 (Cont'd.)

IC Interpretation 21	Levies

Effective for financial periods beginning on or after 1 July 2014

MFRS 1	First-time Adoption of MFRS (Annual Improvements to MFRSs 2011 – 2013 Cycle)
MFRS 2	Share-Based Payment (Annual Improvements to MFRSs 2010 – 2012 Cycle)
MFRS 3	Business Combinations (Annual Improvements to MFRSs 2010 – 2012 Cycle)
MFRS 3	Business Combinations (Annual Improvements to MFRSs 2011 – 2013 Cycle)
MFRS 8	Operating Segments (Annual Improvements to MFRSs 2010 – 2012 Cycle)
MFRS 13	Fair Value Measurement (Annual Improvements to MFRSs 2010 – 2012 Cycle)
MFRS 13	Fair Value Measurement (Annual Improvements to MFRSs 2011 – 2013 Cycle)
MFRS 116	Property, Plant and Equipment (Annual Improvements to MFRSs 2010 – 2012 Cycle)
MFRS 124	Related Party Disclosures (Annual Improvements to MFRSs 2010 – 2012 Cycle)
MFRS 138	Intangible Assets (Annual Improvements to MFRSs 2010 – 2012 Cycle)
MFRS 140	Investment Property (Annual Improvements to MFRSs 2011 – 2013 Cycle)
Amendments to MFRS 119	Defined Benefit Plans: Employee Contributions

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

(b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective (Cont'd.)

Effective for financial periods beginning on or after 1 January 2016

MFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012 – 2014 Cycle)
MFRS 7	Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012 – 2014 Cycle)
MFRS 14	Regulatory Deferral Accounts
MFRS 119	Employee Benefits (Annual Improvements to MFRSs 2012 – 2014 Cycle)
MFRS 134	Interim Financial Reporting (Annual Improvements to MFRSs 2012 – 2014 Cycle)
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 127	Equity Method in Separate Financial Statements

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138)

Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)

Effective for financial periods beginning on or after 1 January 2017

MFRS 15	Revenue from Contracts with Customers

Effective for financial periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments (IFRS 9 issued by International Accounting Standards Board (“IASB”) in July 2014)

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

(b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective (Cont'd.)

The adoption of the above MFRSs, Amendments to MFRSs and IC Interpretations stated above are not expected to result in significant financial impact to the Company, except as disclosed below:

MFRS 9: Financial instruments (IFRS 9 issued by IASB in July 2014)

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces earlier versions of MFRS 9 and introduces a package of improvements which includes a classification and measurement model, a single forward looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. MFRS 9 when effective will replace MFRS 139.

Classification and Measurement of Financial Assets

MFRS 9 introduces an approach for classification and measurement of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. In essence, financial assets that are held in a business model whose objective is to hold the assets in order to collect contractual cash flows are measured at amortised cost. Financial assets that are held in a business model whose objective is to achieve both collecting contractual cash flows and selling the financial assets are classified and measured at fair value through other comprehensive income (FVTOCI). Financial assets that are held for trading, those that are managed on a fair value basis, and any financial assets not held in one of the two business models mentioned above are measured at fair value through profit or loss. Financial assets are also required to be reclassified when and only when the business model for managing the said financial assets changes.

Classification and Measurement of Financial Liabilities

MFRS 9 does not change the basic accounting model for financial liabilities under MFRS 139. Two measurement categories continue to exist: fair value through profit or loss (FVTPL) and amortised cost.

MFRS 9 however requires gains and losses on financial liabilities designated as FVTPL to be split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount presented in profit or loss. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss. All other MFRS 139 requirements in respect of financial liabilities have been carried forward to MFRS 9.

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

(b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective (Cont'd.)

MFRS 9: Financial instruments (IFRS 9 issued by IASB in July 2014) (Cont'd.)

Impairment

MFRS 9 also introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, MFRS 9 requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

Hedge Accounting

MFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

The initial application of MFRS 9 in the future may have an impact on the financial statements of the Company. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

(a) Critical Judgment Made in Applying Accounting Policies

The following is the judgment 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 judgment 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. Judgment 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 are 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 JUDGMENTS (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 judgment. In making this judgment, 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. The Company impairs 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 JUDGMENTS (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 judgment 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.

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

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

(vii) Fair value measurement of financial instruments

When the fair values of financial assets recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using relevant reports and related documents. A degree of judgment is required in establishing their fair values which include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. PROPERTY, PLANT AND EQUIPMENT

	<-----Valuation	----->		<-----Cost			----->	
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2014								
Valuation/Cost:								
At 1 October 2013	1,860	681	16,559	6,072	2,232	1,663	3,424	32,491
Additions	-	-	-	15	495	58	442	1,010
Disposals	-	-	-	-	(490)	(10)	-	(500)
Write-offs	-	-	-	(134)	-	(19)	(194)	(347)
At 30 September 2014	1,860	681	16,559	5,953	2,237	1,692	3,672	32,654
Accumulated depreciation:								
At 1 October 2013	-	20	713	6,061	749	1,378	3,120	12,041
Charge for the year	-	20	713	5	213	49	80	1,080
Disposals	-	-	-	-	(262)	(10)	-	(272)
Write-offs	-	-	-	(134)	-	(18)	(193)	(345)
At 30 September 2014	-	40	1,426	5,932	700	1,399	3,007	12,504
Net carrying value:								
At 30 September 2014	1,860	641	15,133	21	1,537	293	665	20,150

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

	<-----Valuation	----->		<-----	-----Cost	-----	----->	
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
2013								
Valuation/Cost:								
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
Accumulated depreciation:								
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
Net carrying value:								
At 30 September 2013	1,860	661	15,846	11	1,483	285	304	20,450

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

(a) The freehold land and buildings and leasehold buildings were revalued as at 30 September 2012 based on valuation carried out by independent valuers of Messrs. Rahim & Co. on an open market value basis using the comparison method.

The fair value of the freehold land and buildings and leasehold buildings are categorised within Level 2 of the fair value hierarchy.

There is no change to the valuation technique and fair value hierarchy level during current financial year.

(b) 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 2014 are as follows:

	Net Carrying Value 2014		Net Carrying Value 2013	
	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
Freehold buildings	641	272	661	280
Leasehold buildings	15,133	7,267	15,846	7,586
	17,634	7,919	18,367	8,246

(c) The net book value of motor vehicles held under hire purchase arrangements are RM1,516,000 (2013: RM1,221,000).

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

	2014 RM'000	2013 RM'000
Cash	625	88
Hire purchase	385	70
	1,010	158

6. INVESTMENT PROPERTIES

	2014 RM'000	2013 RM'000
At 1 October 2013/2012	695	750
Gain on fair value adjustments (Note 26)	145	-
Disposal during the year	-	(55)
At 30 September	840	695
Analysed as:		
Freehold buildings	515	400
Leasehold buildings	325	295
	840	695

Investment properties were revalued as at 30 September 2014 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

The fair value of the investment properties are categorised within Level 2 of the fair value hierarchy.

There is no change to the valuation technique and fair value hierarchy level during the current financial year.

7. PREPAID LAND LEASE PAYMENTS

	Note	2014 RM'000	2013 RM'000
Long term leasehold land:			
At 1 October 2013/2012		314	318
Amortisation	29	(4)	(4)
At 30 September		310	314

8. INTANGIBLE ASSETS

	Note	2014 RM'000	2013 RM'000
Computer software and licences:			
Cost			
At 1 October 2013/2012		1,306	1,115
Additions		526	191
At 30 September		1,832	1,306
Accumulated amortisation			
At 1 October 2013/2012		1,085	1,038
Amortisation	29	426	47
At 30 September		1,511	1,085
Net book value		321	221

9. DEFERRED TAX (LIABILITIES)/ASSETS

	Note	2014 RM'000	2013 RM'000
At 1 October 2013/2012		1,875	2,471
Transfer from income statement	31	(564)	(1,274)
- Deferred tax assets		(500)	(1,278)
- Deferred tax liabilities		(64)	4
Transfer (from)/to AFS reserve	34	(2,195)	678
- Deferred tax assets		(2,195)	449
- Deferred tax liabilities		-	229
At 30 September		(884)	1,875

Reflected in the statement of financial position as follows:

	2014 RM'000	2013 RM'000
Deferred tax assets	2,323	5,018
Deferred tax liabilities	(3,207)	(3,143)
Net deferred tax (liabilities)/assets	(884)	1,875

9. DEFERRED TAX (LIABILITIES)/ASSETS (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
2014						
At 1 October 2013	60	4	449	2,715	1,790	5,018
Recognised in the income statement	-	1	-	(501)	-	(500)
Recognised in the AFS reserve	-	-	(2,195)	-	-	(2,195)
At 30 September 2014	60	5	(1,746)	2,214	1,790	2,323
2013						
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

9. DEFERRED TAX (LIABILITIES)/ASSETS (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
2014				
At 1 October 2013	-	(2,933)	(210)	(3,143)
Recognised in the income statement	-	-	(64)	(64)
At 30 September 2014	-	(2,933)	(274)	(3,207)
2013				
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	-	(2,933)	(210)	(3,143)

10. INVESTMENTS

	2014 RM'000	2013 RM'000
(a) Available-for-sale ("AFS") financial assets:		
At fair value:		
Quoted shares	20,700	16,599
Unit trusts	12,249	11,887
Islamic corporate bond	2,125	-
Others	-	4
Total available-for-sale financial assets (Note 42)	35,074	28,490
(b) Held-to-maturity ("HTM") investments:		
At amortised cost:		
Malaysian Government Securities*	-	5,378
Amortisation of premiums, net of accretion of discount	-	(335)
Total held-to-maturity investments	-	5,043

10. INVESTMENTS (CONT'D.)

	2014 RM'000	2013 RM'000
(c) Loans and receivables ("L&R"):		
At amortised cost:		
Deposits and placements with licensed financial institutions:		
Commercial banks	509,863	573,988
Investment banks	246,014	182,752
Total loans and receivables	755,877	756,740
Total investments	790,951	790,273
At fair value:		
* Malaysian Government Securities	-	5,060

(d) Carrying value of investments

	AFS RM'000	HTM RM'000	L&R RM'000	Total RM'000
2014				
At 1 October 2013	28,490	5,043	756,740	790,273
Additions	396	-	-	396
Placements	-	-	327,208	327,208
Disposals	(735)	-	-	(735)
Maturities	-	(5,000)	(328,071)	(333,071)
Fair value gains recorded in other comprehensive income (Note 34)	8,778	-	-	8,778
Impairment loss of AFS financial assets (Note 26)	(1,855)	-	-	(1,855)
Amortisation of premiums, net of accretion of discount (Note 24)	-	(43)	-	(43)
At 30 September 2014	35,074	-	755,877	790,951

10. INVESTMENTS (CONT'D.)

(d) Carrying value of investments (Cont'd.)

	AFS RM'000	HTM RM'000	L&R RM'000	Total RM'000
2013				
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)
Impairment loss of AFS financial assets (Note 26)	(929)	-	-	(929)
Amortisation of premiums, net of accretion of discount (Note 24)	-	(94)	-	(94)
At 30 September 2013	28,490	5,043	756,740	790,273

Included in deposits and placements of the Company is an amount of RM93,221 (2013: RM90,397) representing placements of deposits received from insureds as collateral for bond guarantees granted to third parties.

11. REINSURANCE ASSETS

	Note	2014 RM'000	2013 RM'000
Reinsurance of insurance contracts			
Claims liabilities	17.1	162,463	165,419
Premium liabilities	17.2	53,386	64,064
		215,849	229,483

12. INSURANCE RECEIVABLES

	Note	2014 RM'000	2013 RM'000
Outstanding premiums including agents, brokers' and co-insurers' balance		7,705	9,663
Due from reinsurers and ceding companies		18,725	15,647
		26,430	25,310
Allowance for impairment	40	(2,184)	(1,631)
		24,246	23,679

13. OTHER RECEIVABLES

	Note	2014 RM'000	2013 RM'000
Due from fellow subsidiary company	(a)	403	274
Accrued income		5,824	5,214
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	(b)	54,935	44,029
Deposits and prepayments		976	953
Tax recoverable	(c)	3,075	2,280
Others		1,059	426
		66,272	53,176

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

(b) This includes the Company's contribution of RM7,162,003 and RM10,827,000 to MMIP following cash calls made by the Pool during the current and previous financial year respectively. The contributions were made in respect of the Company's share of MMIP's accumulated losses up to 31 December 2012.

MMIP has made a third cash call of RM9,359,000 in respect of the Company's share of the Pool's losses which were recorded in the Company's income statement for the current and previous financial years. This contribution will be made and reflected in the Company's financial statements in the financial year ending 30 September 2015.

(c) This includes the double tax deduction of the contribution made in respect of MMIP's first cash call of RM10,827,000.

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

	2014 RM'000	2013 RM'000
Deposits and placements with licensed commercial bank (with maturity of less than three months)	-	680
Cash and bank balances	3,993	3,802
	3,993	4,482

15. SHARE CAPITAL

	Number of shares 2014 RM'000	Number of shares 2013 RM'000	Amount 2014 RM'000	Amount 2013 RM'000
Authorised shares of RM1.00 each	100,000	100,000	100,000	100,000
Issued and fully paid ordinary shares of RM1.00 each	100,000	100,000	100,000	100,000

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, companies were given a transitional period of 6 years to 31 December 2013 to frank dividends to their shareholders under limited circumstances.

The change in the tax legislation also provided for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

Companies with accumulated tax credit under Section 108 of the Income Tax Act, 1967 ("Section 108 balance") were given an irrevocable option to disregard the tax credit or to continue to utilize such tax credits until the tax credits are fully utilized or upon the expiry of the 6-year transitional period on 31 December 2013, whichever is earlier.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company was utilising its Section 108 balance to frank dividends out of its entire retained profits as defined under the Finance Act 2007.

Upon the expiry of the transitional period, the unutilized Section 108 balance as at 31 December 2013 has been fully disregarded. With effect from 1 January 2014, the Company is required to distribute dividends to its shareholders under the single tier system.

Pursuant to Section 51(1) of the Financial Services Act 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend .

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 2014, the Company has a Capital Adequacy Ratio in excess of the minimum requirement as stipulated in the RBC Framework.

17. INSURANCE CONTRACT LIABILITIES

	<-------- 2014 --------		-------->	<-------- 2013 --------		-------->
	Gross RM'000	Reinsurance RM'000 (Note 11)	Net RM'000	Gross RM'000	Reinsurance RM'000 (Note 11)	Net RM'000
General insurance	772,657	(215,849)	556,808	786,537	(229,483)	557,054

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

		<-------- 2014 --------		-------->	<-------- 2013 --------		-------->
	Note	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Provisions for claims reported		417,402	(127,324)	290,078	411,759	(124,400)	287,359
Provision for Incurred But Not Reported ("IBNR")		101,021	(21,950)	79,071	93,386	(25,097)	68,289
Provision of Risk Margin for Adverse Deviation ("PRAD")		45,574	(13,189)	32,385	45,977	(15,922)	30,055
Claims Liabilities	17.1	563,997	(162,463)	401,534	551,122	(165,419)	385,703
Premium Liabilities	17.2	208,660	(53,386)	155,274	235,415	(64,064)	171,351
		772,657	(215,849)	556,808	786,537	(229,483)	557,054

17. INSURANCE CONTRACT LIABILITIES (CONT'D.)

17.1 Claims Liabilities

	Note	2014 Gross RM'000	2014 Reinsurance RM'000	2014 Net RM'000	2013 Gross RM'000	2013 Reinsurance RM'000	2013 Net RM'000
At 1 October 2013/2012		551,122	(165,419)	385,703	516,480	(154,778)	361,702
Claims incurred in the current accident year (direct and facultative)		227,990	(63,691)	164,299	181,542	(60,995)	120,547
Adjustment to claims incurred in prior accident year (direct and facultative)		65,776	(21,076)	44,700	121,540	(30,104)	91,436
Claims incurred during the year (treaty inwards claims)		11,240	-	11,240	17,825	-	17,825
Movement in Provision of Risk Margin for Adverse Deviation ("PRAD") claims liabilities at 75% confidence level		(403)	2,733	2,330	(1,763)	1,883	120
Movement in claims handling expenses		260	(139)	121	714	79	793
Claims paid during the year	28	(291,988)	85,129	(206,859)	(285,216)	78,496	(206,720)
At 30 September		563,997	(162,463)	401,534	551,122	(165,419)	385,703

17. INSURANCE CONTRACT LIABILITIES (CONT'D.)

17.2 Premium Liabilities

		2014			2013		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2013/2012		235,415	(64,064)	171,351	244,972	(76,200)	168,772
Premiums written during the year	23	469,566	(135,910)	333,656	515,878	(160,593)	355,285
Premiums earned during the year	23	(496,321)	146,588	(349,733)	(525,435)	172,729	(352,706)
At 30 September		208,660	(53,386)	155,274	235,415	(64,064)	171,351

18. INSURANCE PAYABLES

	2014 RM'000	2013 RM'000
Due to reinsurers and ceding companies	8,660	6,092
Due to agents, brokers, co-insurers and insureds	2,828	2,652
	11,488	8,744

19. HIRE PURCHASE CREDITORS

	2014 RM'000	2013 RM'000
Future minimum payments:		
Not later than 1 year	380	318
Later than 1 year and not later than 2 years	258	368
Later than 2 years and not later than 5 years	129	12
Total future minimum payments	767	698
Less: Future finance charges	(51)	(41)
Present value of hire purchase liabilities	716	657
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	354	291
Later than 1 year and not later than 2 years	237	354
Later than 2 years and not later than 5 years	125	12
	716	657

The hire purchase arrangements at the reporting date bore interest between 3.94% and 4.50% (2013: 2.32% and 5.10%) per annum.

20. BORROWINGS

	Effective interest rate per annum	Maturity	2014 RM'000	2013 RM'000
Unsecured				
Subordinated Notes	8.01%	2022	68,396	68,263
Amount due more than 5 years			68,396	68,263

During the 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.

21. OTHER PAYABLES

	2014 RM'000	2013 RM'000
Due to holding company*	39	38
Accruals	881	669
Collateral deposits	97	94
Refund premiums	207	244
Service tax payable	363	252
Short term accumulating compensated absences	506	445
Stamp duty payable	1,414	1,693
Unclaimed monies	277	270
Accrual of directors' fees	241	262
Sundry creditors	1,092	1,136
Interest payable on Subordinated Notes**	1,399	1,399
Others	178	144
	6,694	6,646

* The amount due to holding company are 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	2014 RM'000	2013 RM'000
Insurance fund			
Gross earned premiums	23(a)	496,321	525,435
Investment income	24	29,429	27,981
		525,750	553,416

23. NET EARNED PREMIUMS

	Note	2014 RM'000	2013 RM'000
(a) Gross premiums	17.2	469,566	515,878
Change in premium liabilities		26,755	9,557
Gross earned premiums		496,321	525,435
(b) Gross premiums ceded to reinsurers	17.2	(135,910)	(160,593)
Change in premium liabilities		(10,678)	(12,136)
Premiums ceded to reinsurers		(146,588)	(172,729)
Net earned premiums		349,733	352,706

24. INVESTMENT INCOME

	Note	2014 RM'000	2013 RM'000
Dividend income:			
- shares quoted in Malaysia		577	678
- unit trusts		396	320
Interest income:			
- Malaysian Government Securities		148	473
- deposits and placements with financial institutions		26,420	25,203
Amortisation of premiums, net of accretion of discounts		(43)	(94)
Rental of properties:			
- third parties		14	13
- fellow subsidiary company	37	29	29
- holding company	37	256	256
Investment income from:			
- MMIP		1,574	1,089
- Malaysian Reinsurance Berhad ("MRB")		58	14
		29,429	27,981

25. REALISED GAINS

	Note	2014 RM'000	2013 RM'000
Realised gains/(losses):			
- Property, plant and equipment		(76)	(17)
- AFS financial assets:			
Quoted in Malaysia		442	2,957
Unquoted in Malaysia		-	199
Unit trusts		-	291
Others		4	-
- Investment properties		-	5
- Foreign exchange		-	(13)
		370	3,422

26. FAIR VALUE LOSSES

	Note	2014 RM'000	2013 RM'000
Fair value (losses)/gains:			
Investment properties	6	145	-
Impairment loss of AFS financial assets	34	(1,855)	(929)
		(1,710)	(929)

27. OTHER OPERATING REVENUE

	2014 RM'000	2013 RM'000
Other operating revenue/(expenses):		
Sundry income	521	820
Property, plant and equipment written off	(1)	-
	520	820

28. NET CLAIMS INCURRED

	Note	2014 RM'000	2013 RM'000
Gross claims paid	17.1	(291,988)	(285,216)
Claims ceded to reinsurers	17.1	85,129	78,496
Gross change to insurance contract liabilities		(12,875)	(34,642)
Change in insurance contract liabilities ceded to reinsurers		(2,956)	10,641
		(222,690)	(230,721)

29. MANAGEMENT EXPENSES

	Note	2014 RM'000	2013 RM'000
Executive Director’ remuneration	30	825	789
Staff salaries and bonus		17,540	16,981
Staff short term accumulating compensated absences		80	42
Pension costs - defined contribution plan		2,222	2,155
Other staff benefits		1,544	1,853
Depreciation of property, plant and equipment	5	1,080	1,070
Amortisation:			
- prepaid land lease payments	7	4	4
- intangible assets	8	426	47
Auditors’ remuneration			
- Statutory audit		147	140
- Other regulatory related services		29	28
- Other services		155	125
Non-Executive Directors’ remuneration	30	241	262
Directors’ training		50	83
Allowance for impairment of insurance receivables	40	867	760
Write back in allowance for impairment of insurance receivables	40	(139)	(131)
Bad debts recovered		(46)	-
Rental of properties:			
- third parties		520	492
- fellow subsidiary company	37	150	150
Management fees to holding company	37	947	947
Call centre service charges to:			
- third parties		-	30
- fellow subsidiary company	37	492	492
Rental of equipment:			
- third parties		140	131
- fellow subsidiary company	37	4,225	3,148
Printing and information system expenses:			
- third parties		3,092	3,730
- fellow subsidiary company	37	7,024	6,826
Business development		1,461	1,291
Bank charges		33	36
Credit card charges		4,672	5,058
Office administration and utilities		2,404	1,672
MMIP expenses		898	814
Professional fees		891	1,015
Motor vehicle expenses		676	674
Travelling and transport expenses		281	245
Road Transport Department access fees		699	818
Other expenses		1,199	1,431
		54,829	53,208

30. DIRECTORS' REMUNERATION

(a) Chief Executive Officer

	2014 RM'000	2013 RM'000
Salary	548	493
Bonus	170	185
Pension costs - defined contribution plan	91	86
Benefits-in-kind	35	33
Short term accumulating compensated absences	(20)	(11)
Allowance	36	36
	860	822
Total Executive Director' remuneration excluding benefits-in-kind	825	789

(b) Non-Executive Directors

	2014 RM'000	2013 RM'000
Fees	241	262
Benefits-in-kind	10	11
	251	273

The total remuneration received by the Individual, Non-Executive Directors during the year was as follows:

	Fees RM'000	Benefits-in-kind RM'000	Total RM'000
2014			
En. Mohammad Nizar Bin Idris	53	6	59
Mr. Chan Thye Seng	40	-	40
Mr. William Robertson Dommisse	50	-	50
Mr. Michael Yee Kim Shing	50	-	50
Dato' Dr. Zaha Rina Binti Zahari	13	-	13
Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	15	4	19
Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	20	-	20
	241	10	251

30. DIRECTORS' REMUNERATION (CONT'D.)

(b) Non-Executive Directors (Cont'd.)

2013	Fees RM'000	Benefits-in-kind RM'000	Total RM'000
Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	55	4	59
Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	50	-	50
En. Mohammad Nizar Bin Idris	50	7	57
Mr. Chan Thye Seng	40	-	40
Mr. William Robertson Dommisse	17	-	17
Mr. Michael Yee Kim Shing	50	-	50
	262	11	273

(c) The number of Executive and Non-Executive Directors whose total remuneration received during the year falls within the following bands is:

	2014	2013
Executive Director:		
RM300,001 - RM600,000	1	1
Non-Executive Directors:		
Below RM40,000	4	2
RM40,001 - RM50,000	2	3
RM50,001 - RM60,000	1	1

31. INCOME TAX EXPENSE

	2014 RM'000	2013 RM'000
Current income tax:		
Malaysian		
- Current	18,815	13,582
- Under provision in prior years	64	410
	18,879	13,992

31. INCOME TAX EXPENSE (CONT'D.)

	2014 RM'000	2013 RM'000
Current income tax: (Cont'd.)		
Deferred tax:		
Relating to timing differences		
- Current	564	1,375
- Over provision in prior years	-	(101)
Transfer to deferred taxation (Note 9)*	564	1,274
	19,443	15,266
* Amount transferred to deferred taxation		
- Deferred tax assets	(500)	(1,278)
- Deferred tax liabilities	(64)	4
	(564)	(1,274)

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:

	2014 RM'000	2013 RM'000
Profit before taxation	68,357	70,368
Taxation at Malaysian statutory tax rate of 25%	17,089	17,592
Under provision of income tax in prior years	64	410
Over provision of deferred tax in prior years	-	(101)
Income not subject to tax	(196)	(142)
Expenses not deductible for tax purposes	2,486	2,004
Double tax deduction in respect of cash contribution to MMIP	-	(4,497)
Tax expense for the year	19,443	15,266

32. BASIC EARNINGS PER SHARE (SEN)

Basic earnings per share of the Company is calculated by dividing the net profit of RM48,914,000 (2013: RM55,102,000) 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	Date of payment
2014			
1st and 2nd interim single tier dividends of 2.99 sen and 27.00 sen per share respectively declared on 16 January 2014.	29.99	29,988	21 January 2014
3rd interim single tier dividend of 20.80 sen per share, declared on 23 June 2014.	20.80	20,800	25 June 2014
		50,788	

Subsequent to the expiry of Section 108 of Income Tax Act, 1967 on 31 December 2013, single tier dividends are distributed to its shareholders.

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2013			
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
		43,560	

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

	Note	2014 RM'000	2013 RM'000
Fair value changes on Available-for-Sale ("AFS") financial assets:			
- Gross gain/(loss) on fair value changes		7,369	(192)
- Transferred to income statement as impairment loss	26	1,855	929
- Transferred to income statement upon disposal		(446)	(3,447)
		8,778	(2,710)
- Deferred tax	9	(2,195)	678
		6,583	(2,032)
Other comprehensive income/(loss) for the year, net of tax		6,583	(2,032)

35. FINANCE COSTS

	2014 RM'000	2013 RM'000
Hire purchase interest	36	43
Interest expense on borrowings	5,452	5,454
Others	4	3
	5,492	5,500

36. COMMITMENTS AND CONTINGENCIES

	2014 RM'000	2013 RM'000
Non-cancellable operating lease commitments		
Future minimum lease payments are as follows:		
Not later than 1 year	3,133	2,782
Later than 1 year and not later than 5 years	2,969	2,832
	6,102	5,614

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:

	Note	2014 RM'000	2013 RM'000
(Income)/ expense:			
Holding company:			
Rental income	24	(256)	(256)
Management fees	29	947	947
Interest expenses on Subordinated Notes		2,660	2,660
Fellow subsidiaries of Pacific & Orient Berhad Group:			
Rental income	24	(29)	(29)
Office rental	29	150	150
Call centre service charges	29	492	492
Printing and information system expenses	29	7,024	6,826
Repair and maintenance		249	225
Rental of equipment	29	4,225	3,148
Purchase of intangible assets		2	191
Staff training		13	6

Information regarding outstanding balances arising from related party transactions as at 30 September 2014 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:

	2014 RM'000	2013 RM'000
Short-term employee benefits:		
Salary and other remuneration	548	493
Bonus	170	185
Allowances	36	36
Short term accumulating compensated absences	(20)	(11)
Benefits-in-kind	35	33
Post-employment benefits:		
Pension cost-defined contribution plan	91	86
	860	822

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:

Parties responsible	Processes
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.)

Parties responsible	Processes
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.

Twice a year, the Chief Executive Officer ("CEO") presents reports to the Board of Directors on the scope and performance of the risk management and internal control system, to assist the Board in its risk management and internal control responsibilities.

(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 claim wastage 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:

General insurance business	2014 Gross earned premium RM'000	2014 Reinsurance RM'000	2014 Net RM'000	2013 Gross earned premium RM'000	2013 Reinsurance RM'000	2013 Net RM'000
Motor	422,796	(105,944)	316,852	447,699	(136,536)	311,163
Personal Accident	27,474	(1,024)	26,450	28,922	(653)	28,269
Fire	1,866	(800)	1,066	1,778	(717)	1,061
Miscellaneous	44,185	(38,820)	5,365	47,036	(34,823)	12,213
	496,321	(146,588)	349,733	525,435	(172,729)	352,706

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

Premium liabilities	2014 Gross RM'000	2014 Reinsurance RM'000	2014 Net RM'000	2013 Gross RM'000	2013 Reinsurance RM'000	2013 Net RM'000
Motor	184,151	(38,676)	145,475	203,979	(47,326)	156,653
Personal Accident	7,551	(371)	7,180	9,965	(487)	9,478
Fire	756	(277)	479	785	(248)	537
Miscellaneous	16,202	(14,062)	2,140	20,686	(16,003)	4,683
	208,660	(53,386)	155,274	235,415	(64,064)	171,351

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.):

	2014			2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims Liabilities	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	517,908	(125,969)	391,939	510,263	(133,989)	376,274
Personal Accident	3,784	(188)	3,596	2,943	(148)	2,795
Fire	162	(53)	109	321	(127)	194
Miscellaneous	42,143	(36,253)	5,890	37,595	(31,155)	6,440
	563,997	(162,463)	401,534	551,122	(165,419)	385,703

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 independent actuarial firm engaged by the Company re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its insurance contracts.

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)			---------------->
2014					
Average claim cost	+1%	5,640	4,015	(4,015)	(3,012)
Average number of claims	+1%	5,640	4,015	(4,015)	(3,012)
Average claim settlement period	decreased by 6 months	8,076	5,669	(5,669)	(4,252)
2013					
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)

* 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.

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.

39. INSURANCE RISK (CONT'D.)

Claims development table (Cont'd.)

The management of the Company believes that the estimate of total claims outstanding as of 30 September 2014 is adequate. However, the possibility of inadequacy of such balance 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 2014:

Accident year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total
At end of accident year		162,214	196,979	244,459	248,638	258,790	253,244	241,788	
One year later		167,906	219,140	224,613	258,486	262,480	256,276	-	
Two years later		175,999	229,690	248,128	281,919	282,396	-	-	
Three years later		184,415	240,169	256,861	293,549	-	-	-	
Four years later		189,681	243,320	262,994	-	-	-	-	
Five years later		193,043	242,235	-	-	-	-	-	
Six years later		192,268	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		192,268	242,235	262,994	293,549	282,396	256,276	241,788	
At end of accident year		(49,370)	(50,154)	(53,559)	(56,892)	(59,518)	(52,326)	(47,235)	
One year later		(97,337)	(115,161)	(128,273)	(139,326)	(142,024)	(136,129)	-	
Two years later		(131,466)	(167,843)	(176,648)	(205,996)	(209,829)	-	-	
Three years later		(161,286)	(198,971)	(217,237)	(249,908)	-	-	-	
Four years later		(173,133)	(216,653)	(238,251)	-	-	-	-	
Five years later		(179,568)	(224,775)	-	-	-	-	-	
Six years later		(183,775)	-	-	-	-	-	-	
Cumulative payments to date		(183,775)	(224,775)	(238,251)	(249,908)	(209,829)	(136,129)	(47,235)	
Gross general insurance outstanding liability (direct and facultative)	17,104	8,493	17,460	24,743	43,641	72,567	120,147	194,553	498,708
Gross general insurance outstanding liability (treaty inward)									54,626
Best estimate of claims liabilities									553,334
Claims handling expenses									11,066
PRAD at 75% confidence level									45,574
Effects of discounting									(45,977)
Gross general insurance contract liabilities per statement of financial position									563,997

39. INSURANCE RISK (CONT'D.)

Net general insurance contract liabilities for 2014:

Accident year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year		149,493	181,995	200,596	173,248	168,193	168,742	174,718	
One year later		154,419	191,742	191,470	177,930	178,771	174,030	-	
Two years later		159,251	206,975	209,032	189,370	186,994	-	-	
Three years later		167,316	215,442	217,861	196,436	-	-	-	
Four years later		172,480	218,001	222,440	-	-	-	-	
Five years later		174,665	216,255	-	-	-	-	-	
Six years later		173,374	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		173,374	216,255	222,440	196,436	186,994	174,030	174,718	
At end of accident year		(45,880)	(47,147)	(47,979)	(41,748)	(42,761)	(36,504)	(36,192)	
One year later		(90,963)	(107,204)	(111,233)	(99,202)	(99,449)	(94,298)	-	
Two years later		(122,373)	(155,194)	(153,500)	(143,286)	(143,610)	-	-	
Three years later		(150,088)	(183,493)	(186,845)	(170,062)	-	-	-	
Four years later		(159,150)	(197,967)	(203,916)	-	-	-	-	
Five years later		(164,829)	(204,713)	-	-	-	-	-	
Six years later		(167,981)	-	-	-	-	-	-	
Cumulative payments to date		(167,981)	(204,713)	(203,916)	(170,062)	(143,610)	(94,298)	(36,192)	
Net general insurance outstanding liability (direct and facultative)	13,562	5,393	11,542	18,524	26,374	43,384	79,732	138,526	337,037
Net general insurance outstanding liability (treaty inward)									54,626
Best estimate of claims liabilities									391,663
Claims handling expenses									9,757
PRAD at 75% confidence level									32,385
Effects of discounting									(32,271)
Net general insurance contract liabilities per statement of financial position									401,534

39. INSURANCE RISK (CONT'D.)

Gross general insurance contract liabilities for 2013:

Accident year	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	Total
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		160,660	193,043	243,320	256,861	281,919	262,480	253,244	
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		(154,347)	(179,568)	(216,653)	(217,237)	(205,996)	(142,024)	(52,326)	
Gross general insurance outstanding liability (direct and facultative)	12,896	6,313	13,475	26,667	39,624	75,923	120,456	200,918	496,272
Gross general insurance outstanding liability (treaty inward)									43,768
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									551,122

39. INSURANCE RISK (CONT'D.)

Net general insurance contract liabilities for 2013:

Accident year	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	Total 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		148,066	174,665	218,001	217,861	189,370	178,771	168,742	
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		(142,202)	(164,829)	(197,967)	(186,845)	(143,286)	(99,449)	(36,504)	
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)									43,768
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									385,703

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 intermediary or counterparties in meeting their financial and contractual obligations to the Company as and when they fall due.

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 a 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 of the statement of financial position.

	2014 RM'000	2013 RM'000
Held-to-maturity investments	-	5,043
Reinsurance assets	215,849	229,483
Insurance receivables	24,246	23,679
Deposits and placements with financial institutions	755,877	756,740
Other receivables	66,272	53,176
Cash and cash equivalents	3,993	4,482
	1,066,237	1,072,603

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
2014						
Reinsurance assets	-	2,169	168,479	-	45,201	215,849
Insurance receivables	-	-	17,745	-	6,501	24,246
Other receivables	1,756	2,872	1,192	-	60,452	66,272
Deposits and placements with financial institutions	316,903	342,247	96,727	-	-	755,877
Cash and cash equivalents	3,102	886	-	-	5	3,993
	321,761	348,174	284,143	-	112,159	1,066,237

40. FINANCIAL RISKS (CONT'D.)

(a) Credit Risk (Cont'd.)

Credit exposure by credit quality (Cont'd.)

	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not Rated RM '000	Total RM '000
2013						
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	2,275	2,378	550	-	47,973	53,176
Deposits and placements with financial institutions	278,240	362,644	115,856	-	-	756,740
Cash and cash equivalents	3,766	711	-	-	5	4,482
	297,094	459,691	202,605	266	112,947	1,072,603

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

	Note	< 30 days RM'000	31-60 days RM'000	61-90 days RM'000	91-180 days RM'000	> 180 days RM'000	Total RM'000
2014							
Insurance receivables	12	6,119	44	-	3,124	21	9,308

	Note	< 30 days RM'000	31-60 days RM'000	61-90 days RM'000	91-180 days RM'000	> 180 days RM'000	Total RM'000
2013							
Insurance receivables	12	7,868	89	27	1,239	1,405	10,628

Financial assets that are neither past due nor impaired

	2014 RM’000	2013 RM’000
Insurance receivables	14,938	13,051

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:-				
2014				
At 1 October 2013		1,631	-	1,631
Allowance for impairment loss	29	688	179	867
Write back of impairment loss	29	(139)	-	(139)
Write off		(175)	-	(175)
At 30 September 2014		2,005	179	2,184
2013				
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		1,631	-	1,631

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 are 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
2014							
Insurance contract liabilities	563,997	218,863	126,833	176,146	89,842	2,303	613,987
Insurance payables	11,488	11,488	-	-	-	-	11,488
Hire purchase creditors	716	380	258	129	-	-	767
Borrowings	68,396	5,320	10,654	15,989	79,241	-	111,204
Other payables	6,694	6,694	-	-	-	-	6,694
Total liabilities	651,291	242,745	137,745	192,264	169,083	2,303	744,140
2013							
Insurance contract liabilities	551,122	205,414	104,062	191,078	99,002	1,418	600,974
Insurance payables	8,744	8,744	-	-	-	-	8,744
Hire purchase creditors	657	318	368	12	-	-	698
Borrowings	68,263	5,320	10,654	15,960	84,590	-	116,524
Other payables	6,646	6,646	-	-	-	-	6,646
Total liabilities	635,432	226,442	115,084	207,050	183,592	1,418	733,586

* 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).

		2014	2013
	Changes in variables	Impact on equity* RM'000	Impact on equity* RM'000
		<-- Increase/(Decrease)	-->
Market price	+10%	2,471	2,137
Market price	-10%	(2,471)	(2,137)

* Impact on equity reflects adjustments for tax, where 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 2014, as prescribed under the RBC Framework is provided below:

	2014 RM'000	2013 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000	100,000
Retained profits	144,473	146,347
	244,473	246,347
Tier 2 Capital		
Capital instruments which qualify as Tier 2 Capital	68,396	68,263
Revaluation reserve	8,799	8,799
AFS reserve	5,238	(1,345)
	82,433	75,717
Amounts deducted from Capital	-	(1,875)
Total Capital Available	326,906	320,189

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) The financial intruments are categorised into the following levels of fair value hierarchy:

AFS financial assets	Note	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2014					
Quoted shares		20,700	-	-	20,700
Unit trusts		12,249	-	-	12,249
Islamic corporate bond	(i)	-	-	2,125	2,125
		32,949	-	2,125	35,074
2013					
Quoted shares		16,599	-	-	16,599
Unit trusts		11,887	-	-	11,887
Others		4	-	-	4
		28,490	-	-	28,490

(i) Reconciliation of movement in Level 3 of the fair value hierarchy is as follows:

	RM'000
At 1 October 2013	-
Transfer from AFS reserve	3,980
Impairment loss reclassified to income statement	(1,855)
At 30 September 2014*	2,125

* This represents the best estimate of fair value of an Islamic corporate bond that is currently undergoing a negotiated settlement process. If the proposed settlement does not materialize and if there are no other settlement arrangements, the estimated recoverable amount would be impaired.

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

(b) 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:

	2014 Carrying amount RM'000	2013 Carrying amount RM'000	2014 Fair value RM'000	2013 Fair value RM'000
Financial assets				
HTM investments	-	5,043	-	5,060
Financial liabilities				
Hire purchase creditors	716	657	723	664

(c) 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, 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.

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

(c) Determination of fair value (Cont'd.)

(iii) AFS financial assets

- Quoted shares

  The fair values of quoted shares 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.

The carrying amounts of hire purchase creditors approximate their fair values.

(v) Subordinated Notes

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

The carrying amount of Subordinated Notes approximates its fair value.