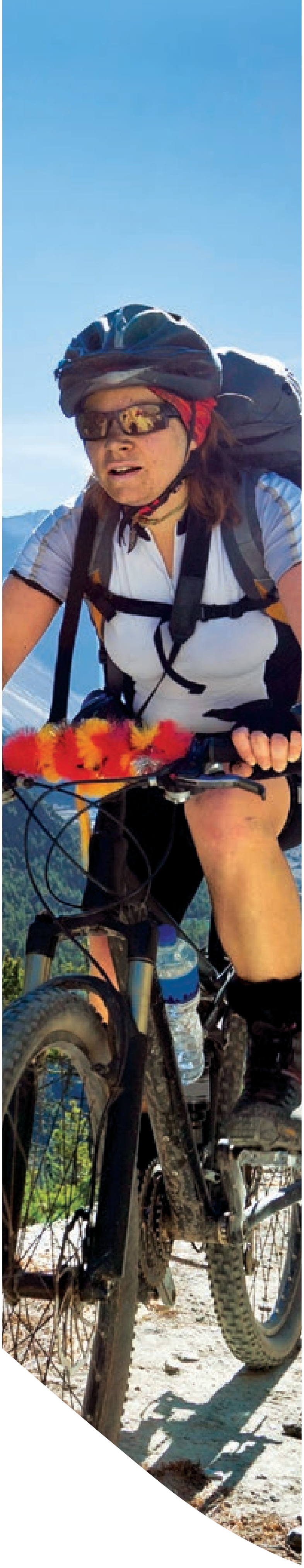


MSIG

Insurance that sees the heart in everything

ANNUAL REPORT
2013

# MSIG Annual Report 2013

Insurance that sees the heart in everything

At MSIG, our business has been a general insurer for well over 100 years, but our values are far deeper. We look beyond objects we insure to find that everything has heart. That's why we go above and beyond to not only give protection but also the attention to the things you hold dear. So every time you need us, we go out of our way to look after your needs as quickly and carefully as humanly possible.

**MSIG. Insurance that sees the heart in everything.**

# Contents

# Core Values

## Our Values

### Customer Focused
We continuously strive to provide security and achieve customer satisfaction.

### Integrity
We are sincere, kind, fair and just in our dealings with everyone.

### Teamwork
We achieve mutual growth by respecting one another's individuality and opinions, and by sharing knowledge and ideas.

### Innovation
We listen to our stakeholders and continuously seek ways to improve our work and business.

### Professionalism
We make sustained efforts to improve our skills and proficiency so that we can provide high quality services.

## Our Vision

To create a world-leading insurance and financial services group that consistently seeks sustainable growth and to enhance enterprise value.

## Our Mission

To contribute to the development of a vibrant society and help secure a sound future for the planet, by enabling safety and security through the global insurance and financial services business.

# Our Personalities

## We are ACTIVE

### Be enthusiastic to Go Above And Beyond

We constantly engage our clients and partners, ever ready to support them proactively or responsively just as they need.

## We are CONFIDENT

### Be professional and optimistic to Go Above And Beyond

We show that we take pride in our skills and business fundamentals by being positive, poised and professional.

## We are EFFICIENT

### Be clear and succinct to Go Above And Beyond

We are organised, competent and always seeking ways to make things simpler.

## We are SINCERE

### Be warm and conversational to Go Above And Beyond

We are genuine in all our relationships, and truly committed to the needs of our clients and partners.

# MSIG, Worldwide

## MITSUI SUMITOMO INSURANCE, JAPAN

Mitsui Sumitomo Insurance Company, Limited ("MSI") was formed in Japan in October 2001 through a merger between two leading non-life insurance companies with long histories, Mitsui Marine & Fire Insurance Co., Ltd. ("Mitsui Marine", established in 1918) and The Sumitomo Marine & Fire Insurance Co., Ltd. ("Sumitomo Marine", established in 1893).

MSI is committed to growing in Asia and, from 2002 onwards, made a series of investments, acquisitions and joint ventures throughout the region. MSI has solid financial strength and received sterling financial ratings from leading credit rating agencies (Standard & Poor's rating A+ [as of 1 July 2013]).

In 2008, Mitsui Sumitomo Insurance Group Holdings, Inc. ("MSIGH") was established.

In April 2010, MSIGH changed its name to MS&AD Insurance Group Holdings, Inc., as a result of the completion of the business integration between Mitsui Sumitomo Insurance Group, Aioi Insurance Co., Ltd. and Nissay Dowa General Insurance Co., Ltd.

MS&AD Insurance Group, through its subsidiaries and associated companies in both domestic and overseas markets, is active in five business domains: domestic Japanese non-life insurance business, domestic Japanese life insurance business, overseas business, financial services business and risk-related business.

ASIA INSURANCE INDUSTRY AWARDS

In November 2011, MS&AD was named the "General Insurance Company of the Year" at the 2011 Asia Insurance Industry Awards, in recognition of its professional standards, quality of service provided to customers throughout the Asian region, and solid financial performance – an accolade for its strength in partnerships in Asia.

MS&AD

INSURANCE GROUP

### MS&AD INSURANCE GROUP:

- Largest general insurer in Japan
- One of the largest general insurers in the world
- Total net premium: RM86.82 billion*
- Total asset: RM523.59 billion*

* Based on conversion rate of ¥100 to RM3.29 (as of March 2013)

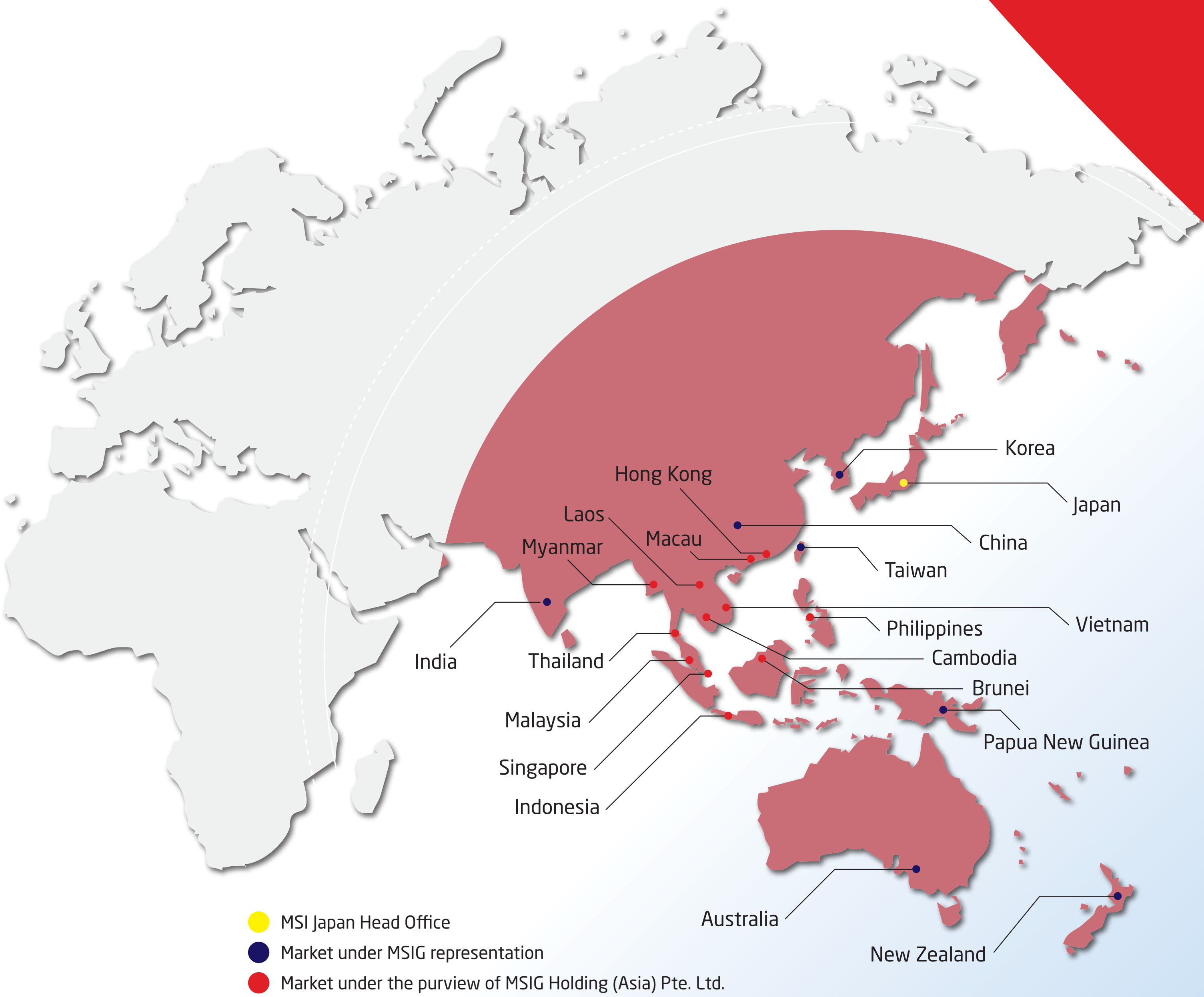
MSIG Holdings (Asia) Pte. Ltd. ("MSIG Asia") is a regional holding company of MSI within the MS&AD Insurance Group ("MS&AD"), one of the largest general insurers in the world with presence in 41 countries and regions, 17 of which are in Asia.

MSIG Asia has been tending to general insurance needs across Asia for more than 100 years.

Combining global and local best practices, we leverage on our multi-channel distribution, strong partnerships with intermediaries and extensive geographical network – which includes representation in every ASEAN country – to offer a wide range of insurance solutions across major personal and commercial lines.

MSIG Asia is now the first and only foreign-based general insurer to have representation in every ASEAN country, a testament to our strength and reach.

# MSIG, Asia



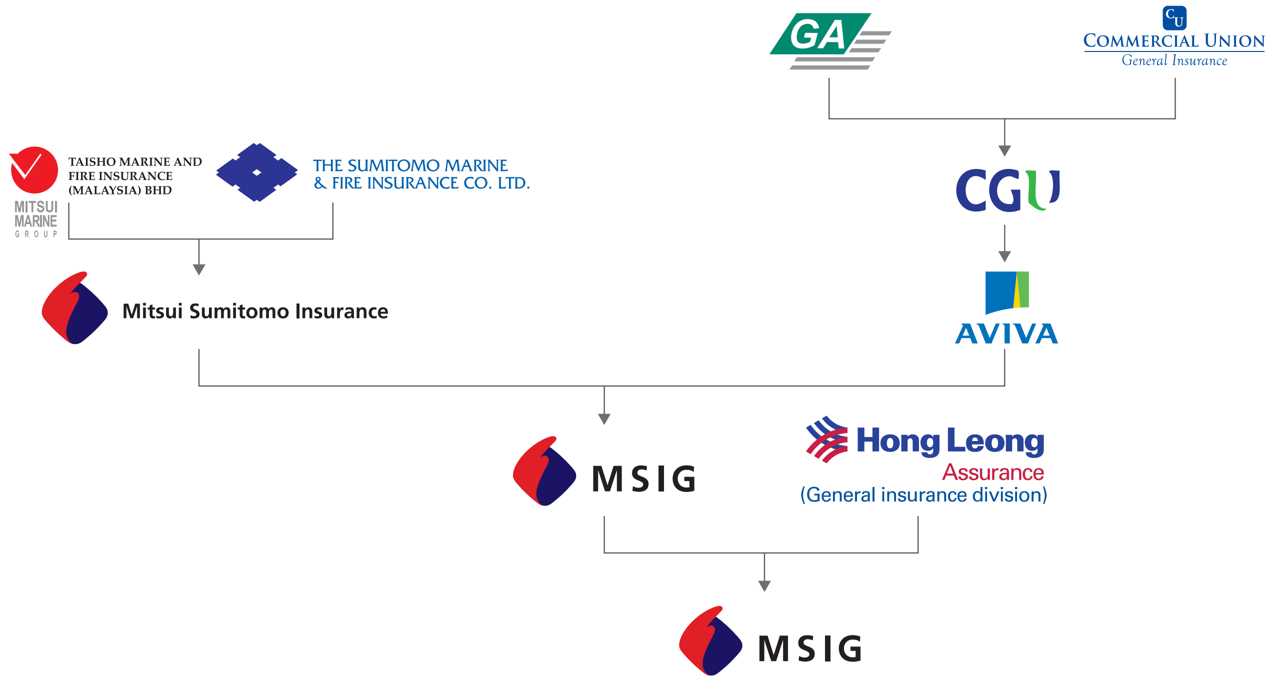
# MSIG, Malaysia

MSIG Insurance (Malaysia) Bhd ("MSIG Malaysia") is a subsidiary of Mitsui Sumitomo Insurance Company, Limited ("MSI") and a member of MS&AD Insurance Group Holdings, Inc.

MSIG Malaysia was formed through a series of mergers and acquisitions, the most recent events being in:

- 2006: a merger between Mitsui Sumitomo Insurance (Malaysia) Bhd and Aviva Insurance Berhad, each with a long history of strength and stability.
- 2010: a strategic partnership with Hong Leong Assurance Berhad ("HLA") that further deepened the general insurance market share of MSIG Malaysia.

- No. 1 in Marine Cargo and No. 2 in Fire Insurance
- One of the largest General Insurers in Malaysia
- Network of 20 branches
- Total gross written premium of RM1.43 billion (as of 31 December 2013)




RM1.43 billion premium, December 2013

# KEYS TO SUCCESS

Today, MSIG Malaysia is one of the largest general insurers in the country – No. 1 in marine cargo & No. 2 in fire insurance categories.

As a group, our strong financial backing, and global expertise with local knowledge assure our customers of our strength and stability, top quality innovative products and related services, and a strong commitment to service.

In Malaysia, we owe our success to four key factors:

- **Multi-distribution channels:**
  Comprising Agents, Brokers, Banks, Motor Franchise Dealers and Direct Corporations of Malaysian and Japanese entities, these have been one of the most successful approaches to tapping different market segments.

- **Fair and prompt settlement of claims:**
  We take pride in our commitment to settling claims fairly and promptly.

- **Dedicated employees:**
  A staff force of over 1,000, 15.8% of whom possess professional insurance qualifications, and a committed and stable Senior Management Team with experience in mergers and integrations in the past 10 years, that combine international best practices and local knowledge, and add value to partnership relationships.

- **Effective business tool:**
  Repeated pioneer in utilising technology to enhance business efficiency, with the latest being MSIG's proprietary **GenLink**™ and GenPage solutions for intermediaries to embark on B2B2C online business strategies.

# Products

# COMMERCIAL INSURANCE

## BUSINESS
Burglary
Business Insurance
Commercial All Risks
Commercial Motor Vehicles
Equipment All Risks
Fidelity Guarantee
Group Hospitalisation
Group Personal Accident
Money
Office and Shop Insurance Scheme (OASIS)
Plate Glass

## ENGINEERING
Boiler & Pressure Vessel
Contractors' All Risks
Deterioration of Stock
Electronic Equipment
Erection All Risks
Machinery Breakdown
Machinery Breakdown – Loss of Profits
Machinery & Equipment
Storage Tank Installation

## FIRE AND BUSINESS INTERRUPTION
Fire Property Damage
Fire Consequential Loss
Industrial All Risks
Property Protection Package

## FOREIGN WORKER INSURANCE
Foreign Worker Insurance Guarantee
Foreign Worker Compensation Scheme (FWCS)
Foreign Worker Hospitalisation & Surgical Insurance Scheme (SKHPPA)

## LIABILITY
Comprehensive General Liability
Directors & Officers Liability
Products Liability
Professional Indemnity
Public Liability
Warehousemen's Liability

## MARINE
Bailee Liability
Credit Insurance
Marine Cargo
Marine Hull
Marine Inland Transit

## WORKMEN
Employers' Liability
Workmen's Compensation

# PERSONAL INSURANCE

## FIRE - DOMESTIC BUILDINGS & CONTENTS
Domestic Fire
Houseowner/Householder Insurance

## LIABILITY
Personal Liability

## MEDICAL
Edu MediCare
FlexiHealth
Healthcare International Insurance
Ladies Lifestyle Protection

## MOTOR
Motorcycle Insurance
Private Car Insurance

## PERSONAL ACCIDENT
BodyGuard Personal Accident Insurance
Driver's Personal Accident Insurance
Family Plus Personal Accident Insurance
Generations Personal Accident Insurance
Individual Personal Accident Insurance
MS Wave Insurance
MS Wave Premier Insurance
Overseas Student Insurance
PremierGuard Personal Accident Insurance
Senior Citizens Personal Accident Insurance
Sports Personal Accident Insurance

## OTHERS
Golfer's Insurance
Key Plan
TravelRight Plus Insurance

# Value Added Services

With our customers' convenience in mind, MSIG provides supporting services and information technology solutions to complement our insurance products.

## INDIVIDUAL CLIENTS

### MOTOR ASSIST 1 300 880 833

This service provides MSIG customers with the resources to get help should they run into an emergency with their vehicle. It covers:

- 24-hour Towing & Emergency Roadside Repair Services
- Workshop Identification
- Alternative Transport Home after a motor accident
- 6-month Repair Warranty by Panel Repairers

### HOME ASSIST 1 300 880 863

This is a referral service that covers electrical wiring, plumbing, air-conditioning, locksmithing, cleaning, roof repairs and maids. Benefits include:

- Hassle-free Cashless Transactions
- No Deduction for Wear and Tear
- Free Delivery
- Product Warranty

### TRAVEL ASSIST +603 7965 3930

This service provides MSIG customers with the resources to get the help they need – anywhere in the world, anytime of the day, every day of the year. Services include:

- Pre-travel Advice
- Medical Assistance
- Travel Assistance
- Emergency Evacuation

# CORPORATE CLIENTS

- Quality Risk Management Services and Loss Prevention Services are provided via our affiliated professional company, Interisk Asia Pte. Ltd.
- Infrared Thermo Inspection Services – detection of potential electrical hotspots by an advanced Thermo Tracer for preventive maintenance.
- Electrical Safety Survey
- Flood Risk Survey
- Crop Insurance Survey
- Construction Risk Survey
- Machinery Breakdown Survey
- Industrial Theft & Burglary Risk
- Workers' Compensation Risk Survey Service
- Over 180 survey and settling agents worldwide for Marine Cargo Insurance.

# E-SERVICES
# FOR BUSINESS PARTNERS

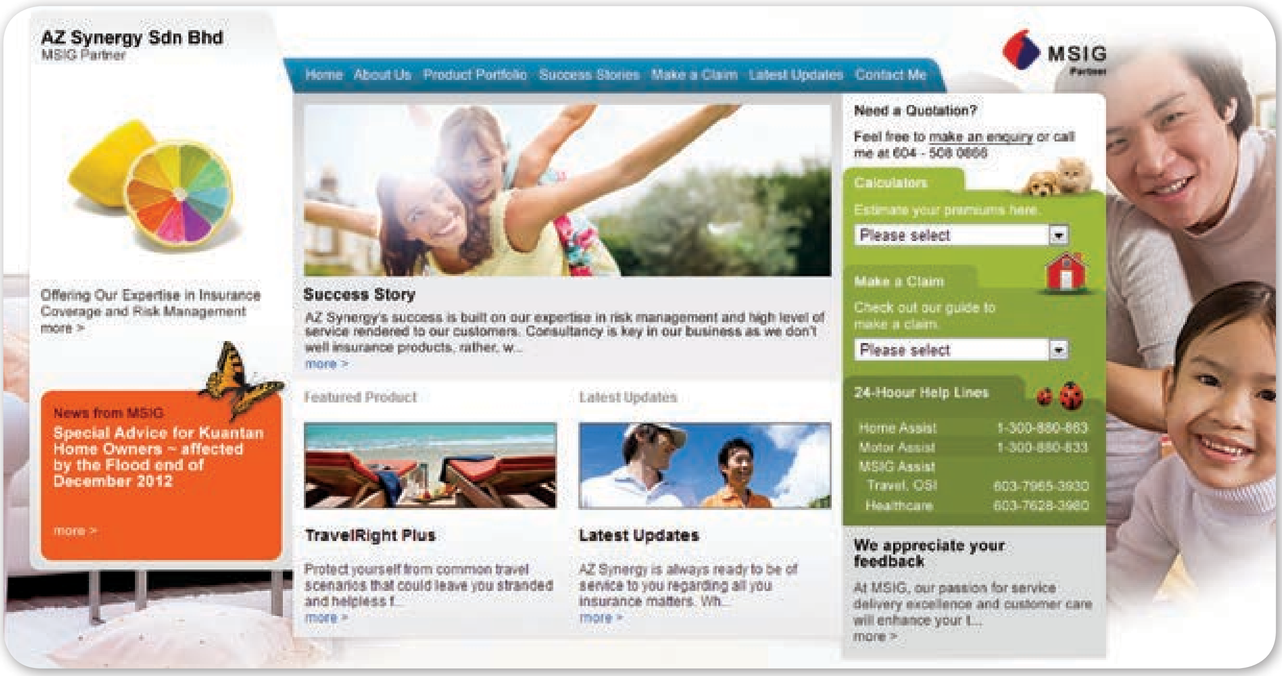
## GenLink™

### BUSINESS TO BUSINESS (B2B) LINK

**GenLink™** is short for General Insurance Linkage, the business-to-business (B2B) internet link that connects MSIG with business partners and corporate clients. It enables MSIG partners to perform a wide range of business activities online, such as quotations, new business acceptance, policy renewal, account management, and payment via credit card.

**GenLink™** is also linked to external parties – JPJ and ISM for Motor Insurance, and ministry approved agencies for Foreign Worker Insurance Scheme – to enable a seamless policy process.

### GENPAGE




**BUSINESS TO BUSINESS TO CONSUMER (B2B2C) INTERFACE**

GenPage is short for General Insurance Page, a website for MSIG business partners hosted, maintained and paid for by MSIG, a fast track to the internet where many of today's IT-savvy insurance prospects are. Complete with tools such as a premium calculator and a claim procedure guide, GenPage helps to improve customer service and operational efficiency. While MSIG provides updates on news and products, MSIG business partners can customise their own GenPage with pictures, updates and personal success stories.

# Commitment to Claims

## OUR CUSTOMERS KNOW US FOR:

- Settling claims promptly and fairly.
- Guaranteeing action on every claim within 24 hours.
- Devoting the same care and attention to processing any claim, from simple and straightforward to large and complex.

### BASIC CLAIMS HANDLING:

- We immediately assign Adjusters on notification of claim.
- We treat customers and business partners with respect and sensitivity to encourage cooperation from all parties involved.
- We liaise with Adjusters to expedite the report within 7 working days on Motor Own Damage and 14 working days on non-Motor claims.
- We approve legitimate claims within 5 working days on receiving fully-completed claim form and relevant documents.
- We support our Marine Cargo Insurance with an extensive network of surveying and settling agents worldwide.
- We offer settlement on theft of motor vehicles within 4 months from date of notification or when police investigations are completed, whichever is earlier.
- We provide full assistance to claimant to make claims a hassle-free affair.
- We are highly pro-active in attending to all claims.
- We monitor the quality of services from our external service providers, such as Adjusters, Surveyors and Lawyers.
- We provide adequate training to ensure competent handling of claims by staff.

# Our Branch Network

**MSIG Insurance (Malaysia) Bhd (46983-W)**
Head Office: Customer Service Centre,
Level 22, Menara Weld, No. 76,
Jalan Raja Chulan, 50200 Kuala Lumpur
Tel +603 2050 8228 Fax +603 2026 8086
Customer Service Hotline 1 800 88 MSIG (6744)
Email myMSIG@my.msig-asia.com Website www.msig.com.my
www.facebook.com/MSIGMalaysia

A member of MS&AD INSURANCE GROUP

**KUALA LUMPUR**
Customer Service Centre,
Level 22, Menara Weld, No. 76,
Jalan Raja Chulan, 50200 Kuala Lumpur
Tel +603 2050 8228, Fax +603 2026 8086

**ALOR SETAR**
1st Floor, No. 169,
Susuran Sultan Abdul Hamid 11,
Kompleks Perniagaan Sultan Abdul
Hamid Fasa 2, 05050 Alor Setar, Kedah
Tel +604 772 2266, Fax +604 772 2255

**BATU PAHAT**
No. 35A, Jalan Kundang,
Taman Bukit Pasir, 83000 Batu Pahat, Johor
Tel +607 433 6808, Fax +607 433 7808

**IPOH**
Lots A-01-10, A-01-12, A-01-14 & A-01-16,
1st Floor, Wisma MFCB,
Greentown Business Centre, No. 1,
Persiaran Greentown 2, 30450 Ipoh, Perak
Tel +605 255 1319, Fax +605 253 7979

**JOHOR BAHRU**
Suite 12A & 12B, Level 12, Menara Ansar,
No. 65, Jalan Trus, 80000 Johor Bahru, Johor
Tel +607 276 3100, Fax +607 276 3800

**KLANG**
3rd Floor, No. 1, Lorong Tiara 1B,
Bandar Baru Klang, 41150 Klang, Selangor
Tel +603 3343 6691, Fax +603 3342 2571

**KLUANG**
1st Floor, No. 7, Bangunan HLA,
Jalan Yayasan, 86000 Kluang, Johor
Tel +607 772 6501/774 5701
Fax +607 774 5702

**KOTA BHARU**
3826, 1st Floor, Jalan Hamzah,
15050 Kota Bharu, Kelantan
Tel +609 748 1280, Fax +609 748 3509

**KUANTAN**
Nos. A-43, A-45 & A-47,
Lorong Tun Ismail 12, Sri Dagangan 2,
25000 Kuantan, Pahang
Tel +609 515 7501, Fax +609 515 7502

**MELAKA**
No. 42, Jalan KSB 1,
Taman Kota Syahbandar, 75200 Melaka
Tel +606 289 4333, Fax +606 289 4222


**PENANG**
15A Floor, Plaza MWE,
No. 8, Lebuh Farquhar, 10200 Penang
Tel +604 264 2828, Fax +604 264 2829

**PETALING JAYA**
Units 9-3 & 11-3, Block A, Jaya One,
No. 72A, Jalan Universiti,
46200 Petaling Jaya, Selangor
Tel +603 7954 4208, Fax +603 7954 4202/3

**SEREMBAN**
No. 33, Ground Floor, Lorong Haruan 5/2,
Oakland Commerce Square,
70200 Seremban, Negeri Sembilan
Tel +606 601 3501, Fax +606 601 3503

**SUNGAI PETANI**
1$^{st}$ Floor, 9C, Jalan Kampung Baru,
08000 Sungai Petani, Kedah
Tel +604 424 4180, Fax +604 423 4513

**KOTA KINABALU**
4$^{th}$ Floor, Wisma Gek Poh,
Jalan Haji Saman,
88000 Kota Kinabalu, Sabah
Tel +6088 233 030, Fax +6088 235 110

**KUCHING**
22 & 22A, Jalan Rubber,
Lots 344 & 345, Section 9,
93400 Kuching, Sarawak
Tel +6082 255 901/259 204
Fax +6082 427 612

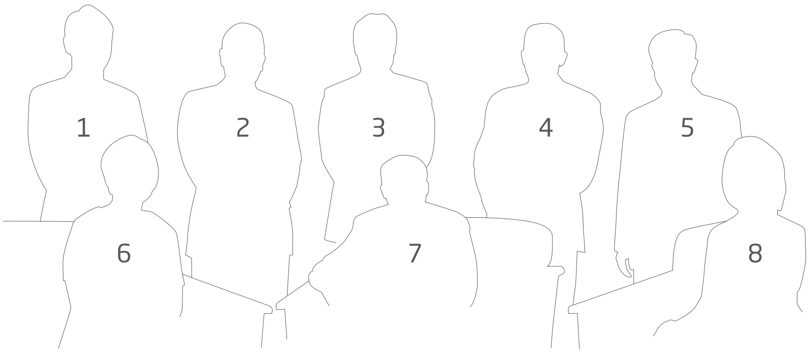
**MIRI**
Lot 937, 1$^{st}$ Floor, Jalan Asmara,
98000 Miri, Sarawak
Tel +6085 434 890, Fax +6085 419 002

**SANDAKAN**
1$^{st}$ Floor, Block 18,
Lots 1 & 2, Bandar Indah, Mile 4,
North Road, 90000 Sandakan, Sabah
Tel +6089 217 388, Fax +6089 215 388

**SIBU**
1$^{st}$ Floor, No. 65, Jalan Kampong Nyabor,
96000 Sibu, Sarawak
Tel +6084 323 890/347 008
Fax +6084 314 558

**TAWAU**
1$^{st}$ Floor, Block 42, TB 330A,
Fajar Complex, 91000 Tawau, Sabah
Tel +6089 771 051, Fax +6089 764 079

# Board of Directors




1. Hitoshi Kitagawa
2. Dato' Dr. Nik Norzrul Thani
3. Noriaki Hamanaka
4. Alan John Wilson
5. Chua Seck Guan
6. Loh Guat Lan
7. Dato' Mohd. Sallehuddin Bin Othman
8. Pearl Chan Siew Cheng

# DIRECTORS' PROFILE

## DATO' MOHD. SALLEHUDDIN BIN OTHMAN

was appointed Chairman for MSIG Insurance (Malaysia) Bhd on 18 March 2014 and has been the Chairman of Audit Committee since 2005. He holds professional accounting qualifications in Association of Chartered and Certified Accountants (ACCA) and Chartered Institute of Management Accountants (CIMA), United Kingdom (UK). He also holds a Masters of Sciences from City University, UK. Dato' Mohd. Sallehuddin Bin Othman was awarded Associate and Fellow member of ACCA in 1978 and 1983 respectively. He was also certified as a Chartered Accountant by Malaysia Institute of Accountants in April 1981. He held various senior positions in Permodalan Nasional Berhad from 1986 to June 1994 before being seconded to UMW Holdings Berhad as Executive Director from July 1994. In 1999, he was appointed as Group Managing Director up to December 2000. His last executive appointment was as Group Managing Director of Malaysian Industrial Development Finance Bhd (MIDF) from January 2001 until his retirement in July 2006. In addition to MSIG Insurance (Malaysia) Bhd, he also serves as a non-Executive Director of other companies in financial services and energy sectors.

## DATO' DR. NIK NORZRUL THANI

was appointed Director for MSIG Insurance (Malaysia) Bhd on 16 March 2009. He holds a Ph.D in Law from the School of Oriental and African Studies (SOAS), University of London and a Masters in Law from Queen Mary College, University of London. He read law at the University of Buckingham, United Kingdom. Dato' Dr. Nik also holds a Post-Graduate Diploma in Syariah Law and Practice (with distinction) from the International Islamic University Malaysia. A Barrister of Lincoln's Inn and an Advocate and Solicitor of the High Court of Malaya, he was called to the Bar of England and Wales in 1985 and to the Malaysian Bar in 1986. He was a Visiting Fulbright Scholar, Harvard Law School from 1996 to 1997, and was formerly the Acting Dean/Deputy Dean of the Faculty of Laws, International Islamic University Malaysia. Dato' Dr. Nik is a Fellow of the Financial Services Institute of Australasia (FINSIA). Currently, Dato' Dr. Nik is the Chairman and Senior Partner of Zaid Ibrahim & Co. Prior to joining Zaid Ibrahim & Co., Dato' Dr. Nik was with Baker & McKenzie (International Lawyers), Singapore.

## HITOSHI KITAGAWA

joined the Board of MSIG Insurance (Malaysia) Bhd as Independent Non-Executive Director on 18 March 2014. Mr. Kitagawa is currently the Managing Director of Toyota Tsusho (Malaysia) Sdn Bhd. Prior to this, he was the Group Leader of Techno Park Management Group of Toyota Tsusho Corporation since 2011. A graduate from Meiji University Japan, he joined Toyota Tsusho Corporation in Japan, 1981. Mr. Kitagawa has more than 32 years of working experience in machinery, global logistics and assisting the auto parts manufacturer's global operation during his tenure in Toyota Tsusho Corporation. He also had an overseas posting where he worked in the Thailand Office in Bangkok from 2005 to 2011.

## PEARL CHAN SIEW CHENG

joined the Board of MSIG Insurance (Malaysia) Bhd on 18 March 2014 as an Independent Non-Executive Director. She has 31 years of experience in the Malaysian fund management industry, having managed institutional money such as government funds, insurance funds, pension funds, charitable foundations and unit trust funds throughout her career. Prior to her retirement in January 2008, she was the Deputy Chief Executive Officer of CIMB Principal Asset Management for one year, after a merger between CIMB and the Southern Bank Group. Before that, she pioneered SBB Asset Management, a wholly-owned subsidiary of the Southern Bank Group, which became the first commercial bank in Malaysia to have an asset management arm. She held the position of CEO for 17 years, and CEO/Chief Investment Officer for the first 14 years, leading a team of equity and fixed income fund managers. Before setting up SBB Asset Management, she was General Manager of Rashid Hussain Asset Management and fund manager with Bumiputra Merchant Bankers Berhad for a total of 13 years. During her career, she also spearheaded two major corporate integration exercises in 2003 & 2007, where she successfully completed the entire integration process, involving organisation and governance structures, human resources, administrative and technical systems. She is a graduate in Economics from the University of Nottingham, England.

## LOH GUAT LAN

joined the Board of MSIG Insurance (Malaysia) Bhd as Non-Independent Non-Executive Director on 1 October 2010. She is currently the Group Managing Director/Chief Executive Officer of Hong Leong Assurance (HLA), a subsidiary of HLA Holdings Sdn Bhd (HLAH) wholly-owned by Hong Leong Financial Group Berhad (HLFG), the financial services arm of Hong Leong Group Malaysia. She was appointed to the position on 1 September 2009. She holds a Bachelor's degree in Nutrition Science and is a fellow member of Life Management Institute (FLMI), Customer Service Management (CSM) and Life Office Management (LOMA). She is also a Certified Financial Planner (CFP) and Registered Financial Planner (RFP). Her last role prior to joining HLA as the Chief Operating Officer (Life Division) was Vice President & Senior Director of Agency (Malaysia). She has over 20 years of experience in the insurance industry.

## NORIAKI HAMANAKA

was appointed as Director of MSIG Insurance (Malaysia) Bhd on 5 July 2012. He is currently the Chairman of MSIG Holdings (Asia) Pte. Ltd., the Regional Holding Company in Singapore and the Executive Officer of Mitsui Sumitomo Insurance Co., Ltd. in Japan. Mr. Hamanaka joined Taisho Marine and Fire Insurance Company (now known as Mitsui Sumitomo Insurance Co., Ltd.) immediately upon his graduation from Kwansei Gakuin University, Japan in 1980. He brings with him a wealth of more than 16 years of global market experience having served in London, Los Angeles, Cincinnati, and the Philippines. He has held various positions and served in various divisions during his time in Japan such as international department, sales and marketing.

## ALAN JOHN WILSON

joined MSIG Holdings (Asia) Pte. Ltd. in January 2008 and was appointed co-CEO in April 2008 and CEO in April 2011. He studied Economics and Economic History at the University of Liverpool prior to joining Guardian Royal Exchange Assurance Group (GRE) in the United Kingdom. In 1982, Mr. Wilson was transferred to Asia and has since lived in Hong Kong, Indonesia, Pakistan and Singapore. He was Managing Director for GRE in Asia when GRE was acquired by AXA in 1999. During that time, he was recruited by Allianz as CEO for Asia to manage over 20 General, Life and Healthcare subsidiaries across 14 countries in the region. In late 2004, he was appointed Non-Executive Director sitting on 8 Allianz boards around Asia and as an advisor and Non-Executive Director for the Parkway Group's insurance interests in Singapore. He became a Fellow of the Chartered Insurance Institute in 1982.

## CHUA SECK GUAN

Mr. Chua Seck Guan was appointed as the Chief Executive Officer and Executive Director of MSIG Insurance (Malaysia) Bhd on 1 April 2010. A Senior Associate and Certified Insurance Professional of the Australian and New Zealand Institute of Insurance and Finance, he has served 30 years with the Company. He has extensive experience in the general insurance industry. Apart from having to manage the insurance operations, he has also experienced three major mergers including the successful integration of the general insurance business of Hong Leong Assurance with that of MSIG. He played key strategic and operational roles in charting the company's steady growth to its current revenue and profit level, and position MSIG as one of the leaders in the general insurance industry. He is currently serving as the Chairman of PIAM Management Committee. He also sits on the Board of Malaysia Rating Corporation Berhad (MARC), The Malaysian Insurance Institute (MII) and Financial Mediation Bureau (FMB).

# Corporate Information

## AUDIT COMMITTEE

Chairman: Dato' Mohd. Sallehuddin Bin Othman

Members: Dato' Dr. Nik Norzrul Thani Bin N Hassan Thani

Hitoshi Kitagawa

## COMPLIANCE & RISK MANAGEMENT COMMITTEE

Chairman: Dato' Dr. Nik Norzrul Thani Bin N Hassan Thani

Members: Dato' Mohd. Sallehuddin Bin Othman

Hitoshi Kitagawa

Alan John Wilson

## NOMINATING COMMITTEE

Chairman: Dato' Mohd. Sallehuddin Bin Othman

Members: Dato' Dr. Nik Norzrul Thani Bin N Hassan Thani

Hitoshi Kitagawa

Pearl Chan Siew Cheng

Alan John Wilson

## REMUNERATION COMMITTEE

Chairman: Hitoshi Kitagawa

Members: Dato' Mohd. Sallehuddin Bin Othman

Alan John Wilson

## INVESTMENT COMMITTEE

Chairman: Pearl Chan Siew Cheng

Members: Dato' Mohd. Sallehuddin Bin Othman

Loh Guat Lan

Chua Seck Guan

Koichi Nagase

## REGISTERED OFFICE

Plaza 138,
Suite 18.03, 18th Floor,
138, Jalan Ampang,
50450 Kuala Lumpur

## SHARE REGISTRAR

Systems Associates Sdn. Bhd.
Plaza 138,
Suite 18.03, 18th Floor,
138, Jalan Ampang,
50450 Kuala Lumpur

## COMPANY SECRETARIES

Dato' Koay Soon Eng
*(MIA No. 614)*

Lee Wai Ngan
*(LS00184)*

Chan Toye Ying
*(LS00185)*

## EXTERNAL AUDITOR

KPMG

# MANAGEMENT TEAM

## CHIEF EXECUTIVE OFFICER

**Chua Seck Guan**
*ANZIIF (Snr Assoc)*

## DEPUTY CHIEF EXECUTIVE OFFICER

**Koichi Nagase**
*Bachelor of Laws*

## EXECUTIVE VICE PRESIDENTS

MARKETING, PROJECT MANAGEMENT, BUSINESS EXCELLENCE & CUSTOMER SERVICE
**Jennifer Hsu Chin Fen**
*LLB (Hons)*

UNDERWRITING - PERSONAL LINES, MARINE & REINSURANCE
**Manogaran Sinnathamby**
*Chartered Insurer, ANZIIF (Fellow), AMII, ACII*

## SENIOR VICE PRESIDENTS

COMPLIANCE, RISK MANAGEMENT & LEGAL
**Chin Kong Meng**
*CA (M), FCPA (Aust), CFP*

UNDERWRITING - COMMERCIAL LINES & CLAIMS
**Loke Phaik Poh**
*FCII, FMII, Chartered Insurer*

HR, L&D AND ADMINISTRATION
**Bernard Ong Chin Soon**
*BSc (Hons), AMII, ACII, Dip. HR*

FINANCE, PLANNING & ACTUARIAL
**Soh Lai Sim**
*CA (M), CPA, FCTIM*

## SENIOR VICE PRESIDENTS

IT, E-COMMERCE & BUSINESS INTELLIGENCE
**Chin Jee Gwan**
*BSc (Hons), MSc*

DIRECT CORPORATE, PJ, JOHOR & NORTHERN REGION
**Stuart Chua Yu Tang**
*Bachelor of Business (Finance & Marketing)*

BROKING, BANCASSURANCE, EAST COAST & EAST MALAYSIA
**Marianne Sow Mei Eng**
*FCII, FMII, Chartered Insurer*

BRANCH OPERATIONS SUPPORT & PSD
**Jessica Teh Siew Kheng**

FRANCHISE MOTOR & AGENCY CENTRAL REGION
**Teoh Guan Huat**
*MBA, ANZIIF (Snr Assoc) CIP, Dip MII*

## TECHNICAL ADVISORS

**Kazuki Nakamura**
*Bachelor of Economics*

**Yoshinori Ito**
*Bachelor of Economics*

**Yusuke Takamura**
*Bachelor of Laws*

**Nobuhiro Ojio**
*BA in Commerce*

**Makoto Watanabe**
*Bachelor of Arts*

**Kensuke Hirai**
*Bachelor of Laws*

# Management Team

**CHIEF EXECUTIVE OFFICER**
**Chua Seck Guan**
*ANZIIF (Snr Assoc)*

**DEPUTY CHIEF EXECUTIVE OFFICER**
**Koichi Nagase**
*Bachelor of Laws*

**EXECUTIVE VICE PRESIDENT**
**Marketing, Project Management, Business Excellence & Customer Service**
**Jennifer Hsu Chin Fen**
*LLB (Hons)*

**EXECUTIVE VICE PRESIDENT**
**Underwriting - Personal Lines, Marine & Reinsurance**
**Manogaran Sinnathamby**
*Chartered Insurer, ANZIIF (Fellow), AMII, ACII*

**TECHNICAL ADVISOR**
**Kazuki Nakamura**
*Bachelor of Economics*

**SENIOR VICE PRESIDENT**
**Compliance, Risk Management & Legal**
**Chin Kong Meng**
*CA (M), FCPA (Aust), CFP*

**SENIOR VICE PRESIDENT**
**Underwriting - Commercial Lines & Claims**
**Loke Phaik Poh**
*FCII, FMII, Chartered Insurer*

**SENIOR VICE PRESIDENT**
**HR, L&D and Administration**
**Bernard Ong Chin Soon**
*BSc (Hons), AMII, ACII, Dip. HR*

**SENIOR VICE PRESIDENT**
**Finance, Planning & Actuarial**
**Soh Lai Sim**
*CA (M), CPA, FCTIM*

**SENIOR VICE PRESIDENT**
**IT, E-Commerce & Business Intelligence**
**Chin Jee Gwan**
*BSc (Hons), MSc*

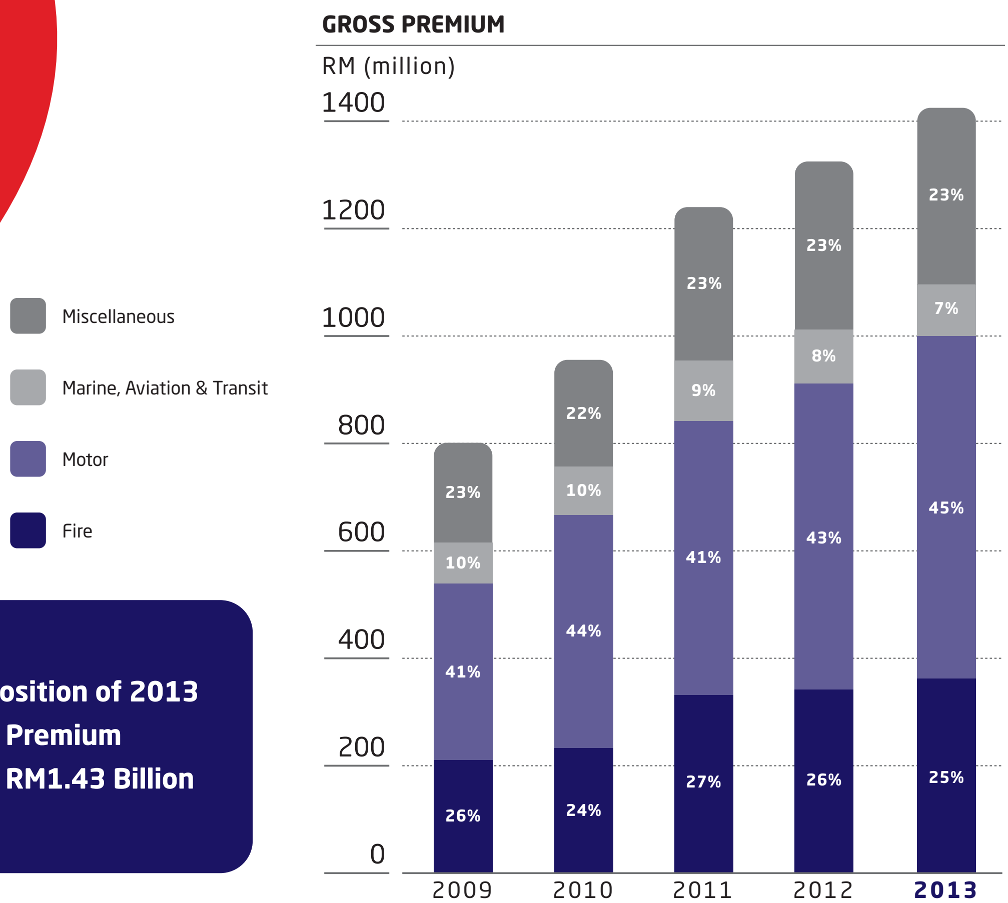
**SENIOR VICE PRESIDENT**
**Direct Corporate, PJ, Johor & Northern Region**
**Stuart Chua Yu Tang**
*Bachelor of Business (Finance & Marketing)*

**SENIOR VICE PRESIDENT**
**Broking, Bancassurance, East Coast & East Malaysia**
**Marianne Sow Mei Eng**
*FCII, FMII, Chartered Insurer*

**SENIOR VICE PRESIDENT**
**Branch Operations Support & PSD**
**Jessica Teh Siew Kheng**

**SENIOR VICE PRESIDENT**
**Franchise Motor & Agency Central Region**
**Teoh Guan Huat**
*MBA, ANZIIF (Snr Assoc) CIP, Dip MII*

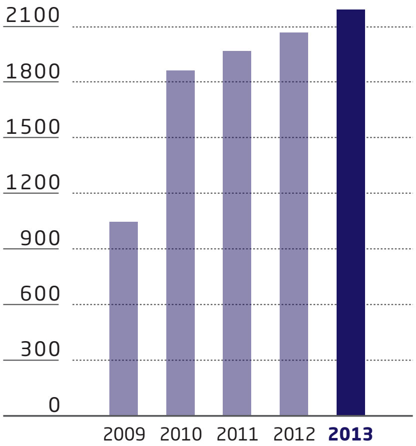
# Financial Highlights



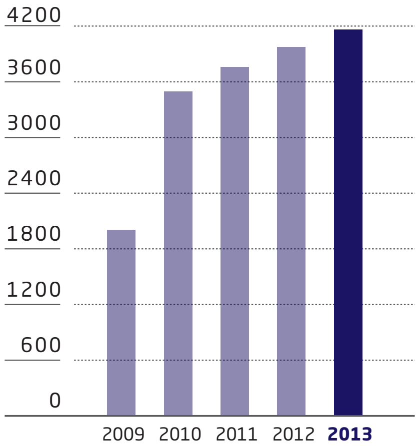

**Composition of 2013 Gross Premium**
**Total: RM1.43 Billion**

| Year Ended 31 December | 2009 RM'000 | 2010 RM'000 | 2011 RM'000 | 2012 RM'000 | 2013 RM'000 |
|---|---|---|---|---|---|
| Paid-up Share Capital | 212,000 | 333,143 | 333,143 | 333,143 | **333,143** |
| Total Equity | 1,043,195 | 1,862,571 | 1,969,412 | 2,071,236 | **2,189,496** |
| Total Assets | 2,019,933 | 3,529,838 | 3,812,638 | 3,960,331 | **4,194,057** |
| Gross Premium | 801,651 | 965,071 | 1,241,821 | 1,326,297 | **1,425,924** |
| Net Premium | 630,494 | 785,488 | 1,003,438 | 1,037,183 | **1,119,674** |
| Underwriting Surplus | 108,291 | 106,057 | 147,633 | 135,709 | **168,492** |
| Investment & Other Income | 42,250 | 54,782 | 69,086 | 96,396 | **88,325** |
| Profit Before Taxation | 150,541 | 160,839 | 216,719 | 232,105 | **256,817** |
| Profit After Taxation | 117,992 | 124,011 | 166,618 | 182,103 | **203,851** |
| | | | | | |
| Earnings Per Share (RM) | 0.56 | 0.51 | 0.50 | 0.55 | **0.61** |
| NTA Per Share (RM) | 2.46 | 2.17 | 2.49 | 2.79 | **3.15** |
| Total Workforce | 767 | 1,027 | 1,079 | 1,115 | **1,119** |

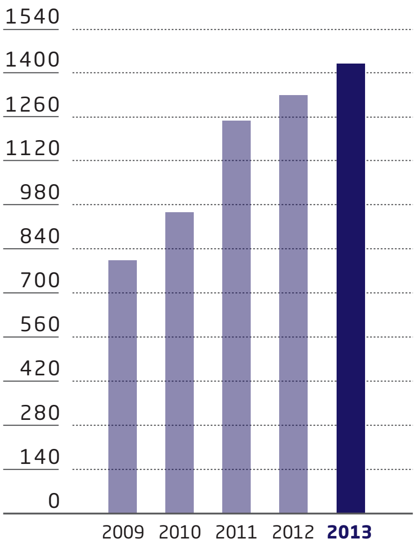
### TOTAL EQUITY
RM (million)



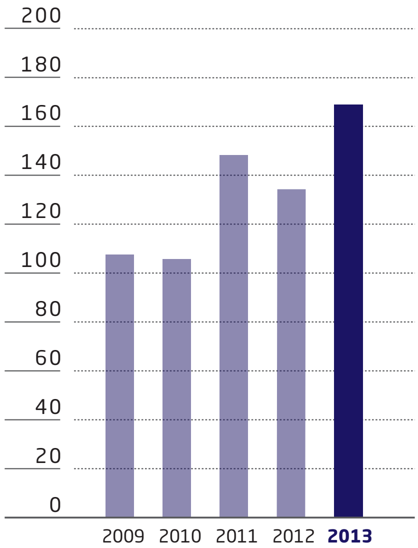

### TOTAL ASSETS
RM (million)



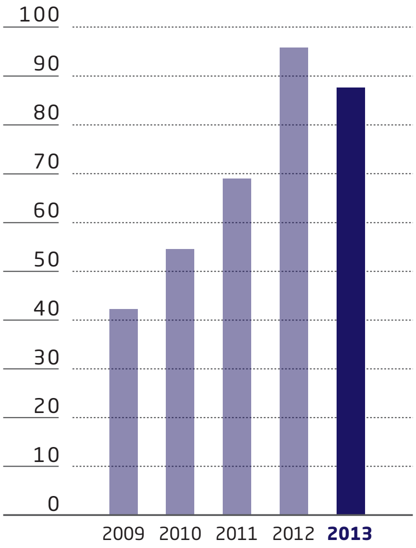

### GROSS PREMIUM
RM (million)



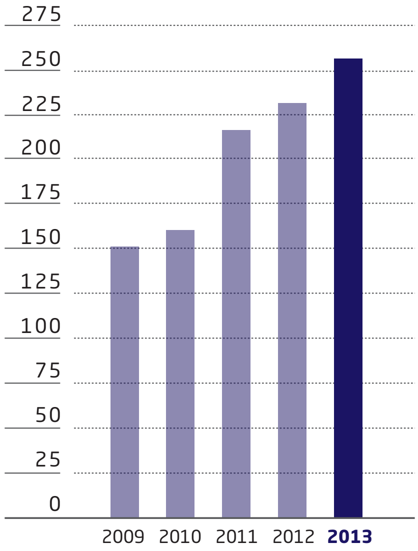

### UNDERWRITING SURPLUS
RM (million)




### INVESTMENT & OTHER INCOME
RM (million)




### PROFIT BEFORE TAXATION
RM (million)



DATO' MOHD. SALLEHUDDIN BIN OTHMAN
*CHAIRMAN*

ON BEHALF OF THE BOARD OF DIRECTORS, IT IS MY PLEASURE TO PRESENT THE ANNUAL REPORT AND FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2013.

*BAGI PIHAK LEMBAGA PENGARAH, SAYA DENGAN SUKACITANYA MENGEMUKAKAN LAPORAN TAHUNAN SERTA PENYATA KEWANGAN SYARIKAT BAGI TAHUN KEWANGAN BERAKHIR 31 DISEMBER 2013.*

# CHAIRMAN'S STATEMENT

2013 has been a good year for MSIG Malaysia. Our performance was sterling as we recorded growth at the Gross Written Premium, Underwriting Results and Profit After Tax levels, reflecting a robust financial position that will ensure sustained profitability.

In line with our corporate strategic focus on the bottom line, the Company achieved a significant milestone by crossing the RM200 million mark with Profit After Tax of RM203.9 million.

### FINANCIAL REVIEW

The 2013 financial year recorded a Gross Written Premium of RM1.4 billion, an increase of RM99.6 million (7.5%) against 2012 and strong growth in the Motor, Property and Miscellaneous classes.

Underwriting Surplus, at RM168.6 million, was considerably higher than 2012 by RM32.5 million (23.9%).

There is a sharp turnaround in the classes with improved Combined Operating Ratios (COR) for Commercial Property which has improved from 72.6% to 60.9%, Commercial Others from 98.7% to 70.3% and Marine Cargo improved from 53.9% to 46.8%. However, losses from Commercial Motor escalated with deteriorated COR from 108.9% to 120.0%.

On revenue, the growth attained was in tandem with the overall country GDP growth trend and the Company has outperformed the market industry growth rate with a GWP growth of 7.5% as compared to the General Insurance Industry growth of 6.4% only.

*2013 merupakan tahun yang baik bagi MSIG Malaysia. Prestasi Syarikat juga amat memberangsangkan dengan catatan pertumbuhan bagi Premium Bertulis Kasar dan Keuntungan Selepas Cukai yang memperlihatkan kekukuhan kewangan yang mantap dalam memastikan keuntungan berterusan.*

*Selaras dengan tumpuan strategik korporat kami dan inilah hasilnya, Syarikat berjaya mencatat pencapaian penting iaitu sebanyak RM200 juta dengan Keuntungan Selepas Cukai sebanyak RM203.9 juta.*

### *TINJAUAN KEWANGAN*

*Tahun kewangan 2013 merekodkan Premium Bertulis Kasar sebanyak RM1.4 bilion, peningkatan sebanyak RM99.6 juta (7.5%) berbanding 2012 di mana pertumbuhan yang teguh telah dicatatkan dalam kelas Motor, Harta dan Lain-lain.*

*Lebihan Taja Jamin berjumlah RM168.6 juta adalah lebih tinggi berbanding tahun 2012 iaitu sebanyak RM32.5 juta (23.9%).*

*Terdapat perubahan mendadak pada kelas-kelas dengan peningkatan Nisbah Gabungan Operasi (COR) bagi Harta Komersial yang telah meningkat daripada 72.6% kepada 60.9%, Lain-lain Komersial daripada 98.7% kepada 70.3% dan Kargo Marin meningkat daripada 53.9% kepada 46.8%. Walau bagaimanapun, kerugian daripada Motor Komersial meningkat dengan COR merosot daripada 108.9% kepada 120.0%.*

*Berkenaan dengan hasil, pertumbuhan yang dicapai adalah sejajar dengan trend pertumbuhan KDNK negara ini, secara keseluruhannya dan Syarikat mengatasi kadar pertumbuhan industri pasaran dengan pertumbuhan Premium Bertulis Kasar sebanyak 7.5% berbanding pertumbuhan Industri Insurans Am sebanyak hanya 6.4%.*

The Company's total investment size grew 10.0%, by RM203.0 million, to RM2.2 billion while Investment Income, at RM72.7 million, was up RM4.3 million (6.3%) from 2012. A profit of RM15.6 million was achieved from the realization of investments on the back of a generally buoyant economy and stock market.

Profit Before Tax of RM256.8 million and Profit After Tax of RM203.9 million reflected a net earnings per share of 61.2 cents.

The Company's Total Assets, including Goodwill, stood at RM4.2 billion as at end 2013, an increase of RM234.0 million over the previous year.

## OPERATIONAL REVIEW

### *"Going Above & Beyond" Initiatives*

Annually MSIG Japan Head Office conducts a "MSIG Staff Award" recognising innovative efforts of MSIG operations domestically and around the world. In 2013, MSIG Malaysia was a proud recipient of the prestigious MSIG Staff Award for its "Automated Commission Payment" initiative which enabled our Agents to receive their commissions automatically twice a month through direct credit; thus increasing efficiency and productivity as well as reducing expenses. The staffs from a team of various departments received recognition for their well deserved efforts in a special ceremony in Japan.

We also maintained our number one spot as the largest cargo insurer in the country. To support and extend our market share, we went "online" with our GenLink Cargo so anyone with authorised access can issue marine certificates without the necessity of "uploading" the certificates to MSIG the old-fashioned way.

*Jumlah saiz pelaburan Syarikat meningkat sebanyak 10.0% iaitu dengan RM203.0 juta, kepada RM2.2 bilion di mana Pendapatan Pelaburan, RM72.7 juta meningkat sebanyak RM4.3 juta (6.3%) berbanding 2012. Keuntungan sebanyak RM15.6 juta telah dicapai dengan pelaburan yang direalisasikan dalam keadaan ekonomi dan pasaran saham yang menggalakkan.*

*Syarikat meraih Untung Sebelum Cukai berjumlah RM256.8 juta manakala Untung Selepas Cukai pula berjumlah RM203.9 juta mencerminkan perolehan bersih 61.2 sen sesaham.*

*Jumlah Aset Syarikat, termasuk Muhibah berjumlah RM4.2 bilion pada akhir tahun 2013, iaitu peningkatan RM234.0 juta berbanding tahun sebelumnya.*

## *TINJAUAN OPERASI*

### *Inisiatif "Merealisasikan Kejayaan Lebih Besar"*

*Setiap tahun Ibu Pejabat MSIG di Jepun akan mengadakan "Anugerah Kakitangan MSIG" bagi mengiktiraf usaha inovatif operasi MSIG tempatan dan di seluruh dunia. Pada tahun 2013, MSIG Malaysia merupakan penerima Anugerah Kakitangan MSIG yang berprestij bagi inisiatif "Bayaran Komisen Automatik" iaitu membolehkan Ejen kami menerima komisen mereka yang dikredit secara automatik sebanyak dua kali sebulan, bagi meningkatkan kecekapan dan produktiviti serta mengurangkan perbelanjaan. Kakitangan daripada pelbagai jabatan menerima pengiktirafan atas usaha dan kesungguhan mereka dalam satu majlis khas di Jepun.*

*Kami juga masih kekal di tempat pertama sebagai insurans kargo marin yang terbesar di negara ini. Bagi menyokong dan meluaskan bahagian pasaran, urusan "GenLink Cargo" kini boleh dibuat "online" agar sesiapa yang mempunyai kebenaran akses yang diberi kuasa, boleh mengeluarkan sijil marin tanpa perlu "memuat naik" sijil kepada MSIG sebagaimana cara lama.*

In our commitment to "Go Above and Beyond" in Claims, a "1 Stop Claims Helpdesk" was set up to handle general Motor Claims inquiries. The new claims touch point provides claimants with a more central and convenient point of reference for their claims enquiries. In addition, Motor Policyholders can now check their Motor Claims status online through the MSIG corporate website.

We also increased our online presence through Facebook and by 31 December 2013, had over 16,215 fans. Wall-posts run the gamut; from products to lifestyle tips which are posted almost on a daily basis to keep our fans engaged. Facebook is an excellent platform to keep consumers, especially from Gen-Y, updated on our insurance products and serves as an additional communication platform preferred by tech dependent consumers. It was also used to "Go Above and Beyond" to help the less fortunate. After Typhoon Haiyan hit the Philippines on 8 November last year and in support of a staff donation drive, the Company decided to extend the charitable effort to our Facebook fans.

### *Legal and Compliance*

2013 saw the enforcement of two major legislations: the Financial Services Act 2013 (FSA) and Personal Data Protection Act 2010 (PDPA). The FSA came into effect on 30 June (except for Schedule 9 which is expected to come into operation on 1 July 2014) and the PDPA, 15 November 2013.

*Dalam komitmen kami bagi "Merealisasikan Kejayaan Lebih Besar" ("Go Above and Beyond") dalam Tuntutan, "1 Pusat Bantuan Tuntutan" ("1 Stop Claims Helpdesk") telah diwujudkan bagi mengendalikan pertanyaan umum Tuntutan Motor. Pusat Bantuan Tuntutan baru ini akan memudahkan pihak penuntut untuk merujuk sebarang pertanyaan berkenaan tuntutan mereka. Di samping itu, pemegang polisi Motor kini boleh menyemak status Tuntutan Motor mereka dalam talian melalui laman web korporat MSIG.*

*Kami juga telah meningkatkan penglibatan secara "online" melalui Facebook dan setakat 31 Disember 2013, kami sudah mempunyai lebih 16,215 peminat. Pelbagai kiriman dikongsikan di dinding Facebook, dari tips produk hinggalah ke gaya hidup untuk tujuan interaksi dengan peminat. Ternyata, Facebook merupakan platform untuk memastikan pengguna terutamanya Gen-Y, terus mengikuti perkembangan terbaru mengenai produk insurans kami dan bertindak sebagai medan komunikasi yang menjadi pilihan generasi pengguna yang bergantung kepada kemudahan teknologi. Selain itu, ia juga bertujuan "Merealisasikan Kejayaan Lebih Besar" ("Go Above and Beyond") untuk membantu mereka yang kurang bernasib baik. Sebagai contoh, ketika Taufan Haiyan melanda Filipina pada 8 November tahun lalu dan bagi menyokong kempen derma yang dijalankan oleh kakitangan, Syarikat telah mengambil keputusan untuk meneruskan usaha amal ini kepada para peminat kami di Facebook.*

### *Undang-undang dan Pematuhan*

*2013 menyaksikan penguatkuasaan dua undang-undang utama: Akta Perkhidmatan Kewangan 2013 (FSA) dan Akta Perlindungan Data Peribadi 2010 (PDPA). FSA berkuat kuasa pada 30 Jun (kecuali Jadual 9 yang dijangka mula berkuat kuasa pada 1 Julai 2014) dan PDPA, 15 November 2013.*

To ensure compliance with the PDPA, a Personal Data Protection Task Force (PDPTF) comprising representatives from the relevant stakeholders was set up. The PDPTF undertook various action plans such as revision of existing documents and guidelines, system preparation, and providing communication and the necessary training to staff and business partners. The public can also find out more about the Company's commitment to protecting personal data on the corporate website. With the issuance of the Personal Data Protection (Registration of Data Users) Regulations 2013, the Company's application to register as a data user was submitted in January 2014.

As for the FSA, this is a consolidation of four major Acts namely, Banking and Financial Institutions Act 1989, Insurance Act 1996, Payment Systems Act 2003 and Exchange Control Act 1953. In addition to various changes to the corporate governance of financial institutions such as codification of the roles, duties and responsibilities of the Board and directors, the FSA also touches on new business conduct requirements which allow Bank Negara Malaysia to specify standards on business conduct and consumer protection to promote fair, responsible and professional dealings with customers and the prohibition of unfair or deceptive business conduct. On insurance matters, the FSA introduced a new duty on disclosure and representation for consumers to observe before a contract of insurance is entered into, varied or renewed (Schedule 9). Sanctions (monetary or otherwise) have also greatly increased in the FSA compared to the Insurance Act 1996.

*Bagi memastikan pematuhan PDPA, satu Pasukan Petugas Perlindungan Data Peribadi (PDPTF) yang terdiri daripada wakil-wakil daripada pihak berkepentingan yang berkenaan telah ditubuhkan. PDPTF telah mengambil pelan tindakan pelbagai seperti semakan dokumen dan garis panduan sedia ada, penyediaan sistem, dan menyediakan komunikasi dan latihan yang perlu untuk kakitangan dan rakan perniagaan. Orang ramai juga boleh mengetahui lebih lanjut mengenai komitmen Syarikat untuk melindungi data peribadi di laman web korporat. Dengan penerbitan Perlindungan Data Peribadi (Pendaftaran Pengguna Data) Peraturan-Peraturan 2013, permohonan Syarikat untuk mendaftar sebagai pengguna data telah diserahkan pada bulan Januari 2014.*

*Bagi FSA, ini adalah satu penggabungan empat Akta utama iaitu, Akta Bank dan Institusi-Institusi Kewangan 1989, Akta Insurans 1996, Akta Sistem Pembayaran 2003 dan Akta Kawalan Pertukaran Wang 1953. Di samping pelbagai perubahan kepada tadbir urus korporat institusi kewangan seperti kodifikasi peranan, tugas dan tanggungjawab Lembaga Pengarah dan pengarah, FSA juga menyentuh mengenai keperluan pengendalian perniagaan baru yang membolehkan Bank Negara Malaysia untuk menentukan piawaian mengenai amalan perniagaan dan pengguna perlindungan untuk menggalakkan sifat adil, bertanggungjawab dan profesional ketika berurusan dengan pelanggan dan larangan bagi amalan perniagaan yang tidak adil atau memperdayakan. Berkenaan insurans, FSA memperkenalkan tugas baru ke atas pendedahan dan perwakilan kepada pengguna untuk memerhati kontrak insurans sebelum ianya dibuat, diubah atau diperbaharui (Jadual 9). Sekatan (kewangan atau sebaliknya) juga meningkat dalam FSA berbanding dengan Akta Insurans 1996.*

### *Risk Management*

In line with the trend of global regulatory requirement such as Insurance Core Principles (ICP) and Solvency 2; reflected by the raising bar of risk management and governance under BNM requirements in the Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) and Risk Governance Policies, MSIG has carried out a number of Enterprise Risk Management (ERM) activities in 2013 with the aim to strengthen Company solvency position as well as protection for shareholder interest. Among others, MSIG has established a Risk Appetite Statement (RAS) which serves to better define and parameterise the criterion for risk acceptance by the Company in the pursuit of profit. The Company also performed comprehensive assessment of key risks and stress testing on Individual Target Capital Level (ITCL) to assess the impact on solvency under the RBC Framework. The result of ITCL Review has positively supported MSIG's solvency position where ITCL set by the Company could withstand the various test-to-fail Stress Test Scenario established by the Actuary. In aspect of Governance, the Company has put in place "Company Level Controls" Document which would further strengthen the internal control system at Board and Management levels.

### *Employee Voice Survey (EVS)*

1,074 new and confirmed employees took part in the 4th EVS conducted in October 2013, a high response rate of 99.4%.

### *Pengurusan Risiko*

*Selaras dengan trend keperluan pengawalseliaan global seperti Prinsip Teras Insurans (ICP) dan Mampu Bayar 2; seperti yang ditunjukkan oleh bar penjanaan pengurusan risiko dan tadbir urus di bawah keperluan BNM dalam Garis Panduan Proses Penilaian Kecukupan Modal Dalaman (ICAAP) dan Polisi Tadbir Urus Risiko, MSIG telah menjalankan beberapa aktiviti Perusahaan Pengurusan Risiko (ERM) pada tahun 2013 dengan tujuan untuk mengukuhkan kedudukan kesolvenan Syarikat dan juga perlindungan untuk kepentingan pemegang saham. Antara lain, MSIG juga telah menubuhkan Penyata Penambahan Risiko (RAS) yang berfungsi untuk menentukan kebaikan dan kriteria parameter bagi penerimaan risiko oleh Syarikat dalam mengejar keuntungan. Syarikat juga telah melakukan penilaian menyeluruh bagi risiko-risiko utama dan ujian tekanan ke atas individu Sasaran Modal Tahap (ITCL) untuk menilai kesan ke atas kesolvenan di bawah Rangka Kerja RBC. Hasil daripada kajian ITCL ini telah menyokong secara positif kedudukan kesolvenan MSIG di mana ITCL yang ditetapkan oleh Syarikat dapat menahan pelbagai Scenario Ujian Tekanan iaitu ujian untuk gagal yang diwujudkan oleh Aktuari. Dalam aspek Tadbir Urus, Syarikat telah menyediakan Dokumen "Kawalan Aras Syarikat" yang akan mengukuhkan lagi sistem kawalan dalaman di peringkat Lembaga Pengarah dan Pengurusan.*

### *Tinjauan Suara Pekerja (EVS)*

*Seramai 1,074 pekerja baru dan telah disahkan, mengambil bahagian dalam EVS ke 4 yang dijalankan pada Oktober 2013, menunjukkan kadar tindak balas tinggi sebanyak 99.4%.*

The results were shared with the Senior Management Team and cascaded to the employees at large so that remedial action and initiatives will be instituted through EVS Actions in 2014 to reinforce our goal of becoming a preferred Employer of Choice.

### *Towards Self-Certification Framework beyond ISO*

MSIG's business operations have been ISO9001 certified since 2004. After nine years, the Management believes that the Company's Quality Management System has reached a level of maturity with a solid foundation and discipline sufficiently established to allow independence from external surveillance effective September 2013. From 2014, MSIG will adopt an effective quality management framework that entails self-governance and internal certification. To achieve the top position in terms of market share, profitability and service excellence and to exceed customer expectations, we will continue to improve the efficiency and effectiveness of our Business processes.

To be known as MSIG's Business Process Management, the quality management framework will entail focused attention on our people; to cultivate a culture of excellence and innovation, our process; to establish a flexible framework that supports our business requirements, and our system; to provide an efficient workflow-based core system that supports change management and business requirements going forward.

*Keputusan telah dikongsi dengan pasukan Pengurusan Kanan dan disebarkan kepada para pekerja am supaya tindakan pemulihan dan inisiatif akan dimulakan melalui Tindakan EVS pada tahun 2014 untuk mengukuhkan matlamat kita menjadi Majikan Pilihan.*

### *Melangkah Ke Arah Rangka Kerja Pensijilan Sendiri yang Menjangkaui Piawaian ISO*

*Operasi perniagaan MSIG ini telah diperakui ISO9001 sejak tahun 2004. Selepas sembilan tahun, pengurusan percaya bahawa Sistem Pengurusan Kualiti Syarikat telah mencapai tahap kematangan dengan asas yang kukuh dan disiplin yang cukup untuk membolehkan kami berdiri tanpa pengawasan daripada luar berkuatkuasa September 2013. Bermula tahun 2014, MSIG akan mengguna pakai rangka kerja pengurusan kualiti yang berkesan melibatkan tadbir urus diri dan pensijilan dalaman. Untuk mencapai kedudukan teratas dalam bahagian pasaran, keuntungan dan kecemerlangan perkhidmatan serta untuk melebihi jangkaan pelanggan, kami akan terus meningkatkan kecekapan dan keberkesanan proses perniagaan kami.*

*Dikenali sebagai Pengurusan Proses Perniagaan MSIG, rangka kerja pengurusan kualiti akan memberi penumpuan kepada kakitangan kami; untuk memupuk budaya kecemerlangan dan inovasi, proses kami; untuk mewujudkan rangka kerja fleksibel yang menyokong keperluan perniagaan dan sistem kami, bagi menyediakan sistem teras kerja berasaskan kecekapan yang menyokong keperluan perubahan dalam pengurusan dan perniagaan masa hadapan.*

**OUTLOOK**

Moving into 2014, the Company has set itself the goal of maintaining our market leadership in Profit, Growth and most important of all, to be the leader in Business Excellence, innovation in products and services and further automation to enhance operational efficiency and customer experience. Operationally, 2014 will see us gearing for the Goods and Services Tax (GST) preparation in 2015 and the anticipated Deregulation in 2016.

We foresee economic outlook for 2014 will continue to be challenging. The global economy is predicted to experience moderate recovery while domestic demand remains supportive of Malaysia's economic growth. With domestic demand likely to moderate following ongoing fiscal consolidation, the external sector is expected to benefit from improving global conditions. Notwithstanding the many challenges, there are still ample opportunities for growth.

Nonetheless, we expect to benefit (in particular in Marine class) from the global economic recovery that is taking place in US, Europe and Japan aided by the weakening of the Ringgit. We will remain cautious as expected rising inflation will also bring about rising in claim cost.

The Company's vision, strategies and values remain firmly in place to ensure we continue to be financially resilient.

***MELANGKAH KE HADAPAN***

*Beralih ke tahun 2014, Syarikat telah menetapkan objektif untuk terus menerajui pasaran dalam Keuntungan, Pertumbuhan dan yang paling utama, untuk menjadi peneraju dalam Kecemerlangan Perniagaan, inovasi dalam produk dan perkhidmatan serta automasi selanjutnya untuk meningkatkan kecekapan operasi dan pengalaman pelanggan. Daripada segi operasi pula, 2014 akan melihat kami membuat penyediaan Cukai Barangan dan Perkhidmatan (GST) bagi tahun 2015 dan Deregulasi yang dijangkakan pada 2016.*

*Kami meramalkan prospek ekonomi tahun 2014 akan terus mencabar. Ekonomi global dijangkakan akan mengalami pemulihan yang sederhana manakala permintaan dalam negeri akan terus menyokong pertumbuhan ekonomi Malaysia. Dengan permintaan domestik dijangka sederhana berikutan pengukuhan fiskal berterusan, sektor luar negeri pula dijangka mendapat manfaat daripada pembaikan keadaan global. Walaupun dengan pelbagai cabaran yang bakal mendatang, masih ada banyak ruang untuk pertumbuhan.*

*Namun begitu, kami menjangka untuk mendapat manfaat (khususnya dalam kelas Marin) daripada pemulihan ekonomi global yang sedang berlaku di Amerika Syarikat, Eropah dan Jepun yang dibantu oleh kelemahan Ringgit. Kami akan kekal berhati-hati kerana jangkaan kenaikan inflasi akan meningkatkan kos tuntutan.*

*Visi, strategi dan nilai-nilai Syarikat tetap dipegang erat untuk memastikan yang kami terus memiliki status kewangan yang berdaya tahan.*

**BOARD OF DIRECTORS**

On behalf of the Board, I would like to express my gratitude to Dr. Adli Ariff, who helmed the Board as Chairman for 18 years, for his visionary guidance and undaunting leadership in making MSIG Malaysia as successful as we are today.

I also express my appreciation to Mr. Koji Minami and Mr. Toshiyuki Tsukada, who resigned as Directors in March 2014 to assume new roles in Japan.

In turn, I extend a warm welcome to Mr. Hitoshi Kitagawa and Ms. Pearl Chan Siew Cheng who joined the Board on 18 March 2014.

**ACKNOWLEDGEMENT**

On behalf of the Board, I would like to express my gratitude and appreciation to our valued intermediaries, clients and business partners for their strong support in making 2013 yet another outstanding year.

We also wish to extend our appreciation to the Senior Management Team and staff for their dedication and commitment to continuous improvements in line with the Company's core values.

The Board would also like to thank Bank Negara Malaysia and the relevant Regulatory Authorities for their guidance and advice.

Lastly, I would like to thank my fellow Directors for their valuable inputs and contributions.

***DATO' MOHD. SALLEHUDDIN BIN OTHMAN***
***CHAIRMAN***

***LEMBAGA PENGARAH***

*Bagi pihak Lembaga Pengarah, saya ingin mengucapkan terima kasih kepada Dr. Adli Ariff, yang menerajui Lembaga sebagai Pengerusi selama 18 tahun, dengan panduan yang berwawasan dan kepimpinan beliau yang tidak dapat disangkal lagi dalam membantu kejayaan MSIG Malaysia seperti hari ini.*

*Saya juga ingin merakamkan penghargaan kepada Encik Koji Minami dan Encik Toshiyuki Tsukada, yang telah meletakkan jawatan sebagai Pengarah pada Mac 2014 bagi untuk memikul peranan baru di Jepun.*

*Seterusnya, saya ingin mengucapkan selamat datang kepada Encik Hitoshi Kitagawa dan Puan Pearl Chan Siew Cheng yang telah menyertai Lembaga Pengarah pada 18 Mac 2014.*

***PENGHARGAAN***

*Bagi pihak Lembaga Pengarah, saya ingin mengucapkan terima kasih dan menyampaikan penghargaan kepada para perantara, pelanggan dan rakan niaga kami yang amat dihargai kerana sokongan teguh mereka dengan menjadikan 2013 satu lagi tahun yang cemerlang.*

*Kami juga ingin menyampaikan penghargaan kepada Kumpulan Pengurusan Kanan dan kakitangan kerana dedikasi dan komitmen mereka yang berterusan seiring dengan nilai-nilai teras Syarikat.*

*Lembaga Pengarah juga ingin berterima kasih kepada Bank Negara Malaysia dan Pihak Berkuasa yang berkenaan di atas panduan dan nasihat mereka.*

*Akhir sekali, saya ingin mengucapkan terima kasih kepada rakan-rakan Pengarah saya di atas nasihat dan sumbangan yang berharga mereka.*

***DATO' MOHD. SALLEHUDDIN BIN OTHMAN***
***PENGERUSI***

# FINANCIAL STATEMENTS

# DIRECTORS' REPORT
*for the year ended 31 December 2013*

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

**Principal activities**

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of these activities during the financial year.

**Financial results**

| | RM'000 |
|---|---|
| Profit for the year | 203,851 |

**Dividends**

Since the end of the previous financial year, the Company paid a final dividend of 10% tax exempt dividend totaling RM33,314,000 and 20% less tax totaling RM49,972,000 in respect of the year ended 31 December 2012 on 22 May 2013.

**Directors of the Company**

Directors who served since the date of the last report are:

Dato' Mohd. Sallehuddin bin Othman
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani
Mr. Hitoshi Kitagawa (appointed on 18.03.2014)
Ms. Pearl Chan Siew Cheng (appointed on 18.03.2014)
Ms. Loh Guat Lan
Mr. Noriaki Hamanaka
Mr. Alan John Wilson
Mr. Toshiyuki Tsukada
Mr. Chua Seck Guan
Dr. Adli Ariff (resigned on 18.03.2014)
Mr. Koji Minami (resigned on 18.03.2014)

**Directors' interests in shares**

The interests and deemed interests in the shares of the Company and of its related corporations of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

| | Number of ordinary shares | | | |
|---|---|---|---|---|
| | **At 1.1.2013** | **Bought** | **Sold** | **At 31.12.2013** |
| **Shareholdings in which Director has direct interest** | | | | |
| Ultimate holding company: | | | | |
| MS&AD Insurance Group Holdings, Inc. | | | | |
| Mr. Noriaki Hamanaka | 5,174 | 1,398 | - | 6,572 |

None of the other Directors holding office at the end of the financial year had any interest in the ordinary shares of the Company or its related corporations during the financial year.

**Directors' benefits**

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) 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.

There were no arrangements during and at the end of the financial year which had 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.

### Issue of shares

There was no change in the authorised, issued and paid-up capital of the Company during the financial year.

### Options granted over unissued shares and debentures

No options were granted to any person to take up unissued shares or debentures of the Company during the financial year.

### Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

### Provision for insurance liabilities

Before the statement of profit or loss and other 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 its insurance liabilities in accordance with the valuation basis specified in Part D of the Risk-Based Capital Framework for Insurers.

### Impaired debts

Before the statement of profit or loss and other comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of impaired debts and the making of impairment allowance for impaired debts and satisfied themselves that all known impaired debts had been written off and adequate impairment allowance had been made for impaired debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for impaired debts or the amount of the impairment of allowance for impaired debts in the financial statements of the Company inadequate to any substantial extent.

### Current assets

Before the statement of profit or loss and other comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts, 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 method 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:

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

ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

No contingent liability or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, 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 liability 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 of the Company misleading.

### Items of an unusual nature

The results of the operations of the Company for the financial year were not, in the opinion of the Directors, 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 year in which this report is made.

### Ultimate holding company

The Directors regard MS&AD Insurance Group Holdings, Inc., a company incorporated in Japan, as the Company's ultimate holding company.

### Corporate governance

The Board of Directors is committed to ensure that the principles and best practices in corporate governance as set out in the Bank Negara Malaysia BNM/RH/GL/003-2 on Prudential Framework of Corporate Governance for Insurers are observed and applied in the Company.

### Audit, Nominating, Remuneration and Compliance & Risk Management Committees

**1. Membership and meetings of the Committees**

The composition of the Board Committees, number of meetings held during the financial year ended 31 December 2013, including Board meetings, and the number of meetings attended by each member are as follows:

| Directors | Board of Directors Meeting | Audit Committee Meeting | Nominating Committee Meeting | Remuneration Committee Meeting | Compliance & Risk Management Committee Meeting |
|---|---|---|---|---|---|
| | ← | *(Attendance / Number of Meetings)* | | | → |
| Dr. Adli Ariff *(Non-Independent Non-Executive Director)* | 6/6 | 4/4 | 4/4 | 2/2 | 4/4 |
| Dato' Mohd. Sallehuddin bin Othman *(Independent Non-Executive Director)* | 6/6 | 4/4 | 4/4 | 2/2 | 4/4 |
| Dato' Dr. Nik Norzrul Thani bin N Hassan Thani *(Independent Non-Executive Director)* | 5/6 | 4/4 | N/A | N/A | 3/4 |
| Mr. Koji Minami *(Independent Non-Executive Director)* | 4/6 | 3/4 | 2/4 | 2/2 | 2/4 |
| Ms. Loh Guat Lan *(Non-Independent Non-Executive Director)* | 6/6 | N/A | N/A | N/A | N/A |
| Mr. Noriaki Hamanaka *(Non-Independent Non-Executive Director)* | 5/6 | N/A | N/A | N/A | N/A |
| Mr. Alan John Wilson *(Non-Independent Non-Executive Director)* | 6/6 | N/A | 4/4 | 2/2 | 4/4 |
| Mr. Toshiyuki Tsukada *(Executive Director)* | 6/6 | N/A | 4/4 | N/A | N/A |
| Mr. Chua Seck Guan *(Chief Executive Officer/ Executive Director)* | 6/6 | N/A | N/A | N/A | N/A |

## 2. Responsibilities and activities of the Committees

### Audit Committee

The Audit Committee comprises 4 Non-Executive Directors and is chaired by an Independent Non-Executive Director. The principal objectives are to assist the Board in the effective discharge of its fiduciary responsibilities for corporate governance, financial reporting and internal control. The principal duties and responsibilities are:

(i) To review the audit plan, audit charter and budget of the Internal Audit Department as well as the scope of internal audit procedures and to ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisation structure for the internal auditors to achieve their audit objectives.

(ii) To review the overall internal management system, in particular, financial status of the Company, its internal controls in critical areas of operations, risks and implications of the internal audit findings and recommendations.

(iii) To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Chief Internal Auditor and senior officers of the internal audit functions.

(iv) To review with the external auditors, the scope of their audit and audit reports, including their findings, issues or reservations arising from the financial audits and any action to be taken by management.

(v) To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of external auditors and to review and assess fees paid to the external auditors for their audit and non-audit services.

(vi) To review the Chairman's Statement, corporate governance disclosures in the Directors' Report, interim financial reports and all representation letters by management in relation to the financial audit of the Company.

(vii) To review related party transactions and conflict of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity.

(viii) Other functions as may be determined by the Board.

The Audit Committee held 4 meetings in year 2013 and the following is the summary of main activities:

(i) Reviewed the financial statements for the year ended 31 December 2012 and the Chairman's statement, prior to approval by the Board of Directors.

(ii) Reviewed and approved the audit on Self Assessment of Assets for financial year ended 31 December 2012.

(iii) Meeting with external auditors without the presence of management to discuss any concerns, problems and reservations arising from financial audit.

(iv) Reviewed and approved the following matters pertaining to the internal audit function:

   a. Internal audit reports on the audit findings and the management's remedial actions;

   b. Progress reports on outstanding audit issues;

   c. Internal audit assessment report on 1st and 2nd test of Disaster Recovery Plan for year 2013;

   d. Appointment of Chief Internal Auditor and his Key Performance Indicators ("KPI"); and

   e. Three Year Audit Plan (2014-2016) and Annual Audit Plan for Year 2014.

(v) Reviewed and approved the following matters pertaining to the external auditors' (Messrs KPMG) function:

   a. Re-appointment of the external auditors for the financial year ended 31 December 2013;

   b. Management letter prepared by the external auditors for the financial year ended 31 December 2012;

   c. Audit plan of Messrs KPMG prior to the commencement of the 2013 annual audit; and

   d. Assess the performance and independence of external auditors prior to the re-appointment for the financial year ending 31 December 2014.

2. **Responsibilities and activities of the Committees (continued)**

**Nominating Committee**

The Nominating Committee comprises 4 Non-Executive Directors and 1 Executive Director and is chaired by an Independent Non-Executive Director.

The Nominating Committee's primary responsibilities are:

(i) To establish minimum requirements for the Board of Directors and the Chief Executive Officer to perform their responsibilities effectively as well as to oversee the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between Executive, Non-Executive and Independent Directors and other core competencies required.

(ii) To assess and recommend the nominees for Board of Directors and Board Committees, as well as nominees for the position of Chief Executive Officer. This includes assessing Directors and the Chief Executive Officer proposed for re-appointment, before an application for approval is submitted to Bank Negara Malaysia.

(iii) To establish a mechanism for formal assessment on the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various Committees and the performance of the Chief Executive Officer. The assessments should also include ascertaining that the Director is not disqualified under the relevant law and fulfill the "fit and proper" criteria.

(iv) To recommend to the Board on removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities.

(v) To ensure that all Directors undergo appropriate induction programmes and receive continuous training.

(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 or negligent in discharging their responsibilities.

(vii) To ensure that processes are in place to facilitate and monitor the effective transfer of knowledge and expertise from expatriates employed in Senior Management and specialist positions to the staff of the Company as well as the industry generally.

The Nominating Committee held 4 meetings in 2013 and conducted the following activities:

(i) In accordance with the established mechanism, conducted formal assessments on the effectiveness of the Board, Board Committees and Individual Directors for the year 2012. The results of the assessments were deliberated by the Nominating Committee and tabled to the full Board in March 2013.

(ii) Assessed Directors' appointment and re-appointments.

(iii) Conducted assessments on the independence status and compliance with the qualification requirements as well as "fit & proper" criteria.

(iv) Reviewed the assessment on the transfer of knowledge and expertise from expatriates employed in Senior Management and specialist positions to the staff of the Company as well as the industry generally.

**Remuneration Committee**

The Remuneration Committee comprises of 4 Non-Executive Directors and is chaired by an Independent Non-Executive Director.

The Remuneration Committee's primary responsibilities are:

(i) To recommend a framework for the remuneration of Directors, Chief Executive Officer and Key Senior Officers.

(ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and Key Senior Officers.

The Remuneration Committee held 2 meetings in 2013 and has reviewed the specific remunerations packages for Directors, Chief Executive Officer and Key Senior Officers.

## 2. Responsibilities and activities of the Committees (continued)

### Compliance & Risk Management Committee

The Compliance & Risk Management Committee is made up of 5 Non-Executive Directors and chaired by an Independent Non-Executive Director.

The Compliance & Risk Management Committee's primary responsibilities are:

**Compliance**

(i) To review and recommend the Company's Compliance Policy, Compliance Manual and Compliance Program for the Board of Directors' approval.

(ii) To review and assess the adequacy and effectiveness of the Compliance policies and processes through an appropriate and clear framework of accountability, reporting and controls, including ensuring adequate infrastructure, resources and systems are in place.

(iii) To promote a positive, open and consistent Compliance culture and to monitor the overall compliance with applicable laws, rules and regulations.

(iv) To review the Management's periodic Compliance reports and checklists.

**Risk Management**

(i) To review and recommend Risk Management strategies, policies and risk tolerance levels for the Board of Directors' 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 these are 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 systems perform those duties independently of the Company's risk taking activities.

(iv) To review the Management's periodic reports on the risk exposure, risk portfolio composition and Risk Management activities, including internal controls and outsourcing activities.

(v) To review the Stress Testing results, Individual Target Capital Level ("ITCL") and Capital Management Plan of the Company under the Internal Capital Adequacy Assessment Process ("ICAAP") requirement.

(vi) To review Risk Management Independent Risk Assessment.

The Compliance & Risk Management Committee held 4 meetings in 2013 and has carried out reviews on the Compliance Program, Regulations & Guidelines Review, Risk Management Policy & Manual, Company Risk Profile, Internal Control Program, Outsourcing Management, Stress Testing Report, Risk Management Independent Assessment, ICAAP activities including Risk Appetite framework and adopting Regional Policies.

The Compliance & Risk Management Committee is supported by the Compliance & Risk Management Working Committee comprising the Chief Executive Officer, Executive Director and Key Senior Officers.

## Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

**Dato' Mohd. Sallehuddin bin Othman**

**Chua Seck Guan**

Kuala Lumpur,
Date: 24 March 2014

# STATEMENT OF FINANCIAL POSITION
*as at 31 December 2013*

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Property and equipment | 3 | 18,439 | 20,344 |
| Investment property | 4 | 175 | - |
| Goodwill | 5 | 1,141,224 | 1,141,224 |
| Available-for-sale financial assets | 6 | 895,235 | 795,177 |
| Deferred tax assets | 7 | 5,538 | 2,346 |
| Reinsurance assets | 8 | 530,983 | 527,637 |
| Loans and receivables, excluding insurance receivables | 9 | 1,272,487 | 1,152,128 |
| Insurance receivables | 10 | 162,571 | 142,235 |
| Deferred acquisition costs | 11 | 65,392 | 58,075 |
| Assets classified as held for sale | 12 | 77 | 252 |
| Cash and cash equivalents | 13 | 101,936 | 120,913 |
| **Total assets** | | **4,194,057** | **3,960,331** |
| **Equity and liabilities** | | | |
| Share capital | 14 | 333,143 | 333,143 |
| Reserves | 15 | 1,856,353 | 1,738,093 |
| **Total equity** | | **2,189,496** | **2,071,236** |
| Insurance contract liabilities | 16 | 1,795,863 | 1,727,516 |
| Other financial liabilities | 17 | 16,554 | 13,149 |
| Insurance payables | 18 | 111,600 | 87,076 |
| Other payables | 19 | 65,462 | 56,499 |
| Tax payables | | 15,082 | 4,855 |
| **Total liabilities** | | **2,004,561** | **1,889,095** |
| **Total equity and liabilities** | | **4,194,057** | **3,960,331** |

The notes on pages 47 to 101 are an integral part of the financial statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*for the year ended 31 December 2013*

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| **Operating revenue** | 20 | **1,432,195** | **1,321,764** |
| Gross written premiums | 16.2 | 1,425,924 | 1,326,297 |
| Change in unearned premiums provision | | (66,397) | (72,892) |
| Gross earned premiums | | 1,359,527 | 1,253,405 |
| Gross written premiums ceded to reinsurers | 16.2 | (306,250) | (289,114) |
| Change in unearned premiums provision | | 18,916 | 11,457 |
| Premiums ceded to reinsurers | | (287,334) | (277,657) |
| **Net earned premiums** | | **1,072,193** | **975,748** |
| Investment income | 21 | 72,668 | 68,359 |
| Realised gains and losses | 22 | 16,022 | 24,816 |
| Commission income | 23 | 44,150 | 52,827 |
| Other operating (expenses)/revenue | 24 | (365) | 3,221 |
| **Other revenue** | | **132,475** | **149,223** |
| Gross claims paid | 16.1 | (708,965) | (778,164) |
| Claims ceded to reinsurers | 16.1 | 111,314 | 226,724 |
| Gross change in contract liabilities | | (1,951) | 10,135 |
| Change in contract liabilities ceded to reinsurers | | (15,569) | (38,958) |
| **Net claims incurred** | 25 | **(615,171)** | **(580,263)** |
| Commission expense | 23 | (159,966) | (148,307) |
| Management expenses | 26 | (172,714) | (164,296) |
| **Other expenses** | | **(332,680)** | **(312,603)** |
| **Profit before tax** | | 256,817 | 232,105 |
| Tax expense | 28 | (52,966) | (50,002) |
| **Profit for the year** | | **203,851** | **182,103** |

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*for the year ended 31 December 2013 (continued)*

| | Note | 2013<br>RM'000 | 2012<br>RM'000 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Net loss on fair value of available-for-sale financial assets | | (3,074) | (7,096) |
| Tax effect | 7 | 769 | 1,774 |
| **Other comprehensive income for the year, net of tax** | | **(2,305)** | **(5,322)** |
| **Total comprehensive income for the year** | | **201,546** | **176,781** |
| **Basic earnings per share (sen)** | 29 | **61.2** | **54.7** |

The notes on pages 47 to 101 are an integral part of the financial statements.

# STATEMENT OF CHANGES IN EQUITY
*for the year ended 31 December 2013*

| | | *Non-distributable* | | | *Distributable* | |
|---|---|---|---|---|---|---|
| | **Note** | **Share capital RM'000** | **Share premium RM'000** | **Fair value reserve RM'000** | **Retained earnings RM'000** | **Total equity RM'000** |
| **At 1 January 2012** | | 333,143 | 1,178,403 | 11,505 | 446,361 | 1,969,412 |
| Fair value of available-for-sale financial assets | | - | - | (5,322) | - | (5,322) |
| Total other comprehensive income for the year | | - | - | (5,322) | - | (5,322) |
| Profit for the year | | - | - | - | 182,103 | 182,103 |
| Total comprehensive income for the year | | - | - | (5,322) | 182,103 | 176,781 |
| Dividends paid during the year | 30 | - | - | - | (74,957) | (74,957) |
| **At 31 December 2012/1 January 2013** | | **333,143** | **1,178,403** | **6,183** | **553,507** | **2,071,236** |
| Fair value of available-for-sale financial assets | | - | - | (2,305) | - | (2,305) |
| Total other comprehensive income for the year | | - | - | (2,305) | - | (2,305) |
| Profit for the year | | - | - | - | 203,851 | 203,851 |
| Total comprehensive income for the year | | - | - | (2,305) | 203,851 | 201,546 |
| Dividends paid during the year | 30 | - | - | - | (83,286) | (83,286) |
| **At 31 December 2013** | | **333,143** | **1,178,403** | **3,878** | **674,072** | **2,189,496** |
| | | Note 14 | | Note 15.1 | Note 15.2 | |

The notes on pages 47 to 101 are an integral part of the financial statements.

# STATEMENT OF CASH FLOW

*for the year ended 31 December 2013*

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 256,817 | 232,105 |
| Adjustments for: | | | |
| Depreciation of property and equipment | | 5,875 | 5,277 |
| Investment income | 21 | (72,668) | (68,359) |
| Realised gains recorded in profit or loss | 22 | (16,022) | (24,816) |
| Purchase of available-for-sale financial assets | | (966,226) | (797,403) |
| Proceeds from disposal of available-for-sale financial assets | | 877,056 | 647,087 |
| Retirement gratuities charged | | 779 | 706 |
| Unrealised foreign exchange loss | | 16 | 1 |
| Operating profit/(loss) before working capital changes | | 85,627 | (5,402) |
| **Changes in working capital:** | | | |
| Reinsurance assets | | (3,346) | 27,501 |
| Insurance receivables | | (20,336) | (12,587) |
| Deferred acquisition costs | | (7,317) | (10,150) |
| Loans and receivables | | (115,612) | 57,743 |
| Insurance contract liabilities | | 68,347 | 62,757 |
| Other financial liabilities | | 3,389 | 326 |
| Insurance payables | | 24,524 | (6,543) |
| Other payables | | 8,222 | (3,742) |
| Cash generated from operating activities | | 43,498 | 109,903 |
| Dividend income received | | 11,046 | 7,593 |
| Interest income received | | 58,477 | 65,905 |
| Income tax paid | | (45,162) | (58,179) |
| **Net cash flows from operating activities** | | **67,859** | **125,222** |

# STATEMENT OF CASH FLOW
*for the year ended 31 December 2013 (continued)*

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Proceeds from disposal of property and equipment | | 610 | 857 |
| Purchase of property and equipment | | (4,122) | (7,658) |
| **Net cash flows used in investing activities** | | **(3,512)** | **(6,801)** |
| **Financing activities** | | | |
| Dividend paid | 30 | (83,286) | (74,957) |
| Repayment of finance lease | | (38) | (31) |
| **Net cash flows used in financing activities** | | **(83,324)** | **(74,988)** |
| Net (decrease)/increase in cash and cash equivalents | | (18,977) | 43,433 |
| Cash and cash equivalents at beginning of year | | 120,913 | 77,480 |
| **Cash and cash equivalents at end of year** | 13 | **101,936** | **120,913** |

The notes on pages 47 to 101 are an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

MSIG Insurance (Malaysia) Bhd. is a public limited liability company, incorporated and domiciled in Malaysia. The addresses of its registered office and principal place of business are as follows:

**Registered office**
Plaza 138, Suite 18.03
18th Floor, 138 Jalan Ampang
50450 Kuala Lumpur

**Principal place of business**
Level 22, Menara Weld
No. 76, Jalan Raja Chulan
50200 Kuala Lumpur

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of these activities during the financial year.

The immediate and ultimate holding companies are Mitsui Sumitomo Insurance Co., Ltd and MS&AD Insurance Group Holdings, Inc., respectively. Both companies were incorporated in Japan.

The financial statements were authorised for issue by the Board of Directors on 24 March 2014.

## 1. Basis of preparation

### (a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, the requirements of the Companies Act, 1965 and the Insurance Act, 1996 (replaced on 30 June 2013) and the Financial Services Act, 2013 (effective on 30 June 2013) in Malaysia.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

***MFRSs, Interpretations and amendments effective for annual 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 (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

## 1. Basis of preparation (continued)

### (a) Statement of compliance (continued)

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014***

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

***MFRSs, Interpretations and amendments effective for a date yet to be confirmed***

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- MFRS 9, *Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Company plans to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2014 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014, except for Amendments to MFRS 10, Amendments to MFRS 12 and Amendments to MFRS 127 which are not applicable to the Company.

- from the annual period beginning on 1 January 2015 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014, except for Amendments to MFRS 2, Amendments to MFRS 3 and Amendments to MFRS 119 which are not applicable to the Company.

The initial application of the abovementioned standards, amendments and interpretations are not expected to have any material impacts to the financial statements of the Company except as mentioned below:

**MFRS 9, *Financial Instruments***

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

## 1. Basis of preparation (continued)

### (b) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis except as disclosed in the financial statements.

### (c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

Notes 2(e), 2(g)(i) and 5 - Goodwill
Notes 2(l), 2(m) and 16 - Insurance contract liabilities

## 2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

### (a) Foreign currency

#### Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on retranslation are recognised in the profit or loss.

### (b) Property and equipment

#### (i) Recognition and measurement

Items of property and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gains or losses on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and is recognised within "realised gains and losses" in the profit or loss.

## 2. Significant accounting policies (continued)

### (b) Property and equipment (continued)

#### (ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in the profit or loss as incurred.

#### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| • Office equipment | 5 years |
| • Furniture and fittings | 6 - 7 years |
| • Computers | 5 years |
| • Motor vehicles | 5 years |
| • Building | 50 years |

Depreciable amount is determined after deducting the residual value.

Depreciation method, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

### (c) Investment property

**Investment property carried at cost**

Investment property is property which is owned or held under a leasehold interest to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of services or for administrative purposes.

Investment property is initially and subsequently measured at cost and is accounted for similarly to property and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

### (d) Assets classified as held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. The assets are measured at the lower of their carrying amount and fair value less cost to sell.

### (e) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. The goodwill arose from the acquisition of general insurance businesses in 2006 and 2010.

Goodwill represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the business purchased.

Goodwill is measured at cost and is not amortised. Goodwill is allocated to cash-generating units or a group of cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

## 2. Significant accounting policies (continued)

### (f) Financial instruments

#### (i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

#### (ii) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

***Financial assets***

***(a) Loans and receivables, excluding insurance receivables***

Loans and receivables category comprises debt instruments that are not quoted in an active market and other receivables.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

***(b) Available-for-sale ("AFS") financial assets***

Available-for-sale category comprises investment in equity and debt instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

***(c) Insurance receivables***

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised costs. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(g)(iii).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(f)(iii), have been met. All financial assets, are subject to review for impairment (see Note 2(g)).

***Financial liabilities***

All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

## 2. Significant accounting policies (continued)

### (f) Financial instruments (continued)

#### (iii) 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 profit or loss.

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 profit or loss.

### (g) Impairment

#### (i) Goodwill

For goodwill, recoverable amount is estimated at each reporting date. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a *pro rata* basis.

Any impairment loss in respect of goodwill is not reversable.

#### (ii) Financial assets, excluding insurance receivables

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2(g)(iii) below) is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in the profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

## 2. Significant accounting policies (continued)

### (g) Impairment (continued)

#### (ii) Financial assets, excluding insurance receivables (continued)

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through the profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss.

#### (iii) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia.

Insurance receivables that are individually significant shall be tested for impairment individually.

Insurance receivables that are not individually significant shall also be tested for impairment individually. Alternatively, where appropriate, such assets may be assessed for impairment collectively as a member of portfolio of assets with similar credit risk characteristics collective assessment.

If it is determined that no objective evidence of impairment exists for an insurance receivable that has been individually assessed (whether individually significant or not), insurance receivable should subsequently be included within a group of financial assets with similar credit risk characteristics and assessed collectively for impairment as prescribed in the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss.

#### (iv) Other assets

The carrying amounts of other assets (except for deferred tax asset, investment property, assets arising from employee benefits and non-current assets or disposal groups classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

2. **Significant accounting policies (continued)**

**(g) Impairment (continued)**

**(iv) Other assets (continued)**

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (groups of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

**(h) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less, and are used by the Company in the arrangement of their short term commitments.

**(i) 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.

**(j) Reinsurance**

Reinsurance enables an insurer to evaluate and transfer exposures to risks that cannot be successfully managed within insurers resources.

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

The risk transfer (ceded reinsurance) does not relieve the Company from its obligations to policyholders. The privacy direct contract is between Company and policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

## 2. Significant accounting policies (continued)

### (j) Reinsurance (continued)

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 profit or loss.

The Company also assumes reinsurance risk from other insurers in the normal course of business when applicable.

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

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

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

### (k) Commission expense

Gross commission expense, 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 profit or loss in the period in which they are incurred or deferred where appropriate as set out in Note 2(l).

### (l) General insurance underwriting results

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

#### *Premium income*

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

#### *Insurance contract liabilities*

These liabilities comprise premium liabilities and claims liabilities.

#### *Premium liabilities*

Premium liabilities is the higher of the aggregate of the Unearned Premium Reserves ("UPR") for all lines of business and the best estimate value of the Unexpired Risk Reserves ("URR") at the required risk margin for adverse deviation ("PRAD").

*Unearned Premium Reserves*

The UPR represents the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

## 2. Significant accounting policies (continued)

### (l) General insurance underwriting results (continued)

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

Annual policies

(i) 25% method for marine cargo, aviation cargo and transit business.

(ii) $1/24^{th}$ method for all other classes of Malaysian general policies and overseas inward business.

The UPR calculation is adjusted for additional UPR in respect of premiums ceded to overseas reinsurers as required under the guidelines issued by Bank Negara Malaysia.

Non annual policies

Premiums are apportioned evenly over the period the policy is on risk.

*Unexpired Risk Reserves*

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and expenses over unearned premiums. The best estimate of URR is calculated based on the projected claims cost from the unexpired period, indirect claims handling expenses, future maintenance expenses in handling the run-off of unexpired policies and a provision for risk margin.

If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the financial statements by setting up a provision for liability adequacy.

***Claims liabilities***

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

***Acquisition costs and deferred acquisition cost ("DAC")***

The gross cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Acquisition costs or ceding income which are not recoverable, or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

Those costs are deferred to the extent that they are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. DAC is incorporated as part of the computation to derive at UPR which is subject to liability adequacy test for each accounting period. Guidelines are prescribed in the RBC Framework.

## 2. Significant accounting policies (continued)

### (m) General insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise outstanding claims provision and provision for unearned premiums.

Estimating the outstanding claims provision involves projection of the Company's future claims experience based on current claims experience. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

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

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and DAC over unearned premiums. The best estimate of URR is calculated based on the projected claims cost from the unexpired period, indirect claims handling expenses, future maintenance expenses in handling the run-off of unexpired policies and a provision for risk margin. If this estimate shows that the carrying amount of the unearned premiums less related DAC is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

### (n) Tax expense

Tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liability is recognised for all taxable temporary differences. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 2. Significant accounting policies (continued)

### (o) Other income recognition

#### (i) Interest income

Interest income from securities with fixed or determinable payment and fixed maturity are recognised using the effective interest rate method.

Interest income on loans and other interest-bearing investments are recognised on an accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six (6) months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid and all the interest income accrued is clawed back.

#### (ii) Rental income

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 (6) months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

#### (iii) Dividend income

Dividend income represents gross dividends from quoted and unquoted investments and is recognised in profit or loss when the Company's right to receive payment is established, which in the case of quoted securities, is the ex-dividend date.

### (p) Employee benefits

**Short-term employee benefits**

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company's contributions to statutory pension funds are charged to the profit or loss in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

### (q) Valuation of general insurance contract liabilities

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of reporting period and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Expected Claims Ratio, Chain Ladder and Bornhuetter-Ferguson methods.

For older accident periods, the Company has mainly used the incurred Chain Ladder method in establishing the best estimate of the claim liability. This method calculates the ratios of claim development using historical data, and these ratios are then used to project further development in the data. Since this approach takes into account the actual claim information, they are generally simple to apply.

## 2. Significant accounting policies (continued)

### (q) Valuation of general insurance contract liabilities (continued)

For more recent accident periods where there is little credible data, more reliance is placed on the Expected Claims Ratio method and the Bornhuetter-Ferguson method. The Expected Claims Ratio method is simply the product of the initial expected loss ratio assumption and premium exposure (i.e. net earned premium) across each accident period. The ultimate cost of claims based on this method places no reliance on the emergence of actual claims data. The projected liabilities using the Bornhuetter-Ferguson method is essentially a blending of the estimates from the Chain Ladder method and the Expected Claims Ratio method, where the credibility for blending is based on the expected development.

Historical claims development is analysed by homogeneous business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future, (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Indirect claims handling expense ("CHE") allowance is included as a part of best estimate of claims liability. CHE is intended to cover the indirect costs of administering outstanding claims until all claims are fully settled.

### (r) Earnings per share ("EPS")

The Company presents basic EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

### (s) Fair value measurements

From 1 January 2013, the Company adopted MFRS 13, Fair Value Measurement which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

In accordance with the transitional provision of MFRS 13, the Company applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Company's assets or liabilities other than the additional disclosures.

## 3. Property and equipment

| | Office equipment RM'000 | Furniture and fittings RM'000 | Computers RM'000 | Motor vehicles RM'000 | Building RM'000 | Land RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| At 1 January 2012 | 2,881 | 16,672 | 20,142 | 7,546 | 1,840 | 2,685 | 51,766 |
| Additions | 767 | 1,894 | 2,076 | 2,921 | - | - | 7,658 |
| Disposals | (165) | (1,150) | - | (1,475) | - | - | (2,790) |
| At 31 December 2012/1 January 2013 | 3,483 | 17,416 | 22,218 | 8,992 | 1,840 | 2,685 | 56,634 |
| Additions | 407 | 1,607 | 1,935 | 173 | - | - | 4,122 |
| Disposals | (15) | - | (2,922) | (1,415) | - | - | (4,352) |
| **At 31 December 2013** | **3,875** | **19,023** | **21,231** | **7,750** | **1,840** | **2,685** | **56,404** |
| ***Accumulated depreciation*** | | | | | | | |
| At 1 January 2012 | 2,319 | 10,456 | 16,340 | 4,532 | 46 | - | 33,693 |
| Charge for the year | 262 | 2,407 | 1,373 | 1,198 | 37 | - | 5,277 |
| Disposals | (160) | (1,089) | - | (1,431) | - | - | (2,680) |
| At 31 December 2012/1 January 2013 | 2,421 | 11,774 | 17,713 | 4,299 | 83 | - | 36,290 |
| Charge for the year | 397 | 2,402 | 1,613 | 1,426 | 37 | - | 5,875 |
| Disposals | (14) | - | (2,836) | (1,350) | - | - | (4,200) |
| **At 31 December 2013** | **2,804** | **14,176** | **16,490** | **4,375** | **120** | **-** | **37,965** |
| ***Carrying amount*** | | | | | | | |
| **At 1 January 2012** | **562** | **6,216** | **3,802** | **3,014** | **1,794** | **2,685** | **18,073** |
| **At 31 December 2012/1 January 2013** | **1,062** | **5,642** | **4,505** | **4,693** | **1,757** | **2,685** | **20,344** |
| **At 31 December 2013** | **1,071** | **4,847** | **4,741** | **3,375** | **1,720** | **2,685** | **18,439** |

## 3. Property and equipment (continued)

Included in property and equipment are the following fully depreciated assets which are still in use:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| At cost: | | |
| Office equipment | 2,024 | 1,907 |
| Furniture and fittings | 9,628 | 8,079 |
| Computers | 12,517 | 14,563 |
| Motor vehicles | 1,344 | 1,522 |

At 31 December 2013, the net carrying amount of motor vehicle held under the finance lease of the Company was RM80,000 (2012: RM116,000).

## 4. Investment property

| | Note | RM'000 |
|---|---|---|
| ***Cost*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | - |
| Transfer from assets classified as held for sale | 12 | 233 |
| At 31 December 2013 | | **233** |
| ***Accumulated depreciation*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | - |
| Transfer from assets classified as held for sale | 12 | 51 |
| At 31 December 2013 | | **51** |
| ***Accumulated impairment*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | - |
| Transfer from assets classified as held for sale | 12 | 7 |
| At 31 December 2013 | | **7** |
| ***Carrying amounts*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | **-** |
| At 31 December 2013 | | **175** |

Included in the above is:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Costs RM'000 | Fair value RM'000 | Costs RM'000 | Fair value RM'000 |
| Leasehold building | **175** | **260** | **-** | **-** |

The following are recognised in profit or loss in respect of investment property:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Direct operating expenses | **5** | **-** |

During the financial year, a property has been transferred from asset held for sale to investment property, since no buyer was secured for the building.

## 4. Investment property (continued)

### Fair value information

Fair value of investment properties are categorised as follows:

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Leasehold building | **-** | **260** | **-** | **260** |

### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

### Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

### Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

The fair value of the investment property is derived using the comparison method of valuation. In this method, capital values as evidenced from transactions of properties similar to the investment property are analysed and adjusted for key attributes such as property space. The most significant input to this valuation method is price per square foot of similar properties.

The valuation was performed by an independent professional qualified valuer on 27 January 2014.

***Transfer between Level 1 and 2 fair values***

There is no transfer between Level 1 and 2 fair values during the financial year.

### Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

## 5. Goodwill

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| At 1 January/31 December | **1,141,224** | **1,141,224** |

For the purpose of annual impairment testing, goodwill has been allocated to the general insurance business of the Company as one cash-generating unit which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

The recoverable amount of the general insurance business was based on its value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and estimated operating results to perpetuity based on key assumptions and Company's business plan for financial year 2014 to 2016.

The key assumptions used in the value in use calculations are as follows:

| | 2013 | 2012 |
|---|---|---|
| Profit after tax average growth rate - Year 4 to 10 | 3.0% | 3.0% |
| Perpetual growth rate (for terminal value) | 3.0% | 3.0% |
| Discount rate | 9.4% | 9.5% |

The values assigned to the key assumptions represent management's assessment of future trends in the general insurance industry and are based on both external sources and internal sources (historical data).

The carrying amount of the unit was determined to be lower than its recoverable amount and thus no impairment loss is recognised.

The Board of Directors has reviewed the goodwill impairment assessment for the financial year 2013.

## 6. Available-for-sale ("AFS") financial assets

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **At fair value** | | |
| Equity securities in corporations | | |
| Quoted in Malaysia | 168,650 | 118,167 |
| Unquoted in Malaysia | 1,041 | 1,041 |
| Unit Trust | 193,986 | 166,051 |
| Malaysian Government Securities | 121,153 | 130,100 |
| Government Investment Issues | 165,733 | 156,477 |
| BNM Paper/Sukuk | 10,055 | 9,986 |
| Corporate debt securities: | | |
| Unquoted in Malaysia | 234,617 | 213,355 |
| **Total AFS financial assets** | **895,235** | **795,177** |

### Estimation of fair value

The fair values of quoted securities and unit trust are their quoted closing market prices at the end of reporting period.

The fair value of the unquoted equity securities in corporations was determined to approximate the carrying amounts as these are immaterial in the context of the financial statements.

The fair value for Malaysian Government Securities, Government Investment Issues and BNM Paper are their indicative mid market prices quoted by regulatory agencies at the end of the reporting period.

The estimated fair value of unquoted corporate debt securities are based on the indicative mid market prices obtained from bond pricing agency.

### Carrying value of AFS financial assets

| | AFS RM'000 |
|---|---|
| At 1 January 2012 | 629,869 |
| Addition | 797,403 |
| Disposal | (623,018) |
| Fair value gains recorded in other comprehensive income | (7,096) |
| Amortisation | (1,716) |
| Provision for impairment loss | (265) |
| At 31 December 2012/1 January 2013 | 795,177 |
| Addition | 966,226 |
| Disposal | (861,492) |
| Fair value gains recorded in other comprehensive income | (3,074) |
| Amortisation | (1,066) |
| Provision for impairment loss | (536) |
| **At 31 December 2013** | **895,235** |

## 7. Deferred tax (assets)/liabilities

### Recognised deferred tax (assets)/liabilities

Recognised deferred tax (assets)/liabilities are attributable to the following:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Property and equipment | 1,872 | 2,071 |
| Provisions | (8,695) | (6,475) |
| Other items | (7) | (3) |
| Available-for-sale financial assets | 1,292 | 2,061 |
| **Deferred tax assets** | **(5,538)** | **(2,346)** |

Movement in temporary differences during the year:

| | At 1.1.2012 RM'000 | Recognised in profit or loss (Note 28) RM'000 | Recognised in other comprehensive income RM'000 | At 31.12.2012/ 1.1.2013 RM'000 | Recognised in profit or loss (Note 28) RM'000 | Recognised in other comprehensive income RM'000 | At 31.12.2013 RM'000 |
|---|---|---|---|---|---|---|---|
| Property and equipment | 1,844 | 227 | - | 2,071 | (199) | - | 1,872 |
| Provisions | (3,907) | (2,568) | - | (6,475) | (2,220) | - | (8,695) |
| Other items | 15 | (18) | - | (3) | (4) | - | (7) |
| Available-for-sale financial assets | 3,835 | - | (1,774) | 2,061 | - | (769) | 1,292 |
| **Deferred tax (assets)/liabilities** | **1,787** | **(2,359)** | **(1,774)** | **(2,346)** | **(2,423)** | **(769)** | **(5,538)** |

## 8. Reinsurance assets

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| Reinsurance of insurance contracts | | | |
| Claims liabilities | 16 | 399,654 | 415,224 |
| Premium liabilities | 16 | 131,329 | 112,413 |
| | | **530,983** | **527,637** |

## 9. Loans and receivables, excluding insurance receivables

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Staff loans: | | |
| Receivable within twelve months | 73 | 73 |
| Receivable after twelve months | 415 | 488 |
| | 488 | 561 |
| Fixed and call deposits with maturity > 3 months with licensed financial institutions: | | |
| - Licensed banks in Malaysia | 1,236,967 | 1,123,392 |
| Other receivables: | | |
| Other receivables, deposits and prepayments | 8,821 | 8,015 |
| Income due and accrued | 24,619 | 19,872 |
| Amount due from holding companies | 109 | 182 |
| Amount due from related companies | 1,472 | 73 |
| Amount due from affiliated companies | 11 | 33 |
| | 35,032 | 28,175 |
| **Total loans and receivables, excluding insurance receivables** | **1,272,487** | **1,152,128** |

The amounts due from holding companies, related companies and affiliated companies are non-trade in nature, interest free, unsecured and repayable on demand.

The following loans and receivables mature after 12 months:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **Loans and receivables** | **415** | **488** |

### Estimation of fair value

The fair value of staff loans and other receivables were determined to approximate the carrying amounts as these are immaterial in the context of the financial statements. The carrying amounts of the fixed and call deposits approximate their fair values.

## 10. Insurance receivables

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| Due premiums including agents/ brokers and co-insurers balances | | 152,807 | 122,675 |
| Due from reinsurers and cedants | | 10,246 | 18,447 |
| Amount due from holding companies | | - | 648 |
| Amount due from related companies | | 187 | 1,255 |
| Amount due from affiliated companies | | 1,204 | 1,858 |
| | | 164,444 | 144,883 |
| Less: Impairment allowance | 10.1 | (1,873) | (2,648) |
| | | **162,571** | **142,235** |

10.1 During the year, impairment written off against allowance for impairment made previously amounted to RM289,000 (2012: RM61,000).

## 11. Deferred acquisition costs

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| ***Gross*** | | | |
| At 1 January | | 70,685 | 62,940 |
| Movement during the year | 23 | 9,825 | 7,745 |
| **At 31 December** | | **80,510** | **70,685** |
| ***Reinsurance*** | | | |
| At 1 January | | (12,610) | (15,015) |
| Movement during the year | 23 | (2,508) | 2,405 |
| **At 31 December** | | **(15,118)** | **(12,610)** |
| ***Net*** | | | |
| At 1 January | | 58,075 | 47,925 |
| Movement during the year | | 7,317 | 10,150 |
| **At 31 December** | | **65,392** | **58,075** |

## 12. Assets classified as held for sale

The Company is committed to a plan to dispose of its buildings and has initiated an active programme to sell. The Board has approved the Company to dispose the buildings at prevailing market prices.

| | Note | RM'000 |
|---|---|---|
| ***Cost*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | 353 |
| Transfer to Investment property | 4 | (233) |
| **At 31 December 2013** | | **120** |
| ***Accumulated depreciation*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | 94 |
| Transfer to Investment property | 4 | (51) |
| **At 31 December 2013** | | **43** |
| ***Accumulated impairment*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | 7 |
| Transfer to Investment property | 4 | (7) |
| **At 31 December 2013** | | **-** |
| ***Carrying amount*** | | |
| At 1 January 2012/31 December 2012/1 January 2013 | | **252** |
| **At 31 December 2013** | | **77** |

## 13. Cash and cash equivalents

| | 2013<br>RM'000 | 2012<br>RM'000 |
|---|---|---|
| Fixed and call deposits with licensed banks in Malaysia | 86,840 | 97,746 |
| Cash and bank balances | 15,096 | 23,167 |
| | **101,936** | **120,913** |

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

## 14. Share capital

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Amount RM'000 | Number of shares RM'000 | Amount RM'000 | Number of shares RM'000 |
| **Authorised:** | | | | |
| Ordinary shares of RM1.00 each | **500,000** | **500,000** | **500,000** | **500,000** |
| **Issued and fully paid shares classified as equity instrument** | | | | |
| Ordinary shares of RM1.00 each | **333,143** | **333,143** | **333,143** | **333,143** |

## 15. Reserves

### *15.1 Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired. The fair value reserve is in respect of unrealised gains on securities available-for-sale, net of deferred taxation.

### *15.2 Retained earnings*

The company may declare single tier exempt dividend (that would be exempt from tax) to its shareholders out of its retained earnings commencing 1 January 2014. The six year transitional period (1 January 2008 to 31 December 2013) to enable companies with un-utilised Section 108 tax credit balance to continue to pay franked dividends during this period has lapsed. 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 is less than its internal target or if the payment of dividend would impair its Capital Adequacy Ratio to below its internal target.

## 16. Insurance contract liabilities

| | 2013 Gross RM'000 | 2013 Reinsurance RM'000 | 2013 Net RM'000 | 2012 Gross RM'000 | 2012 Reinsurance RM'000 | 2012 Net RM'000 |
|---|---|---|---|---|---|---|
| **General insurance** | **1,795,863** | **(530,983)** | **1,264,880** | **1,727,516** | **(527,637)** | **1,199,879** |

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

| | Note | 2013 Gross RM'000 | 2013 Reinsurance RM'000 | 2013 Net RM'000 | 2012 Gross RM'000 | 2012 Reinsurance RM'000 | 2012 Net RM'000 |
|---|---|---|---|---|---|---|---|
| Provision for claims reported by policyholders | | 968,821 | (376,180) | 592,641 | 977,626 | (400,976) | 576,650 |
| Provision for IBNR | | 110,259 | (23,474) | 86,785 | 99,504 | (14,248) | 85,256 |
| Provision for outstanding claims | 16.1 | 1,079,080 | (399,654) | 679,426 | 1,077,130 | (415,224) | 661,906 |
| Provision for unearned premiums | 16.2 | 716,783 | (131,329) | 585,454 | 650,386 | (112,413) | 537,973 |
| | | **1,795,863** | **(530,983)** | **1,264,880** | **1,727,516** | **(527,637)** | **1,199,879** |

## 16. Insurance contract liabilities (continued)

### 16.1 Provision for outstanding claims

| | Note | 2013 Gross RM'000 | 2013 Reinsurance RM'000 | 2013 Net RM'000 | 2012 Gross RM'000 | 2012 Reinsurance RM'000 | 2012 Net RM'000 |
|---|---|---|---|---|---|---|---|
| At 1 January | | 1,077,130 | (415,224) | 661,906 | 1,087,265 | (454,182) | 633,083 |
| Claims incurred in the current accident year | | 946,044 | (272,671) | 673,373 | 921,140 | (288,201) | 632,939 |
| Adjustment to claims incurred in prior accident years | | (176,129) | 132,293 | (43,836) | (95,539) | 63,022 | (32,517) |
| Adjustment to claims incurred in the ex-HLA run-off portfolio | | (51,246) | 38,491 | (12,755) | (50,960) | 33,617 | (17,343) |
| Movement in PRAD of claims liabilities at 75% confidence level | | (8,473) | 6,143 | (2,330) | (3,028) | 3,796 | 768 |
| Movement in claims handling expenses | | 719 | - | 719 | (3,584) | - | (3,584) |
| Claims paid during the year | 25 | (708,965) | 111,314 | (597,651) | (778,164) | 226,724 | (551,440) |
| **At 31 December** | | **1,079,080** | **(399,654)** | **679,426** | **1,077,130** | **(415,224)** | **661,906** |

### 16.2 Provision for unearned premiums

| | Note | 2013 Gross RM'000 | 2013 Reinsurance RM'000 | 2013 Net RM'000 | 2012 Gross RM'000 | 2012 Reinsurance RM'000 | 2012 Net RM'000 |
|---|---|---|---|---|---|---|---|
| At 1 January | | 650,386 | (112,413) | 537,973 | 577,494 | (100,956) | 476,538 |
| Premiums written in the year | | 1,425,924 | (306,250) | 1,119,674 | 1,326,297 | (289,114) | 1,037,183 |
| Premiums earned during the year | 20 | (1,359,527) | 287,334 | (1,072,193) | (1,253,405) | 277,657 | (975,748) |
| **At 31 December** | | **716,783** | **(131,329)** | **585,454** | **650,386** | **(112,413)** | **537,973** |

## 17. Other financial liabilities

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| Cash collateral deposit received from policyholders | 17.1 | 9,927 | 10,288 |
| Deposit received from reinsurers | | 6,627 | 2,861 |
| | | **16,554** | **13,149** |

17.1 Fixed deposits held as cash collateral for guarantees issued on behalf of policyholders are included in loans and receivables and fixed and call deposits with licensed financial institutions.

The carrying amount disclosed above approximate their fair value at the end of the reporting period. All amounts are payable within one year except for cash collateral deposit which has no maturity date.

## 18. Insurance payables

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Due to reinsurers and cedants | 78,748 | 57,895 |
| Due to agents/brokers, co-insurers and insureds | 22,798 | 23,173 |
| Amount due to holding companies | 8,512 | 2,250 |
| Amount due to related companies | 1,199 | 3,293 |
| Amount due to affiliated companies | 343 | 465 |
| | **111,600** | **87,076** |

The carrying amount disclosed above approximate fair value at the end of the reporting period. All amounts are payable within one year.

## 19. Other payables

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| **Non-current** | | | |
| Finance lease liabilities | 19.1 | 44 | 82 |
| **Current** | | | |
| Finance lease liabilities | 19.1 | 36 | 36 |
| Other payables | | 30,557 | 24,514 |
| Accrued expenses | | 34,825 | 31,867 |
| | | **65,462** | **56,499** |

19.1 Finance lease liabilities are payable as follow:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Less than one year | 36 | 36 |
| Between one and five years | 44 | 82 |
| | **80** | **118** |

The Company has finance lease for motor vehicle as disclosed in Note 3 and the lease of tenure is 5 years. At the end of the lease term, the Company has option to buy back with the guaranteed lease end value of RM48,000.

The carrying amount disclosed above approximate fair value at the end of the reporting period. All amounts are payable within one year except for the finance lease liabilities which are disclosed in Note 19.1.

## 20. Operating revenue

| | Note | Shareholders' fund RM'000 | General business RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Gross earned premiums | | - | 1,359,527 | 1,359,527 |
| Investment income | 21 | 515 | 72,153 | 72,668 |
| | | **515** | **1,431,680** | **1,432,195** |
| **2012** | | | | |
| Gross earned premiums | | - | 1,253,405 | 1,253,405 |
| Investment income | 21 | 520 | 67,839 | 68,359 |
| | | **520** | **1,321,244** | **1,321,764** |

## 21. Investment income

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| AFS financial assets | | |
| Dividend income: | | |
| - Equity securities quoted in Malaysia | 4,861 | 3,771 |
| - Unquoted equity securities in Malaysia | 279 | 221 |
| - Unit Trust | 6,051 | 3,607 |
| Interest/profit income: | | |
| - Malaysian Government Securities | 4,162 | 5,977 |
| - Government Investment Issues | 5,471 | 5,447 |
| - Corporate debt securities | 9,345 | 10,074 |
| Amortisation of premiums, net of accretion of discounts | (1,066) | (1,716) |
| Impairment loss on investment | (536) | (265) |
| Loans and receivables and cash and cash equivalents: | | |
| Interest/profit income | 44,101 | 41,243 |
| | **72,668** | **68,359** |

## 22. Realised gains and losses

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **Realised gains for:** | | |
| Property and equipment | 458 | 747 |
| AFS financial assets | | |
| Quoted equity securities in Malaysia | 14,840 | 20,482 |
| Malaysian Government Securities | 347 | 935 |
| Government Investment Issues | 134 | 401 |
| Corporate debt securities | 243 | 2,251 |
| | **16,022** | **24,816** |

## 23. Commission income/(expense)

| | Note | 2013<br>RM'000 | 2012<br>RM'000 |
|---|---|---|---|
| ***Commission income*** | | | |
| Commission income | | 46,658 | 50,422 |
| Movement in deferred acquisition cost | 11 | (2,508) | 2,405 |
| | | **44,150** | **52,827** |
| ***Commission expense*** | | | |
| Commission expense | | (169,791) | (156,052) |
| Movement in deferred acquisition cost | 11 | 9,825 | 7,745 |
| | | **(159,966)** | **(148,307)** |

## 24. Other operating (expenses)/revenue

| | 2013<br>RM'000 | 2012<br>RM'000 |
|---|---|---|
| Interest on staff housing loans | 21 | 27 |
| Sundry (expenses)/income | (386) | 3,194 |
| | **(365)** | **3,221** |

## 25. Net claims incurred

| | 2013<br>RM'000 | 2012<br>RM'000 |
|---|---|---|
| Gross claims paid less salvage | 708,965 | 778,164 |
| Reinsurance recoveries | (111,314) | (226,724) |
| Net claims paid | 597,651 | 551,440 |
| Net claims liabilities: | | |
| At 31 December | 679,426 | 661,906 |
| At 1 January | (661,906) | (633,083) |
| | **615,171** | **580,263** |

## 26. Management expenses

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| Employee benefits expenses | 26.1 | 86,649 | 81,059 |
| Directors' remuneration | | | |
| – fees | 27 | 298 | 298 |
| – emoluments | 27 | 1,622 | 1,482 |
| Auditors' remuneration | | | |
| – Statutory audit | | | |
| – current year | | 340 | 306 |
| – other services | | – | 25 |
| (Writeback)/allowance for impairment | | (486) | 125 |
| Depreciation | | 5,875 | 5,277 |
| Rental expense on office premises | | 8,842 | 8,385 |
| PIDM premium | | 517 | 569 |
| Other expenses | | 69,057 | 66,770 |
| | | **172,714** | **164,296** |

### 26.1 Employee benefits expenses

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Wages, salaries and others | 74,738 | 69,927 |
| Social security contributions | 632 | 606 |
| Contribution to Employees' Provident Fund | 10,500 | 9,820 |
| Contribution to retirement gratuities | 779 | 706 |
| | **86,649** | **81,059** |

## 27. Key management personnel compensation

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Executive Directors*: | | |
| Salaries and other emoluments | 1,227 | 1,129 |
| Bonus | 216 | 193 |
| Contribution to Employees' Provident Fund | 179 | 160 |
| Estimated money value of benefits-in-kind | 200 | 186 |
| | 1,822 | 1,668 |
| Non-Executive Directors: | | |
| Fees | 298 | 298 |
| Other allowance | 47 | 49 |
| | 345 | 347 |
| | **2,167** | **2,015** |

* The above includes remuneration attributable to the CEO of the Company during the year.

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

| | 2013 | 2012 |
|---|---|---|
| **Executive Directors:** | | |
| RM300,000 – RM1,300,000 | 2 | 2 |
| **Non-Executive Directors:** | | |
| RM40,000 – RM100,000 | 4 | 4 |

## 28. Tax expense

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| **Current tax expense** | | | |
| Malaysian – current | | 55,906 | 53,142 |
| – prior years | | (517) | (781) |
| Total current tax | | 55,389 | 52,361 |
| **Deferred tax expense** | | | |
| Malaysian – current | | (1,151) | (1,594) |
| – prior years | | (1,272) | (765) |
| Total deferred tax | 7 | (2,423) | (2,359) |
| **Total tax expense** | | **52,966** | **50,002** |
| **Reconciliation of tax expense** | | | |
| Profit for the year | | 203,851 | 182,103 |
| Tax expense | | 52,966 | 50,002 |
| **Profit before taxation** | | **256,817** | **232,105** |
| Income tax using Malaysian tax rate of 25% (2012: 25%) | | 64,204 | 58,026 |
| Effect of lower tax rates for offshore business and business outside Malaysia | | (4,601) | (6,434) |
| Non-deductible expenses | | 2,076 | 1,858 |
| Tax exempt income | | (6,880) | (1,896) |
| Other items | | (44) | (6) |
| | | 54,755 | 51,548 |
| Overprovision in prior years | | | |
| - Current tax | | (517) | (781) |
| - Deferred tax | | (1,272) | (765) |
| **Tax expense** | | **52,966** | **50,002** |
| **Income tax recognised directly in equity** | | | |
| Available-for-sale financial assets | | | |
| Deferred tax | 7 | 769 | 1,774 |

## 29. Earnings per share

***Basic earnings per share***

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders of RM203,851,000 (2012: RM182,103,000) and the weighted average number of ordinary shares outstanding during the year of 333,143,000 (2012: 333,143,000).

## 30. Dividends

Dividends recognised by the Company are:

| | Sen per share net of tax | Total amount RM'000 | Date of payment |
|---|---|---|---|
| **2013** | | | |
| Final 2012 – tax-exempt | 10.00 | 33,314 | 22 May 2013 |
| – taxable | 15.00 | 49,972 | 22 May 2013 |
| | | **83,286** | |
| **2012** | | | |
| Final 2011 – taxable | 22.50 | **74,957** | 22 May 2012 |

## 31. Operating leases

### Leases as lessee

The future minimum lease payments under the non-cancellable operating lease are as follows:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Less than one year | 6,352 | 8,226 |
| Between one and five years | 1,618 | 6,787 |
| | **7,970** | **15,013** |

The company lease office premises under operating lease, the leases typically run for a period of 3 years, with an option to renew the lease after that date. Lease payments are increased every 3 years to reflect market rentals. None of the leases includes contingent rentals.

## 32. Significant related party disclosures

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The related parties of the Company are:

### (i) Holding companies

The immediate and ultimate holding companies are Mitsui Sumitomo Insurance Co., Ltd. and MS&AD Insurance Group Holdings, Inc., respectively. Both companies were incorporated in Japan.

### (ii) Fellow subsidiaries

These are entities which are under common control of the ultimate and immediate holding companies.

### (iii) Affiliated companies

Affiliated companies comprised of companies having equity interest of between 20% to 50% in the Company and including other corporations related to the first mentioned corporation.

## 32. Significant related party disclosures (continued)

### (iv) Key management personnel

Key management personnel include the Company's Executive and Non-Executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Executive and Non-Executive Directors compensation is disclosed in Note 27.

### (v) Related parties and their relationships

The related parties and their relationships with the Company for the year ended 31 December 2013 are as follows:

| Related Companies | Relationship |
|---|---|
| MS&AD Insurance Group Holdings, Inc. | Ultimate holding company |
| Mitsui Sumitomo Insurance Co., Ltd. | Immediate holding company |
| Mitsui Sumitomo Reinsurance Limited. | Fellow subsidiary company |
| Mitsui Sumitomo Insurance Company (Europe) Limited | Fellow subsidiary company |
| Mitsui Sumitomo Insurance USA Inc. | Fellow subsidiary company |
| Mitsui Sumitomo Insurance (China) Company Limited | Fellow subsidiary company |
| MSIG Holdings (Asia) Pte. Ltd. | Fellow subsidiary company |
| MSIG Insurance (Singapore) Pte. Ltd. | Fellow subsidiary company |
| MSIG Insurance (Hong Kong) Limited | Fellow subsidiary company |
| MSIG Insurance (Thailand) Public Company Limited | Fellow subsidiary company |
| MSIG Insurance (Vietnam) Company Limited | Fellow subsidiary company |
| PT Asuransi MSIG Indonesia | Fellow subsidiary company |
| MSIG Mingtai Insurance Co., Ltd. | Fellow subsidiary company |
| Aioi Nissay Dowa Insurance Co., Ltd. | Fellow subsidiary company |
| M&H Insurance Agency Ltd., Hong Kong | Affiliated company |
| MSI Holding (Thailand) Co., Ltd. | Affiliated company |
| MSIG Services and Adjusting (Thailand) Co., Ltd. | Affiliated company |
| Interisk Asia Pte. Ltd. | Affiliated company |
| MS Frontier Reinsurance Limited | Affiliated company |
| MSIG Berhad | Affiliated company |
| Hong Leong Assurance Berhad | Affiliated company |
| Hong Leong Bank Berhad | Affiliated company |
| Hong Leong MSIG Takaful Berhad | Affiliated company |
| HLA Holdings Sdn. Bhd. | Affiliated company |
| Hong Leong Financial Group Berhad | Affiliated company |
| Hong Leong Company (Malaysia) Berhad | Affiliated company |
| HLCM Capital Sdn. Bhd. | Affiliated company |
| Hong Leong Asset Management Bhd. | Affiliated company |

## 32. Significant related party disclosures (continued)

### (vi) The significant related party transactions of the Company, other than key management personnel remuneration, are as follows:

| 2013 | Transaction amount for the year ended 31 December RM'000 | Gross outstanding due (to)/from at 31 December RM'000 | Net outstanding due (to)/from at 31 December RM'000 | Impairment allowance at 31 December RM'000 |
|---|---|---|---|---|
| **Immediate holding company** | - | (8,403) | (8,403) | - |
| Premium ceded | 51,350 | - | - | - |
| Commission received | (10,375) | - | - | - |
| Claims recoveries | (18,113) | - | - | - |
| Claims settling fee received | (309) | - | - | - |
| **Fellow subsidiary companies** | - | 460 | 460 | - |
| Premium ceded | 3,424 | - | - | - |
| Commission received | (1,199) | - | - | - |
| Claims recoveries | (10,090) | - | - | - |
| Service fee | 898 | - | - | - |
| IT Project cost | 1,183 | - | - | - |
| Claims settling fee received | (60) | - | - | - |
| **Affiliated companies** | - | 871 | 865 | 6 |
| Premium received | (59,772) | - | - | - |
| Commission paid | 6,432 | - | - | - |
| Claims paid | 6,890 | - | - | - |
| Bank merchant fees | 2,070 | - | - | - |
| Surveying fee | 493 | | | |
| Interest income | (10,643) | - | - | - |
| Rental income | (132) | - | - | - |
| Claims settling fee received | 1 | - | - | - |
| Fixed deposits | 134,748 | - | - | - |
| Bank balances | 340 | - | - | - |
| Unit trust | 193,986 | - | - | - |

## 32. Significant related party disclosures (continued)

**(vi) The significant related party transactions of the Company, other than key management personnel remuneration, are as follows (continued):**

| 2012 | Transaction amount for the year ended 31 December RM'000 | Gross outstanding due (to)/from at 31 December RM'000 | Net outstanding due (to)/from at 31 December RM'000 | Impairment allowance at 31 December RM'000 |
|---|---|---|---|---|
| **Immediate holding company** | - | (1,418) | (1,418) | - |
| Premium ceded | 51,860 | - | - | - |
| Commission received | (13,011) | - | - | - |
| Claims recoveries | (43,696) | - | - | - |
| Claims settling fee received | (300) | - | - | - |
| **Fellow subsidiary companies** | - | (1,965) | (1,965) | - |
| Premium ceded | 14,064 | - | - | - |
| Commission received | (3,535) | - | - | - |
| Claims recoveries | (10,102) | - | - | - |
| Service fee | 1,532 | - | - | - |
| IT Project cost | 1,886 | - | - | - |
| Surveying fee | 43 | - | - | - |
| Claims settling fee received | (88) | - | - | - |
| **Affiliated companies** | - | 1,426 | 1,413 | 13 |
| Premium received | (52,526) | - | - | - |
| Commission paid | 5,619 | - | - | - |
| Claims paid | 4,975 | - | - | - |
| Transitional services costs | 656 | - | - | - |
| Bank merchant fees | 1,246 | - | - | - |
| Surveying fee | 660 | - | - | - |
| Interest income | (7,416) | - | - | - |
| Rental income | (132) | - | - | - |
| Fixed deposits | 76,293 | - | - | - |
| Bank balances | 1,450 | - | - | - |
| Unit trust | 166,051 | - | - | - |

The terms and conditions for the above transactions are based on normal trade terms. All amounts outstanding are unsecured and expected to be settled with cash.

## 33. Risk Management Framework

The Company recognises the importance of effective risk management to realise the Company's corporate objectives and responsibilities to achieve financial soundness and capital efficiency.

In this regard, the Board has set out the overall risk management strategies, policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.

The major areas of risk that the Company is exposed to are insurance risks, financial risks and operational risks.

The Company's risk management framework is as follows:

- A Compliance and Risk Management Committee ("CRMC") has been established at the Board Committee level to set the direction and to oversee the overall risk management framework as well as to ensure that resources, infrastructure and systems are in place for risk management activities. The CRMC is supported by Compliance & Risk Management Working Committee ("CRMWC").

- The CRMWC which comprises the Senior Management Team, supports the CRMC in the process of risk identification, risk assessment and risk mitigation as well as promoting risk management culture and governance across all levels of staff through an effective organisation structure, communication, training as well as clear policies and procedures.

- The Company has a Risk Management Department and also makes references to the risk management functions at the Head Office and Regional Office in Japan and Singapore for advice and guidance on risk management approach and best practices.

- The Internal Audit function which is independent from the business operations also provides support in identifying and highlighting key risk areas for improvement.

- The Company has in place a Risk Management Policy and Manual and maintains a Risk Register to record details of the various risks faced by the Company. The Company has also developed a Company Risk Profile which is subject to periodic review.

- The Company has established an Internal Control Programme on Process Level Control Documentation with regular Testing of Design and Testing of Operating Effectiveness; as well as further Evaluation on Internal Controls Over Financial Reporting ("ICOFR") on annual basis.

- The Company has embarked on Internal Control Programme on Company Level Control Documentation which is subject to further Testing of Design.

### Capital Management Plan ("CMP")

The CMP has been established to be in line with the requirements set out in the RBC Framework. The CMP sets out procedures to implement and maintain an appropriate level of capital which commensurate with risk profile at all times as required under regulatory requirements.

### Stress Testing

The risk management framework also includes a Stress Testing Policy and Stress Testing Methodology. The Stress Testing exercise is conducted twice a year to identify potential threats due to exceptional but adverse plausible events and to evaluate the sustainability of the Company's capital to withstand the impact.

## 33. Risk Management Framework (continued)

### Internal Capital Adequacy Assessment Process ("ICAAP")

Bank Negara has issued a Guideline on ICAAP for Insurers on 24 February 2012 with effective date from 1 September 2012.

Among the key elements under ICAAP, insurers are required to put in place:

(i) A Capital Management Framework which includes setting of risk appetite or risk tolerance level as well as determining Individual Target Capital Level ("ITCL") that commensurate with own risk profile and control environment through comprehensive Stress Testing. As at to date, the Company has established a Risk Appetite Statement and performed the comprehensive Stress Testing for ITCL Review required under ICAAP; and

(ii) To maintain a sound Capital Management to ensure insurers operate at a level above ITCL all the time.

## 34. Insurance risk

The Company underwrites various classes of general insurance contracts, with a portfolio mix comprising mainly of Motor, Fire and Marine Cargo policies.

The risk under insurance contracts is the possibility of occurrence of an insured event and uncertainty of the amount and timing of resulting claim. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk – the possibility that the number of insured events will differ from those expected.

Severity risk – the possibility that the cost of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risk events can be managed by writing a large diversified portfolio of insurance contracts, because a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio. The variability of risk events can also be managed by careful selection of risks and implementation of underwriting strategy and guidelines as well as claims management and control systems.

The objective of the Company is to control and manage insurance risk to reduce volatility of operating profits. The Company manages insurance risk through the following:

- The Company's underwriting approach is governed by an underwriting policy and guidelines which sets out a control framework for risk acceptance and referrals, underwriting capacity and authority limits granted to the various operations.

- The Company's claim philosophy which provides the framework for claims management, regular claims review and claims handling procedures with the objectives to minimise the uncertainty of claims development and inflationary costs as well as to mitigate dubious or fraudulent claims whilst ensuring fair claims settlement.

- Reinsurance is used to limit the Company's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.

## 34. Insurance risk (continued)

The table below sets out the concentration of Company's insurance business by type of product based on gross and net written premiums.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Gross RM'000 | Reinsurance RM'000 | Net RM'000 | Gross RM'000 | Reinsurance RM'000 | Net RM'000 |
| Motor | 638,646 | (22,368) | 616,278 | 569,449 | (20,079) | 549,370 |
| Fire | 362,647 | (160,345) | 202,302 | 341,835 | (149,529) | 192,306 |
| Marine Cargo, Aviation Cargo, and Transit | 96,162 | (22,046) | 74,116 | 107,742 | (25,636) | 82,106 |
| Miscellaneous | 328,469 | (101,491) | 226,978 | 307,271 | (93,870) | 213,401 |
| | **1,425,924** | **(306,250)** | **1,119,674** | **1,326,297** | **(289,114)** | **1,037,183** |

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Gross RM'000 | Reinsurance RM'000 | Net RM'000 | Gross RM'000 | Reinsurance RM'000 | Net RM'000 |
| Motor | 784,460 | (30,279) | 754,181 | 745,048 | (36,985) | 708,063 |
| Fire | 442,640 | (257,117) | 185,523 | 442,086 | (263,818) | 178,268 |
| Marine Cargo, Aviation Cargo, and Transit | 81,321 | (26,387) | 54,934 | 77,989 | (26,257) | 51,732 |
| Miscellaneous | 487,442 | (217,200) | 270,242 | 462,393 | (200,577) | 261,816 |
| | **1,795,863** | **(530,983)** | **1,264,880** | **1,727,516** | **(527,637)** | **1,199,879** |

## 34. Insurance risk (continued)

### Key assumptions

The principal assumption 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 claims costs, claims handling cost and claims numbers 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 of large claims as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

No discounting is made to the recommended claims and premium liability provisions. In addition, no explicit inflation adjustment has been made to claims amounts payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development.

The Company has based the provisions for unexpired risks and insurance claims at a minimum 75% of sufficiency, according to the requirement set by Bank Negara Malaysia under the RBC Framework.

### Sensitivity analysis of insurance liabilities

Estimates of an insurance company's claim and premium liabilities may be affected by future events, which cannot be predicted with any certainty. The assumptions made may well vary from actual experience such that the actual liability may vary considerably from the best estimates.

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 table presented in page 84 demonstrates the sensitivity of insurance liability estimates to particular movements in assumptions used in the estimation process. Certain assumptions can be expected to impact the liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The analysis below is performed to assess movements in key assumptions with all other assumptions held constant and ignores changes in values of the related assets. The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

The key assumptions considered in the sensitivity analysis are as follows:

- Initial Expected Loss Ratio ("IELR") for accident year 2013
- Selected Ultimate Loss Ratio ("ULR")

The IELR is a parameter used in the Expected Claims Ratio and Bornhuetter-Ferguson methods. These methods are usually used by actuaries to estimate the claim liability for more recent accident periods where there is little credible data. The sensitivity test is performed by changing the IELR by -15% multiplicatively to +15% multiplicatively to derive the claim liabilities and the net impact is disclosed in the following table.

The selected ULR is derived from the best estimation of claims reserve, and is a major factor to determine the actuarial unexpired risk reserve which is a component of premium liability. A change in the expected ULR also affects the claim liability as it is a function of ultimate losses. To show the sensitivity of this assumption, the impact of changing ULR by -15% multiplicatively and +15% multiplicatively is shown in the table below. For claims liabilities, 2013 accident year ULRs were changed only. For premium liabilities, the expected ULRs were changed.

## 34. Insurance risk (continued)

### Sensitivity analysis of insurance liabilities (continued)

The results of the sensitivity analysis (net of reinsurance) showing the impact on the claim and premium liabilities are as follows:

| | IELR | | ULR | |
|---|---|---|---|---|
| | +15% RM'000 | -15% RM'000 | +15% RM'000 | -15% RM'000 |
| **2013** | | | | |
| Premium liabilities | - | - | 12,763 | - |
| Claim liabilities | 12,771 | (12,748) | 106,330 | (105,186) |
| **Total** | **12,771** | **(12,748)** | **119,093** | **(105,186)** |
| Impact on profit before tax | 12,771 | (12,748) | 119,093 | (105,186) |
| Impact on equity * | 9,578 | (9,561) | 89,320 | (78,890) |
| **2012** | | | | |
| Premium liabilities | - | - | 16,448 | - |
| Claim liabilities | 10,774 | (10,774) | 100,720 | (99,505) |
| **Total** | **10,774** | **(10,774)** | **117,168** | **(99,505)** |
| Impact on profit before tax | 10,774 | (10,774) | 117,168 | (99,505) |
| Impact on equity* | 8,081 | (8,081) | 87,876 | (74,629) |

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

### Claims Development Table

The following tables show the estimated cumulative incurred claims, including both claims notified and IBNR for each successive accident year at 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 are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

## 34. Insurance risk (continued)

### Gross general insurance contract liabilities for 2013:

| Accident year | Before 2006 RM'000 | 2006 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 | | | | 431,537 | 450,803 | 768,476 | 895,625 | 921,140 | 946,043 | |
| One year later | | | 365,611 | 391,367 | 639,963 | 720,479 | 863,630 | 784,388 | | |
| Two years later | | 340,853 | 349,302 | 635,737 | 645,771 | 682,096 | 840,811 | | | |
| Three years later | | 320,891 | 628,490 | 633,110 | 620,397 | 659,622 | | | | |
| Four years later | | 577,381 | 629,605 | 622,648 | 615,152 | | | | | |
| Five years later | | 579,403 | 621,596 | 614,061 | | | | | | |
| Six years later | | 560,479 | 600,001 | | | | | | | |
| Seven years later | | 556,160 | | | | | | | | |
| **Current estimate of cumulative claims incurred** | | 556,160 | 600,001 | 614,061 | 615,152 | 659,622 | 840,811 | 784,388 | 946,043 | 5,616,238 |
| At end of accident year | | | | 181,784 | 222,609 | 304,260 | 343,655 | 350,298 | 352,882 | |
| One year later | | | 284,375 | 310,090 | 498,126 | 553,400 | 693,618 | 620,046 | | |
| Two years later | | 294,940 | 297,003 | 549,249 | 554,274 | 597,595 | 753,356 | | | |
| Three years later | | 292,766 | 568,814 | 572,213 | 572,047 | 612,699 | | | | |
| Four years later | | 537,841 | 582,675 | 578,822 | 577,706 | | | | | |
| Five years later | | 543,836 | 585,956 | 580,655 | | | | | | |
| Six years later | | 546,785 | 587,239 | | | | | | | |
| Seven years later | | 548,297 | | | | | | | | |
| **Cumulative payments to-date** | | 548,297 | 587,239 | 580,655 | 577,706 | 612,699 | 753,356 | 620,046 | 352,882 | 4,632,880 |

## 34. Insurance risk (continued)

**Gross general insurance contract liabilities for 2013: (continued)**

| | Note | Before 2006 RM'000 | 2006 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross general insurance liabilities (direct, facultative and treaty inward)** | | **12,810** | **7,863** | **12,762** | **33,406** | **37,446** | **46,923** | **87,455** | **164,342** | **593,161** | **996,168** |
| Claims handling expenses | | | | | | | | | | | 28,305 |
| PRAD at 75% confidence level | | | | | | | | | | | 54,607 |
| **Gross general insurance contract liabilities per statement of financial position** | 16.1 | | | | | | | | | | **1,079,080** |

Historically, actuarial reserve reviews have been carried out on a net of reinsurance basis only; hence the gross of reinsurance ultimate claim costs by accident years are not available for periods prior to 2008. As such, gross estimates are only shown for the last six years.

## 34. Insurance risk (continued)

### Net general insurance contract liabilities for 2013:

| Accident year | Before 2006 RM'000 | 2006 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 | | 291,234 | 310,571 | 339,512 | 369,134 | 555,770 | 611,593 | 642,619 | 687,177 | |
| One year later | | 286,650 | 299,065 | 331,635 | 490,624 | 541,720 | 597,015 | 609,305 | | |
| Two years later | | 281,142 | 298,104 | 482,670 | 490,287 | 529,730 | 583,286 | | | |
| Three years later | | 275,710 | 459,117 | 476,907 | 477,777 | 517,702 | | | | |
| Four years later | | 421,779 | 455,476 | 473,486 | 475,467 | | | | | |
| Five years later | | 420,048 | 452,717 | 468,876 | | | | | | |
| Six years later | | 410,133 | 439,934 | | | | | | | |
| Seven years later | | 408,048 | | | | | | | | |
| **Current estimate of cumulative claims incurred** | | 408,048 | 439,934 | 468,876 | 475,467 | 517,702 | 583,286 | 609,305 | 687,177 | 4,189,795 |
| At end of accident year | | 127,899 | 136,392 | 151,890 | 193,019 | 259,277 | 295,855 | 296,611 | 319,751 | |
| One year later | | 228,948 | 237,936 | 268,907 | 400,033 | 446,147 | 493,965 | 507,506 | | |
| Two years later | | 246,628 | 257,689 | 427,431 | 437,949 | 478,510 | 529,113 | | | |
| Three years later | | 253,952 | 421,002 | 442,073 | 448,471 | 488,636 | | | | |
| Four years later | | 396,525 | 428,631 | 446,922 | 452,272 | | | | | |
| Five years later | | 399,703 | 431,114 | 448,184 | | | | | | |
| Six years later | | 401,833 | 432,028 | | | | | | | |
| Seven years later | | 403,178 | | | | | | | | |
| **Cumulative payments to-date** | | 403,178 | 432,028 | 448,184 | 452,272 | 488,636 | 529,113 | 507,506 | 319,751 | 3,580,668 |

## 34. Insurance risk (continued)

### Net general insurance contract liabilities for 2013: (continued)

| | Note | Before 2006 RM'000 | 2006 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net general insurance liabilities (direct, facultative and treaty inward)** | | **7,935** | **4,870** | **7,906** | **20,692** | **23,195** | **29,066** | **54,173** | **101,799** | **367,426** | **617,062** |
| Claims handling expenses | | | | | | | | | | | 28,305 |
| PRAD at 75% confidence level | | | | | | | | | | | 34,059 |
| **Net general insurance contract liabilities per statement of financial position** | 16.1 | | | | | | | | | | **679,426** |

The diagonals for 2010 onwards shown above reflect the impact of additional claims costs arising from the business combination of Hong Leong Assurance Berhad's portfolio on 1 October 2010.

## 35. Financial risks

In addition to insurance risks, the Company is also subjected to financial risks namely credit risk, liquidity risk, market risk (comprising currency risk, interest rate risk and price risk) as well as operational risk arising from its exposure in financial instruments.

In this regard, the Company is guided by a framework of policies and procedures governing credit control and investments as well as general risk management policies in order to mitigate such financial risks. The Company has established robust processes to monitor and address these risks on an ongoing basis.

The policies and measures undertaken by the Company to manage these risks are as set out below:

### Credit risk

Credit risk is the risk of a financial loss resulting from the failure of a customer, an intermediary or counterparty to settle its financial and contractual obligations to the Company as and when they fall due.

The Company monitors and manages credit risk exposures with the objective to ensure that it is able to meet policyholder obligations when they are due and maintain adequate capital and solvency requirements.

The Company's primary exposure to credit risk arises through its receivables from sales of insurance policies, obligations of reinsurers through reinsurance contracts and its investment in fixed income securities and deposits. The Company has put in place a credit control policy and investment policy as part of its overall credit risk management framework.

The task of monitoring receivables arising from insurance and reinsurance contracts is undertaken by the Credit Control Division of the Finance Department with oversight from the Credit Control Committee to ensure adherence to the Company's credit control policy and procedures. These policies and procedures entail approval requirements for credit period extension for overdue receivables and cancellation processes. The Company also has guidelines to evaluate intermediaries before their appointment.

The Company manages the credit risk of its reinsurers by monitoring the credit quality and financial conditions of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Company cedes business to reinsurers that satisfy the minimum credit rating requirements of the Company.

In relation to its credit risk exposure from fixed income securities, the Company evaluates and assesses an issuer's credit risk by using the ratings assigned by external rating agencies. Proper monitoring and control of credit and concentration risks are carried out by the Investment Division of the Finance Department and regularly reviewed by the Investment Working Committee and Board of Directors. The Company manages individual exposures as well as concentration of credit risks in its fixed income portfolio through a prescribed framework of asset allocation, minimum credit rating, maximum duration as well as setting maximum permitted exposure to a single counterparty or group of counterparties.

Cash and deposits are placed with financial institutions licensed under the Financial Services Act 2013 which are regulated by Bank Negara Malaysia, guided by the Company's approved exposure limits and minimum credit rating requirements for each financial institution.

At the end of the reporting period, there was no significant concentration of credit risks.

### Credit exposure

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

| | **2013 RM'000** | **2012 RM'000** |
|---|---|---|
| AFS financial assets - Debt instruments | 531,558 | 509,918 |
| Reinsurance assets | 530,983 | 527,637 |
| Loans and receivables, excluding insurance receivables and prepayments | 1,270,990 | 1,149,914 |
| Insurance receivables | 162,571 | 142,235 |
| Cash and cash equivalents | 101,936 | 120,913 |
| | **2,598,038** | **2,450,617** |

## 35. Financial risks (continued)

### Credit exposure by credit rating

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

| | Neither past due nor impaired/ Investment grade RM'000 | Past due but not impaired RM'000 | Past due and impaired RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| AFS financial assets | | | | |
| – Debt instruments | 531,558 | - | - | 531,558 |
| Reinsurance assets | 530,983 | - | - | 530,983 |
| Loans and receivables, excluding insurance receivables and prepayments | 1,270,990 | - | - | 1,270,990 |
| Insurance receivables | 147,941 | 14,630 | 1,873 | 164,444 |
| Cash and cash equivalents | 101,936 | - | - | 101,936 |
| | 2,583,408 | 14,630 | 1,873 | 2,599,911 |
| Impairment allowance | - | - | (1,873) | (1,873) |
| | **2,583,408** | **14,630** | **-** | **2,598,038** |
| **2012** | | | | |
| AFS financial assets | | | | |
| – Debt instruments | 509,918 | - | - | 509,918 |
| Reinsurance assets | 527,637 | - | - | 527,637 |
| Loans and receivables, excluding insurance receivables and prepayments | 1,149,914 | - | - | 1,149,914 |
| Insurance receivables | 127,621 | 14,614 | 2,648 | 144,883 |
| Cash and cash equivalents | 120,913 | - | - | 120,913 |
| | 2,436,003 | 14,614 | 2,648 | 2,453,265 |
| Impairment allowance | - | - | (2,648) | (2,648) |
| | **2,436,003** | **14,614** | **-** | **2,450,617** |

## 35. Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's or Malaysian Rating Corporation Berhad's credit ratings of counterparties. AAA is the highest possible rating.

| | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | BB RM'000 | B RM'000 | Not-rated RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | |
| AFS financial assets - Debt instruments | 100,005 | 132,496 | - | - | - | - | 299,057 | 531,558 |
| Reinsurance assets | - | 20,965 | 138,489 | - | - | 118 | 371,411 | 530,983 |
| Loans and receivables, excluding insurance receivables and prepayments | 836,292 | 313,095 | 87,581 | - | - | - | 34,022 | 1,270,990 |
| Insurance receivables | - | - | 105 | - | 3,135 | - | 159,331 | 162,571 |
| Cash and cash equivalents | 96,269 | 2,605 | 3,035 | - | - | - | 27 | 101,936 |
| | **1,032,566** | **469,161** | **229,210** | **-** | **3,135** | **118** | **863,848** | **2,598,038** |
| **2012** | | | | | | | | |
| AFS financial assets - Debt instruments | 120,178 | 91,061 | - | - | - | - | 298,679 | 509,918 |
| Reinsurance assets | - | 7,234 | 178,452 | - | - | 6 | 341,945 | 527,637 |
| Loans and receivables, excluding insurance receivables and prepayments | 413,677 | 482,765 | 226,950 | - | - | - | 26,522 | 1,149,914 |
| Insurance receivables | - | - | 233 | - | - | - | 142,002 | 142,235 |
| Cash and cash equivalents | 105,503 | 7,494 | 7,886 | - | - | - | 30 | 120,913 |
| | **639,358** | **588,554** | **413,521** | **-** | **-** | **6** | **809,178** | **2,450,617** |

## 35. Financial risks (continued)

### Age analysis of financial assets past-due but not impaired

| | <30 days RM'000 | 31 - 60 days RM'000 | 61 - 90 days RM'000 | >90 days RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Insurance receivables | **6,085** | **3,010** | **2,762** | **2,773** | **14,630** |
| **2012** | | | | | |
| Insurance receivables | **6,186** | **2,433** | **2,970** | **3,025** | **14,614** |

### Impaired financial assets

At 31 December 2013, based on a collective and individual assessment of receivables, there are impaired insurance receivables of RM1,873,000 (2012: RM2,648,000). The Company records impairment allowance for loans and receivables and insurance receivables in separate "Allowance for impairment" accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivables is as follows:

| | Insurance receivables | |
|---|---|---|
| | 2013 RM'000 | 2012 RM'000 |
| At 1 January | 2,648 | 2,554 |
| Movement during the year | (775) | 94 |
| **At 31 December** | **1,873** | **2,648** |

### Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations due to insufficient liquid resources, or would have to incur excessive cost in meeting the obligations. 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 manages this risk by monitoring daily cash inflows and outflows and by ensuring that a reasonable amount of financial assets are kept in liquid instruments at all times. The Company also observes principles on asset-liability management and ensures that the average investment duration and maturity profiles match the Company's liabilities.

The Company's treaty reinsurance contracts contains a "cash call" clause which enables the Company to call for advance payment from reinsurers in the event of large claims exceeding an agreed amount.

## 35. Financial risks (continued)

### Maturity profiles

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 the estimated timing of cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

| | Carrying value RM'000 | Up to a year RM'000 | 1 - 3 years RM'000 | 4 - 5 years RM'000 | 6 - 15 years RM'000 | Over 15 years RM'000 | No maturity date RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | |
| Insurance contract liabilities | 1,079,080 | 646,678 | 306,528 | 83,978 | 41,896 | - | - | 1,079,080 |
| Other financial liabilities | 16,554 | 16,554 | - | - | - | - | - | 16,554 |
| Insurance payables | 111,600 | 111,600 | - | - | - | - | - | 111,600 |
| Other payables | 65,462 | 65,417 | 45 | - | - | - | - | 65,462 |
| Tax payable | 15,082 | 15,082 | - | - | - | - | - | 15,082 |
| **Total liabilities** | **1,287,778** | **855,331** | **306,573** | **83,978** | **41,896** | **-** | **-** | **1,287,778** |
| **2012** | | | | | | | | |
| Insurance contract liabilities | 1,077,130 | 671,051 | 268,701 | 90,719 | 46,659 | - | - | 1,077,130 |
| Other financial liabilities | 13,149 | 13,149 | - | - | - | - | - | 13,149 |
| Insurance payables | 87,076 | 87,076 | - | - | - | - | - | 87,076 |
| Other payables | 56,499 | 56,417 | 82 | - | - | - | - | 56,499 |
| Tax payable | 4,855 | 4,855 | - | - | - | - | - | 4,855 |
| **Total liabilities** | **1,238,709** | **832,548** | **268,783** | **90,719** | **46,659** | **-** | **-** | **1,238,709** |

## 35. Financial risks (continued)

### 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 risk, i.e. foreign exchange rates (currency risk), market interest rates/profit yields (interest rate/profit yield risk) and market prices (price risk).

The Company manages its market risk by setting policies on asset allocation, investment limits and diversification benchmarks. These policies have been set in line with the Company's investment and risk management policies and in compliance with regulatory requirements in respect of maintenance of assets and solvency.

Investment in derivatives is prohibited.

### Currency risk

Currency risk is the risk that the fair value or 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 financial assets are also primarily maintained in Malaysia as required under the Financial Services Act 2013 and denominated in the same currency as its insurance and investment contract liabilities.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"), with limited exposure to foreign currency risks.

The Company's exposure to foreign currency risk arises from current account deposits maintained in Brunei in relation to the run-off branch operations and several foreign currency current accounts maintained to facilitate payments.

As the total foreign currency risk exposure is not significant, the Company does not hedge its position. In addition, no sensitivity analysis is performed as the impact from foreign currency risk is deemed minimal.

The Company's exposure to foreign currency risk based on carrying amounts as at the end of the reporting periods was:

| | 2013<br>RM'000 | 2012<br>RM'000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Brunei Dollar | 41 | 4 |
| Japanese Yen | - | 3 |
| United States Dollar | 3 | 102 |

### 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 yields.

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

The Company's exposure to interest rate risk arises primarily from investments in fixed income securities and deposits with licensed institutions.

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

As the Company mainly invests in fixed rate instruments, the impact on profit before tax and equity arising from exposure to interest rate/profit yield risk is insignificant.

## 35. Financial risks (continued)

### Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **Fixed rate instruments** | | |
| AFS financial assets – Debt instruments | 531,558 | 509,918 |
| Loan and receivables – Fixed and call deposits | 1,236,967 | 1,123,392 |
| | **1,768,525** | **1,633,310** |

### *Interest rate risk sensitivity analysis*

### *Fair value sensitivity analysis for fixed rate instruments*

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

### Price risk

Equity price risk is the risk that the fair value or 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), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Company's exposure to price risk arises from its investment in quoted equities traded in Bursa Malaysia.

The Company manages its exposure to price risk by setting policies and investment parameters governing asset allocation and investment limits as well as specific review by the Investment Working Committee for equity investments falling by 20% or more of its cost.

The Company has no significant concentration of price risk.

The analysis below is performed for reasonable possible movements in equity market price with all other variables held constant, showing the impact of statement of comprehensive income and equity (due to changes in fair value of AFS financial assets).

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | Change in variables | Impact on income statement RM'000 | Impact on equity* RM'000 | Impact on income statement RM'000 | Impact on equity* RM'000 |
| Market price | +10% | - | 12,649 | - | 8,863 |
| Market price | -10% | - | (12,649) | - | (8,863) |

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

The method used for deriving sensitivity information and significant variables did not change from the previous period.

**35. Financial risks (continued)**

**Operational risks**

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.

The Company mitigates operational risks by putting in place a framework for controls and procedures, which includes the establishment of a Company risk profile, an internal control programme, ISO documented procedures as well as work instructions, encapsulating effective segregation of duties, access controls, authorization and reconciliation procedures. Regional and internal audits also play a role in ensuring that operational risks are mitigated.

External events such as interruption of business operation due to disasters may disrupt working environment, facilities and personnel. The Company has developed a Business Continuity Management Framework ("BCM") in line with Bank Negara requirements (BNM/RH/GL/013-3 Guidelines on Business Continuity Management [Revised]) with the objectives of protecting the business, customers and all stakeholders by addressing and minimizing serious interruption to the business through a structured framework of business and systems recovery plans in the event of a disaster.

**Fair value information**

It was not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

**35. Financial risks (continued)**

**Fair value information (continued)**

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amount shown in the statement of financial position.

| | Fair value of financial instruments carried at fair value | | | Fair value of financial instruments not carried at fair value | | | Total fair value | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 | | |
| **2013** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Financial assets** | | | | | | | | |
| **AFS Financial assets** | | | | | | | | |
| Equity securities in corporation | | | | | | | | |
| Quoted in Malaysia | 168,650 | - | - | - | - | - | 168,650 | 168,650 |
| Unit Trust | 193,986 | - | - | - | - | - | 193,986 | 193,986 |
| Malaysian Government Securities | - | 121,153 | - | - | - | - | 121,153 | 121,153 |
| Government Investment Issues | - | 165,733 | - | - | - | - | 165,733 | 165,733 |
| BNM Paper/Sukuk | - | 10,055 | - | - | - | - | 10,055 | 10,055 |
| Corporate debt securities | | | | | | | | |
| Unquoted in Malaysia | - | 232,501 | 2,116 | - | - | - | 234,617 | 234,617 |
| | **362,636** | **529,442** | **2,116** | **-** | **-** | **-** | **894,194** | **894,194** |

## 35. Financial risks (continued)

### Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amount shown in the statement of financial position.

| | Fair value of financial instruments carried at fair value | | | Fair value of financial instruments not carried at fair value* | Total fair value | Carrying amount |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | | |
| **2012** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Financial assets** | | | | | | |
| **AFS Financial assets** | | | | | | |
| Equity securities in corporation | | | | | | |
| Quoted in Malaysia | 118,167 | - | - | - | 118,167 | 118,167 |
| Unit Trust | 166,051 | - | - | - | 166,051 | 166,051 |
| Malaysian Government Securities | - | 130,100 | - | - | 130,100 | 130,100 |
| Government Investment Issues | - | 156,477 | - | - | 156,477 | 156,477 |
| BNM Paper/Sukuk | - | 9,986 | - | - | 9,986 | 9,986 |
| Corporate debt securities | | | | | | |
| Unquoted in Malaysia | - | 211,239 | 2,116 | - | 213,355 | 213,355 |
| | **284,218** | **507,802** | **2,116** | **-** | **794,136** | **794,136** |

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

## 35. Financial risks (continued)

### Fair value information (continued)

### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

### Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

### Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

***Transfers between Level 1 and Level 2 fair values***

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2012: no transfer in either directions).

### Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

The following table shows a reconciliation of Level 3 fair values:

| | **2013 RM'000** | **2012 RM'000** |
|---|---|---|
| Balance at 1 January | 2,116 | 2,170 |
| **Gains and losses recognised in profit or loss** | | |
| Realised gains and losses | - | 369 |
| **Gains and losses recognised in other comprehensive income** | | |
| Net loss on fair value of available-for-sale financial assets | - | (423) |
| **Balance at 31 December** | **2,116** | **2,116** |

## 35. Financial risks (continued)

### Fair value information (continued)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

**Financial instruments carried at fair value**

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Unquoted debt securities | Discounted cash flows | Effective interest rates (2013: 7-8%) | The estimated fair value would increase (decrease) if the effective interest rate were lower (higher) |

**Sensitivity analysis for Level 3**

| | Profit or loss | | Other comprehensive income, net of tax | |
|---|---|---|---|---|
| | Increase RM'000 | Decrease RM'000 | Increase RM'000 | Decrease RM'000 |
| **2013** | | | | |
| Interest rate (1% movement) | - | - | 49 | 46 |

**Valuation processes applied by the Company for Level 3 fair value**

The Company has an established control framework in respect to measurement of fair values of financial instruments. This includes a valuation team that has overall responsibility of overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer. The valuation team regularly reviews significant unobservable inputs and valuation adjustments.

## 36. Regulatory capital requirements

The Company's capital management policy is to optimize the efficient and effective use of resources to maximize 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 Ministry of Finance. Under the RBC Framework guidelines issued by Bank Negara Malaysia, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. As at year end, the Company has a capital adequacy ratio in excess of the minimum requirement.

The capital structure of the Company as at 31 December 2013, as prescribed under the RBC Framework is provided below:

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| **Eligible Tier 1 Capital** | | | |
| Share capital (paid-up) | 14 | 333,143 | 333,143 |
| Reserves, including retained earnings | | 1,852,475 | 1,731,910 |
| | | 2,185,618 | 2,065,053 |
| **Tier 2 Capital** | | | |
| Eligible reserves | | 3,878 | 6,183 |
| Amounts deducted from capital | | (1,147,343) | (1,143,570) |
| **Total capital available** | | **1,042,153** | **927,666** |

# STATEMENT BY DIRECTORS

*pursuant to Section 169(15) of the Companies Act, 1965*

In the opinion of the Directors, the financial statements set out on pages 41 to 101 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2013 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

**Dato' Mohd. Sallehuddin bin Othman**

**Chua Seck Guan**

Kuala Lumpur,
Date: 24 March 2014

# STATUTORY DECLARATION

*pursuant to Section 169(16) of the Companies Act, 1965*

I, Soh Lai Sim, the Officer primarily responsible for the financial management of MSIG Insurance (Malaysia) Bhd., do solemnly and sincerely declare that the financial statements set out on pages 41 to 101 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 above named in Kuala Lumpur on 24 March 2014.

**Soh Lai Sim**

Before me:

# INDEPENDENT AUDITORS' REPORT

*to the members of MSIG Insurance (Malaysia) Bhd* (Company No. 46983-W) (Incorporated in Malaysia)

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
No. 8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

Tel: (603) 7721 3388
Fax: (603) 7721 3399
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**Report on the Financial Statements**

We have audited the financial statements of MSIG Insurance (Malaysia) Bhd., which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 41 to 101.

***Directors' Responsibility for the Financial Statements***

The Directors of the Company are responsible for the preparation of these 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 controls 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 judgement, 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.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### Report on Other Legal and Regulatory Requirements

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

### Other Matters

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

**KPMG**
Firm Number: AF 0758
Chartered Accountants

**Mok Wan Kong**
Approval Number: 2877/12/14(J)
Chartered Accountant

Petaling Jaya, Selangor
Date: 24 March 2014

MSIG

**MSIG Insurance (Malaysia) Bhd** (46983-W)
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