Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2012

(In Ringgit Malaysia)

Allianz General Insurance Company (Malaysia) Berhad

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Contents

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Directors' report for the financial year ended 31 December 2012

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2012.

Principal activity

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 this activity during the financial year.

Results

	RM'000
Profit for the year	162,375

Dividends

No dividend was paid during the financial year.

The Directors recommended a final dividend of 11.95 sen (2011: RM Nil) per ordinary share under single tier system totalling RM40,031,304 in respect of the financial year ended 31 December 2012.

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.

Insurance claim liabilities and insurance premium liabilities

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that the insurance claim liabilities and insurance premium liabilities are adequate in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework issued by Bank Negara Malaysia ("BNM").

Bad and doubtful debts

Before the financial statements 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 bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

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

Current assets

Before the financial statements 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 financial statements of the Company, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances that would render the value 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:

1. 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

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

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of this paragraph, contingent liabilities 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, that would render any amount stated in the financial statements of the Company misleading.

Items of an unusual nature

In the opinion of the Directors, except for those disclosed in the financial statements, the results of the operations of the Company for the financial year ended 31 December 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Issue of shares

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

Options granted over unissued shares

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

Corporate governance

A. Board responsibilities and oversight

The Board of Directors ("Board") has overall responsibility for reviewing and adopting strategic plans for the Company, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control system.

The Company complied with all the prescriptive requirements of, the Prudential Framework of Corporate Governance for Insurers issued by BNM ("CG Framework") and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), and adopts management practices that are consistent with the principles and/or best practices prescribed under the CG Framework, the Listing Requirements and the Malaysian Code on Corporate Governance 2012 ("Code"), where applicable. The Board is committed to ensure that the highest standard of corporate governance is practiced throughout the Company as a fundamental of discharging its duties and responsibilities to protect the interests of its shareholders and policyholders.

A1. Composition of the Board

The Board comprises 4 Independent Non-Executive Directors and 1 Non-Independent Non-Executive Director.

The Board comprises members from various fields with a balance of skills and experiences appropriate to the business of the Company.

All the members of the Board have complied with the BNM's requirements on restriction of directorships and the minimum criteria of "A Fit and Proper Person" as prescribed under the Insurance Act, 1996 and Insurance Regulations, 1996.

The appointments and re-appointments of all Board members were approved by BNM.

Corporate governance (continued)

A2. Board meetings

The Board meets regularly which is at least 6 times in a year. Additional Board Meetings are held as and when required. There were 6 Board Meetings held during the financial year ended 31 December 2012.

The attendance of the existing Directors at the Board Meetings held during the financial year ended 31 December 2012 are as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Bin Ismail	6	6
Foo San Kan	6	6
Dato' Dr. Thillainathan A/L Ramasamy	6	6
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	1 out of 1 meeting held after her appointment as a Director on 23 November 2012
Jens Reisch	6	6

A3. Board Committees

The Company has since 1 January 2008 formally used the services of the below mentioned Board Committees of its immediate holding company, Allianz Malaysia Berhad ("AMB"):-

(a) Audit Committee;
(b) Risk Management Committee;
(c) Nominating Committee;
(d) Remuneration Committee; and
(e) Investment Committee.

The Board Committees are operating on the terms of reference as approved by the Board of AMB and adopted by the Board of the Company to assist the Board in the execution of its responsibilities. These Board Committees shall have the authorities to examine particular issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

Corporate governance (continued)

A3.1. Audit Committee of AMB

The members of the Audit Committee of AMB as at the date of this report are as follows:-

Foo San Kan (Chairman-Independent Non-Executive Director)
Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)

There were 5 Audit Committee Meetings held by AMB during the financial year ended 31 December 2012.

The attendance of the abovementioned Audit Committee members at the Audit Committee Meetings held during the financial year ended 31 December 2012 are as follows:-

Name of Members	No. of Audit Committee Meetings Held	No. of Audit Committee Meetings Attended
Foo San Kan	5	5
Tan Sri Razali Bin Ismail	5	3
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	Not applicable*

Note:
* Tan Sri Datuk (Dr.) Rafiah Binti Salim was appointed as a member of the Audit Committee of AMB on 23 November 2012. There was no Audit Committee Meeting held during the financial year ended 31 December 2012 following her appointment as a member of the Audit Committee of AMB.

The terms of reference of the Audit Committee of AMB complied with the Listing Requirements, the Guidelines of BNM and the Code.

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Corporate governance (continued)

A3.2. Risk Management Committee of AMB

The members of the Risk Management Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)

There were 4 Risk Management Committee Meetings held by AMB during the financial year ended 31 December 2012.

The attendance of the abovementioned Risk Management Committee members at the Risk Management Committee Meetings held during the financial year ended 31 December 2012 are as follows:-

Name of Members	No. of Risk Management Committee Meetings Held	No. of Risk Management Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	Not applicable*
Foo San Kan	4	4
Dato' Dr. Thillainathan A/L Ramasamy	4	4

Note:
* Tan Sri Datuk (Dr.) Rafiah Binti Salim was appointed as member and Chairperson of the Risk Management Committee of AMB on 23 November 2012 and 25 November 2012 respectively. There was no Risk Management Meeting held during the financial year ended 31 December 2012 following her appointment as member and Chairperson of the Risk Management Committee of AMB.

The Risk Management Committee of AMB is responsible for driving the risk management framework of AMB and its subsidiaries ("Group") and to report to the Boards of the respective companies within the Group on its recommendations and/or decisions. The responsibilities of the Risk Management Committee of AMB are stated below:-

(a) to address strategic and corporate level risks and recommend to the respective Boards of the Group the strategies to manage these risks and ensure its implementation;

Corporate governance (continued)

A3.2. Risk Management Committee of AMB (continued)

(b) 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;

(c) to review and recommend risk management strategies, policies and risk parameters/tolerance levels, Internal Capital Adequacy Assessment Process result for the approval of the respective Boards of the Group and to ensure any changes and concerns are communicated to senior management effectively;

(d) to ensure the risk control functions have adequate resources, authority, infrastructure, systems and independence to enable an effective risk management;

(e) to review the Key Risks Profile and risks raised by business units and monitor the progress of action plans implemented;

(f) to review and recommend for the approval of the respective Boards of the Group, the contingency planning, including its effectiveness in testing covering policies, processes and resources in place to address potential crisis, unusual circumstances and stress situations;

(g) to review periodic reports on risk exposure, risk portfolio composition and risk management activities;

(h) to report to the respective Boards of the Group, the risk management status on a regular basis; and

(i) to approve risk methodology to facilitate risk assessment.

A3.3. Nominating Committee of AMB

The members of the Nominating Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Zakri Bin Mohd Khir (Non-Independent Non-Executive Director of AMB)

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Corporate governance (continued)

A3.3. Nominating Committee of AMB (continued)

There were 2 Nominating Committee Meetings held by AMB during the financial year ended 31 December 2012.

The attendance of the abovementioned Nominating Committee members at the Nominating Committee Meetings held during the financial year ended 31 December 2012 are as follows:-

Name of Members	No. of Nominating Committee Meetings Held	No. of Nominating Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	2	Not applicable*
Tan Sri Razali Bin Ismail	2	1
Foo San Kan	2	2
Dato' Dr. Thillainathan A/L Ramasamy	2	2
Zakri Bin Mohd Khir	2	Not applicable**

Note:

* Tan Sri Datuk (Dr.) Rafiah Binti Salim was appointed as member and Chairperson of the Nominating Committee of AMB on 23 November 2012 and 25 November 2012 respectively. There was no Nominating Committee Meeting held during the financial year ended 31 December 2012 following her appointment as member and Chairperson of the Nominating Committee of AMB.

** Encik Zakri Bin Mohd Khir was appointed as a member of the Nominating Committee of AMB on 18 January 2013.

The primary objective of the Nominating Committee of AMB is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officers and Key Responsible Persons of the Group and to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), Chief Executive Officers and Key Responsible Persons of the Group on an on-going basis.

Corporate governance (continued)

A3.3. Nominating Committee of AMB (continued)

The responsibilities of the Nominating Committee of AMB are stated below and shall be applicable to the Group:-

(a) establishing minimum requirements for the Board and the Chief Executive Officers to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors as well as diversity (including gender diversity), and other core competencies required, through annual reviews;

(b) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the Chief Executive Officers position. This includes assessing Directors and the Chief Executive Officers proposed for reappointment, before an application for approval is submitted to BNM. The Nominating Committee in making its recommendation on candidates for directorship or re-appointment, should consider the candidates':-

    (i) skill, knowledge, competencies, expertise and experience;
    (ii) professionalism;
    (iii) integrity;
    (iv) commitment, contribution and performance; and
    (v) in the case of candidate for the position of Independent Non-Executive Directors, the Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors;

(c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director including the independent Directors to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officers. All assessments and evaluations carried out by the Nominating Committee in the discharge of all its functions should be properly documented;

(d) developing the criteria to assess the independence of its Independent Directors;

(e) overseeing the appointment, management succession planning and performance evaluation of Directors/Chief Executive Officer and Key Responsible Persons, and recommending to the Board on removal of a Director/Chief Executive Officer and Key Responsible Persons if they are ineffective, errant or negligent in discharging their responsibilities; and

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Corporate governance (continued)

A3.3. Nominating Committee of AMB (continued)

(f) ensuring that all Directors undergo appropriate induction programmes and receive continuous training.

The Company has put in place a performance evaluation process and procedures for assessing the Directors and the effectiveness of the Board.

All appointments and re-appointments of Directors who are due for retirement and eligible for re-election at the Annual General Meeting of the Company and/or Directors whose terms of office as approved by BNM are due for renewal, will be reviewed by the Nominating Committee of AMB and approved by the Board before the applications are submitted to BNM for approval.

In the opinion of the Nominating Committee of AMB, the Board is made up of Directors from diverse backgrounds and qualifications with experiences from different fields and skills appropriate for the business of the Company.

A3.4. Remuneration Committee of AMB

The members of the Remuneration Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)

There were 2 Remuneration Committee Meetings held by AMB during the financial year ended 31 December 2012.

The attendance of the abovementioned Remuneration Committee members at the Remuneration Committee Meetings held during the financial year ended 31 December 2012 are as follows:-

Name of Members	No. of Remuneration Committee Meetings Held	No. of Remuneration Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	2	Not applicable*
Tan Sri Razali Bin Ismail	2	Not applicable**
Foo San Kan	2	2

Corporate governance (continued)

A3.4. Remuneration Committee of AMB (continued)

Note:

* Tan Sri Datuk (Dr.) Rafiah Binti Salim was appointed as member and Chairperson of the Remuneration Committee of AMB on 23 November 2012 and 25 November 2012 respectively. There was no Remuneration Committee Meeting held during the financial year ended 31 December 2012 following her appointment as member and Chairperson of the Remuneration Committee of AMB.

** Tan Sri Razali Bin Ismail was appointed as a member of the Remuneration Committee of AMB on 18 January 2013.

The primary objective of the Remuneration Committee of AMB is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officers and Key Senior Officers of the Group and ensuring that their compensation is competitive and consistent with the culture, objective and strategy of the Group.

The responsibilities of the Remuneration Committee of AMB are stated below and shall be applicable to the Group:-

(a) recommending a framework of remuneration for Directors, Chief Executive Officer and Key Senior Officers. The remuneration policy should:-

- (i) be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
- (ii) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and Key Senior Officers;
- (iii) be sufficient to attract and retain Directors, Chief Executive Officer and Key Senior Officers of calibre needed to manage the Company successfully; and
- (iv) be balanced against the need to ensure that the funds of the insurer are not used to subsidise excessive remuneration package.

(b) recommending specific remuneration packages for Directors, Chief Executive Officer and Key Senior Officers. The remuneration packages should:-

- (i) be based on an objective consideration and approved by the full Board;
- (ii) take due consideration of the assessments of the Nominating Committee of the effectiveness and contributions of the Directors, Chief Executive Officer or Key Senior Officers concerned;
- (iii) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and

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Corporate governance (continued)

A3.4. Remuneration Committee of AMB (continued)

(iv) be competitive and consistent with the culture, objective and strategy of the Group.

The Board has established a remuneration policy for Directors of the Company. The Remuneration Committee of AMB recommends to the Board, the remuneration to be paid to each Director based on the remuneration policy as approved by the Board. Nevertheless, it is the ultimate responsibility of the Board to decide on the quantum for each Director.

A3.5. Investment Committee of AMB

The members of the Investment Committee of AMB as at the date of this report are as follows:-

Dato' Dr. Thillainathan A/L Ramasamy (Chairman-Independent Non-Executive Director)
Jens Reisch (Non-Independent Non-Executive Director)
Zakri Bin Mohd Khir (Non-Independent Non-Executive Director of AMB)
Ong Eng Chow (Non-Independent Executive Director of AMB)

There were 4 Investment Committee Meetings held by AMB during the financial year ended 31 December 2012.

The attendance of the abovementioned Investment Committee members at the Investment Committee Meetings held during the financial year ended 31 December 2012 are as follows:-

Name of Members	No. of Investment Committee Meetings Held	No. of Investment Committee Meetings Attended
Dato' Dr. Thillainathan A/L Ramasamy	4	4
Jens Reisch	4	4
Zakri Bin Mohd Khir	4	4
Ong Eng Chow	4	4

The Investment Committee of AMB is responsible for the setting of investment policies, objectives, guidelines and controls for the Investment Department, which in turn is responsible for managing the investment functions of the Group.

Corporate governance (continued)

B. Management Accountability

B1. Organisational Structure and Allocation of Responsibilities

The organisational structure of the Company shows lines of reporting responsibility for all levels of staff. The reporting lines are structured, taking into consideration that management control is maintained at all levels throughout the organisation and that there is no gap in the reporting lines.

In order to ensure that each staff fully understand his/her job responsibilities, a documented job description setting out the duties and responsibilities and reporting line for each staff is made available to the staff concerned. In allocating job duties and responsibilities to the staff, the Company also takes into consideration that there are appropriate segregation of duties and that the staff are not assigned with potentially conflicting responsibilities.

Various Management Committees are established by the Management to assist in managing the day-to-day operations and ensure its effectiveness. The Management Committees formulate tactical plans and business strategies, monitor the performance of the Company and ensure that activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

The Board's approving authority is delegated to the Management through formal and clearly defined operational authority limits that governs business procedures and decision process in the Company. The operational authority limits incorporate segregation of duties and check and balance in delegation of authority. It covers underwriting of risks, claims settlement, reinsurance and capital expenditures and are continuously reviewed and updated to ensure relevance to the Company's operations. Such authority limits are documented and made available to all staff via the Group's staff e-portal.

In ensuring that the decision making process is transparent and to the best interest of the Company, all Directors and staff including the Chief Executive Officer are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Company, any circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

Corporate governance (continued)

B. Management Accountability (continued)

B2. Communication

To support an effective flow of information within the Company and to ensure that important information reaches the appropriate personnel in a timely manner, the Company has in place the following practices:-

- Documentation of important policies and procedures in the form of operating manuals/workflows and published the same in the Group's staff e-portal.
- Senior Management Committee meets regularly to discuss the financial performance, strategic, operational and compliance issues of the Company.
- Regular meetings were held by business units to review strategies, targets and results of the Company.
- Implementation of induction programmes for all newly recruited staff covering amongst others, background of the Company, Allianz SE Group ("Allianz Group")'s Code of Conduct for Business Ethics and Compliance, internal policies and procedures and performance management system ("PMS").
- Conduct regular staff dialogue/briefing.
- Monthly/quarterly staff newsletters are circulated to all staff of the Company.
- Regulatory guidelines, Company's policies and procedures, internal news, financial updates, operational and compliance data and external market information are disseminated through the Group's staff e-portal or e-mail to the relevant staff of the Company in a timely manner.

B3. Goal Setting

The Company recognises the importance of aligning the staff individual goals with the corporate objectives.

The PMS is implemented throughout all levels of staff in the Company to ensure that staff individual goals are in line with the corporate goals and staff performance appraisals are based on the achievement of staff and corporate goals. Under the PMS, corporate goals are cascaded into business unit goals and subsequently to individual goals on a yearly basis.

Staff's individual goals are set during the beginning of each assessment year by their respective superiors with the full participation of the staff concerned, following the finalisation of the corporate goals by the Chief Executive Officer for the said assessment year.

The achievement of the individual goals by the respective staff will be evaluated by their respective superiors at the end of the assessment year.

Corporate governance (continued)

C. Corporate Independence

C1. Related Party Transactions

The Company complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/003-3) and the Listing Requirements in respect of all its related party undertakings. Necessary disclosures were made to the Board and where required, prior approval of the Board and/or shareholders for the transactions had also been obtained.

In line with Part E, Paragraph 10.09 of the Listing Requirements on recurrent related party transactions of a revenue or trading nature with related parties ("Recurrent Transactions"), AMB had obtained the shareholders' mandate for the Group to enter into Recurrent Transactions ("Shareholders' Mandate"). The Shareholders' Mandate will be renewed on a yearly basis at the Annual General Meeting of AMB.

The Group has also established a review procedure for related party transactions including Recurrent Transactions ("RPT Review Procedure") to ensure that they are:-

(i) undertaken on arm's length basis;
(ii) consistent with the Group's usual business practices and policies;
(iii) the transaction prices and terms are not more favourable to the related parties than those extended to third parties/public; and
(iv) are not to the detriment of the minority shareholders.

Under the RPT Review Procedure, a due diligence working group ("DDWG") was formed to review the related party transactions prior to the same being submitted to the Audit Committee of AMB for consideration. The Audit Committee of AMB will subsequently review the related party transactions and submit its recommendation to the Board for consideration.

The Audit Committee of AMB also reviews the RPT Review Procedure on an annual basis to ensure that the procedures and processes are sufficient and adequate to monitor, track and identify related party transactions including Recurrent Transactions in a timely and orderly manner.

C2. Group Structure

The Company recognises the importance of corporate independence in ensuring that the interests of its policyholders, claimants, creditors and minority shareholders are not compromised. With this in mind, professional, experienced and dedicated Independent Directors were appointed to the Board of the Company.

To date, corporate independence within the Company is well represented by an effective Board which is predominated by dedicated, experienced and professional Independent Directors.

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management

D1. Risk Recognition and Assessment

The Board recognises the importance of having in place a risk management system to identify key risks and implement appropriate controls to manage such risks as an integral part of the Company's operations.

The Company adopted the Group Risk Management Framework Manual ("RMFM"). The RMFM outlines the guiding principles of the risk management approach, structure, roles, responsibilities, accountabilities, reporting requirements as well as risk identification, evaluation and monitoring process.

A comprehensive system of risk governance is achieved through various standards implemented by the Company in relation to organisational structure, risk strategy, written policies, limits, system documentation and reporting. These standards ensure accurate and timely flow of risk-related information and as a disciplined approach towards decision making and execution.

The Company adopts the three lines of defence model where the "first line of defence" rests with the business managers. They are responsible in the first instance for both the risks and returns of their decisions. The "second line of defence" is made up of the independent oversight functions such as Risk, Compliance and Legal. Internal Audit forms the "third line of defence". Internal Audit independently reviews risk governance implementation, performs reviews of risk processes and tests adherence to business standards.

A risk management function that is independent from business line management has been established to assist the Management to achieve its strategic goals and objectives by implementing risk management activities across the organisation. In addition, the Risk Management Committee of AMB has been tasked to assist the Board to discharge its oversight function effectively while the Risk Management Working Committee will drive the risk management framework of the Company and report regularly to the Risk Management Committee of AMB on its recommendations and/or decisions.

Compliance function will be responsible for integrity management which aims to protect the Company and employees from regulatory risk while the Legal function seeks to mitigate legal risks which include legislative changes, major litigation and disputes, regulatory proceedings and unclear contractual clauses.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D2. Internal Audit

The Company shared the services of the Internal Audit Department of AMB, which assists the Audit Committee of AMB to discharge its duties and responsibilities.

The Internal Audit function undertakes independent reviews or assessments of the Company's operations and its system of internal controls and provides continuous monitoring of the controls and risk management procedures as well as highlights significant risks impacting the Company. The internal audit personnel are independent from the day-to-day activities of the Company and have unrestricted access to all activities conducted by the Company.

The audit scope covers auditable areas encompassing financial operations, product development, investments, pricing operations, back office functions, agency operations, regulatory compliance and information technology ("IT") and systems. An annual audit plan is developed based on annual risk assessment and approved by the Audit committee of AMB.

Internal audit findings are discussed at management level. Senior and functional line management are tasked to ensure that management action plans are carried out in accordance with internal audit recommendations. Regular follow-up audits are also performed to monitor continued compliance.

All internal audit reports are submitted to the Audit Committee of AMB. The Audit Committee of AMB will deliberate on the key audit findings and management actions to address these findings during the Audit Committee meetings. The internal auditors will provide regular updates to the Audit Committee of AMB on the progress of the management action plans as well as progress of the audit plan. The requirements of BNM's Guidelines on Internal Audit Function of Licensed Institutions (BNM/RH/GL/013-4) have been met.

The Audit Committee of AMB plays a vital role in ensuring the effectiveness of the internal audit function. Accordingly, two private discussions are held by the Audit Committee of AMB with the Chief Internal Auditor on a yearly basis without the presence of the Management.

D3. Internal Control Activities

The Company's key internal control processes include the following:-

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Underwriting and reinsurance

The Company exercises control over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually.

Operational authority limits covering underwriting of risks and claims settlement are reviewed and updated regularly.

Review on reinsurers is conducted on an annual basis to ensure that reinsurers have secured ratings from accredited rating agencies and complied with Allianz Group's reinsurance security listing.

Reinsurance arrangements are executed in accordance with the requirements as promulgated in the Insurance Act, 1996 and Insurance Regulations 1996. The reinsurers are selected based on the selection criteria prescribed by the Company.

Financial control procedures

Financial control procedures are put in place and are documented in the procedural workflows of each business unit. These workflows are subject to reviews and improvements to reflect changing risks and process enhancement as and when required.

Investment

The Investment Committee of AMB is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department, which resides at Allianz Life Insurance Malaysia Berhad. The Investment Department is responsible for managing the investment functions of the Group.

The Company adopted the Group Investment Manual which sets out the detailed investment procedures and controls, including an Investment Code of Ethics to ensure that the Company's interests prevail over the personal interests of the employees.

The investment limits are set at various levels with limits which are more stringent than the regulatory limits as prescribed by BNM. The investment limits are monitored continuously to ensure compliance with the investment limits as specified in the Risk-Based Capital Framework for Insurers issued by BNM.

The investment performance and equity/bonds exposure reports are amongst the reports submitted to the Investment Committee of AMB for review at its regular meetings.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Information system

The Company complied with the BNM's Guidelines on Management of IT Environment (GPIS 1) and Guidelines on Internet Insurance (Consolidated) (BNM/RH/GL/003-5) by establishing a reliable information security system and a Group Information Security Policy and Standard ("Policy") to protect information confidentiality, integrity, availability and non-repudiation.

All employees are required to strictly abide by and comply with the Policy.

An IT Steering Committee is established to be responsible for the overall strategic deployment of IT in tandem with the business objectives of the Company, establishing effective IT plans, recommending to Senior Management Committee for approval on IT-related expenditure and monitoring the progress of approved IT projects.

Data management framework

The Group Data Management Framework ("DMF") has been in place to establish and maintain a sound data management and management information system framework. The objective of the Group DMF is to manage data and disseminate information effectively and efficiently and to maximise the effective use and value of data assets. In addition, the Group DMF aims to ensure the integrity of data assets by preventing unauthorised or inappropriate use of data and information.

Product development – Non motor

A Product Development Management Framework ("Framework") which sets out the policies and procedures on product development was established by the Company in accordance with the requirements of the Guideline on Introduction of New Products for Insurance Company and Takaful Operators issued by BNM.

The Framework aims to promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risk during the development and marketing stages. The Framework will also assist to ensure that the products developed and marketed by the Company are appropriate to the needs and resources of the targeted consumer segment.

All new products launched will be developed in accordance with the requirements of the Framework and BNM Guidelines, approved by the Senior Management Committee, certified by the Qualified Actuary (for Health class) and lodged with BNM pursuant to Section 142 of the Insurance Act, 1996, prior to the same being marketed by the Company.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Product development – Non motor (continued)

The ongoing product risk management is embedded within the risk management framework of the Company.

Whistleblowing procedures

The Whistleblowing Committee of AMB was established to further enhance corporate governance and to meet the expectations of the Allianz Group's Code of Conduct for Business Ethics and Compliance. Guidelines and procedures for the Whistleblowing Committee are in place to handle, review, assess and take appropriate actions on complaints or concerns raised by the employees relating to any illegal or questionable activities in the Company. Such complaints or concerns may be made anonymously. The whistleblowing procedures will help to promote transparency and accountability throughout the Company.

Anti-fraud and anti-corruption

The Anti-Fraud Committee of AMB was set up to coordinate all activities concerning fraud prevention and detection. The Anti-Fraud Policy, which defines fraud events, investigation process, reporting procedures, fraud risk assessments, training and the roles and responsibilities of management and employees, has been in place to assist the Anti-Fraud Committee. The Anti-Fraud Committee is also responsible for all fraud investigations and ensuring that necessary remedial actions are taken to mitigate the recurrence of fraud.

In line with the Allianz Group's Anti-Corruption Program, the Company has adopted the Allianz Group's Anti-Corruption Policy ("Anti-Corruption Policy"). The Anti-Corruption Policy serves to outline Allianz Group's existing controls and behavioural guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments.

Anti-money laundering/Counter financing terrorism

The Company has in place internal policies and procedures relating to Anti-Money Laundering and Counter Financing Terrorism to prevent and detect money laundering and terrorism financing activities. These include customer due diligence, screening against sanction list and suspicious transaction reporting to Compliance Department.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Anti-money laundering/Counter financing terrorism (continued)

In respect of education, staff and agents are continuously trained on Anti-Money Laundering and Counter Financing Terrorism requirements to promote understanding of their fundamental responsibilities in adhering to the procedures of verifying customers' information and reporting of suspicious transactions. The Company will co-operate with any national authorities and law enforcement authorities in combating money laundering/financing of terrorist group operations.

Employees and agents

All staff are required to make an annual declaration that they fulfilled the minimum criteria of "A Fit and Proper Person" as prescribed in Part XII of the Insurance Regulations 1996. In addition, all staff are also required to attest that they understand and comply with the requirements of the following internal guidelines and policies:-

(i) Related Party Transaction Declaration;
(ii) Disclosure of Data;
(iii) Conflict of Interest;
(iv) Allianz Group's Code of Conduct for Business Ethics and Compliance;
(v) IT Security Policy and Guideline e-Awareness Declaration;
(vi) Anti-Corruption Policy; and
(vii) Anti-Fraud Awareness Declaration.

The Company's agents are guided by the Sales Policy and Sales Agent Code of Conduct in order to promote professional sales conduct of agents representing the Company. The Company has established the Ethics and Compliance Committee to deal with the agents behaviours that are contrary to the Sales Policy and Sales Agent Code of Conduct.

In addition, the Company's agents are also subject to the Persatuan Insuran Am Malaysia ("PIAM")'s Code of Ethics and Conduct.

All internal control deficiencies or breaches are reported to the Senior Management Committee and/or the Board, where applicable, as soon as they are identified by the Compliance Department, Internal Audit Department, business units or BNM examiners. Corrective measures will be at the same time presented to the Senior Management Committee and/or the Board for consideration. The progress of the corrective measures will also be presented on a timely manner to the Senior Management Committee and/or the Board until the matters are fully resolved.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Business continuity management

Business Continuity Plan for the Company has been formulated to ascertain that the Company will recover and restore any interrupted critical functions within a predetermined time upon the occurrence of any disastrous events.

The testing for Business Continuity Plan for all business functions and Disaster Recovery Plan test for all main application systems had been conducted during the financial year ended 31 December 2012 and submitted for the Board's endorsement.

Human resources policies and procedures

The Company has established proper policies and procedures on human resource management, including recruitment, training, appraisal, promotion, resignation, termination and remuneration. These policies and procedures are reviewed periodically and changes effected are communicated to relevant employees via-email or through memorandum in a timely manner. The policies and procedures are also made available via the Group's intranet for easy access by the employees.

The Company aims to equip employees with the relevant knowledge, skills and competencies required for their roles and responsibilities through structured training and development programmes. These include a combination of classroom training, on-the-job attachment, professional examinations and project assignments. Employees are encouraged to embrace the culture of continuous learning for personal competency and career development.

E. Public Accountability

The Company complied with the provisions relating to policies under Parts XII and XV of the Insurance Act, 1996. Each staff of the Company and the agency force (intermediary) are also required to adhere to PIAM's Code of Ethics and Conduct when dealing with customers.

Members of the public are also made aware of avenues for appeal against the Company's practices or decisions. The Company's policy contract contains a written statement alerting them to the existence of the Financial Mediation Bureau ("FMB") and BNM's Customer Services Bureau ("CSB"), their roles in investigating complaints into unfair market practices, their contact details and procedures for lodging complaints with the FMB or CSB. In addition, notices containing the same information are exhibited in the Head Office and all the Company's branches. The Company's letter to any claimant on the rejection of a claim also includes similar information for appeal to FMB and CSB.

Corporate governance (continued)

E. Public Accountability (continued)

The Company has a well defined complaint management process to handle all complaints within the stipulated turnaround time. There is also an avenue for the public to lodge complaints via the Group's website.

F. Financial Reporting

Statutory reporting and public disclosure

The Company exercises due care and diligence in ensuring compliance with the requirements of statutory reporting to BNM and other relevant authorities, the accuracy of information contained in the reports submitted to the relevant authorities, as well as maintaining appropriate accounting records. The Group Retention Period of Documents Policy has been in place to ensure that the Company's accounting records are properly kept.

The external auditors are appointed in accordance with the provisions of the Insurance Act, 1996 and the Companies Act, 1965 in Malaysia. They provide an independent opinion that the financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company and its financial performance and cash flows.

The Company complied with Sections 87(1) and 89(1) of the Insurance Act, 1996 in respect of submission of annual audited financial statements, unaudited interim financial statements and quarterly returns to BNM.

The abridged audited financial statements of the Company are published in two daily national press and a copy of which are also exhibited at all branches in a conspicuous position. In addition, the audited financial statements and the unaudited interim financial statements of the Company are also made available in the Group's website at www.allianz.com.my.

Management reporting

Financial reports form the primary basis for decision making and strategies taken by the Senior Management Committee and the Board in respect of the Company's corporate objectives and day-to-day operations. To enable the Senior Management Committee and the Board to effectively monitor the financial condition and performance as well as challenges or risks faced by the Company towards achieving its corporate objectives and subsequently formulate appropriate strategies, various management reports including the risk-based capital results are submitted to the Senior Management Committee and the Board for review at their regular meetings.

Corporate governance (continued)

F. Financial Reporting (continued)

Management Reporting (continued)

The financial and business performance reports as well as the yearly corporate goals target performance report are regular monthly reports submitted to the Senior Management Committee for review. These reports cover the performance of all key operational areas and highlighting challenges faced by the Company, to enable the Management to assess the business development and financial condition of the Company at any point in time and formulate appropriate strategies in addressing operational problems or risks in a timely manner.

In addition, special purpose management reports prepared for decision making will also be presented to the Senior Management Committee on a need to basis.

Annual business plans and budgets are reviewed by the Senior Management Committee before submitting to the Board for approval. Financial condition and business performance reports are also submitted to the Board for review at its regular meetings. These reports cover all key operational areas and provide a sound basis for the Board to assess the financial performance of the Company and to identify potential problems or risks faced by the Company, thus enabling the Board to effectively monitor on an ongoing basis, the affairs of the Company.

Similarly, comprehensive special purpose management reports prepared for decision making will also be presented to the Board on a need to basis.

Directors of the Company

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

Tan Sri Razali Bin Ismail (Chairman - Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Jens Reisch (Non-Independent Non-Executive Director)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director) (Appointed on 23 November 2012)
Dato' Seri Nik Abidin Bin Nik Omar (Independent Non-Executive Director) (Retired on 25 November 2012)
David Lawrence Fried (Non-Independent Non-Executive Director) (Appointed on 28 June 2012 and resigned on 18 January 2013)

Directors' interests

As the Company is a wholly-owned subsidiary of AMB, the interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) are shown in the Directors' report of AMB.

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 companies/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.

Ultimate holding company

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

Immediate holding company

The immediate holding company is AMB, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

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:

Tan Sri Razali Ismail

Jens Reisch

Kuala Lumpur,

Date: 27 March 2013

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Assets				
Property, plant and equipment	3	49,580	49,279	47,548
Investment properties	4	1,972	742	742
Intangible assets	5	1,854	3,892	5,569
Deferred tax assets	14	6,255	-	1,978
Investments	6			
Malaysian government securities		1,151,078	991,472	825,353
Malaysian government guaranteed bonds and loans		393,733	342,979	176,715
Multilateral development bank guaranteed bonds		-	135,539	143,397
Ringgit denominated bonds by foreign issuers in Malaysia		135,766	-	-
Debt securities		755,503	535,955	532,650
Unquoted equity securities		*	*	*
Commercial loans		-	-	5,525
Structured deposits and negotiable certificates of deposits with licensed financial institutions		61,342	61,709	35,775
Reinsurance assets	7	1,083,935	1,071,126	967,734
Insurance receivables	8	88,859	68,158	58,207
Loans and other receivables	9	57,745	47,781	41,281
Deferred acquisition costs	10	59,315	49,667	42,598
Assets classified as held for sale		-	-	2,440
Cash and cash equivalents		124,295	196,769	244,501
Total assets		3,971,232	3,555,068	3,132,013

* Denotes RM4

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2012 (continued)

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Equity and liabilities				
Share capital	11	334,990	334,990	334,990
Retained earnings	12	589,879	427,504	309,034
Other reserves	12	26,511	26,939	15,404
Total equity		951,380	789,433	659,428
Insurance contract liabilities	13	2,682,340	2,463,498	2,161,314
Deferred tax liabilities	14	-	791	-
Other financial liabilities	15	2,437	2,789	2,013
Insurance payables	16	238,802	198,191	217,852
Other payables and accruals	17	84,918	68,916	58,048
Subordinated loan	18	-	29,396	28,171
Current tax liabilities		11,355	2,054	5,187
Total liabilities		3,019,852	2,765,635	2,472,585
Total equity and liabilities		3,971,232	3,555,068	3,132,013

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Operating revenue	19	1,658,634	1,456,917
Gross earned premiums	20	1,565,762	1,375,522
Premiums ceded to reinsurers	20	(477,834)	(369,369)
Net earned premiums		1,087,928	1,006,153
Investment income	21	92,872	81,395
Realised gains and losses	22	3,268	1,263
Fair value gains and losses	23	(2,455)	-
Fee and commission income	24	98,937	66,769
Other operating income		1,807	2,004
Other income		194,429	151,431
Gross claims paid		(719,580)	(693,578)
Claims ceded to reinsurers		198,447	203,158
Gross change in claims liabilities		(110,655)	(214,623)
Change in claims liabilities ceded to reinsurers		(13,822)	72,799
Net claims incurred	25	(645,610)	(632,244)
Fee and commission expense	26	(193,359)	(166,668)
Management expenses	27	(217,346)	(173,530)
Other operating expenses		(5,197)	(4,630)
Other expenses		(415,902)	(344,828)
Profit before tax		220,845	180,512
Tax expense	28	(58,470)	(50,033)
Profit for the year		162,375	130,479
Profit attributable to:			
Owners of the Company		162,375	130,479
Basic earnings per ordinary share (sen)	29	48.5	39.0

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Profit for the year		162,375	130,479
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss			
Revaluation reserve		802	5,425
Tax effects thereon	28.3	(200)	(1,045)
		602	4,380
Item that may be reclassified subsequently to profit or loss			
Available-for-sale fair value reserves	6.2	(1,373)	9,540
Tax effects thereon	28.3	343	(2,385)
		(1,030)	7,155
Total other comprehensive income for the year, net of tax		(428)	11,535
Total comprehensive income for the year		161,947	142,014
Total comprehensive income attributable to:			
Owners of the Company		161,947	142,014

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2012

		← Non-distributable			→	Distributable	
	Note	Share capital	Capital reserve	Fair value reserve	Revaluation reserve	Retained earnings	Total equity
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2011		334,990	4,523	10,881	-	309,034	659,428
Revaluation of property, plant and equipment		-	-	-	4,380	-	4,380
Fair value of available-for-sale financial assets		-	-	7,155	-	-	7,155
Total other comprehensive income for the year		-	-	7,155	4,380	-	11,535
Profit for the year		-	-	-	-	130,479	130,479
Total comprehensive income for the year		-	-	7,155	4,380	130,479	142,014
Dividends paid to the owners of the Company	30	-	-	-	-	(12,009)	(12,009)
At 31 December 2011 / At 1 January 2012		334,990	4,523	18,036	4,380	427,504	789,433
Revaluation of property, plant and equipment		-	-	-	602	-	602
Fair value of available-for-sale financial assets		-	-	(1,030)	-	-	(1,030)
Total other comprehensive income for the year		-	-	(1,030)	602	-	(428)
Profit for the year		-	-	-	-	162,375	162,375
Total comprehensive income for the year		-	-	(1,030)	602	162,375	161,947
At 31 December 2012		334,990	4,523	17,006	4,982	589,879	951,380
		Note 11	Note 12.1	Note 12.2	Note 12.3	Note 12.4	

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2012

	2012 RM'000	2011 RM'000
Operating activities		
Profit before tax	220,845	180,512
Investment income	(92,872)	(81,395)
Realised gains recorded in profit or loss	(3,268)	(1,263)
Change in fair value of investment properties	(1,230)	-
Purchases of available-for-sale investments	(687,296)	(788,214)
Proceeds from disposal of available-for-sale investments	125,816	101,904
Maturity of available-for-sale investments	124,000	338,650
Change in loans and receivables investments	-	5,525
Non-cash items:		
Depreciation of property, plant and equipment	8,418	7,928
Property, plant and equipment written off	96	11
Amortisation of intangible assets	2,503	2,410
Interest expense on subordinated loan	1,274	1,225
Reversal of allowance for impairment loss on receivables	(2,285)	(11,509)
Bad debts written off	982	6,525
Bad debts recovered	(373)	(233)
Impairment loss on financial assets	3,685	-
Changes in working capital:		
Change in reinsurance assets	(12,809)	(103,392)
Change in insurance receivables	(19,025)	(4,594)
Change in loans and other receivables	(5,505)	(6,776)
Change in deferred acquisition costs	(9,648)	(7,069)
Change in insurance contract liabilities	218,842	302,184
Change in other financial liabilities	(352)	776
Change in insurance payables	40,611	(19,661)
Change in other payables	16,105	11,558
Cash used in operating activities	(71,486)	(64,898)

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of cash flows for payments of claims incurred for insurance contracts, which are respectively treated under operating activities.

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2012 (continued)

	2012 RM'000	2011 RM'000
Cash used in operating activities	(71,486)	(64,898)
Dividend income received	70	-
Interest income received	94,185	86,502
Rental income received	56	53
Income tax paid	(56,072)	(53,827)
Net cash flows used in operating activities	(33,247)	(32,170)
Investing activities		
Proceeds from disposal of property, plant and equipment	599	2,116
Purchase of property, plant and equipment	(8,637)	(5,298)
Proceeds from disposal of investment property	-	468
Purchase of intangible assets	(416)	(149)
Net cash flows used in investing activities	(8,454)	(2,863)
Financing activities		
Repayment of subordinated loan	(30,670)	-
Repayment of lease arrangements	(103)	(690)
Dividends paid	-	(12,009)
Net cash flows used in financing activities	(30,773)	(12,699)
Net decrease in cash and cash equivalents	(72,474)	(47,732)
Cash and cash equivalents at beginning of year	196,769	244,501
Cash and cash equivalents at end of year	124,295	196,769
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months):	118,207	193,628
Cash and bank balances	6,088	3,141
	124,295	196,769

Included in the fixed and call deposits are RM63,052,000 (31 December 2011: RM58,756,000) held as cash collateral for guarantees issued on behalf of the policyholders (Note 16).

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Notes to the financial statements

Corporate information

Allianz General Insurance Company (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Company is as follows:

Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 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 this activity during the financial year.

The immediate holding company is Allianz Malaysia Berhad ("AMB"), a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

The financial statements were authorised for issue by the Board of Directors on 27 March 2013.

1. Basis of preparation

1.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the Companies Act, 1965, the Insurance Act and Regulations, 1996 in Malaysia and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM"). This is the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements of the Company were prepared in accordance with Financial Reporting Standards, ("FRSs") as modified by Guidelines/Circulars issued by BNM. The transition to MFRSs does not have any material financial impact to the financial statements of the Company.

The Company has early adopted the amendments to MFRS 101, *Presentation of Financial Statements* which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and statement of profit or loss and other comprehensive income.

The following are accounting standards, amendments, and interpretations of the MFRSs 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 2013

MFRS 10, Consolidated Financial Statements
MFRS 11, Joint Arrangements
MFRS 12, Disclosure of Interests in Other Entities
MFRS 13, Fair Value Measurement
MFRS 119, Employee Benefits (2011)
MFRS 127, Separate Financial Statements (2011)
MFRS 128, Investments in Associates and Joint Ventures (2011)
IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine
Amendments to MFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013 (continued)

Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)

Amendments to MFRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)

Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)

Amendments to MFRS 10, Consolidated Financial Statements: Transition Guidance

Amendments to MFRS 11, Joint Arrangements: Transition Guidance

Amendments to MFRS 12, Disclosure of Interests in Other Entities: Transition Guidance

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

MFRS 9, Financial Instruments (2009)

MFRS 9, Financial Instruments (2010)

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 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2013, except for MFRS 10, MFRS 11, MFRS 12, MFRS 127, MFRS 128, Amendments to MFRS 1, Amendments to MFRS 10, Amendments to MFRS 11, Amendments to MFRS 12, and IC Interpretation 20 which are not applicable to the Company.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

- from the annual period beginning 1 January 2014 for those 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 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

Material impacts of initial application of a standard, an amendment or an interpretation are discussed 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.

The adoption of MFRS 9 may result in a change in accounting policy for financial assets. The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 13, *Fair Value Measurement*

MFRS 13, *Fair Value Measurement* establishes the principles for fair value measurement and replaces the existing guidance in different MFRSs. The Company is currently assessing the financial impact that may arise from the adoption of MFRS 13.

The initial application of the other standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Company upon their first adoption.

1.2 Basis of measurement

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

1. Basis of preparation (continued)

1.3 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.

1.4 Use of estimates and judgements

The preparation of financial statements in conformity with MFRSs 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 at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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 judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2.2(a) – Revaluation of owner occupied properties
- Note 2.3(c) – Determination of fair value of investment property
- Note 2.6 – Fair value of financial instruments
- Note 2.22(a) – Valuation of general insurance claims liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and in preparing the opening MFRS statement of financial position of the Company at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

2.1 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

2. Significant accounting policies (continued)

2.1 Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting period 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 currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2.2 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment except for work-in-progress are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses. Work-in-progress is stated at cost.

The Company revalues its properties comprising land and buildings every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

The revalued amounts of property are determined by using the comparison method. The comparison method entails critical analysis of recent evidence of values of comparable properties in the neighbourhood and making adjustments for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics. Valuation of properties involves a degree of judgement before arriving at the respective property's revalued amount. As such, the revalued amount of the properties may be different from its actual market price.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to profit or loss.

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. The cost of self-constructed assets also includes the cost of materials and direct labour.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(a) Recognition and measurement (continued)

For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gains or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "realised gains and losses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(b) Subsequent costs

The cost of replacing a component of an item of property, plant 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, plant and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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, plant 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. Freehold land is not depreciated. Work-in-progress are not depreciated until the assets are ready for their intended use.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(c) Depreciation (continued)

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

Leasehold land	Over lease period
Buildings	50 years
Office equipment, computers, furniture and fittings	3 to 10 years
Motor vehicles	5 years
Office renovations and partitions	10 years

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

2.3 Investment properties

(a) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administration purposes. These include land held for a currently undetermined future use.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

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.

2. Significant accounting policies (continued)

2.3 Investment properties (continued)

(b) Reclassification to/from investment properties

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

(c) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment properties portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from its actual market price.

2. Significant accounting policies (continued)

2.4 Intangible assets

(a) Development costs

Expenditure incurred on software development is capitalised.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(b) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(c) Amortisation

Intangible assets with finite useful lives are amortised from the date that they are available for use. Amortisation is based on the cost of an intangible asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for the current and comparative periods of capitalised software development costs is 5 years.

Amortisation methods, useful life and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2.5 Leased assets

(a) Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

2. Significant accounting policies (continued)

2.5 Leased assets (continued)

(a) Finance lease (continued)

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(b) Operating leases

Leases where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the Company's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

2. Significant accounting policies (continued)

2.6 Financial instruments

(a) 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 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.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(b) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

(i) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(ii) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(iii) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market that include staff loans, other receivables and cash and cash equivalents.

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

(iv) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities 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 and foreign exchange gains and losses arising from monetary items 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.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(v) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the 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 cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.7(b).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.6(e), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (See Note 2.7).

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(c) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(d) Regular way purchase or sale of financial assets

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

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date; and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(e) 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 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 profit or loss.

2.7 Impairment of financial assets

(a) Financial assets, excluding insurance receivables

All financial assets (except for financial assets categorised as fair value through profit or loss and fixed and call deposits) 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 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 2.7(b) below) and held-to-maturity investments 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.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

(a) Financial assets, excluding insurance receivables (continued)

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

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 financial 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 are not reversed through profit or loss.

If, in 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 financial 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 profit or loss.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

(b) 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 BNM.

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

2. Significant accounting policies (continued)

2.8 Impairment of other assets

The carrying amounts of other assets (except for deferred tax assets and investment property that are measured at fair value) 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 into the smallest group of assets that generates cash inflows from continuing use that largely independent of the cash inflows of other assets or groups of assets (known as "cash-generating unit").

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 estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

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.

2. Significant accounting policies (continued)

2.9 Equity instruments

Instrument classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(a) Ordinary share capital

The Company has issued ordinary shares that are classified as equity.

(b) Dividends on ordinary share capital

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

Dividends for the year that are approved after the end of the reporting period are dealt with as a subsequent event.

2.10 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 as 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.

2. Significant accounting policies (continued)

2.11 Reinsurance

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

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

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably 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 in the normal course of business for general insurance contracts when applicable.

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

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or 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.

2.12 Commission and agency expenses

Gross commission and agency expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurance 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 2.13.

2. Significant accounting policies (continued)

2.13 General insurance underwriting results

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

(a) Gross premiums

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

(b) Reinsurance premiums

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

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

(c) Unearned premium reserves

Unearned premium reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

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

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method (or other more accurate) method for all other classes of Malaysian general policies
- 1/8th method for all other classes of overseas inward treaty business
- Non-annual policies are time-apportioned over the period of the risks

2. Significant accounting policies (continued)

2.13 General insurance underwriting results (continued)

(d) Claims and expenses

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the end of the reporting period.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the end of the reporting period, using a mathematical method of estimation.

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

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

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

Subsequent to initial recognition, deferred acquisition cost is amortised / allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

DAC is derecognised when the related contracts are either settled or disposed of.

2. Significant accounting policies (continued)

2.14 Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities

Claims liabilities are recognised in respect of both direct insurance and inward reinsurance. Claims liabilities refer to the obligation by the Company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims incurred but not reported ("IBNR"), claims incurred but not enough reserved ("IBNER") together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall Company level. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserve is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Premium liabilities

Premium liabilities is the higher of the aggregate of the UPR and the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the PRAD calculated at the overall Company level.

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.

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred while administering these policies and settling the relevant claims, and expected future premium refunds.

2. Significant accounting policies (continued)

2.15 Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(a) Rental income

Rental income from investment properties and self-occupied properties are recognised in profit or loss on a straight-line basis over the term of the lease.

(b) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss except where an interest bearing investment is considered non-performing i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

(c) Dividend income

Dividend income is recognised in profit or loss on the date the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(d) Realised gains and losses on investments

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

2. Significant accounting policies (continued)

2.16 Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the 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 if the temporary difference arises from 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2.3, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

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 the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period 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)

2.17 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

2.18 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 profit or loss in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

2.19 Other financial liabilities and insurance payables

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

2. Significant accounting policies (continued)

2.20 Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hand, balances and deposits held at call with financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 2.6(b)(iii).

2.21 Earnings per share

The Company presents basic earnings per share ("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.

No diluted EPS is disclosed in these financial statements as there are no dilutive potential ordinary shares.

2.22 Significant accounting judgements, estimates and assumptions

(a) Valuation of general insurance claims liabilities

For general insurance contracts, claims liabilities are the outstanding claims reserve required for the future settlement of losses on claims which have occurred but have yet to be fully settled. Claims liabilities fall into two categories: expected ultimate cost of claims reported and 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 cost 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 Chain Ladder and Bornheutter-Ferguson methods.

The expected ultimate cost of claims reported are based on estimates of future payments that will be made with respect to individual claims. Such estimates are made on a case-by-case basis, based on the information available at the time the reserves are established. The estimates reflect the informed judgement of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim.

2. Significant accounting policies (continued)

2.22 Significant accounting judgements, estimates and assumptions (continued)

(a) Valuation of general insurance claims liabilities (continued)

These reserves are regularly reevaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available. IBNR reserves are established to recognise the estimated cost of losses that have occurred but where the Company has not yet been notified. The valuation of IBNR reserves is carried out by an independent qualified actuary using his professional judgement in applying actuarial methodology and assumptions, based on the Company's current and past claims experience, taking into account the Company's underwriting practice and industry experience. IBNR reserves are estimated based on actuarial statistical projections of the expected cost of the ultimate settlement and administration of claims. The projections are based on available information at the time and include factors such as trends in claims frequency, severity and speed of settlement. IBNR reserves are reviewed and revised quarterly as additional information becomes available with the actual claims development.

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience. These uncertainties may arise from changes in the underlying risks, changes in the spread of risk, changes in the speed of reporting and settlement of claims as well as the suitability of the methodology used in the projection model and its underlying assumptions.

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3. Property, plant and equipment

	Note	Land	Buildings	Land and buildings*	Office equipment, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work-in-progress	Total	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cost/Valuation										
At 1 January 2011		10,639	10,830	1,459	39,144	220	17,087	3,617	82,996	
Additions		-	-	-	1,682	-	425	3,191	5,298	
Disposals		-	-	-	(1,213)	(217)	-	-	(1,430)	
Reclassification		-	-	-	3,702	-	1,473	(5,759)	(584)	#
Written off		-	-	-	(69)	-	-	-	(69)	
Revaluation		2,656	607	-	-	-	-	-	3,263	
At 31 December 2011 / 1 January 2012		13,295	11,437	1,459	43,246	3	18,985	1,049	89,474	
Additions		-	-	-	6,911	-	739	987	8,637	
Disposals		-	-	-	(322)	-	-	(402)	(724)	
Reclassification		-	-	-	1,347	-	-	(1,396)	(49)	#
Written off		-	-	-	(654)	-	(87)	(15)	(756)	
Revaluation		730	-	-	-	-	-	-	730	
At 31 December 2012		14,025	11,437	1,459	50,528	3	19,637	223	97,312	

\# Certain work-in-progress were reclassified as software development costs (intangible assets), see Note 5.

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3. Property, plant and equipment (continued)

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Depreciation									
At 1 January 2011		390	1,719	59	26,122	89	7,069	-	35,448
Depreciation for the year	27	133	595	17	5,380	18	1,785	-	7,928
Elimination of accumulated depreciation on revaluation		(373)	(1,789)	-	-	-	-	-	(2,162)
Disposals		-	-	-	(857)	(104)	-	-	(961)
Written off		-	-	-	(58)	-	-	-	(58)
At 31 December 2011 / 1 January 2012		150	525	76	30,587	3	8,854	-	40,195
Depreciation for the year	27	126	464	17	6,011	-	1,800	-	8,418
Elimination of accumulated depreciation on revaluation		(26)	(46)	-	-	-	-	-	(72)
Disposals		-	-	-	(149)	-	-	-	(149)
Written off		-	-	-	(572)	-	(88)	-	(660)
At 31 December 2012		250	943	93	35,877	3	10,566	-	47,732

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3. Property, plant and equipment (continued)

	Note	Land	Buildings	Land and buildings*	Office equipment, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work-in-progress	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Carrying amounts									
At 1 January 2011		10,249	9,111	1,400	13,022	131	10,018	3,617	47,548
At 31 December 2011 / 1 January 2012		13,145	10,912	1,383	12,659	-	10,131	1,049	49,279
At 31 December 2012		13,775	10,494	1,366	14,651	-	9,071	223	49,580

* The carrying amounts of land and buildings are not segregated as the required information is not available.

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3. Property, plant and equipment (continued)

3.1 Revaluation of properties

The Company's land and buildings were revalued by C H Williams Talhar & Wong Sdn Bhd and Henry Butcher Malaysia Sdn Bhd, independent professional qualified valuers using the comparison method.

Had the land and buildings of the Company been carried under the cost model, their carrying amounts would have been as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Land	10,089	10,169	10,249
Buildings	8,385	8,748	9,111
Land and buildings	1,366	1,383	1,400
	19,840	20,300	20,760

3.2 Leased computers

At 31 December 2012, the net carrying amounts of leased computers of the Company was RM 53,000 (31.12.2011 – RM 162,000; 1.1.2011 – RM1,156,000).

3.3 Land

Included in the carrying amounts of land are:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Freehold land	6,599	6,599	5,190
Long term leasehold land with unexpired lease period of more than 50 years	7,096	6,546	5,059
	13,695	13,145	10,249

4. Investment properties

	Note	2012 RM'000	2011 RM'000
At 1 January		742	742
Change in fair value recognised in profit or loss	23	1,230	-
At 31 December		1,972	742

Included in the above are:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value:			
Long term leasehold land	1,472	242	242
Buildings	500	500	500
	1,972	742	742

The fair values of investment properties are determined by C H Williams Talhar & Wong Sdn Bhd, independent professional qualified valuers using the comparison method. The investment properties are for capital appreciation and do not generate any rental income.

5. Intangible assets

Software development costs	Note	2012 RM'000	2011 RM'000
Cost			
At 1 January		12,051	11,318
Reclassification	3	49	584
Additions		416	149
At 31 December		12,516	12,051
Amortisation			
At 1 January		8,159	5,749
Additions	27	2,503	2,410
At 31 December		10,662	8,159
Carrying amounts			
At 1 January		3,892	5,569
At 31 December		1,854	3,892

The software development costs are in relation to internal development expenditures incurred for the Integrated Insurance Management System, Alternate Front End System and Business Intelligence System. These systems are designed to improve the efficiency of the business activities of the Company.

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6. Investments

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Malaysian government securities	1,151,078	991,472	825,353
Malaysian government guaranteed bonds and loans	393,733	342,979	176,715
Multilateral development bank guaranteed bonds	-	135,539	143,397
Ringgit denominated bonds by foreign issuers in Malaysia	135,766	-	-
Debt securities	755,503	535,955	532,650
Unquoted equity securities	*	*	*
Commercial loans	-	-	5,525
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,342	61,709	35,775
	2,497,422	2,067,654	1,719,415

* Denotes RM4

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

	Current			Non-current			Total		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Loans and receivables ("LAR")	-	-	-	-	-	5,525	-	-	5,525
Available-for-sale financial assets ("AFS")	2,497,422	2,067,654	1,713,890	-	-	-	2,497,422	2,067,654	1,713,890
	2,497,422	2,067,654	1,713,890	-	-	5,525	2,497,422	2,067,654	1,719,415

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6. Investments (continued)

6.1 The Company's financial investments are summarised by categories as follows: (continued)

	31.12.2012		31.12.2011		1.1.2011	
	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000
Loans and receivables						
Commercial loans	-	-	-	-	5,525	5,525

	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Available-for-sale						
Malaysian government securities	1,151,078	1,151,078	991,472	991,472	825,353	825,353
Malaysian government guaranteed bonds and loans	393,733	393,733	342,979	342,979	176,715	176,715
Multilateral development bank guaranteed bonds	-	-	135,539	135,539	143,397	143,397
Ringgit denominated bonds by foreign issuers in Malaysia	135,766	135,766	-	-	-	-
Debt securities:						
Quoted in Malaysia	-	-	-	-	5,404	5,404
Unquoted in Malaysia	755,503	755,503	535,955	535,955	527,246	527,246
Unquoted equity securities	*	-	*	-	*	-
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,342	61,342	61,709	61,709	35,775	35,775
	2,497,422	2,497,422	2,067,654	2,067,654	1,713,890	1,713,890

* Denotes RM4 measured at cost

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6. Investments (continued)

6.2 The carrying values of the financial investments are stated as follows:

	LAR RM'000	AFS RM'000	Total RM'000
At 1 January 2011	5,525	1,713,890	1,719,415
Purchases	-	788,214	788,214
Maturities	-	(338,650)	(338,650)
Disposals	(5,525)	(100,316)	(105,841)
Fair value gains recorded in other comprehensive income	-	9,540	9,540
Accretion	-	1,512	1,512
Amortisation	-	(6,536)	(6,536)
At 31 December 2011	-	2,067,654	2,067,654
Purchases	-	687,296	687,296
Maturities	-	(124,000)	(124,000)
Disposals	-	(122,572)	(122,572)
Impairment loss	-	(3,685)	(3,685)
Fair value loss recorded in other comprehensive income	-	(1,373)	(1,373)
Accretion	-	1,196	1,196
Amortisation	-	(7,094)	(7,094)
At 31 December 2012	-	2,497,422	2,497,422

7. Reinsurance assets

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current				
Reinsurance of insurance contracts				
Claims liabilities		491,378	467,178	425,520
Current				
Reinsurance of insurance contracts				
Claims liabilities		381,189	419,211	388,070
Premium liabilities	13.2	211,368	184,737	154,144
		592,557	603,948	542,214
		1,083,935	1,071,126	967,734

8. Insurance receivables

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Current				
Due premiums including agent, brokers and co-insurers balances		75,411	42,567	46,688
Due from reinsurers and cedants		29,888	41,370	38,034
		105,299	83,937	84,722
Allowance for impairment		(18,780)	(21,065)	(32,714)
		86,519	62,872	52,008
Due from related companies	8.1	2,340	5,286	6,199
		88,859	68,158	58,207

The carrying amounts disclosed above approximate their fair values at the end of the reporting period.

8.1 Amounts due from related companies

The amounts due from related companies are unsecured.

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9. Loans and other receivables

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current				
Staff loans				
Mortgage loans		2,797	2,683	2,598
Other secured loans		513	503	649
		3,310	3,186	3,247
Other receivables				
Other receivables, deposits and prepayments		3,697	3,965	4,235
Malaysian Institute of Insurance ("MII") bonds		490	490	490
		4,187	4,455	4,725
Current				
Staff loans				
Mortgage loans		423	386	505
Other secured loans		211	241	312
		634	627	817
Other receivables				
Other receivables, deposits and prepayments		27,705	21,969	15,640
Allowance for impairment		(3,376)	(3,376)	(3,236)
		24,329	18,593	12,404
Income due and accrued		24,395	19,936	20,072
Due from ultimate holding company	9.1	200	300	-
Due from related companies	9.1	690	684	16
		49,614	39,513	32,492
Total loans and other receivables		57,745	47,781	41,281

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

9. Loans and other receivables (continued)

9.1 Amounts due from ultimate holding company and related companies

The amounts due from ultimate holding company and related companies are unsecured, interest free and repayable on demand.

10. Deferred acquisition costs

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2011		59,647	(17,049)	42,598
Movement during the year	24,26	11,086	(4,017)	7,069
At 31 December 2011/ 1 January 2012		70,733	(21,066)	49,667
Movement during the year	24,26	12,481	(2,833)	9,648
At 31 December 2012		83,214	(23,899)	59,315

11. Share capital

	2012		2011	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares of RM1 each:				
Authorised				
At 1 January / 31 December	500,000	500,000	500,000	500,000
Issued and fully paid				
At 1 January / 31 December	334,990	334,990	334,990	334,990

12. Retained earnings and other reserves

12.1 Capital reserve

The capital reserve comprises the equity portion of financial instruments issued.

12.2 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.

12.3 Revaluation reserve

The revaluation reserve represents the surplus on revaluation of land and buildings.

12.4 Retained earnings

Section 108 tax credit

The Company has fully utilised its Section 108 tax credit in year 2011. As such, the Company will distribute single tier exempt dividend to its shareholders out of its retained earnings.

Restriction on payment of dividends

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

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13. Insurance contract liabilities

General insurance contract liabilities consist of:

		31.12.2012			31.12.2011			1.1.2011		
	Note	Gross RM'000	Re-insurance RM'000 (Note 7)	Net RM'000	Gross RM'000	Re-insurance RM'000 (Note 7)	Net RM'000	Gross RM'000	Re-insurance RM'000 (Note 7)	Net RM'000
Provision for claims reported by policyholders		1,420,276	(664,510)	755,766	1,357,126	(699,336)	657,790	1,227,631	(658,994)	568,637
Provision for incurred but not reported claims ("IBNR")		501,178	(208,057)	293,121	453,673	(187,053)	266,620	368,545	(154,596)	213,949
Provision for outstanding claims	13.1	1,921,454	(872,567)	1,048,887	1,810,799	(886,389)	924,410	1,596,176	(813,590)	782,586
Provision for unearned premiums	13.2	760,886	(211,368)	549,518	652,699	(184,737)	467,962	565,138	(154,144)	410,994
		2,682,340	(1,083,935)	1,598,405	2,463,498	(1,071,126)	1,392,372	2,161,314	(967,734)	1,193,580

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13. Insurance contract liabilities (continued)

13.1 Provision for outstanding claims

	Note	2012 Gross RM'000	2012 Reinsurance RM'000 (Note 7)	2012 Net RM'000	2011 Gross RM'000	2011 Reinsurance RM'000 (Note 7)	2011 Net RM'000
At 1 January	25	1,810,799	(886,389)	924,410	1,596,176	(813,590)	782,586
Claims incurred in the current accident year		947,235	(272,218)	675,017	863,518	(240,597)	622,921
Other movements in claims incurred in prior accident years		(117,000)	87,593	(29,407)	44,683	(35,360)	9,323
Claims paid during the year	25	(719,580)	198,447	(521,133)	(693,578)	203,158	(490,420)
At 31 December	25	1,921,454	(872,567)	1,048,887	1,810,799	(886,389)	924,410

13. Insurance contract liabilities (continued)

13.2 Provision for unearned premiums

		2012			2011		
	Note	Gross RM'000	Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	Reinsurance RM'000 (Note 7)	Net RM'000
At 1 January		652,699	(184,737)	467,962	565,138	(154,144)	410,994
Premiums written in the year	20	1,673,949	(504,465)	1,169,484	1,463,083	(399,962)	1,063,121
Premiums earned during the year	20	(1,565,762)	477,834	(1,087,928)	(1,375,522)	369,369	(1,006,153)
At 31 December		760,886	(211,368)	549,518	652,699	(184,737)	467,962

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14. Deferred tax assets / (liabilities)

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

	Assets			Liabilities		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Property, plant and equipment						
- Capital allowance	-	-	-	(3,487)	(2,653)	(2,223)
- Revaluation reserve	-	-	-	(1,245)	(1,045)	-
- Impairment	260	260	-	-	-	-
Investment properties	-	-	-	(307)	-	-
Intangible assets	-	-	-	(464)	(973)	(1,393)
Provisions	2,034	-	496	-	(240)	-
Investments						
- Fair value reserve	-	-	-	(5,669)	(6,012)	(3,627)
- Impairment	921	-	-	-	-	-
Assets held for sale	-	-	145	-	-	-
Other items	14,212	9,872	8,580	-	-	-
Net tax assets/(liabilities)	17,427	10,132	9,221	(11,172)	(10,923)	(7,243)

14. Deferred tax assets / (liabilities) (continued)

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

	Net		
	31.12.2012	**31.12.2011**	**1.1.2011**
	RM'000	**RM'000**	**RM'000**
Property, plant and equipment			
- Capital allowance	(3,487)	(2,653)	(2,223)
- Revaluation reserve	(1,245)	(1,045)	-
- Impairment	260	260	-
Investment properties	(307)	-	-
Intangible assets	(464)	(973)	(1,393)
Provisions	2,034	(240)	496
Investments			
- Fair value reserve	(5,669)	(6,012)	(3,627)
- Impairment	921	-	-
Assets held for sale	-	-	145
Other items	14,212	9,872	8,580
Net tax assets/(liabilities)	6,255	(791)	1,978

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14. Deferred tax assets / (liabilities) (continued)

14.2 Movement in temporary differences during the year

	Note	At 1 January 2011	Recognised in profit or loss (Note 28.1)	Recognised in other comprehen-sive income (Note 28.3)	At 31 December 2011 / At 1 January 2012	Recognised in profit or loss (Note 28.1)	Recognised in other comprehen-sive income (Note 28.3)	At 31 December 2012
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment								
- Capital allowance		(2,223)	(430)	-	(2,653)	(834)	-	(3,487)
- Revaluation reserve		-	-	(1,045)	(1,045)	-	(200)	(1,245)
- Impairment		-	260	-	260	-	-	260
Investment properties		-	-	-	-	(307)	-	(307)
Intangible assets		(1,393)	420	-	(973)	509	-	(464)
Provisions		496	(736)	-	(240)	2,274	-	2,034
Investments								
- Fair value reserve		(3,627)	-	(2,385)	(6,012)	-	343	(5,669)
- Impairment		-	-	-	-	921	-	921
Assets held for sale		145	(145)	-	-	-	-	-
Other items		8,580	1,292	-	9,872	4,340	-	14,212
		1,978	661	(3,430)	(791)	6,903	143	6,255

15. Other financial liabilities

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Current			
Deposits received from reinsurers	2,437	2,789	2,013

The carrying amounts disclosed above approximate their fair values at the end of the reporting period.

16. Insurance payables

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current				
Performance bond deposits	16.1	20,467	13,351	16,589
Current				
Due to reinsurers and cedants		87,463	61,761	91,354
Due to agents and intermediaries		51,816	42,563	54,874
Performance bond deposits	16.1	42,585	45,405	48,201
Due to related companies	16.2	36,471	35,111	6,834
		218,335	184,840	201,263
		238,802	198,191	217,852

The carrying amounts disclosed above approximate their fair values at the end of the reporting period.

16.1 Performance bond deposits

Performance bond deposits are collateral deposits received from policyholders for guarantees issued on behalf of policyholders.

16.2 Amounts due to related companies

The amounts due to related companies are unsecured.

17. Other payables and accruals

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current				
Finance lease liabilities	17.2	21	64	105
Current				
Due to immediate holding company	17.1	451	630	616
Due to related companies	17.1	-	-	126
Finance lease liabilities	17.2	43	103	752
Other payables and accrued expenses		84,403	68,119	56,449
		84,897	68,852	57,943
		84,918	68,916	58,048

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

17.1 Amounts due to immediate holding company and related companies

The amounts due to immediate holding company and related companies are unsecured, interest free and repayable on demand.

17.2 Finance lease liabilities

	Minimum lease payments 31.12.2012 RM'000	Interest 31.12.2012 RM'000	Principal 31.12.2012 RM'000
Less than one year	46	3	43
Between one and five years	22	1	21
	68	4	64

17. Other payables and accruals (continued)

17.2 Finance lease liabilities (continued)

	Minimum lease payments	Interest	Principal
	31.12.2011	31.12.2011	31.12.2011
	RM'000	RM'000	RM'000
Less than one year	111	8	103
Between one and five years	68	4	64
	179	12	167

	Minimum lease payments	Interest	Principal
	1.1.2011	1.1.2011	1.1.2011
	RM'000	RM'000	RM'000
Less than one year	784	32	752
Between one and five years	110	5	105
	894	37	857

18. Subordinated loan

	Note	31.12.2012	31.12.2011	1.1.2011
		RM'000	RM'000	RM'000
Non-current				
Subordinated loan		-	-	28,171
Current				
Subordinated loan		-	29,396	-
		-	29,396	-
		-	29,396	28,171

The Subordinated loan arising from the Assets Purchase Agreement dated 26 March 2009 ("APA") of RM30,670,000, entered into between AMB and the Company.

On 9 January 2012, the Company sought BNM's consideration for the proposed repayment of the subordinated loan via cash consideration to AMB for an amount equivalent to RM30,670,000. BNM had on 1 March 2012 approved the application for the proposed repayment of the subordinated loan of the Company.

The Company had on 3 May 2012 repaid the sum RM 30,669,577 to AMB in cash consideration.

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19. Operating revenue

	Note	2012 RM'000	2011 RM'000
Gross earned premiums	20	1,565,762	1,375,522
Investment income	21	92,872	81,395
		1,658,634	1,456,917

20. Net earned premiums

	Note	2012 RM'000	2011 RM'000
Gross premiums	13.2	1,673,949	1,463,083
Change in unearned premiums provision		(108,187)	(87,561)
Gross earned premiums	13.2, 19	1,565,762	1,375,522
Gross premiums ceded	13.2	(504,465)	(399,962)
Change in unearned premiums provision		26,631	30,593
Premiums ceded to reinsurers	13.2	(477,834)	(369,369)
Net earned premiums	13.2	1,087,928	1,006,153

21. Investment income

	Note	2012 RM'000	2011 RM'000
Rental income		56	53
Available-for-sale financial investments:			
Interest/profit income			
Malaysian government securities		36,578	33,586
Malaysian government guaranteed bonds and loans		14,552	11,036
Multilateral development bank guaranteed bonds		-	5,839
Ringgit denominated bonds by foreign issuers in Malaysia		5,755	-
Unquoted bonds of corporations in Malaysia		28,500	22,893
Quoted bonds of corporations in Malaysia		-	471
Structured deposits and negotiable certificates of deposits with licensed financial institutions		2,488	2,781
Dividend income		70	-

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21. Investment income (continued)

	Note	2012 RM'000	2011 RM'000
Loans and receivables financial investments:			
Interest/profit income			
Commercial loans		-	143
Loans and other receivables and cash and cash equivalents		4,873	4,593
	19	92,872	81,395

22. Realised gains and losses

	2012 RM'000	2011 RM'000
Property, plant and equipment		
Realised gain/(loss)	24	(93)
Investment properties		
Realised loss	-	(232)
Available-for-sale financial investments		
Realised gains:		
Unquoted debt securities in Malaysia	1,049	1,587
Quoted debt securities in Malaysia	-	1
Malaysian government securities	2,195	-
Total realised gains for available-for-sale financial investments	3,244	1,588
	3,268	1,263

23. Fair value gains and losses

	Note	2012 RM'000	2011 RM'000
Change in fair value of investment properties	4	1,230	-
Impairment loss on financial assets		(3,685)	-
		(2,455)	-

24. Fee and commission income

	Note	2012 RM'000	2011 RM'000
Reinsurance commission income		80,706	48,688
Deferred acquisition costs	10	(2,833)	(4,017)
Service charges		21,064	22,098
		98,937	66,769

25. Net claims incurred

	Note	2012 RM'000	2011 RM'000
Gross claims paid less salvage	13.1	719,580	693,578
Claims ceded to reinsurers	13.1	(198,447)	(203,158)
Net claims paid	13.1	521,133	490,420
Gross change in claims liabilities:			
At 31 December	13.1	1,921,454	1,810,799
At 1 January	13.1	(1,810,799)	(1,596,176)
		110,655	214,623
Change in claims liabilities ceded to reinsurers:			
At 31 December	13.1	(872,567)	(886,389)
At 1 January	13.1	886,389	813,590
		13,822	(72,799)
		645,610	632,244

26. Fee and commission expense

	Note	2012 RM'000	2011 RM'000
Gross direct commission		205,840	177,754
Deferred acquisition costs	10	(12,481)	(11,086)
		193,359	166,668

27. Management expenses

	Note	2012 RM'000	2011 RM'000
Employee benefit expenses	27.1	125,733	98,757
Non-executive directors' other emoluments	27.2	580	345
Auditors' remuneration:			
- statutory audits, KPMG Malaysia		271	240
Depreciation of property, plant and equipment	3	8,418	7,928
Amortisation of intangible assets	5	2,503	2,410
Reversal of allowance for impairment loss on receivables		(2,285)	(11,509)
Bad debts recovered		(373)	(233)
Bad debts written off		982	6,525
Bank charges		36	133
Advertising expenses		4,074	952
PIDM premium		3,220	3,190
Rental of office equipment		192	121
Rental of premises		5,965	5,763
Other expenses		68,030	58,908
		217,346	173,530

27.1 Employee benefit expenses

	2012 RM'000	2011 RM'000
Wages and salaries	64,428	57,107
Bonus	45,822	29,325
Social security contributions	673	621
Contribution to Employee's Provident Fund	14,507	11,468
Other benefits	303	236
	125,733	98,757

27. Management expenses (continued)

27.2 Key management personnel compensation

	Note	2012 RM'000	2011 RM'000
Non-executive directors:			
Fees		387	228
Other emoluments		193	117
Estimated monetary value of benefits-in-kind		17	13
		597	358
Other key management personnel*			
Short-term employee benefits		3,353	4,687
		3,950	5,045

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

	Number of directors 2012	2011
Non-executive directors: **		
Below RM100,000	3	3
RM100,000 to RM200,000	2	1

* Other key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

** There are 2 non-executive directors (2011: 2 non-executive directors) not receiving remuneration from the Company during the financial year.

27. Management expenses (continued)

27.3 Chief executive officer remuneration

	2012 RM'000	2011 RM'000
Salaries and other emoluments	514	480
Bonus	330	627
Social security contributions	1	1
Contribution to Employees' Provident Fund	109	144
Estimated monetary value of benefits-in-kind	19	19
	973	1,271
Amount included in employee benefit expenses	954	1,252

28. Tax expense

28.1 Recognised in profit or loss

	Note	2012 RM'000	2011 RM'000
Current tax expense			
Current year		64,533	49,575
Under provision in prior year		840	1,119
		65,373	50,694
Deferred tax expense			
Origination and reversal of temporary differences		(4,109)	(450)
Over provision in prior year		(2,794)	(211)
	14.2	(6,903)	(661)
Tax expense		58,470	50,033

28. Tax expense (continued)

28.2 Reconciliation of tax expense

	2012 RM'000	2011 RM'000
Profit before tax	220,845	180,512
Tax at Malaysian tax rate of 25%	55,211	45,128
Non-deductible expenses	4,735	3,793
Other items	478	204
	60,424	49,125
(Over)/under provision in prior year	(1,954)	908
Tax expense	58,470	50,033

28.3 Income tax recognised directly in other comprehensive income

	Note	2012 RM'000	2011 RM'000
Fair value reserve			
At 1 January		6,012	3,627
Net (loss)/gain arising from change in fair value	14.2	(343)	2,385
At 31 December		5,669	6,012

	Note	2012 RM'000	2011 RM'000
Revaluation reserve			
At 1 January		1,045	-
Net gain arising from revaluation reserve	14.2	200	1,045
At 31 December		1,245	1,045

29. Earnings per ordinary share

Basic earnings per ordinary shares

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year calculated as follows:

	2012 RM'000	2011 RM'000
Profit for the year attributable to ordinary shareholders	162,375	130,479

	2012 '000	2011 '000
Weighted average number of ordinary shares during the year	334,990	334,990

	2012 Sen	2011 Sen
Basic earnings per ordinary share	48.5	39.0

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the end of the reporting period.

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

30. Dividends

There was no dividend paid during the financial year. Dividends recognised in the financial year 2011 by the Company as appropriation of profits are as follows:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2011			
Final 2010 ordinary	1.78	4,472	1 August 2011
Final 2010 ordinary	2.25	7,537	3 August 2011
		12,009	

The final single tier dividend recommended by the Directors in respect of the year ended 31 December 2012 is 11.95 sen per ordinary share totalling RM40,031,304. The final dividend will be recognised in subsequent financial period upon approval by the owners of the Company.

31. Operating leases

31.1 Leases as lessee

Total future minimum lease payments under operating leases are as follows:

	2012 RM'000	2011 RM'000
Less than one year	7,481	4,490
Between one and five years	4,532	4,069
	12,013	8,559

The leases typically run for an initial period of three years, with an option to renew the leases. None of the leases included contingent rentals.

32. Capital expenditure commitments

	2012 RM'000	2011 RM'000
Property, plant and equipment		
Approved but not contracted for	23,617	17,861
Contracted but not provided for	1,428	331

33. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating 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.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company and certain members of senior management of the Company. Compensation of key management personnel have been disclosed in Note 27.2. Apart from this, there are no other transactions with key management personnel.

The significant related party transactions of the Company are as follows:

	Amount transacted for the year ended 31 December 2012 RM'000	Amount transacted for the year ended 31 December 2011 RM'000
Non-trade		
Ultimate holding company		
Payment of global marketing costs	(500)	(492)
Payment of staff costs	-	(49)
Reimbursement of expenses made on behalf	119	202
Immediate holding company		
Expenses related to common resources	(5,090)	(4,290)
Rental of office premises received	9	9
(Payment)/Reimbursement of expenses made on behalf	(714)	12

33. Related parties (continued)

	Amount transacted for the year ended 31 December 2012 RM'000	Amount transacted for the year ended 31 December 2011 RM'000
Related companies*		
(Payment)/Reimbursement of expenses related to common resources	(377)	19
(Payment)/Reimbursement of expenses made on behalf	(34)	1,254
Rental of office premises paid	(152)	(111)
Insurance payment	(694)	(298)
Payment of investment advisory fees	(567)	(358)
Payment of intranet portal network cost	(186)	(135)
Disposal of motor vehicle	-	380
Payment of service fees	(5,454)	(4,548)
Trade		
Related companies*		
Reinsurance premiums	(225,909)	(142,210)
Reinsurance commission	35,410	22,233

* Related companies are companies within the Allianz SE group.

The terms and conditions for the above transactions are based on normal trade terms.

Significant related party balances related to the above transactions are disclosed in Notes 8, 9, 16, 17 and 18.

34. Risk management framework

As a provider of insurance services, the Company considers risk management to be one of its core competencies. It is an integral part of the Company's business process. In order to protect its assets, the Company has established a risk management framework to promote a strong risk management culture supported by a robust risk governance structure.

This comprehensive framework ensures that risks are identified, analysed and evaluated. Risk appetite is defined by the Company's risk strategy and limit structure. Close monitoring and reporting allows the Company to detect deviations from its risk tolerance limits at an early stage.

The Allianz risk management framework consists of the following four primary components:

Risk underwriting and identification

A sound risk underwriting and identification framework including risk assessment, risk standards, and clear targets form the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, strategic or tactical asset allocation.

Risk reporting and monitoring

The Company's comprehensive qualitative and quantitative risk reporting and controlling framework provides transparency and risk indicators to senior management with regards to its overall risk profile and whether the profile is within the delegated limits and authorities.

Risk strategy and risk appetite

The Company's risk strategy clearly defines its risk appetite. It ensures that returns are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into management and decision making process. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within its risk appetite.

Communication and transparency

Finally, a transparent and robust risk disclosure provides a basis for communicating this strategy to the Company's internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

34. Risk management framework (continued)

Risk governance structure

The Board of Directors of the Company ("the Board") assumes the ultimate responsibility over the effectiveness of the Company's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the responsibility to establish and supervise the operation of the risk management framework to the Risk Management Committee ("RMC") to discharge its oversight function effectively.

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Company. RMC also oversees the Senior Management's activities in managing the key risk areas of the Company and to ensure that risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of Allianz Malaysia Berhad Group of companies ("AMB Group") and to report to the Board on its recommendations and/or decisions. Through structured reporting from the Risk Management Working Committee ("RMWC"), RMC will consolidate the status of the risks and present them to the Board for consideration.

RMC serves as and provides a platform for two way communications between the management and the Board on matters of the Company's risk management framework and its strategies. RMWC is responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendations to the Board. RMWC determines the allocation of risks by cascading and/or escalating to the relevant owners. RMWC also oversees the compliance of all risk management process by all departments of the Company and provides pre-emptive recommendations to ensure timely action is taken in managing and mitigating the identified risks.

Governance and regulatory framework

The Company is required to comply with the requirements of the Insurance Act and Regulations, 1996, relevant laws and guidelines from BNM and Persatuan Insurans Am Malaysia ("PIAM").

The Company is also required to comply with all Allianz SE Group's policies and standards. If there is any conflict with the local laws or regulations, the stricter will apply.

35. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims, frequency and severity and risk of change in the legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks through a formalised reinsurance arrangement with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines, limits and standards.

The insurance risk of general insurance contracts consists of premium and reserve risks. Premium risk represents the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Reserve risks represent the risk of loss resulting from deviations between payments for incurred losses that have not yet been settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves.

The table below sets out the concentration of the general insurance risk based on the provision for outstanding claims as at the end of the reporting period by type of contract.

	31.12.2012			31.12.2011			1.1.2011		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Fire	218,447	(150,978)	67,469	259,557	(199,759)	59,798	172,082	(117,867)	54,215
Motor	923,585	(124,206)	799,379	773,748	(65,939)	707,809	627,580	(59,056)	568,524
Marine cargo, aviation cargo and transit	165,356	(141,541)	23,815	189,716	(167,025)	22,691	203,234	(181,877)	21,357
Miscellaneous	614,066	(455,842)	158,224	587,778	(453,666)	134,112	593,280	(454,790)	138,490
Total	1,921,454	(872,567)	1,048,887	1,810,799	(886,389)	924,410	1,596,176	(813,590)	782,586

35. Insurance risk (continued)

Key assumptions

The principal assumption underlying the liability estimates 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 judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence 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 as a prudent measure. In addition, no explicit inflation adjustment has been made to claims amount payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development. It is worthwhile to note that discounting is unlikely to result in any material impact due to the short tail nature of almost all classes, coupled with the low prevailing interest rate environment.

The Company has based its risk margin for adverse deviation ("PRAD") for the provisions for unexpired risks and insurance claims at the minimum 75% of sufficiency, according to the requirement set by BNM under the RBC Framework.

Sensitivities

The independent actuarial firm engaged by the Company re-runs its valuation models on various bases. 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 below demonstrates the sensitivity of the insurance contract liabilities estimates to particular movements in assumptions used in the estimation process.

The analysis below is performed for reasonable possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

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35. Insurance risk (continued)

Sensitivities (continued)

	Change in assumptions	Impact on Gross Liabilities	Impact on Net Liabilities	Impact on Profit before Tax	Impact on Equity*
31 December 2012		**RM'000**	**RM'000**	**RM'000**	**RM'000**
Average claim cost	+10%	169,447	99,864	(99,864)	(74,898)
Average number of claims	+10%	154,693	101,886	(101,886)	(76,415)
Average claim settlement period	Increased by 6 months	36,933	19,775	(19,775)	(14,831)
31 December 2011					
Average claim cost	+10%	177,511	89,844	(89,844)	(67,383)
Average number of claims	+10%	120,217	88,265	(88,265)	(66,199)
Average claim settlement period	Increased by 6 months	22,709	9,457	(9,457)	(7,092)
1 January 2011					
Average claim cost	+10%	152,401	74,311	(74,311)	(55,733)
Average number of claims	+10%	155,776	96,114	(96,114)	(72,085)
Average claim settlement period	Increased by 6 months	30,183	14,698	(14,698)	(11,024)

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

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

35. Insurance risk (continued)

Claims development table

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

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

The management of the Company believes that the estimate of total claims outstanding as of 31 December 2012 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

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35. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2012:

Accident year	Before 2005 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year		396,675	458,967	696,740	600,933	800,472	808,271	863,518	947,235	
One year later		440,946	569,098	704,712	581,075	819,547	828,768	784,221	-	
Two years later		501,045	567,365	661,421	587,257	827,424	810,356	-	-	
Three years later		490,653	552,186	664,919	593,676	829,042	-	-	-	
Four years later		482,932	552,987	650,794	584,185	-	-	-	-	
Five years later		483,850	550,076	644,409	-	-	-	-	-	
Six years later		481,752	539,054	-	-	-	-	-	-	
Seven years later		519,409	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		519,409	539,054	644,409	584,185	829,042	810,356	784,221	947,235	

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35. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2012: (continued)

Accident year	Before 2005 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year		171,799	173,028	202,481	183,848	250,248	214,460	244,889	259,072	
One year later		312,208	365,770	378,908	366,451	565,497	454,277	520,198	-	
Two years later		348,788	420,153	447,535	445,223	683,192	580,037	-	-	
Three years later		379,649	451,648	482,778	482,302	721,408	-	-	-	
Four years later		402,374	470,711	502,784	495,924	-	-	-	-	
Five years later		415,267	480,258	508,106	-	-	-	-	-	
Six years later		420,591	478,854	-	-	-	-	-	-	
Seven years later		422,919	-	-	-	-	-	-	-	
Cumulative payments to-date		422,919	478,854	508,106	495,924	721,408	580,037	520,198	259,072	
Gross general insurance claims liabilities (direct and facultative)	31,353	96,490	60,200	136,303	88,261	107,634	230,319	264,023	688,163	1,702,746
Gross general insurance claims liabilities (treaty inward)										26,690
Best estimate of claims liability										1,729,436
Claims handling expenses										12,604
PRAD at 75% confidence level										179,414
Gross general insurance claims liabilities										1,921,454

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35. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2012:

Accident year	Before 2005 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year		328,056	376,869	397,343	419,318	472,716	517,803	622,921	675,017	
One year later		321,692	377,596	401,498	422,319	479,710	494,994	570,921	-	
Two years later		323,723	373,040	395,653	431,658	493,315	502,000	-	-	
Three years later		319,372	363,464	398,007	441,584	498,099	-	-	-	
Four years later		311,223	364,426	394,074	441,534	-	-	-	-	
Five years later		312,445	361,628	390,037	-	-	-	-	-	
Six years later		312,947	358,238	-	-	-	-	-	-	
Seven years later		317,644	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		317,644	358,238	390,037	441,534	498,099	502,000	570,921	675,017	

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35. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2012: (continued)

Accident year	Before 2005 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year		123,658	151,133	150,994	165,070	191,803	188,247	201,756	216,325	
One year later		228,893	271,229	275,172	305,313	343,484	352,308	390,265	-	
Two years later		254,287	291,736	306,459	350,112	408,146	418,534	-	-	
Three years later		268,988	312,530	333,465	376,842	438,664	-	-	-	
Four years later		282,380	328,164	346,469	384,686	-	-	-	-	
Five years later		291,273	335,861	350,016	-	-	-	-	-	
Six years later		295,103	337,922	-	-	-	-	-	-	
Seven years later		295,978	-	-	-	-	-	-	-	
Cumulative payments to-date		295,978	337,922	350,016	384,686	438,664	418,534	390,265	216,325	
Net general insurance claims liabilities (direct and facultative)	11,493	21,666	20,316	40,021	56,848	59,435	83,466	180,656	458,692	932,593
Net general insurance claims liabilities (treaty inward)										29,431
Best estimate of claims liability										962,024
Claims handling expenses										9,177
PRAD at 75% confidence level										77,686
Net general insurance claims liabilities										1,048,887

36. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate risk, equity price risk) and operational risk arises in the normal course of the Company's business. The Company is guided by its risk management framework as well as policies and guidelines from the ultimate holding company, Allianz SE which sets out its general risk management philosophy. Through financial risk management, business strategies are evaluated to ensure their appropriateness to the strategic, operational and financial risks tolerance.

36.1 Credit risk

Credit risk involves the potential losses that may result due to the default of counterparties to meet their contractual obligations. The Company is exposed to credit risk from the underwriting of general insurance business and the investment in fixed income instruments. Financial loss may materialise when the counterparties failed to meet payment obligations for various reasons.

The Company has credit policies in place to mitigate the credit risk from underwriting of insurance business and it is monitored on an ongoing basis. Reinsurance is prioritised to local insurers or reinsurers, and if the Company has to place oversea, only counterparties that have a credit rating that is acceptable to Allianz SE Group are used.

With effect from 12 September 2008, all new bond investments must carry a minimum rating of AA- or P1 by rating agencies established in Malaysia or minimum rating of A- by any internationally recognised rating agency as outlined in the Company's Investment Mandate which is approved by the Board of Directors.

The Company considers ratings BBB and above as investment grades and ratings below BBB as non-investment grades. Assets which are not rated by rating agencies are classified as non-rated.

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36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure

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

	Neither past-due nor impaired			
	Investment grade RM'000	Non-rated RM'000	Past-due but not impaired RM'000	Total RM'000
31 December 2012				
Loans and receivables				
Commercial loans	-	-	-	-
Loans and other receivables	-	57,745	-	57,745
Cash and cash equivalents	124,080	215	-	124,295
Available-for-sale financial investments				
Malaysian government securities	-	1,151,078	-	1,151,078
Malaysian government guaranteed bonds and loans	76,295	317,438	-	393,733
Multilateral development bank guaranteed bonds	-	-	-	-
Ringgit denominated bonds by foreign issuers in Malaysia	135,766	-	-	135,766
Debt securities	755,503	-	-	755,503
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,342	-	-	61,342
Reinsurance assets (reported claims)	537,403	127,107	-	664,510
Insurance receivables	4,983	82,114	1,762	88,859
	1,695,372	1,735,697	1,762	3,432,831

Company No.735426-V

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

	Neither past-due nor impaired			
	Investment grade RM'000	Non-rated RM'000	Past-due but not impaired RM'000	Total RM'000
31 December 2011				
Loans and receivables				
Commercial loans	-	-	-	-
Loans and other receivables	-	47,781	-	47,781
Cash and cash equivalents	195,463	1,306	-	196,769
Available-for-sale financial investments				
Malaysian government securities	-	991,472	-	991,472
Malaysian government guaranteed bonds and loans	50,894	292,085	-	342,979
Multilateral development bank guaranteed bonds	135,539	-	-	135,539
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-
Debt securities	535,955	-	-	535,955
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,709	-	-	61,709
Reinsurance assets (reported claims)	169,759	529,577	-	699,336
Insurance receivables	5,076	60,418	2,664	68,158
	1,154,395	1,922,639	2,664	3,079,698

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36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

	Neither past-due nor impaired		Past-due but not impaired	Total
	Investment grade	Non-rated		
	RM'000	RM'000	RM'000	RM'000
1 January 2011				
Loans and receivables				
Commercial loans	5,525	-	-	5,525
Loans and other receivables	-	41,281	-	41,281
Cash and cash equivalents	243,107	1,394	-	244,501
Available-for-sale financial investments				
Malaysian government securities	-	825,353	-	825,353
Malaysian government guaranteed bonds and loans	50,962	125,753	-	176,715
Multilateral development bank guaranteed bonds	135,367	8,030	-	143,397
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-
Debt securities	532,650	-	-	532,650
Structured deposits and negotiable certificates of deposits with licensed financial institutions	35,775	-	-	35,775
Reinsurance assets (reported claims)	168,934	490,060	-	658,994
Insurance receivables	4,948	50,097	3,162	58,207
	1,177,268	1,541,968	3,162	2,722,398

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36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company by classifying financial assets according to rating agencies' credit ratings of counterparties. AAA is the highest possible rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
31 December 2012						
Loans and receivables						
Commercial loans	-	-	-	-	-	-
Loans and other receivables	-	-	-	-	57,745	57,745
Cash and cash equivalents	71,330	12,465	40,285	-	215	124,295
Available-for-sale financial investments						
Malaysian government securities	-	-	-	-	1,151,078	1,151,078
Malaysian government guaranteed bonds and loans	76,295	-	-	-	317,438	393,733
Multilateral development bank guaranteed bonds	-	-	-	-	-	-
Ringgit denominated bonds by foreign issuers in Malaysia	135,766	-	-	-	-	135,766
Debt securities	233,959	514,365	7,179	-	-	755,503
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,342	-	-	-	-	61,342
Reinsurance assets (reported claims)	-	258,479	275,225	3,699	127,107	664,510
Insurance receivables	-	1,992	2,806	185	83,876	88,859
	578,692	787,301	325,495	3,884	1,737,459	3,432,831

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36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
31 December 2011						
Loans and receivables						
Commercial loans	-	-	-	-	-	-
Loans and other receivables	-	-	-	-	47,781	47,781
Cash and cash equivalents	131,818	63,602	43	-	1,306	196,769
Available-for-sale financial investments						
Malaysian government securities	-	-	-	-	991,472	991,472
Malaysian government guaranteed bonds	50,894	-	-	-	292,085	342,979
Multilateral development bank guaranteed bonds and loans	135,539	-	-	-	-	135,539
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-	-	-
Debt securities	149,528	376,845	9,582	-	-	535,955
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,709	-	-	-	-	61,709
Reinsurance assets (reported claims)	67	11,266	156,459	1,967	529,577	699,336
Insurance receivables	85	177	4,421	393	63,082	68,158
	529,640	451,890	170,505	2,360	1,925,303	3,079,698

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36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
1 January 2011						
Loans and receivables						
Commercial loans	552	2,763	2,210	-	-	5,525
Loans and other receivables	-	-	-	-	41,281	41,281
Cash and cash equivalents	99,727	94,674	48,706	-	1,394	244,501
Available-for-sale financial investments						
Malaysian government securities	-	-	-	-	825,353	825,353
Malaysian government guaranteed bonds	50,962	-	-	-	125,753	176,715
Multilateral development bank guaranteed bonds and loans	135,367	-	-	-	8,030	143,397
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-	-	-
Debt securities	141,797	360,864	29,989	-	-	532,650
Structured deposits and negotiable certificates of deposits with licensed financial institutions	35,775	-	-	-	-	35,775
Reinsurance assets (reported claims)	767	36,763	129,924	1,480	490,060	658,994
Insurance receivables	48	589	4,139	172	53,259	58,207
	464,995	495,653	214,968	1,652	1,545,130	2,722,398

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company according to the Company's categorisation of counterparties by credit rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
31 December 2012						
Investment grade	578,692	787,301	325,495	3,884	-	1,695,372
Non-rated	-	-	-	-	1,735,697	1,735,697
Past-due but not impaired	-	-	-	-	1,762	1,762
	578,692	787,301	325,495	3,884	1,737,459	3,432,831

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
31 December 2011						
Investment grade	529,640	451,890	170,505	2,360	-	1,154,395
Non-rated	-	-	-	-	1,922,639	1,922,639
Past-due but not impaired	-	-	-	-	2,664	2,664
	529,640	451,890	170,505	2,360	1,925,303	3,079,698

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36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
1 January 2011						
Investment grade	464,995	495,653	214,968	1,652	-	1,177,268
Non-rated	-	-	-	-	1,541,968	1,541,968
Past-due but not impaired	-	-	-	-	3,162	3,162
	464,995	495,653	214,968	1,652	1,545,130	2,722,398

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36. Financial risks (continued)

36.1 Credit risk (continued)

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

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past-due but not impaired as at the reporting date is as follows:

	<30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	More than 90 days RM'000	Total RM'000
31 December 2012					
Insurance receivables	414	546	296	506	1,762
31 December 2011					
Insurance receivables	906	672	277	809	2,664
1 January 2011					
Insurance receivables	2,198	844	-	120	3,162

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.3 Impaired financial assets

At 31 December 2012, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM18,780,000 (31.12.2011: RM21,065,000; 1.1.2011: RM32,714,000). No collateral is held as security for any past-due or impaired assets. The Company records impairment allowance for loans and other receivables and insurance receivables in separate 'Allowance for Impairment' accounts. A reconciliation of the allowance for impairment losses for loans and other receivables and insurance receivable is as follows:

	Insurance receivables		Loans and other receivables	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January	21,065	32,714	3,376	3,236
Impairment loss (reversed)/recognised	(2,285)	(11,649)	-	140
At 31 December	18,780	21,065	3,376	3,376

36. Financial risks (continued)

36.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Company, refinancing is only possible at higher interest rates or assets may have to be liquidated at a discount.

Besides monitoring the liquidity position of the Company on a daily basis, the investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets in the portfolio. Some other tools used by the Company include ensuring that its assets and liabilities are adequately matched and drawing down of funds to meet claims payment should the claims event exceed a certain amount as provided for in the reinsurance contracts.

36.2.1 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 provision for claims, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

36. Financial risks (continued)

36.2 Liquidity risk (continued)

36.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2012								
Provision for claims (reported claims)	1,420,276	700,140	480,777	148,188	91,171	-	-	1,420,276
Other financial liabilities	2,437	2,437	-	-	-	-	-	2,437
Insurance payables	238,802	218,335	18,973	1,494	-	-	-	238,802
Other payables and accruals	84,918	84,897	21	-	-	-	-	84,918
Subordinated loan	-	-	-	-	-	-	-	-
Total liabilities	1,746,433	1,005,809	499,771	149,682	91,171	-	-	1,746,433

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36. Financial risks (continued)

36.2 Liquidity risk (continued)

36.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2011								
Provision for claims (reported claims)	1,357,126	638,320	430,584	159,909	128,313	-	-	1,357,126
Other financial liabilities	2,789	2,789	-	-	-	-	-	2,789
Insurance payables	198,191	184,840	12,245	1,106	-	-	-	198,191
Other payables and accruals	68,916	68,852	64	-	-	-	-	68,916
Subordinated loan	29,396	30,670	-	-	-	-	-	30,670
Total liabilities	1,656,418	925,471	442,893	161,015	128,313	-	-	1,657,692

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36. Financial risks (continued)

36.2 Liquidity risk (continued)

36.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
1 January 2011								
Provision for claims (reported claims)	1,227,631	599,885	399,326	121,075	107,345	-	-	1,227,631
Other financial liabilities	2,013	2,013	-	-	-	-	-	2,013
Insurance payables	217,852	201,263	15,533	1,056	-	-	-	217,852
Other payables and accruals	58,048	57,943	105	-	-	-	-	58,048
Subordinated loan	28,171	-	30,670	-	-	-	-	30,670
Total liabilities	1,533,715	861,104	445,634	122,131	107,345	-	-	1,536,214

36. Financial risks (continued)

36.3 Market risk

Market risk is the risk of loss arising due to changes in market prices or parameters influencing market prices. This includes changes in market prices due to a worsening of market liquidity. Market risk comprises of currency risk, interest rate risk and equity price risk.

The following risk mitigation actions are in place to control and monitor such risk:

- Investment Committee is actively monitoring the investment activities undertaken by the Company;
- The Investment Policy and Mandate which formulated the single counter limits, group limits and sector limits are in place. Compliance to such limits is monitored monthly and reported to RMWC/RMC on a quarterly basis;
- Stress tests are performed as and when needed;
- Stop loss policy is in place.

36.3.1 Currency risk

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

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). 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 Insurance Act, 1996 and hence, primarily denominated in the same currency as its insurance contract liabilities. Thus, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance liabilities are expected to be settled.

As the Company's main foreign exchange risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

36. Financial risks (continued)

36.3 Market risk (continued)

36.3.2 Interest rate risk

The Company is affected by changes in market interest rates due to the impact of such changes on interest income from investments and will incur an economic loss when the interest rates drop.

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

	Change in variables	Impact on Profit before Tax	Impact on Equity*
		RM'000	RM'000
31 December 2012			
Interest rate	+ 100 basis points	-	(55,189)
Interest rate	+ 50 basis points	-	(27,594)
31 December 2011			
Interest rate	+ 100 basis points	-	(48,594)
Interest rate	+ 50 basis points	-	(24,297)

36. Financial risks (continued)

36.3 Market risk (continued)

36.3.2 Interest rate risk (continued)

	Change in variables	Impact on Profit before Tax RM'000	Impact on Equity* RM'000
1 January 2011			
Interest rate	+ 100 basis points	-	(35,193)
Interest rate	+ 50 basis points	-	(17,596)

* 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 year.

36.3.3 Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest rates or foreign exchange rates), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk policy requires it to prioritise capital preservation besides setting limits on overall portfolio, single security and sector holdings. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of equity price risk.

36. Financial risks (continued)

36.4 Operational risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives resulting from inadequate or failed internal processes and systems, human factors or external events.

The Company puts in place the following controls to monitor and mitigate such risk:

- Effective segregation of duties;
- Access controls, authorisation and reconciliation procedures;
- Automation of processes where possible;
- Staff training; and
- Evaluating procedures such as internal audit.

36. Financial risks (continued)

36.5 Fair value of financial instruments

The basis of estimation of fair values for financial instruments is as follows:

(a) The fair values of structured deposits and negotiable certificates of deposits are based on the indicative market prices from the issuing banks.

(b) The fair values of quoted bonds of corporations in Malaysia are based on quoted closing market prices as at the end of the reporting period.

(c) The fair values of Malaysian government securities, Malaysian government guaranteed bonds and loans, multilateral development bank guaranteed bonds, ringgit denominated bonds by foreign issuers in Malaysia and unquoted bonds of corporations are based on the indicative market yields obtained from three financial institutions.

(d) The carrying amounts of commercial loans are assumed to approximate their fair values.

(e) The carrying amounts of cash and cash equivalents, insurance receivables and other receivables, other financial liabilities, insurance payables, and other payables and accruals approximate their fair values due to the relatively short-term nature of these financial instruments.

(f) The carrying amount of subordinated loan is calculated based on the present value of future cash flows, discounted at the market rate of interest at the date of issuance.

(g) The fair values of mortgage loans and other secured loans are derived by discounting future cash flows, using interest rates for similar instruments, taking into consideration the nature and contracted terms of these loans. Based on management's assessment as at 31 December 2012, the estimated fair values of the loans approximate their carrying amounts.

Estimating the fair values of Malaysian government securities, Malaysian government guaranteed bonds and loans, multilateral development bank guaranteed bonds, ringgit denominated bonds by foreign issuers in Malaysia and unquoted bonds of corporations are based on the indicative market yields obtained from three financial institutions which involve projections of market yields based on past transactions. There are elements of uncertainty in projecting the expected market yields and these uncertainties arise from changes in the underlying risk and overall economic conditions. As such, the projected market yields may be different from the actual market yields in future.

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36. Financial risks (continued)

36.5 Fair value of financial instruments (continued)

It was not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

36.5.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31.12.2012

Financial assets	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Malaysian government securities	-	1,151,078	-	1,151,078
Malaysian government guaranteed bonds and loans	-	393,733	-	393,733
Multilateral development bank guaranteed bonds	-	-	-	-
Ringgit denominated bonds by foreign issuers in Malaysia	-	135,766	-	135,766
Unquoted debt securities	-	755,503	-	755,503
Structured deposits and negotiable certificates of deposits with licensed financial institutions	-	61,342	-	61,342

36. Financial risks (continued)

36.5 Fair value of financial instruments (continued)

36.5.1 Fair value hierarchy (continued)

31.12.2011

Financial assets	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Malaysian government securities	-	991,472	-	991,472
Malaysian government guaranteed bonds and loans	-	342,979	-	342,979
Multilateral development bank guaranteed bonds	-	135,539	-	135,539
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-
Unquoted debt securities	-	535,955	-	535,955
Structured deposits and negotiable certificates of deposits with licensed financial institutions	-	61,709	-	61,709

36. Financial risks (continued)

36.5 Fair value of financial instruments (continued)

36.5.1 Fair value hierarchy (continued)

1.1.2011

Financial assets	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Malaysian government securities	-	825,353	-	825,353
Malaysian government guaranteed bonds and loans	-	176,715	-	176,715
Multilateral development bank guaranteed bonds	-	143,397	-	143,397
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-
Debt securities	5,404	527,246	-	532,650
Commercial loans	-	5,525	-	5,525
Structured deposits and negotiable certificates of deposits with licensed financial institutions	-	35,775	-	35,775

37. Capital management

The RBC Framework came into effect on 1 January 2009. Under the RBC Framework, insurance companies need to maintain a capital adequacy level that commensurate with their risk profiles. All insurance companies are required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130% and an internal target capital level determined by BNM or level determined under the Internal Capital Adequacy Process. The internal target will include additional capacity to absorb unexpected losses beyond those that are covered under the minimum required CAR.

The Company has been in compliance with the said requirement.

Regulatory capital requirements

The capital structure of the Company as at 31 December 2012, as prescribed under the RBC Framework is provided below:

	2012 RM'000	2011 RM'000
Tier 1 Capital		
Paid up share capital	334,990	334,990
Retained earnings	589,879	427,504
	924,869	762,494
Tier 2 Capital		
Reserves	26,511	25,665
Subordinated loan	20,900	20,900
	47,411	46,565
Amounts deducted from capital	(6,255)	-
Total capital available	966,025	809,059

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

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 28 to 130 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended.

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

Tan Sri Razali Ismail

Jens Reisch

Kuala Lumpur,

Date: 27 March 2013

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

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

I, **Zakri Bin Mohd Khir,** the officer primarily responsible for the financial management of Allianz General Insurance Company (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 28 to 130 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 in the Wilayah Persekutuan on 27 March 2013.

Zakri Bin Mohd Khir

Before me:

Independent Auditors' Report to the members of Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Allianz General Insurance Company (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2012, and the statements 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 28 to 130.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine are 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.

Company No. 735426-V

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 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 Matter

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

Chin Shoon Chong
Approval Number: 2823/04/13(J)
Chartered Accountant

Petaling Jaya

Date: 27 March 2013