Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2012

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CONTENTS

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors are pleased to submit their report to the members together with the audited financial statements of the Company for the year ended 31 December 2012.

PRINCIPAL ACTIVITY

The Company is principally engaged in the underwriting of all classes of general insurance business. There have been no significant changes in the nature of this activity during the year.

FINANCIAL RESULTS

	RM'000
Profit for the year	113,164

DIVIDEND

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

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

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the year are disclosed in the notes to the financial statements.

INSURANCE LIABILITIES

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

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that proper action had been taken in relation to the full impairment of bad debts and the making of allowance for impairment and satisfied themselves that all known bad debts had been fully impaired and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amounts impaired for bad debts or the amounts of allowance for impairment in the financial statements of the Company inadequate to any substantial extent.

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENT DURING THE YEAR

On 1 September 2012, the Company completed the acquisition of certain assets and liabilities of the general insurance business of MUI Continental Insurance Berhad for a total cash consideration of RM180,228,000. The details of the acquisition are disclosed in Note 31 to the financial statements.

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Company that has arisen since the end of the year which secures the liabilities of any other person, or

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

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

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SHARE CAPITAL

On 17 July 2012, the Company increased its authorised share capital from RM300,000,000 to RM500,000,000. On 26 November 2012, the Company issued 125,471,000 ordinary shares of RM1 each per share for cash at par, to fund the further expansion of the Company's operations. The new ordinary shares issued during the year ranked pari passu in all respects with the existing ordinary shares of the Company.

CORPORATE GOVERNANCE

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under JPI/GPI 25 (Consolidated): Prudential Framework of Corporate Governance for Insurers and JPI/GPI 1(Consolidated): Minimum Standards for Prudential Management of Insurers, issued by Bank Negara Malaysia ("BNM").

In compliance with JPI/GPI 1 (Consolidated): Minimum Standards for Prudential Management of Insurers, the Board of Directors ("the Board") established four sub-committees as set out below.

Risk Management Committee

The main responsibilities of the Committee are to recommend a risk management framework, in terms of strategies, policies and risk tolerance, for the Board's approval as well as to provide an overall assessment on the adequacy of the Company's risk reporting infrastructure, which includes resources and support system, in promoting a pro-active risk management culture.

The Committee comprises two independent non-executive directors and one non-independent non-executive director. They are Teh Boon Eng, Shingo Toda and Dato' Ahmad Fuaad bin Mohd Dahalan.

Five Risk Management Committee meetings were held during the year with full attendance by the directors.

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee (continued)

The risk management framework of the Company comprises an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which cover all levels of personnel and business processes to ensure the Company's operations are run in an effective and efficient manner as well as safeguarding the assets of the Company and stakeholders' interest. This process is supported by the maintenance of a reliable information system that covers all significant activities. Continuous assessment of the effectiveness and adequacy of internal controls, which include independent examination of controls by the internal audit function, ensures corrective action, where necessary, is taken in a timely manner.

Audit Committee

The main responsibility of the Audit Committee is to assist the Board of Directors in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company as well as ensuring the effectiveness of the internal controls instituted by the Management. The Audit Committee functions on a Terms of Reference approved by the Board of Directors, with the following principal duties and responsibilities:

a) to review and approve the external and internal auditors' audit plan, scope and audit report on their evaluation of the system of internal controls of the Company;
b) to review the results of the audit and whether or not appropriate action has been taken on the recommendations given by the external and internal auditors;
c) to evaluate the quality of the audits performed by the external auditors and make recommendations concerning their appointments, termination and remuneration, and to consider the nomination of a person or persons as external auditors;
d) to provide assurance that the financial information presented by management is relevant, reliable and timely;
e) to oversee compliance with relevant laws and regulations and observance of a proper code of conduct and
f) to determine the quality, adequacy and effectiveness of the Company's internal control environment.

The Committee comprises 4 independent non-executive directors. They are Teh Boon Eng, Emeritus Professor Dato' Dr Lian Chin Boon, Dato' Ahmad Fuaad Bin Mohd Dahalan and Yip Jian Lee.

Six Audit Committee meetings were held during the year, with full attendance by the directors, except for Yip Jian Lee who was only appointed to the Board and the Audit Committee on 1 March 2013.

CORPORATE GOVERNANCE (CONTINUED)

Nominating Committee

The main responsibilities of the Committee are to ensure that the Board comprises members with the required technical competency, professionalism, mixture of skills and there is a balance between executive, non-executive and independent directors to ensure the effective discharge of the Board's responsibilities.

The Committee also recommends the appointment, promotion and removal of the directors, Chief Executive Officer, Deputy Chief Executive Officer and Technical Advisors, and provides assessment on their individual performance and contribution to the Company as a whole.

The Committee comprises two independent non-executive directors, two non-independent non-executive directors and a non-independent executive director. They are Teh Boon Eng, Shingo Toda, Hironari Iwakuma, Dato' Ahmad Fuaad bin Mohd Dahalan and Lee King Chi, Arthur.

Two Nominating Committee meetings were held during the year, with full attendance by the directors.

The Board as at the date of this report, comprises seven members, six of whom are non-executive directors. All Board members possess the required qualifications and experience in all material aspects of an insurance business to effectively ensure that the Company operates under the highest standard of professionalism.

Six Board meetings were held during the year, in which one director was unable to attend a meeting due to other commitments.

Remuneration Committee

The main responsibilities of the Committee are to establish and recommend to the Board, the remuneration structure and policy, including the terms of employment or contract of service for executive directors, Chief Executive Officer, Deputy Chief Executive Officer and Technical Advisors, and to ensure a strong link is maintained between the level of remuneration and individual performance against agreed targets on total remuneration package.

The Committee comprises two independent non-executive directors and a non-independent non-executive director. They are Teh Boon Eng, Shingo Toda and Dato' Ahmad Fuaad bin Mohd Dahalan.

Three Remuneration Committee meetings were held during the year, with full attendance by the directors.

DIRECTORS AND THEIR INTERESTS IN SHARES

The directors who have held office since the date of the last report are as follows:

Teh Boon Eng
Emeritus Professor Dato' Dr Lian Chin Boon
Dato' Ahmad Fuaad bin Mohd Dahalan
Hironari Iwakuma
Lee King Chi, Arthur
Shingo Toda
Yip Jian Lee (Appointed on 1 March 2013)

In accordance with the Company's Articles of Association, Teh Boon Eng and Hironari Iwakuma shall retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.

According to the register of directors' shareholdings, none of the directors in office at the end of the year held any interest in shares in or debentures of the Company or its related corporations, except as follows:

Holdings registered in name of director	At 31.12.2012	At 31.12.2011
Subsidiaries of ultimate holding corporation		
- Asia General Holdings Ltd		
(No. of ordinary shares)		
Lee King Chi Arthur (as nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd)	1	1
Shingo Toda (as nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd)	1	1
- Tokio Marine Life Insurance Singapore Ltd		
(No. of ordinary shares)		
Lee King Chi Arthur (as nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd)	1	-
Shingo Toda (as nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd)	1	-

DIRECTORS' BENEFITS

During and at end of the year, no arrangements subsisted to which the Company is a party with the object or objects 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.

DIRECTORS' BENEFITS (CONTINUED)

Since the end of the previous year, no director of the Company has received or become entitled to receive any benefit (other than directors' remuneration and benefits-in-kind shown in the notes to the financial statements of this Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a corporation in which he has a substantial financial interest.

ULTIMATE HOLDING CORPORATION

The directors regard Tokio Marine Holdings Inc., a corporation incorporated in Japan, as the ultimate holding corporation of the Company.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 27 March 2013.

SIGNED

TEH BOON ENG
DIRECTOR

SIGNED

HIRONARI IWAKUMA
DIRECTOR

Kuala Lumpur

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Teh Boon Eng and Hironari Iwakuma, being two of the directors of Tokio Marine Insurans (Malaysia) Berhad, state that, in the opinion of the directors, the financial statements set out on pages 11 to 86 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012 and of the results and cash flows of the Company for the year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Statndards and comply with the provisions of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 27 March 2013.

SIGNED

TEH BOON ENG
DIRECTOR

SIGNED

HIRONARI IWAKUMA
DIRECTOR

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Heng Kiah Ngan, being the Chief Executive Officer primarily responsible for the financial management of Tokio Marine Insurans (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 11 to 86 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

SIGNED

HENG KIAH NGAN

Subscribed and solemnly declared by the abovenamed Heng Kiah Ngan at Kuala Lumpur in Malaysia on 27 March 2013.

Before me,

SIGNED

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)
(Company No. 149520 U)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Tokio Marine Insurans (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2012, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 11 to 86.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view of in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia, and for such internal controls 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 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 Company's preparation of financial statement 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 Company'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.

PricewaterhouseCoopers (AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of 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 year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

1. As stated in Note 2(a) to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

2. 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.

SIGNED	SIGNED
PRICEWATERHOUSECOOPERS (No. AF: 1146) Chartered Accountants	JAYARAJAN RATHINASAMY (No. 2059/06/14 (J)) Chartered Accountant

Kuala Lumpur
27 March 2013

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	31.12.2012 RM'000	Restated 31.12.2011 RM'000	Restated 1.1.2011 RM'000
ASSETS				
Property, plant and equipment	4	14,801	14,840	16,874
Intangible assets	5	182,662	26,930	26,930
Investments	6	1,068,988	665,784	688,374
Held-to-maturity		35,568	55,784	80,964
Available-for-sale		939,714	532,314	524,516
Fair value through profit and loss		93,706	77,686	82,894
Tax recoverable		10,505	-	-
Reinsurance assets	7	496,967	158,513	152,895
Insurance receivables	8	176,792	116,707	86,466
Loans and receivables (excluding insurance receivables)	9	639,856	611,939	485,370
Cash and bank balances		4,128	25,829	31,015
Total Assets		2,594,699	1,620,542	1,487,924
EQUITY, GENERAL FUNDS AND LIABILITIES				
Share capital	10	403,471	278,000	278,000
Retained earnings	11	441,462	328,298	225,691
Other reserves	12	8,638	9,966	8,082
Total Equity		853,571	616,264	511,773
Insurance contract liabilities	13	1,479,638	868,758	845,561
Deferred tax liabilities	14	4,609	6,290	5,850
Other financial liabilities	15	22,989	10,865	1,393
Insurance payables	16	153,404	69,536	77,830
Tax payable		-	9,943	5,565
Other payables	17	80,488	38,886	39,952
Total Liabilities		1,741,128	1,004,278	976,151
Total Equity and Liabilities		2,594,699	1,620,542	1,487,924

The accompanying notes are an integral part of these financial statements.

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	Restated 2011 RM'000
OPERATING REVENUE	18	927,711	786,648
Gross earned premiums	19(a)	879,176	745,126
Premiums ceded to reinsurers	19(b)	(184,938)	(150,312)
NET EARNED PREMIUMS		694,238	594,814
Investment income	20	48,535	41,522
Realised gains and losses	21	1,137	(2,298)
Fair value gains and losses		11,024	6,319
Fee and commission income		39,101	36,525
OTHER REVENUE		99,797	82,068
Gross claims paid		(433,833)	(421,768)
Claims ceded to reinsurers		60,237	54,446
Gross change to insurance contract liabilities		(153,224)	14,176
Change in insurance contract liabilities ceded to reinsurers		110,900	2,096
NET CLAIMS INCURRED		(415,920)	(351,050)
Other operating (expense)/income	22	(535)	1,469
Fee and commission expense		(105,696)	(88,408)
Management expenses	23	(126,132)	(106,191)
OTHER EXPENSES		(232,363)	(193,130)
PROFIT BEFORE TAXATION		145,752	132,702
Taxation	24	(32,588)	(30,095)
PROFIT FOR THE YEAR		113,164	102,607
BASIC EARNINGS PER SHARE (SEN)	25	39	37

The accompanying notes are an integral part of these financial statements.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	Restated 2011 RM'000
Profit for the year		113,164	102,607
Other comprehensive income:			
Revaluation deficit arising during the year		-	(280)
Available-for-sale reserves			
Net (loss)/gain on fair value arising during the year	6	(2,627)	2,756
Net realised gain/(loss) transferred to income statement	6	906	(12)
		(1,721)	2,744
Tax effects thereon	14	393	(580)
		(1,328)	2,164
Total comprehensive income for the year		111,836	104,491

The accompanying notes are an integral part of these financial statements.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

		Non-distributable		Distributable	
	Share capital RM'000	Revaluation reserves RM'000	Available-for-sale reserves RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2011					
- as previously stated	278,000	1,837	6,245	230,654	516,736
- prior year adjustment (Note 32)	-	-	-	(4,963)	(4,963)
At 1 January 2011, restated	278,000	1,837	6,245	225,691	511,773
Total comprehensive income for the year	-	(280)	2,164	102,607	104,491
At 31 December 2011 / 1 January 2012, restated	278,000	1,557	8,409	328,298	616,264
At 1 January 2012, restated					
Issuance of shares (Note 10)	125,471	-	-	-	125,471
Total comprehensive income for the year	-	-	(1,328)	113,164	111,836
At 31 December 2012	403,471	1,557	7,081	441,462	853,571

The accompanying notes are an integral part of these financial statements.

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	Restated 2011
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	113,164	102,607
Adjustment of:		
Property, plant and equipment		
- depreciation	5,712	5,501
- gain on disposal	(389)	(4)
- write off	4	24
Fair value gain on financial assets at FVTPL	(11,024)	(6,319)
Amortisation of premium/(accretion of discount)	220	(61)
Loss on disposal of financial assets at FVTPL	158	2,290
(Gain)/loss on disposal of AFS financial assets	(906)	12
Investment income	(48,535)	(41,522)
Allowance for/(writeback of allowance) for doubtful debts	1,527	(598)
Bad debts written off	892	405
Tax expense	32,588	30,095
Profit from operations before changes in operating assets and liabilities	93,411	92,430
Purchases of financial investments	(569,773)	(56,470)
Proceeds from disposal of financial investments	137,761	41,649
Proceeds from maturity of investments	37,644	46,296
Increase in reinsurance assets	(116,078)	(5,618)
Increase in insurance receivables	(23,813)	(30,328)
Increase in loans and receivables	(22,272)	(130,409)
Increase in insurance contract liabilities	184,158	23,197
(Decrease)/increase in other financial liabilities	(6,084)	9,472
Increase/(decrease) in insurance payables	27,712	(8,294)
Increase/(decrease) in other payables	22,531	(1,066)
	(234,803)	(19,141)
Tax paid	(36,592)	(25,858)
Investment income received:		
- Interest	22,668	24,744
- Dividend	22,347	18,429
- Others	129	126
Net cash used in operating activities	(226,251)	(1,700)

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

	2012 RM'000	Restated 2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of general insurance business	83,910	-
Purchase of property, plant and equipment	(6,156)	(3,493)
Proceeds from disposal of property, plant and equipment	1,325	7
Net cash generated from/(used in) investing activities	79,079	(3,486)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	125,471	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,701)	(5,186)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	25,829	31,015
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4,128	25,829
Cash and bank balances	4,128	25,829

The accompanying notes are an integral part of these financial statements.

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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 year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The registered office of the Company is located at:

Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1,
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan

The principal place of business of the Company is located at:

29 - 31st Floor, Menara Dion
27 Jalan Sultan Ismail
50250 Kuala Lumpur

The Directors regard Tokio Marine Holdings Inc. a corporation incorporated in Japan, as the Company's ultimate holding corporation.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 27 March 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation of the financial statements

The financial statements comply with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia.

The financial statements of the Company for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with MFRS 1 "First-time Adoption of MFRS". The Company has consistently applied the same accounting policies in the opening MFRS statement of financial position as at 1 January 2011 (date of transition) and throughout all years presented, as if these policies had always been in effect. The transition to MFRS did not result in any significant change to the Company's existing accounting policies. Nonetheless, as required under MFRS 1, the Company has presented three statements of financial position, two income statements, two statements of comprehensive income, two statements of cash flows, two statements of changes in equity and related notes including comparatives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

Subsequent to the transition in the financial reporting framework to MFRS on 1 January 2012, the restated comparative information has not been audited under MFRS. The restated comparative statements of financial position as at 31 December 2011, comparative statement of income, comprehensive income, changes in equity and cash flows for the year then ended have been audited under the previous financial reporting framework, Financial Reporting Standards in Malaysia.

During the year, the Company changed the basis of estimation of unearned premium reserves. This prior year adjustment was made in accordance with the requirements of MRFS 108 “Accounting Policies, Changes in Accounting Estimates and Errors”, which requires retrospective application. The financial impact of this prior year adjustment is as disclosed in Note 32 to the financial statements.

The financial statements of the Company have also been prepared on a historical cost basis, except for those financial instruments which have been measured at their fair values and insurance liabilities which have been measured in accordance with the valuation methods specified in the Risk-Based Capital (“RBC”) Framework for insurers issued by BNM.

The preparation of financial statements in conformity with MFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Company’s accounting policies. Although these estimates are based on the Directors’ best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

The financial statements are presented in Ringgit Malaysia ("RM").

Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective

The Company will apply the following relevant and applicable new standards, amendments to standards and interpretations in the following periods:

(i) Financial year beginning on/after 1 January 2013

- MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.

- Amendment to MFRS 101 "Presentation of items of other comprehensive income" (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' (OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

- Amendment to MFRS 119 "Employee benefits" (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

- Amendment to MFRS 7 "Financial instruments: Disclosures" (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

<u>Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective</u> (continued)

(ii) Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132 "Financial instruments: Presentation" (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

(iii) Financial year beginning on/after 1 January 2015

- MFRS 9 "Financial instruments - classification and measurement of financial assets and financial liabilities" (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

  The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss("FVTPL"). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

  MFRS 7 requires disclosure on transition from MFRS 139 to MFRS 9.

  The Company is currently assessing the impact on the financial statements upon adoption of MFRS 9 on 1 January 2015.

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 January 2013 are not relevant to the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combination

The purchase method of accounting is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. See accounting policy Note 2(c) on goodwill. If the cost of acquisition is less than fair value of the acquired net assets, the difference is recognised directly in the income statement.

(c) Goodwill

Goodwill represents the excess of purchase consideration and related costs of acquisition over the aggregate of the fair value of the net assets of the business acquired at the date of acquisition. See accounting policy Note 2(g) on impairment of non-financial assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose, identified according to operating segment.

(d) Property, plant and equipment

Property, plant and equipment are initially stated at cost. Leasehold land and building are subsequently shown at revalued amount, based on periodic valuation of at least once in every 5 years by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

Property, plant and equipment are depreciated on a straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

Leasehold land and building	50 years
Furniture and fittings	3 - 6 years
Motor vehicles	4 years
Office equipment and computers	3 - 6 years

Residual values and useful lives of assets are reviewed and adjusted, if appropriate, at each statement of financial position date.

Surpluses arising from revaluation are credited to revaluation reserve via the statement of other comprehensive income. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to the income statement during the period in which they incur.

At each date of the statement of financial position, the Company also assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(g) on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the income statement. On disposal of revalued assets, amounts in the revaluation reserve relating to the assets are transferred to retained earnings.

(e) Investments and other financial assets

The Company classifies its investments and other financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity or available-for-sale. Classification of the financial assets is determined at initial recognition.

(i) Fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL relate to financial assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term or they are part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Financial assets at FVTPL are measured at fair value and any gain or loss arising from a change in the fair value is recognised in the income statement. Gains and losses on derecognition of such financial assets are measured as the difference between the sales proceeds and the last adjusted fair value in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investment and other financial assets (continued)

(ii) Held-to-maturity ("HTM")

Financial assets at HTM are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. HTM financial assets are measured at amortised cost using the effective interest method. Any gain or loss is recognised in the income statement when the financial assets are derecognised or impaired.

(iii) Loans and receivables ("LAR")

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

(iv) Available-for-sale ("AFS")

Financial assets at AFS are those that are not classified as FVTPL or HTM or LAR and are measured at fair value. AFS financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS financial assets are subsequently measured at fair value. Any gain or loss arising from a change in fair value, net of income tax, is reported separately in the statement of comprehensive income and reported as a separate component of equity until the financial asset is derecognised or is determined to be impaired. When the financial assets are derecognised or impaired, the cumulative gains or losses previously recognised in equity shall be transferred through the statement of comprehensive income to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of financial assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on HTM financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the 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 asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss on financial assets carried at cost (e.g. equity instruments or which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

(iii) Financial assets carried at fair value

In the case of financial assets classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is transferred from equity through the statement of comprehensive income and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as AFS financial assets carried at fair value 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 through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is charged to the income statement immediately unless it reverses the previous valuation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

(h) Derecognition of financial assets

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

(i) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

The Company's contributions to the Employees' Provident Fund, the national defined contribution plan, are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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 the income statement.

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

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

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

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at 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 the income statement. 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(f) to the financial statements.

(l) General insurance underwriting results

Product classification

The Company issues contracts that transfer insurance risk.

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

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

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

Premium income

Premium income is recognised in a year in respect of risks assumed during that particular year. Premiums from direct business are recognised during the year upon issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the date of the statement of financial position are accrued at that date as pipeline premiums.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) General insurance underwriting results (continued)

Premium liabilities

Premium liabilities refer to the higher of:

(a) the aggregate of the unearned premium reserves ("UPR"); or

(b) the best estimate value of the Company's unexpired risk reserves ("URR") at the valuation date and the provision of risk margin for adverse deviation ("PRAD") at a 75% confidence level as required by BNM, calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and includes allowance for the Company's expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.

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 year.

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

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

(ii) time apportionment method for non-annual policies reduced by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM; and

(ii) 1/24th method for all other classes of general business in respect of Malaysian policies, reduced by the corresponding percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Claims liabilities

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

Provision for claims liabilities is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the statement of financial position date. Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the date of the statement of financial position, based on an actuarial valuation with a PRAD at a 75% confidence level as required by BNM.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) General insurance underwriting results (continued)

Claims liabilities (continued)

Throughout the course of the year, management regularly re-assesses claims and provisions both on an individual and class basis, based on independent professional advice and reports, other available information and management's own assessment of the claims and provisions.

Acquisition costs and deferred acquisition costs ("DAC")

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums, is recognised as incurred and properly allocated to the year in which it is probable they give rise to income.

These costs are deferred to the extent that they are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying values, an impairment loss is recognised in the income statement.

DAC are also considered in the liability adequacy test for each accounting period. DAC are derecognised when the related contracts are either settled or disposed of.

For presentation purposes, DAC are netted-off against premium liabilities in the financial statements.

Valuation of general insurance contract liabilities

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

It may take a significant period of time before the ultimate claims costs can be established with some certainty and for some types of policies, IBNR claims represent a significant portion of the insurance contract liabilities. The ultimate cost of the outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that the Company's past claim development experience can be used to project future claims development pattern, hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and the claim numbers based on the observed development of preceding years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines and claims types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect the future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) General insurance underwriting results (continued)

Valuation of general insurance contract liabilities (continued)

Additionally, certain qualitative judgment is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all uncertainties involved.

(m) Other revenue recognition

Interest income including the amount of amortisation of premium and accretion of discount is recognised on a time proportion basis taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

Rental income is recognised on a time proportion basis except where default in payment of rent has already occurred and the rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, income is recognised on the receipt basis until all arrears have been paid.

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

Gains or losses arising on disposal of investments are credited or charged to the income statement.

(n) Foreign currency transactions

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”).

The financial statements are presented in Ringgit Malaysia, which is the Company’s functional and presentation currency.

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated at the rates of exchange ruling at that date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

(o) Income taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income taxes (continued)

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amount in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantially enacted by the date of the statement of financial position are used to determine deferred tax and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(p) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(q) Dividends

Dividends are recognised as liabilities when the obligation to pay is established.

(r) Operating lease

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the leases.

(s) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

(u) Financial instruments

Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Recognition method

The particular recognition method adopted for financial instruments recognised in the statement of financial position is disclosed in the individual accounting policy note associated with each item.

Fair value estimation

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

- the fair values of Malaysian Government Securities are based on the indicative market prices;
- the fair values of Cagamas papers and unquoted corporate debt securities are based on the indicative market yield obtained from fund managers;
- the fair values of quoted equity securities and unit trusts are based on quoted market prices; and
- the carrying amounts for other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are expected to have a material impact to the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are outlined below.

(i) Estimated impairment of goodwill

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed annually by the Company according to its accounting policies by comparing the recoverable amounts of the CGUs with the carrying amount of net assets allocated to the CGU, including the attributable goodwill.

The recoverable amounts of the CGUs were determined based on the value-in-use calculations. The calculations require the use of estimates. Refer to Note 5 to the financial statements on key assumptions used in the calculations for the CGUs.

(ii) Claims liabilities

The value of claims liabilities for each class of business is estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment, and includes a provision of risk margin for adverse deviation ("PRAD") at a 75% confidence level as required by BNM. PRAD is a component of the value of the insurance liabilities that relates to the uncertainty inherent in the best estimate value of the claims liabilities. PRAD is also an additional component of the liability value aimed at ensuring that the value of the claims liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. The final selected estimates are based on a judgmental consideration of results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term of settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(ii) Claims liabilities (continued)

Due to the fact that the ultimate claims liability is dependent upon the outcome of future events such as the size of court awards, the attitudes of claimants towards settlement of their claims, and social and economic inflation, there is an inherent uncertainty in any estimate of ultimate claims liability. As such, there is a limitation to the accuracy of those estimates. In fact, it is certain the actual future losses and loss adjustment expenses will not develop exactly as projected and may vary significantly from the projections.

(b) Critical judgements in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However, the directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

4 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM'000	Building RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment and computers RM'000	Total RM'000
Cost						
At 1 January 2012	3,400	1,870	14,535	2,128	28,180	50,113
Arising from acquisition of business (Note 31)	-	-	-	-	458	458
Additions	-	-	626	956	4,573	6,155
Disposals	(460)	(190)	(52)	(814)	(1,314)	(2,830)
Write off	-	-	-	-	(306)	(306)
At 31 December 2012	2,940	1,680	15,109	2,270	31,591	53,590
Accumulated depreciation						
At 1 January 2012	323	165	12,293	1,021	21,471	35,273
Charge for year	73	42	1,224	314	4,059	5,712
Disposals	(29)	(12)	(41)	(590)	(1,222)	(1,894)
Write off	-	-	-	-	(302)	(302)
At 31 December 2012	367	195	13,476	745	24,006	38,789
Net book value						
At 31 December 2012	2,573	1,485	1,633	1,525	7,585	14,801
Cost						
At 1 January 2011	3,400	1,870	14,525	1,990	25,453	47,238
Additions	-	-	124	144	3,225	3,493
Disposals	-	-	(1)	(6)	(175)	(182)
Write off	-	-	(113)	-	(323)	(436)
At 31 December 2011	3,400	1,870	14,535	2,128	28,180	50,113
Accumulated depreciation						
At 1 January 2011	243	120	10,620	836	18,545	30,364
Charge for year	80	45	1,781	191	3,404	5,501
Disposals	-	-	(1)	(6)	(173)	(180)
Write off	-	-	(107)	-	(305)	(412)
At 31 December 2011	323	165	12,293	1,021	21,471	35,273
Net book value						
At 31 December 2011	3,077	1,705	2,242	1,107	6,709	14,840

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold land RM'000	Building RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment and computers RM'000	Total RM'000
Cost						
At 1 January 2010	2,793	1,357	13,687	2,194	25,501	45,532
Addition			1,772	727	1,478	3,977
Revaluation	607	513	-	-	-	1,120
Disposals	-	-	-	(927)	(1,408)	(2,335)
Write off	-	-	(934)	(4)	(118)	(1,056)
At 31 December 2010/ 1 January 2011	3,400	1,870	14,525	1,990	25,453	47,238
Accumulated depreciation						
At 1 January 2010	177	87	9,266	1,601	16,864	27,995
Charge for year	66	33	2,254	36	3,152	5,541
Disposals	-	-	-	(801)	(1,363)	(2,164)
Write off	-	-	(900)	-	(108)	(1,008)
At 31 December 2010/ 1 January 2011	243	120	10,620	836	18,545	30,364
Net book value						
At 31 December 2010/ 1 January 2011	3,157	1,750	3,905	1,154	6,908	16,874

5 GOODWILL

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Cost:			
At 1 January	26,930	26,930	26,930
Arising from acquisition of business (Note 31)	155,732	-	-
At 31 December	182,662	26,930	26,930

Goodwill of the Company arose from the business acquisitions of Amanah General Insurance (M) Bhd ("AGIB"), Asia Insurance (M) Bhd ("AIMB") and MUI Continental Insurance Berhad ("MUI") in 2002, 2007 and 2012 respectively. As at 31 December 2012, the carrying amount of goodwill arising from the business acquisition of AGIB, AIMB and MUI was RM13,666,666 (2011: RM13,666,666), RM13,263,065 (2011: RM13,263,065) and RM155,732,591 (2011 : RM Nil) respectively.

In the previous year, goodwill arising for AGIB and AIMB was determined as separate CGUs based on their respective branch network. During the current financial year, the Company had reassessed their business generated from the branch network of AGIB and AIMB and concluded that the business generated from these entities has been subsumed within the Company and thus not necessary for branch networks to be assessed as separate CGUs. Consequently the impairment assessment of the goodwill of AGIB and AIMB has been assessed on a combined general insurance business as a whole, excluding MUI's acquired portfolio following the key assumptions stated below.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated perpetual growth rates.

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

(a) Premium growth rates have been projected on the basis of management's expectations of market developments taking into account the business plan which reflect future expansion plans and synergies arising from integration of the business acquired with existing business of the Company. The weighted average growth rates are consistent with the forecasts included in industry reports, adjusted with the trends and expectations of the Company's branches.

(b) Loss ratios have been projected after taking into account management's strategy for premium growth as well as past developments with respect to loss development patterns. The loss ratios are expected to remain at the existing levels.

(c) A discount rate of 10% (2011: 10%) used is pre-tax and reflects the general insurance industry's overall weighted average cost of capital.

(d) Terminal value is determined based on the present value of the net assets at the end of 2012.

Based on this assessment, no impairment is required on the goodwill of AGIB and AIMB which has been subsumed within the Company.

5 GOODWILL (CONTINUED)

As at 31 December 2012, the Company recognised a provisional goodwill of RM155.7 million from the acquisition of business from MUI at the date of acquisition i.e.1 September 2012.

As the acquisition of MUI was completed less than 12 months from financial year ended 31 December 2012, the purchase price allocation in respect of assets and liabilities are in progress. As allowed by MFRS 3: Business Combinations, the purchase price allocation and goodwill will be finalised in the financial year ended 31 December 2013.

As at 31 December 2012, the allocation of goodwill to CGU is in progress. A full goodwill impairment will be performed once the allocation of goodwill to CGU is finalised.

The Company had performed a preliminary impairment assessment on the provisional goodwill as at 31 December 2012 based on the key assumptions used in the value-in-use calculation.

Based on this preliminary assessment, no impairment is required on the provisional goodwill of MUI.

Based on the assessment of value-in-use for the CGU of AGIB, AIMB and MUI, the Company do not expect that any reasonable change in the key assumptions will cause the carrying amount of the goodwill to exceed its recoverable amount, resulting in impairment of goodwill. In conclusion, the key assumptions are not sensitive.

6 INVESTMENTS

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

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Held-to-maturity financial assets ("HTM")	35,568	55,784	80,964
Available-for-sale financial assets ("AFS")	939,714	532,314	524,516
Fair value through profit and loss ("FVTPL")	93,706	77,686	82,894
Loans and receivables ("LAR") (Note 9)	639,856	611,939	485,370
	1,708,844	1,277,723	1,173,744

The following investments mature after 12 months:

HTM	15,093	35,222	45,545
AFS	197,228	71,610	70,849
LAR	10,165	10,822	11,275
	222,486	117,654	127,669

(a) Held-to-maturity ("HTM")

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Amortised cost			
Malaysian Government securities	25,101	45,288	80,356
Corporate debt securities – quoted in Malaysia	10,000	10,000	-
	35,101	55,288	80,356
Accrued interest income			
Malaysian Government securities	298	328	608
Corporate debt securities – quoted in Malaysia	169	168	-
	467	496	608
	35,568	55,784	80,964

6 INVESTMENTS (CONTINUED)

(a) Held-to-maturity ("HTM") (continued)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fair value			
Malaysian Government securities	25,452	45,830	81,333
Corporate debt securities – quoted in Malaysia	10,214	10,180	-
	35,666	56,010	81,333

(b) Available-for-sale ("AFS")

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fair value			
Corporate debt securities:			
Quoted in Malaysia	3,315	3,285	3,283
Unquoted	193,914	78,413	72,594
	197,229	81,698	75,877
Unit trust funds	740,304	449,782	447,478
	937,533	531,480	523,355
Accrued interest income			
Corporate debt securities:			
Quoted in Malaysia	68	69	68
Unquoted	2,113	765	1,093
	2,181	834	1,161
	939,714	532,314	524,516

(c) Fair value through profit and loss ("FVTPL")

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fair value			
Held-for-trading:			
Equity securities	92,597	76,008	80,805
Unit and property trust funds	1,109	1,678	2,089
	93,706	77,686	82,894

6 INVESTMENTS (CONTINUED)

(d) Carrying values of financial assets

	HTM	AFS	FVTPL	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2010	94,385	511,658	62,521	668,564
Purchases	-	26,053	36,479	62,532
Maturities	(13,126)	(8,272)	-	(21,398)
Disposals	-	(8,951)	(30,612)	(39,563)
Fair value gains recorded in :				
Income statement	-	-	14,506	14,506
Other comprehensive income	-	3,685	-	3,685
(Amortisation)/accretion adjustment	(295)	343	-	48
At 31 December 2010/1 January 2011	80,964	524,516	82,894	688,374
Purchases	12,763	21,857	21,850	56,470
Maturities	(37,796)	(8,500)	-	(46,296)
Disposals	-	(8,272)	(33,377)	(41,649)
Fair value gains recorded in :				
Income statement	-	-	6,319	6,319
Other comprehensive income	-	2,675	-	2,675
(Amortisation)/accretion adjustment	(147)	38	-	(109)
At 31 December 2011	55,784	532,314	77,686	665,784

6 INVESTMENTS (CONTINUED)

(d) Carrying values of financial assets (continued)

	HTM	AFS	FVTPL	Total
	RM'000	RM'000	RM'000	RM'000
At 31 December 2011	55,784	532,314	77,686	665,784
Purchases	1,717	532,931	35,125	569,773
Maturities	(22,187)	(15,457)	-	(37,644)
Disposals	-	(107,632)	(30,129)	(137,761)
Fair value gains recorded in :				
Income statement	-	-	11,024	11,024
Other comprehensive income	-	(1,712)	-	(1,712)
(Amortisation)/accretion adjustment	254	(730)	-	(476)
At 31 December 2012	35,568	939,714	93,706	1,068,988

6 INVESTMENTS (CONTINUED)

(e) Fair values of financial assets

The following tables show investments recorded at fair value, analysed by the different basis of fair values as follows:

	AFS RM'000	FVTPL RM'000	Total RM'000
31 December 2012			
Quoted market price (Level 1)	3,383	93,706	97,089
Valuation techniques (Level 2) – market observable inputs	936,331	-	936,331
	939,714	93,706	1,033,420
31 December 2011			
Quoted market price (Level 1)	3,354	77,686	81,040
Valuation techniques (Level 2) – market observable inputs	528,960	-	528,960
	532,314	77,686	610,000
1 January 2011			
Quoted market price (Level 1)	3,351	82,894	86,245
Valuation techniques (Level 2) – market observable inputs	521,165	-	521,165
	524,516	82,894	607,410

Level 1

Included in the quoted price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. These are considered as Level 1 valuation basis.

Level 2

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market, instruments with fair values based on broker quotes, investment in unit and property trusts with fair values obtained via fund managers and instruments that are valued using the Company's own models whereby the majority of assumptions are market observable, and considered as Level 2 valuation basis.

6 INVESTMENTS (CONTINUED)

(e) Fair values of financial assets (continued)

Level 3

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include private non quoted securities. As observables prices are not available for those securities, valuation techniques are used to derive the fair value. There were no investments valued using this basis during the year.

7 REINSURANCE ASSETS

	31.12.2012	Restated 31.12.2011	Restated 1.1.2011
	RM'000	RM'000	RM'000
Reinsurance of insurance contracts (Note 13)	497,657	159,383	153,614
Allowance for impairment (Note 30)	(690)	(870)	(719)
	496,967	158,513	152,895

8 INSURANCE RECEIVABLES

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Due premiums including agents/brokers and co-insurers balances	152,605	103,621	78,462
Due from reinsurers and cedants	46,233	24,942	20,607
	198,838	128,563	99,069
Allowance for impairment (Note 30)	(22,046)	(11,856)	(12,603)
	176,792	116,707	86,466

9 LOANS AND RECEIVABLES (EXCLUDING INSURANCE RECEIVABLES)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Amortised cost			
Fixed and call deposits with licensed financial institutions	588,554	571,257	454,154
Staff loans	6,731	7,476	7,691
Allowance for impairment	(168)	(168)	(168)
	6,563	7,308	7,523
	595,117	578,565	461,677
Interest income receivable			
Fixed and call deposits with licensed financial institutions	4,169	2,620	4,144
	4,169	2,620	4,144
Other receivables			
Knock-for-knock claims recoveries	4,375	2,940	2,717
Assets held under Malaysia Motor Insurance Pool	23,444	17,168	9,396
Other receivables, deposits and prepayments	14,027	11,231	8,023
	41,846	31,339	20,136
Allowance for impairment	(1,276)	(585)	(587)
	40,570	30,754	19,549
	639,856	611,939	485,370
Fair value			
Fixed and call deposits with licensed financial institutions	588,846	571,470	463,151
Staff loans [net of impairment allowance of RM168,039 (2011: RM168,039)]	6,560	7,284	7,523
Other receivables	40,570	30,754	19,549
	635,976	609,508	490,223

The fair values of deposits approximate their carrying amounts due to their relatively short maturity period, except for negotiable instruments of deposits (“NID”) for which their fair values are based on the average indicative mid market prices obtained from three brokers/dealers.

The fair values of staff loans are established by comparing current market interest rates for similar financial instruments to the rates offered when the loans were first recognised together with appropriate market credits adjustments.

The fair values of other receivables approximate their carrying amount.

10 SHARE CAPITAL

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Authorised ordinary shares of RM1 each			
At beginning of year	300,000	300,000	300,000
Created during the year	200,000	-	-
At end of year	500,000	300,000	300,000
Issued and fully paid ordinary shares of RM1 each			
At beginning of year	278,000	278,000	278,000
Issued and fully paid during the year	125,471	-	-
At end of year	403,471	278,000	278,000

On 17 July 2012, the Company increased its authorised share capital from RM300,000,000 to RM500,000,000. On 26 November 2012, the Company issued 125,471,000 ordinary shares of RM1 each per share for cash at par, to fund the further expansion of the Company's operations. The new ordinary shares issued during the year ranked pari passu in all respects with the existing ordinary shares of the Company.

11 RETAINED EARNINGS

Under the single-tier tax system which came into effect from 1 January 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

Companies with Section 108 credits as at 31 December 2012 may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013, whichever is the earlier. Companies may opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act, 2008.

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 of approximately RM23.3 million (2011: RM23.3 million) of its retained earnings as at 31 December 2012 if paid out as dividends.

12 OTHER RESERVES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Revaluation reserve			
At 1 January	1,557	1,837	717
Revaluation (deficit)/surplus during the year	-	(280)	1,120
At 31 December	1,557	1,557	1,837
Available-for-sale reserve			
At 1 January	8,409	6,245	2,666
Fair value (loss)/gain arising during the year	(1,328)	2,164	3,579
At 31 December	7,081	8,409	6,245
Total	8,638	9,966	8,082

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES

	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
Provision for outstanding claims	790,532	(322,871)	467,661	425,263	(82,805)	342,458	444,558	(79,994)	364,564
Provision for incurred but not reported claims ("IBNR")	214,070	(67,374)	146,696	106,036	(18,872)	87,164	100,917	(19,587)	81,330
Claims liabilities (i)	1,004,602	(390,245)	614,357	531,299	(101,677)	429,622	545,475	(99,581)	445,894
Premium liabilities (ii)	475,036	(107,412)	367,624	337,459	(57,706)	279,753	300,086	(54,033)	246,053
	1,479,638	(497,657)	981,981	868,758	(159,383)	709,375	845,561	(153,614)	691,947

(i) Claims liabilities

	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
At 1 January	531,299	(101,677)	429,622	545,475	(99,581)	445,894	548,421	(99,996)	448,425
Arising from acquisition of business (Note 31)	320,078	(177,668)	142,410	-	-	-	-	-	-
Claims incurred in the current accident year	559,557	(163,732)	395,825	398,958	(56,927)	342,031	420,549	(49,522)	371,027
Other movements in claims incurred in prior accident years	21,115	(3,717)	17,398	3,515	(330)	3,185	(13,313)	(3,281)	(16,594)
Movement of IBNR at 75% confidence level	6,386	(3,688)	2,698	5,119	715	5,834	28,086	(10,058)	18,028
Claims paid during the year	(433,833)	60,237	(373,596)	(421,768)	54,446	(367,322)	(438,268)	63,276	(374,992)
At 31 December	1,004,602	(390,245)	614,357	531,299	(101,677)	429,622	545,475	(99,581)	445,894

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	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
(ii) Premium liabilities									
At 1 January									
- as previously stated	337,459	(65,193)	272,266	300,086	(60,650)	239,436	305,465	(65,763)	239,702
- prior year adjustment (Note 32)	-	7,487	7,487	-	6,617	6,617	-	7,424	7,424
At 1 January, restated	337,459	(57,706)	279,753	300,086	(54,033)	246,053	305,465	(58,339)	247,126
Arising from acquisition of business (Note 31)	106,645	(44,708)	61,937	-	-	-	-	-	-
Premiums written in the year (Note 19(a))	910,108	(189,936)	720,172	782,499	(153,985)	628,514	687,937	(126,694)	561,243
Premiums earned during the year (Note 19(a))	(879,176)	184,938	(694,238)	(745,126)	150,312	(594,814)	(693,316)	131,000	(562,316)
At 31 December	475,036	(107,412)	367,624	337,459	(57,706)	279,753	300,086	(54,033)	246,053

14 DEFERRED TAXATION

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

(a) The deferred tax balances of the Company after appropriate offsetting are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deferred tax liabilities	(4,609)	(6,290)	(5,850)
Subject to income tax:			
Deferred tax assets (before offsetting)			
- Insurance receivables	5,684	3,181	3,330
- Other receivables	394	122	189
- Other payables	1,109	648	-
- Financial assets at HTM	131	194	157
- Financial assets at FVTPL	-	84	-
	7,318	4,229	3,676
Offsetting	(7,318)	(4,229)	(3,676)
Deferred tax assets (after offsetting)	-	-	-
Deferred tax liabilities (before offsetting)			
- Property, plant and equipment	2,492	2,171	1,736
- Premium liabilities	1,181	1,090	1,004
- Financial assets at AFS	2,386	2,779	2,199
- Financial assets at FVTPL	5,868	4,479	4,587
	11,927	10,519	9,526
Offsetting	(7,318)	(4,229)	(3,676)
Deferred tax liabilities (after offsetting)	4,609	6,290	5,850
Deferred tax liabilities			
- Current	(4,177)	(6,110)	(5,950)
- Non current	(432)	(180)	100
	(4,609)	(6,290)	(5,850)

14 DEFERRED TAXATION (CONTINUED)

(b) The movements in deferred tax balances during the year are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At 1 January	(6,290)	(5,850)	(1,672)
Arising from acquisition of business (Note 31)			
- Insurance receivables	2,248	-	-
- Premium liabilities	15,484	-	-
Credited/(charged) to income statement (Note 24)			
- Insurance receivables	254	(149)	(751)
- Other receivables	272	(66)	(50)
- Other payables	462	647	-
- Property, plant and equipment	(321)	(435)	(784)
- Premium liabilities	(15,575)	(86)	(355)
- Financial assets at FVTPL	(1,473)	192	(2,205)
- Financial assets at HTM	(63)	37	73
	(16,444)	140	(4,072)
Charged to equity :			
- Financial assets at AFS	393	(580)	(106)
Total movement for the year	(16,051)	(440)	(4,178)
At 31 December	(4,609)	(6,290)	(5,850)

15 OTHER FINANCIAL LIABILITIES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deposits received from reinsurers	22,989	10,865	1,393

The carrying amounts disclosed above approximate their fair value at the date of statement of financial position.

All amounts are payable within one year.

16 INSURANCE PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due to agents and intermediaries	72,951	31,880	41,412
Due to reinsurers and cedants	80,453	37,656	36,418
	153,404	69,536	77,830

The carrying amounts disclosed above approximate their fair values at the date of statement of financial position.

All amounts are payable within one year.

17 OTHER PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash collaterals held on contract bonds	21,574	4,313	312
Payroll liabilities	15,442	11,418	10,925
Amount due to MMIP	15,247	-	-
Other payables and accrued expenses	43,472	23,155	28,715
	80,488	38,886	39,952

The amount due to MMIP of RM15,247,000 (2011:nil) relates to the portfolio held by MUI and subsequently acquired by the Company as at 1 September 2012. This is included as part of "Payables" as disclosed in Note 31 to the financial statements.

The carrying amounts disclosed above approximate their fair values at the date of statement of financial position.

18 OPERATING REVENUE

	2012 RM'000	2011 RM'000
Gross earned premiums (Note 19(a))	879,176	745,126
Investment income (Note 20)	48,535	41,522
	927,711	786,648

19 NET EARNED PREMIUMS

		2012 RM'000	2011 RM'000
(a)	Gross earned premiums		
	Insurance contracts	910,108	782,499
	Change in gross premium liabilities	(30,932)	(37,373)
		879,176	745,126
(b)	Premiums ceded		
	Insurance contracts	(189,936)	(153,985)
	Change in gross premium liabilities	4,998	3,673
		(184,938)	(150,312)
	Net earned premiums	694,238	594,814

20 INVESTMENT INCOME

FVTPL financial assets:		
Dividend income		
- equity securities quoted in Malaysia	3,179	2,497
HTM financial assets – interest income	1,530	2,999
AFS financial assets – interest income	5,869	2,934
AFS financial assets – dividend income	19,167	15,931
LAR financial assets – interest income	18,790	17,161
	48,535	41,522

21 REALISED GAINS AND LOSSES

	2012 RM'000	2011 RM'000
Property and equipment:		
Realised gains	389	4
Financial assets at FVTPL – held-for-trading:		
Realised loss	(158)	(2,290)
AFS financial assets:		
Realised gains / (loss):		
Corporate debt securities – quoted in Malaysia	428	136
Unit trust funds	478	(148)
	1,137	(2,298)

22 OTHER OPERATING (EXPENSE)/INCOME

Agency fees received	655	780
Other income	1,392	689
Write back of stamp duty payable	2,305	-
Professional fees	(4,887)	-
	(535)	1,469

23 MANAGEMENT EXPENSES

	2012 RM'000	2011 RM'000
Employee benefits expense (Note 23(a))	69,775	58,201
Directors' remuneration (Note 23(b))	725	655
Auditors' remuneration:		
- statutory audits	253	198
- other services	45	44
Depreciation of property, plant and equipment	5,712	5,501
Allowance/(write back) for impairment of insurance receivables	1,527	(598)
Bad debts written off	892	405
Rental of office premises	7,949	7,704
PIDM levies	1,794	1,556
Entertainment	4,582	4,467
Training expenses	1,334	1,330
Management fees	2,320	2,229
Repairs and maintenance	1,234	1,089
Motor vehicle expenses	3,281	2,958
Travelling	713	707
Advertising	70	73
Printing and stationery	3,149	2,941
Postage and telephone	1,867	1,778
Electronic data processing expenses	6,172	5,815
Bank collection charges	7,246	6,362
Other expenses	5,492	2,776
	126,132	106,191

(a) Employee benefits expense

Staff salary and bonus	58,831	48,372
Social security contributions	457	417
Contributions to Employees' Provident Fund	8,017	6,869
Other benefits	2,470	2,543
	69,775	58,201

23 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

The details of remuneration receivable by Directors during the year are as follows:

	2012 RM'000	2011 RM'000
Executive:		
Salaries and other emoluments	361	337
Bonus	112	92
	473	429
Non-executive:		
Fees	237	213
Other benefits	15	13
	252	226
	725	655
Represented by:		
Directors' fees	237	213
Amount included in employee benefits expense	488	442

The estimated cash value of benefits-in-kind provided to the directors of the Company amounted to RM155,378 (2011: RM139,247).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM724,991 (2011: RM737,630).

24 TAXATION

	2012 RM'000	2011 RM'000
Current income tax:		
Current financial year	(16,934)	(30,235)
Overprovision in prior financial years	790	-
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 14 (b))	(16,444)	140
	(32,588)	(30,095)

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

24 TAXATION (CONTINUED)

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

	2012 RM'000	Restated 2011 RM'000
Profit before tax	145,752	132,702
Taxation at Malaysian statutory tax rate of 25%	36,438	33,175
Income not subject to tax	(6,073)	(3,998)
Expenses not deductible for tax purposes	4,184	2,020
Overprovision in prior financial years	(790)	-
Income taxed at a lower tax rate	(1,171)	(1,102)
Tax expense for the year	32,588	30,095

25 EARNINGS PER SHARE

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

	2012 RM'000	Restated 2011 RM'000
Profit attributable to ordinary equity holders	113,164	102,607
Weighted average number of shares in issue	290,031	278,000
Basic earnings per share (sen)	39	37

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

26 OPERATING LEASE ARRANGEMENTS

The Company has rental commitments under non-cancellable operating leases and the future minimum lease payments as at 31 December 2012 are as follows:

	2012 RM'000	2011 RM'000
Not later than 1 year	7,255	7,076
Later than 1 year and not later than 5 years	4,654	9,002
	11,909	16,078

27 CAPITAL COMMITMENTS

	2012 RM'000	2011 RM'000
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	2,042	5,532
	2,042	5,532

28 SIGNIFICANT RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company as at 31 December 2012, are as follows:

Related parties	Country of incorporation	Relationship
Tokio Marine Holding Inc. ("TMH")	Japan	Ultimate holding corporation
Tokio Marine Asia Pte. Ltd. ("TM Asia")	Singapore	Holding corporation
Tokio Marine and Nichido Fire Insurance Company Limited ("TMNF")	Japan	Subsidiary of TMH
Tokio Marine Global Re Limited	Ireland	Subsidiary of TMNF
Tokio Marine Global Re Limited	Labuan	Subsidiary of TMNF

28 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with its holding corporation and other corporations deemed related parties by virtue of being subsidiaries of its holding corporations.

The significant related party transactions during the year and balances at the end of the year between the Company and its related parties are set out below:

Significant related party transactions

Income/(expenses):

	2012 RM'000	2011 RM'000
Transactions with holding corporations:		
Underwriting risk survey fees paid	(174)	(236)
Transactions with related corporations:		
Premium ceded	(60,221)	(48,711)
Commission received	10,487	11,079
Agency fees received	655	780
Underwriting risk survey fees paid	(112)	(23)
Rental paid	(194)	(189)
Claims paid on behalf of a related corporation	(2,118)	(1,914)
Claims recoveries and paid	11,719	9,464
Fund management fees paid	(265)	(194)

Insurance receivables	31.12.2012	31.12.2011	1.1.2011
Advances made on behalf of related corporations	405	302	461
Claim recoveries due from related corporations	2,519	2,237	644
Insurance payables			
Reinsurance premiums due to related corporations	(30,389)	(17,053)	(4,921)

(i) The sale of insurance contracts was made according to the published prices and conditions offered to the major customers of the Company.

28 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Key management personnel's remuneration

The remuneration of directors and other members of key management during the year are as follows:

	2012 RM'000	2011 RM'000
Salary	3,767	3,313
Bonus	1,015	974
Defined contribution plan	657	587
Other benefits	364	349
	5,803	5,223
Included in the total key management personnel are		
Directors' remuneration (Note 23(b))	473	429

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the Company include the Executive Director, Chief Executive Officer, Deputy Chief Executive Officer, General Managers and other senior management personnel of the Company.

29 INSURANCE RISK

Insurance risk includes the risk of incurring higher claims costs than expected owing to the unpredictable nature of claims, especially in terms of frequency, severity and the risk of change in economic and legal conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer receiving too little or insufficient premium for the risks it underwrites and insufficient liquidity to pay claims, which are higher than expected. The Company seeks to minimise insurance risks with a balanced mix of business portfolio and by strictly observing the underwriting guidelines and limits, prudent estimation of claims reserving and high standard of security vetting of all its reinsurers.

The table below sets out the concentration of general insurance contracts claims liabilities:

	31 December 2012			31 December 2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	809,898	(68,277)	741,621	604,497	(54,216)	550,281
Fire	271,433	(207,047)	64,386	77,320	(39,979)	37,341
Marine, Aviation and Transit	82,570	(58,001)	24,569	36,615	(15,225)	21,390
Miscellaneous	315,737	(164,332)	151,405	150,326	(49,963)	100,363
	1,479,638	(497,657)	981,981	868,758	(159,383)	709,375

Key assumptions

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

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

29 INSURANCE RISK (CONTINUED)

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

Sensitivity analysis

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

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

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity
		RM'000	RM'000	RM'000	RM'000
31 December 2012					
Average claim cost	+10%	94,885	57,738	(57,738)	(43,303)
Average number of claims	+10%	79,654	52,493	(52,493)	(39,370)
Average claim settlement period	Increased by 6 months	37,091	22,521	(22,521)	(16,891)
31 December 2011					
Average claim cost	+10%	48,552	40,596	(40,596)	(30,447)
Average number of claims	+10%	45,514	38,251	(38,251)	(28,689)
Average claim settlement period	Increased by 6 months	11,611	10,233	(10,233)	(7,674)

Claims development table

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

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

29 INSURANCE RISK (CONTINUED)

Gross General Insurance Claims Liabilities for 2012:

	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
Accident year									
At end of accident year				361,368	446,393	431,330	441,993	691,396	
One year later			302,525	402,290	452,366	395,948	575,751		
Two years later		285,266	356,743	401,036	453,901	595,324			
Three years later	232,755	356,455	357,909	392,799	543,432				
Four years later	313,645	355,886	351,870	510,914					
Five years later	314,487	353,386	455,012						
Six years later	312,991	405,190							
Seven years later	392,577								
Current estimate of cumulative claims incurred	392,577	405,190	455,012	510,914	543,432	595,324	575,751	691,396	4,169,596
At end of accident year	156,738	173,244	174,168	204,567	204,826	249,052	227,531	223,572	
One year later	295,967	332,017	326,213	391,722	408,296	452,824	416,120		
Two years later	327,355	363,683	364,739	442,895	474,328	501,265			
Three years later	340,775	381,049	389,870	466,857	491,571				
Four years later	356,076	391,649	398,645	479,836					
Five years later	366,010	395,844	405,496						
Six years later	369,309	397,391							
Seven years later	374,981								
Current payments to-date	374,981	397,391	405,496	479,836	491,571	501,265	416,120	223,572	3,290,232
Direct and facultative inwards	17,596	7,799	49,516	31,078	51,861	94,059	159,631	467,824	879,364
Treaty Inwards									4,096
MMIP									32,811
		Best estimate of claim liabilities							916,271
		Claim handling expenses							5,101
		Fund PRAD at 75% Confidence Interval							83,230
		Gross general insurance claim liabilities							1,004,602

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Gross General Insurance Claims Liabilities for 2011:

	2004	2005	2006	2007	2008	2009	2010	2011	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year									
At end of accident year					533,414	446,393	431,330	441,994	
One year later				463,146	402,290	452,366	395,948		
Two years later			399,463	356,743	401,036	453,901			
Three years later		353,272	356,455	357,909	392,799				
Four years later	311,715	313,645	355,866	351,870					
Five years later	276,127	314,487	353,386						
Six years later	271,827	312,991							
Seven years later	285,009								
Current estimate of cumulative claims incurred	285,009	312,991	353,386	351,870	392,799	453,901	395,948	441,994	2,987,898
At end of accident year	101,238	134,782	152,488	149,362	163,898	181,451	181,451	195,030	
One year later	220,222	247,101	290,093	270,612	308,827	352,834	319,708		
Two years later	239,320	273,367	316,826	302,795	345,360	406,672			
Three years later	249,406	283,950	331,151	321,486	364,154				
Four years later	256,290	292,994	338,775	327,953					
Five years later	261,157	301,134	341,551						
Six years later	264,812	303,700							
Seven years later	269,713								
Current payments to-date	269,713	303,700	341,551	327,953	364,154	406,672	319,708	195,030	2,528,481
Direct and facultative inwards	15,296	9,291	11,835	23,917	28,645	47,229	76,240	246,964	459,417
Treaty Inwards									1,131
MMIP									18,753
Best estimate of claim liabilities									479,301
Claim handling expenses									3,780
Fund PRAD at 75% Confidence Interval									48,218
Gross general insurance claim liabilities									531,299

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Net General Insurance Claims Liabilities for 2012:

	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
Accident year									
At end of accident year	154,713	218,302	252,853	301,578	396,603	376,339	379,532	481,634	
One year later	148,721	237,002	238,128	343,260	389,840	358,844	452,588		
Two years later	172,632	220,062	290,858	345,339	381,842	443,267			
Three years later	167,838	290,413	291,218	338,489	440,333				
Four years later	234,543	289,190	287,192	386,390					
Five years later	234,232	285,962	330,764						
Six years later	232,205	320,854							
Seven years later	273,171								
Current estimate of cumulative claims incurred	273,171	320,854	330,764	386,390	440,333	443,267	452,588	481,634	3,129,001
At end of accident year	121,427	144,208	145,639	171,018	184,509	187,938	192,764	191,034	
One year later	213,963	266,728	265,477	308,376	344,805	350,664	350,622		
Two years later	230,796	288,932	290,207	345,881	388,620	388,486			
Three years later	242,330	302,670	309,417	365,704	403,914				
Four years later	250,259	311,763	316,303	372,020					
Five years later	258,538	314,946	320,169						
Six years later	261,589	315,999							
Seven years later	264,291								
Current payments to-date	264,291	315,999	320,169	372,020	403,914	388,486	350,622	191,034	2,606,535
Direct and facultative inward	8,880	4,855	10,595	14,370	36,419	54,781	101,966	290,600	522,466
Treaty Inwards									4,096
MMIP									32,811
Best estimate of claim liabilities									559,373
Claim handling expenses									5,101
Fund PRAD at 75% Confidence Interval									49,883
Net general insurance claim liabilities									614,357

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Net General Insurance Claims Liabilities for 2011:

	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
Accident year									
At end of accident year	133,496	154,713	218,302	252,853	301,578	396,603	376,339	379,532	
One year later	122,073	148,721	237,002	238,128	343,260	389,840	358,844		
Two years later	123,271	172,632	220,062	290,858	345,339	381,842			
Three years later	141,496	167,838	290,413	291,218	338,489				
Four years later	140,932	234,543	289,190	287,193					
Five years later	200,347	234,232	285,962						
Six years later	195,447	232,205							
Seven years later	201,727								
Current estimate of cumulative claims incurred	201,727	232,205	285,962	287,193	338,489	381,842	358,844	379,532	2,465,794
At end of accident year	85,805	107,897	129,082	127,632	149,757	167,020	168,157	170,064	
One year later	158,997	188,045	238,298	233,429	270,373	305,884	297,845		
Two years later	170,334	202,075	257,302	254,675	299,698	340,894			
Three years later	176,740	211,602	268,475	269,148	316,270				
Four years later	182,810	217,999	275,448	274,809					
Five years later	187,414	224,880	277,871						
Six years later	190,703	227,365							
Seven years later	194,232								
Current payments to-date	194,232	227,365	277,871	274,809	316,270	340,894	297,845	170,064	2,099,350
Direct and facultative inward	7,495	4,840	8,091	12,384	22,219	40,948	60,999	209,468	366,444
Treaty Inwards									1,131
MMIP									18,753
Best estimate of claim liabilities									386,328
Claim handling expenses									3,780
Fund PRAD at 75% Confidence Interval									39,514
Net general insurance claim liabilities									429,622

30 FINANCIAL RISK

The Company is exposed to financial risks including credit, interest rate, currency risks and market risk during the normal course of its business. The Company has, in place, established procedures and guidelines to monitor the risks on an ongoing basis.

Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions fail to perform as contracted. Management has a credit policy in place and the exposure to these credit risks is monitored consistently.

At the date of the statement of financial position, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The maximum exposure to credit risk for the components in the financial statements is shown below:

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
HTM financial assets	6(a)			
Malaysian Government Securities		25,399	45,616	80,964
Corporate debt securities		10,169	10,168	-
LAR (excluding insurance receivables)	9			
Staff loans		6,563	7,308	7,523
Fixed and call deposits		592,723	573,877	458,298
AFS financial assets	6(b)			
Corporate debt securities		199,410	82,532	77,038
Unit trust funds		740,304	449,782	447,478
Financial assets at FVTPL	6(c)			
Equity securities		92,597	76,008	80,805
Unit trust funds		1,109	1,678	2,089
Reinsurance assets-claim liabilities	7	389,555	100,807	98,861
Insurance receivables	8	176,792	116,707	86,466
Cash and bank balances		4,128	25,829	31,015
		2,238,749	1,490,312	1,370,537

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating

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

	Neither past-due nor impaired			
	Investment grade	Non-investment grade: satisfactory	Past-due but not impaired	Total
	RM'000	RM'000	RM'000	RM'000
31 December 2012				
HTM financial assets				
Malaysian Government Securities	25,399	-	-	25,399
Corporate debt securities	10,169	-	-	10,169
LAR				
Staff loans	-	6,563	-	6,563
Fixed and call deposits	589,684	3,039	-	592,723
AFS financial assets				
Corporate debt securities	199,410	-	-	199,410
Unit trust funds	740,304	-	-	740,304
Financial assets at FVTPL				
Equity securities	92,597	-	-	92,597
Unit trust funds	1,109	-	-	1,109
Reinsurance assets-claim liabilities	-	389,555	-	389,555
Insurance receivables	-	64,895	111,897	176,792
Cash and bank balances	-	4,128	-	4,128
	1,658,672	468,180	111,897	2,238,749

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default experience. The unimpaired reinsurance assets – claim liabilities and insurance receivables without external credit rating are relating to agents and brokers with no defaults in the past.

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired			
	Investment grade	Non-investment grade: satisfactory	Past-due but not impaired	Total
	RM'000	RM'000	RM'000	RM'000
31 December 2011				
HTM financial assets				
Malaysian Government Securities	45,616	-	-	45,616
Corporate debt securities	10,168	-	-	10,168
LAR				
Staff loans	-	7,308	-	7,308
Fixed and call deposits	509,296	64,581	-	573,877
AFS financial assets				
Corporate debt securities	82,532	-	-	82,532
Unit trust funds	393,206	56,576	-	449,782
Financial assets at FVTPL				
Equity securities	76,008	-	-	76,008
Unit trust funds	1,678	-	-	1,678
Reinsurance assets-claim liabilities	-	100,807	-	100,807
Insurance receivables	-	45,299	71,408	116,707
Cash and bank balances	-	25,829	-	25,829
	1,118,504	300,400	71,408	1,490,312

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default experience. The unimpaired reinsurance assets – claim liabilities and insurance receivables without external credit rating are relating to agents and brokers with no defaults in the past.

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired			
	Investment grade	Non-investment grade: satisfactory	Past-due but not impaired	Total
	RM'000	RM'000	RM'000	RM'000
1 January 2011				
HTM financial assets				
Malaysian Government Securities	80,964	-	-	80,964
Corporate debt securities	-	-	-	-
LAR				
Staff loans	-	7,523	-	7,523
Fixed and call deposits	397,698	60,600	-	458,298
AFS financial assets				
Corporate debt securities	77,038	-	-	77,038
Unit trust funds	447,478	-	-	447,478
Financial assets at FVTPL				
Equity securities	80,805	-	-	80,805
Unit trust funds	2,089	-	-	2,089
Reinsurance assets-claim liabilities		98,861		98,861
Insurance receivables		29,044	57,422	86,466
Cash and bank balances		31,015	-	31,015
	1,086,072	227,043	57,422	1,370,537

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default experience. The unimpaired reinsurance assets – claim liabilities and insurance receivables without external credit rating are relating to agents and brokers with no defaults in the past.

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC") credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	BBB	Not rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2012						
HTM financial assets						
Malaysian Government Securities	25,399	-	-	-	-	25,399
Corporate debt securities	-	10,169	-	-	-	10,169
LAR						
Staff loans	-	-	-	-	6,563	6,563
Fixed and call deposits	270,239	119,372	27,035	173,038	3,039	592,723
AFS financial assets						
Corporate debt securities	57,624	131,568	10,218	-	-	199,410
Unit trust funds	535,492	158,338	46,474	-	-	740,304
Financial assets at FVTPL						
Equity securities	92,597	-	-	-	-	92,597
Unit trust funds	1,109	-	-	-	-	1,109
Reinsurance assets-claims liabilities	-	49,849	147,348	2,195	190,163	389,555
Insurance receivables	-	6,470	22,284	81	147,957	176,792
Cash and bank balances	-	-	-	-	4,128	4,128
	982,460	475,766	253,359	175,314	351,850	2,238,749

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC"). AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	BBB	Not rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011						
HTM financial assets						
Malaysian Government Securities	45,616	-	-	-	-	45,616
Corporate debt securities	-	10,168	-	-	-	10,168
LAR						
Staff loans	-	-	-	-	7,308	7,308
Fixed and call deposits	214,838	210,155	4,009	80,294	64,581	573,877
AFS financial assets						
Corporate debt securities	21,363	50,884	10,285	-	-	82,532
Unit trust funds	275,120	74,432	43,654	-	56,576	449,782
Financial assets at FVTPL						
Equity securities	76,008	-	-	-	-	76,008
Unit trust funds	1,678	-	-	-	-	1,678
Reinsurance assets-claims liabilities	3,143	22,454	39,350	430	35,430	100,807
Insurance receivables	-	2,609	10,616	25	103,457	116,707
Cash and bank balances	-	-	-	-	25,829	25,829
	637,766	370,702	107,914	80,749	293,181	1,490,312

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30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC"). AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	BBB	Not rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1 January 2011						
HTM financial assets						
Malaysian Government Securities	80,964	-	-	-	-	80,964
Corporate debt securities	-	-	-	-	-	-
LAR						
Staff loans	-	-	-	-	7,523	7,523
Fixed and call deposits	206,808	104,533	65,357	21,000	60,600	458,298
AFS financial assets						
Corporate debt securities	16,029	50,798	10,211	-	-	77,038
Unit trust funds	358,775	64,694	24,009	-	-	447,478
Financial assets at FVTPL						
Equity securities	80,805	-	-	-	-	80,805
Unit trust funds	2,089	-	-	-	-	2,089
Reinsurance assets-claims liabilities	1,504	7,269	52,055	3,758	34,275	98,861
Insurance receivables	19	2,299	5,518	439	78,191	86,466
Cash and bank balances	-	-	-	-	31,015	31,015
	746,993	229,593	157,150	25,197	211,604	1,370,537

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30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company according to the Company's categorisation of counter-parties by RAM's credit rating.

	AAA	AA	A	BBB	Not rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2012						
Investment grade	982,460	419,447	84,068	172,697	-	1,658,672
Non-investment grade						
Satisfactory	-	55,163	164,816	2,592	245,609	468,180
Past-due but not impaired	-	1,156	4,475	25	106,241	111,897
	982,460	475,766	253,359	175,314	351,850	2,238,749
31 December 2011						
Investment grade	634,623	345,639	57,948	80,294	-	1,118,504
Non-investment grade						
Satisfactory	3,143	24,887	49,706	455	222,209	300,400
Past-due but not impaired	-	176	260	-	70,972	71,408
	637,766	370,702	107,914	80,749	293,181	1,490,312
1 January 2011						
Investment grade	745,470	220,025	99,577	21,000	-	1,086,072
Non-investment grade						
Satisfactory	1,504	7,290	54,075	3,810	160,364	227,043
Past-due but not impaired	19	2,278	3,498	387	51,240	57,422
	746,993	229,593	157,150	25,197	211,604	1,370,537

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

During the year, no credit exposure limits were exceeded.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

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

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	Total
31 December 2012						
Insurance receivables (RM'000)	28,542	6,307	19,216	21,919	35,913	111,897
	28,542	6,307	19,216	21,919	35,913	111,897
31 December 2011						
Insurance receivables (RM'000)	37,718	7,331	6,254	2,859	17,246	71,408
	37,718	7,331	6,254	2,859	17,246	71,408
1 January 2011						
Insurance receivables (RM'000)	37,113	11,765	3,855	2,451	2,238	57,422
	37,113	11,765	3,855	2,451	2,238	57,422

30 FINANCIAL RISK (CONTINUED)

Age analysis of financial assets past-due but not impaired* (continued)

*Past-due but not impaired refers to amounts outstanding more than 90 days from the effective date of the transactions. The above balances had been aged according to the period subsequent to classification of these balances as past-due.

The past-due but not impaired insurance receivables are relating to agents and brokers with no defaults in the past.

Impaired financial assets

At 31 December 2012, based on individual and collective assessment of receivables, there are impaired insurance receivables of RM24,180,000 (2011: RM13,479,000). For assets to be classified as "past-due and impaired", contractual payments must be in arrears between twelve (12) to twenty four (24) months. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate "Allowance for Impairment" accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivables is as follows:

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
At 1 January	13,479	14,077	14,423
Arising from acquisition of business	9,174	-	-
Charge for the year	8,999	1,537	466
Recoveries	(7,472)	(2,135)	(812)
At 31 December	24,180	13,479	14,077

30 FINANCIAL RISK (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Company's policy is to maintain adequate liquidity to meet its liquidity needs under all conditions.

There are guidelines on asset allocation, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance and investment contracts obligations.

The Company's catastrophe excess-of-loss reinsurance contract contains clauses permitting the Company to make cash call claims and receive immediate payment for large loss should claim events exceed a certain amount.

Maturity profiles

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

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

Premiums liabilities and the reinsurers' share of premiums liabilities have been excluded from the analysis as they are not financial liabilities as there are no contractual obligations.

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

			Contractual Cash Flow (undiscounted)				
	Carrying value RM'000	No maturity date RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Total RM'000
31 December 2012							
Financial investments:							
HTM	35,568	-	21,366	15,283	-	-	36,649
AFS	939,714	740,304	10,982	51,111	33,788	156,100	992,285
FVTPL	93,706	93,706	-	-	-	-	93,706
Reinsurance assets – claims liabilities	389,555	-	232,522	105,492	12,884	38,657	389,555
Insurance receivables	176,792	-	176,792	-	-	-	176,792
LAR (excluding insurance receivables)	599,286	-	589,719	2,807	6,941	1,839	601,306
Cash and bank balances	4,128	4,128	-	-	-	-	4,128
Total financial assets	2,238,749	838,138	1,031,381	174,693	53,613	196,596	2,294,421
General insurance claims liabilities	1,004,602	-	587,301	266,555	80,485	70,261	1,004,602
Other financial liabilities	22,989	-	22,989	-	-	-	22,989
Insurance payables	153,404	-	153,404	-	-	-	153,404
Other payables	80,488	-	80,488	-	-	-	80,488
Total financial liabilities	1,261,483	-	844,182	266,555	80,485	70,261	1,261,483

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

	Carrying value RM'000	No maturity date RM'000	Contractual Cash Flow (undiscounted) Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Total RM'000
31 December 2011							
Financial investments:							
HTM	55,784	-	22,309	36,545	-	-	58,854
AFS	532,314	449,782	14,604	21,406	26,867	37,451	550,110
FVTPL	77,686	77,686	-	-	-	-	77,686
Reinsurance assets – claims liabilities	100,807	-	54,654	29,527	10,167	6,459	100,807
Insurance receivables	116,707	-	116,707	-	-	-	116,707
LAR (excluding insurance receivables)	581,185	-	570,946	2,915	2,231	7,689	583,781
Cash and bank balances	25,829	25,829	-	-	-	-	25,829
Total financial assets	1,490,312	553,297	779,220	90,393	39,265	51,599	1,513,774
General insurance claims liabilities	531,299	-	317,545	143,448	50,998	19,308	531,299
Other financial liabilities	10,865	-	10,865	-	-	-	10,865
Insurance payables	69,536	-	69,536	-	-	-	69,536
Other payables	38,886	-	38,886	-	-	-	38,886
Total financial liabilities	650,586	-	436,832	143,448	50,998	19,308	650,586

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30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

	Carrying value RM'000	No maturity date RM'000	Contractual Cash Flow (undiscounted) Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Total RM'000
1 January 2011							
Financial investments:							
HTM	80,964	-	38,104	42,312	5,352	-	85,768
AFS	524,516	447,478	11,116	26,408	30,082	30,204	545,288
FVTPL	82,894	82,894	-	-	-	-	82,894
Reinsurance assets – claims liabilities	98,861	-	53,995	29,544	9,769	5,553	98,861
Insurance receivables	86,466	-	86,466	-	-	-	86,466
LAR (excluding insurance receivables)	465,821	-	462,601	2,966	2,391	3,649	471,607
Cash and bank balances	31,015	31,015	-	-	-	-	31,015
Total financial assets	1,370,537	561,387	652,282	101,230	47,594	39,406	1,401,899
General insurance claims liabilities	545,475	-	317,120	147,033	57,255	24,067	545,475
Other financial liabilities	1,393	-	1,393	-	-	-	1,393
Insurance payables	77,830	-	77,830	-	-	-	77,830
Other payables	39,952	-	39,952	-	-	-	39,952
Total financial liabilities	664,650	-	436,295	147,033	57,255	24,067	664,650

30 FINANCIAL RISK (CONTINUED)

Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of the potential adverse changes in market prices. Market risk comprises three (3) types of risk – market interest rates risk, foreign exchange rates (currency risk), and market prices (price risk).

The Company invest in equities, unit trusts and fixed income securities either managed internally or outsourced to professional fund managers. To deal with these risks, the Board has formulated investment policies and strategies and meetings were held during the financial year to monitor the performance of the fund managers.

Interest rate risk

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

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

Changes in the market interest rates will affect the Company's investment earnings as the Company places part of its excess funds in interest bearing instruments and bank deposits. The Company therefore has set strict investment guidelines in place that provide for careful selection of issuers and financial institutions to ensure that the risks are well spread and the investments generate favourable as well as safe returns for the shareholders.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the deposits and fixed income securities of the Company:

	Impact on profit before tax	Impact on equity*
31 December 2012		
Change in interest rates		
+50 basis points	3,615	2,711
- 50 basis points	(3,615)	(2,711)
31 December 2011		
Change in interest rates		
+50 basis points	3,231	2,423
- 50 basis points	(3,231)	(2,423)

*Impact on equity reflects adjustments for tax, when applicable

Foreign currency risk

The Company is exposed to foreign currency risks on transactions that are denominated other than in Ringgit Malaysia. These exposures are monitored on an ongoing basis and the Company's exposure is minimal.

The Company does not hedge its foreign currency risk.

30 FINANCIAL RISK (CONTINUED)

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 interest rate/profit yield risk or currency risk), 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 exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector, market and issuer, having regard also to such limits stipulated by BNM. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on Profit before Tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in income statement) and Equity (that reflects adjustments to Profit before Tax and changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		31 December 2012		31 December 2011	
	Change in variables	Impact on profit before tax	Impact on equity*	Impact on profit before tax	Impact on equity*
Market indices					
FBM KLCI	+ 10%	9,371	7,028	7,768	5,826
FBM KLCI	-10%	(9,371)	(7,028)	(7,768)	(5,826)

The potential impact arising from other market indices are deemed insignificant as the Company's holdings in equity securities listed in other bourses are not material.

* Impact on equity reflects adjustments for tax, when applicable

30 FINANCIAL RISK (CONTINUED)

Operational risk

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

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit.

Business risks, such as, changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

31 BUSINESS COMBINATION

On 1 September 2012, the Company completed the acquisition of certain assets and liabilities of the general insurance business of MUI Continental Insurance Berhad ("MUI") for a cash consideration of RM180,228,000.

Details of net assets acquired determined provisionally are as follows:

	Carrying value RM'000	Fair value RM'000
Assets		
Property, plant and equipment (Note 4)	458	458
Receivables	41,494	41,494
Deferred tax asset (Note 14)	-	17,732
Total assets	41,952	59,684
Liabilities		
Payables	94,979	94,979
Claims liabilities (Note 13)	149,174	142,410
Premium liabilities (Note 13)	61,937	61,937
Total liabilities	306,090	299,326
Net liabilities acquired	(264,138)	(239,642)

31 BUSINESS COMBINATION (CONTINUED)

Details of cash flows arising from the acquisition are as follows:

	RM'000
Purchase consideration settled in cash	180,228
Less: Cash received on net liabilities acquired	(264,138)
Net cash inflow on acquisition of business	83,910

Purchase consideration:	
- Cash consideration	180,228
Less: Fair value of net liabilities acquired	(24,496)
Goodwill (Note 5)	155,732

The acquired business contributed revenue of RM30,332,138 and a net profit of RM11,754,447 to the Company for the financial period from 1 September 2012 (date of acquisition) to 31 December 2012. Had the acquisition taken effect at the beginning of the 2012, the revenue and net profit of the Company for the year ended 31 December 2012 would be significantly different from the above.

32 PRIOR YEAR ADJUSTMENT

During the year, the Company changed the basis of computation for its UPR. In the previous years, the Company had recognised the deduction of premium ceded under loss-occurrence non-proportional treaties in its UPR computation which resulted in lower UPR being recognised in the financial statements. The Company has in the current year disallowed this deduction to recognise the substance of these treaties in which the coverage period is only limited to the particular contract period. Hence premiums ceded related to those treaties should not be deferred to match against future claims liabilities.

The change has been recognised retrospectively as an adjustment to the opening balance as at 1 January 2011 and the full effect on the opening balances are as follows:

As at 1 January 2011

	Balance as at 1.1.2011 RM'000	Effects of prior year adjustment RM'000	Restated balance as at 1.1.2011 RM'000
Reinsurance assets	159,512	(6,617)	152,895
Tax payable	(7,219)	1,654	(5,565)
Retained earnings	(230,654)	4,963	(225,691)

As at 31 December 2011

	Balance as at 31.12.2011 RM'000	Effects of prior year adjustment RM'000	Restated balance as at 31.12.2011 RM'000
Reinsurance assets	166,000	(7,487)	158,513
Tax payable	(11,815)	1,872	(9,943)
Retained earnings	(333,913)	5,615	(328,298)

The effects of the prior year adjustment to the Company's income statement/statement of comprehensive income for the financial year ended 31 December 2011 are as follows:

	As previously stated RM'000	Effects of prior year adjustment RM'000	As restated RM'000
Premium ceded to reinsurers	(149,442)	(870)	(150,312)
Profit before taxation	133,572	(870)	132,702
Taxation	(30,313)	218	(30,095)
Profit for the year	103,259	(652)	102,607

There is no effect on the cash flows of the Company for the year ended 31 December 2011 as a result of the prior year adjustment.

33 REGULATORY CAPITAL REQUIREMENTS

Regulatory capital is the minimum amount of assets that must be held throughout the year to meet statutory solvency requirements governed under the Framework. As part of the statutory requirements, the Company is required to provide a capital position on a quarterly basis to Bank Negara Malaysia.

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

	Note	2012 RM'000	Restated 2011 RM'000
Eligible Tier 1 Capital			
Share capital (paid-up)	10	403,471	278,000
Retained earnings		441,462	328,298
		844,933	606,298
Tier 2 Capital			
Available-for-sale reserves		7,081	8,409
Revaluation reserves		1,557	1,557
		8,638	9,966
Amounts deducted from capital		(182,662)	(26,930)
Total Capital Available		670,909	589,334

The Company has met the minimum capital requirements specified in the Framework for the years ended 2012 and 2011.