

A woman in a white shirt and black skirt is talking on a red phone in a modern office lobby. The lobby has a glass wall with the text 'ACE Jerneh' visible. The floor is dark grey with white lines. There are other people in the background, some blurred.

# DIVERSITY, QUALITY VALUE, LEADERSHIP

ANNUAL REPORT 2013



ACE Jerneh





## COVER RATIONALE

# IN MOTION

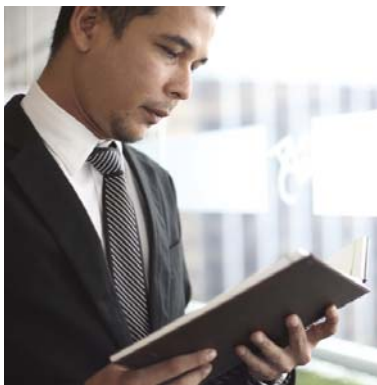
The image on the cover represents the dynamic world and diverse needs of our clients that we, at ACE Jerneh, strive to deliver results on with quality, value and diversity.

Our priority continues to be not only to our customers, but also to our intermediaries and business partners. Through the commitment and drive of our employees providing value-added services and tailored products, we are able to deliver on the needs of both our customers and business partners with the results and quality that is expected.

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# ABOUT ACE JERNEH



ACE Jerneh Insurance Berhad (ACE Jerneh) in Malaysia is a company of ACE Group, one of the world's largest multiline property and casualty insurers. With operations in 54 countries, ACE provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. ACE Limited, the parent company of ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index.

ACE Jerneh provides a comprehensive range of general insurance solutions for large corporates, small and medium-sized businesses, as well as individuals through a multitude of distribution channels. With a strong underwriting culture, ACE Jerneh offers responsive service and market leadership built on financial strength. It has a network of 23 branches and more than 2,000 agents.



# ABOUT ACE GROUP



ACE Group is one of the world's largest multiline property and casualty insurers. With operations in 54 countries, ACE provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

The company is distinguished by its broad product and service capabilities, exceptional financial strength, underwriting and claims handling expertise and local operations globally.

The insurance companies of ACE Group serve multinational corporations and local businesses with property and casualty insurance and services; companies and affinity groups providing or offering accident and health insurance programs and life insurance to their employees or members; insurers managing exposures with reinsurance coverage; and individuals purchasing life, personal accident, supplemental health, homeowners, automobile and other specialty insurance coverage.

With more than \$94 billion in assets and nearly \$23 billion of gross written premiums in 2013, ACE's core operating insurance companies maintain financial strength ratings of AA from Standard & Poor's and A++ (Superior) from A.M. Best.

ACE Limited, the parent company of ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index.

ACE Group maintains executive offices in Zurich, Bermuda and New York, among other locations, and employs more than 20,000 people worldwide.

# FINANCIAL HIGHLIGHTS 2013

Net Profit  
**RM110.1**  
million

Gross Written Premium  
**RM796.2**  
million

Combined Ratio  
**81.4%**

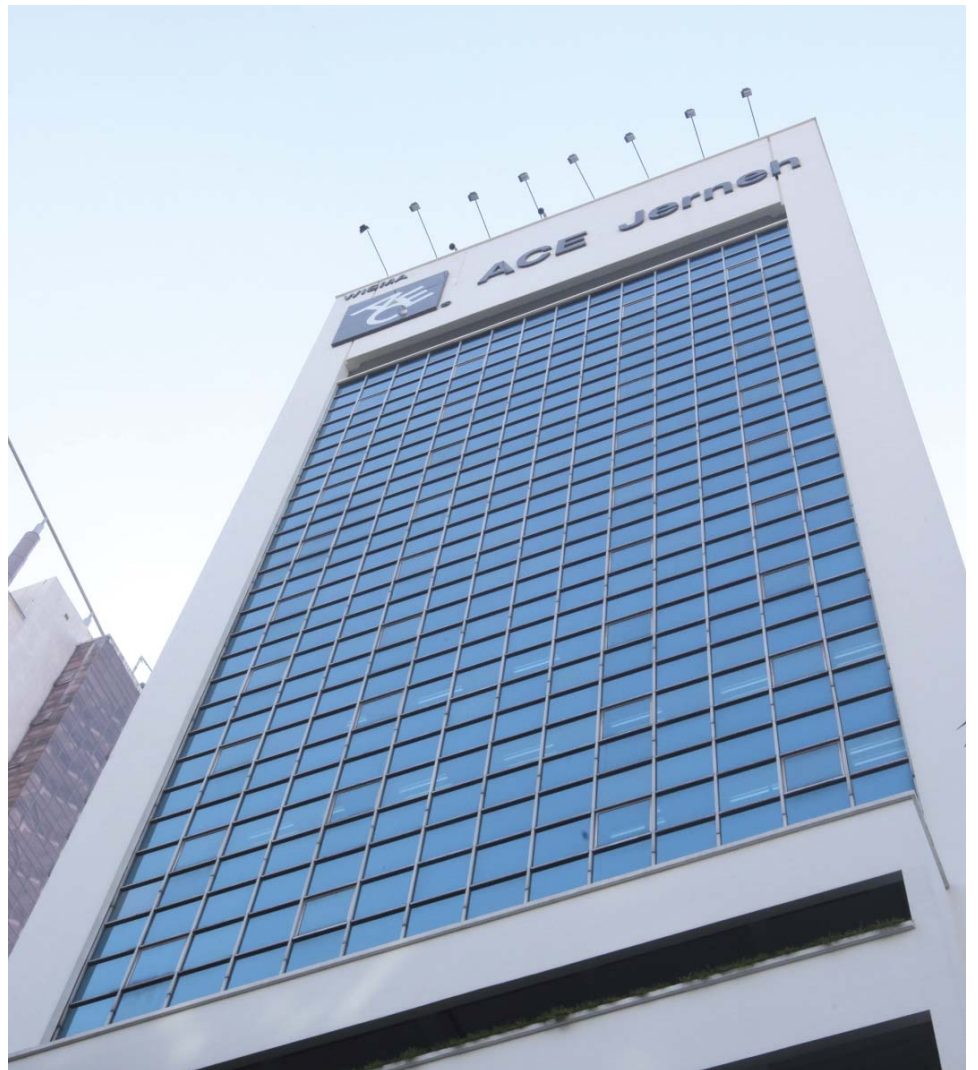
Net Written Premium  
**RM549**  
million

# LEADERSHIP

both in the market through our financial strength; and within the company through the commitment and action of our leaders and employees in delivering on our vision.







# A MESSAGE FROM THE CHAIRMAN

2013 was a remarkable year for ACE Jerneh, with highlights including strong growth across all major lines of business and an expanded presence in Malaysia's southern region with the opening of our 23rd branch in Segamat, Johor.

This latest branch opening is in alignment with ACE Jerneh's multi-distribution plan to better serve our agents and customers, increase brand visibility and presence; and continue to grow the company organically.

The three main pillars of the company's product lines continue to be Commercial Property & Casualty, Accident & Health and Personal & Business Insurance, which all performed strongly in this annual period strengthening our position as one of Malaysia's top general insurers.

To support this market-leadership position and reflect ACE Jerneh's continuing business evolution and growth, this year we have launched a new corporate logo that enhanced our visual brand positioning. The new logo also allows for our many different cultures and businesses to position themselves individually to their best advantage under the ACE brand.

Our new corporate tagline, ACE Insured™, is a strong, assertive statement designed to confidently connect the ACE name with the business we are in and signify the trusted relationships we pride ourselves on with our customers. The tagline demonstrates the customer benefits and 'seal of approval' of being ACE insured.

There have been a couple of significant laws that came into force in 2013, which are the Financial Services Act 2013 ('FSA') and the Personal Data Protection Act 2010 ('PDPA'). The majority of the provisions in the FSA came into force in June 2013. Some of the main objectives of the FSA are to allow for better regulation and supervision of financial institutions, to strengthen regulation of financial groups, to promote financial stability, and to support a more effective supervisory and enforcement framework. ACE Jerneh has taken steps to meet the new requirements under the FSA and have made the necessary changes in business practices.

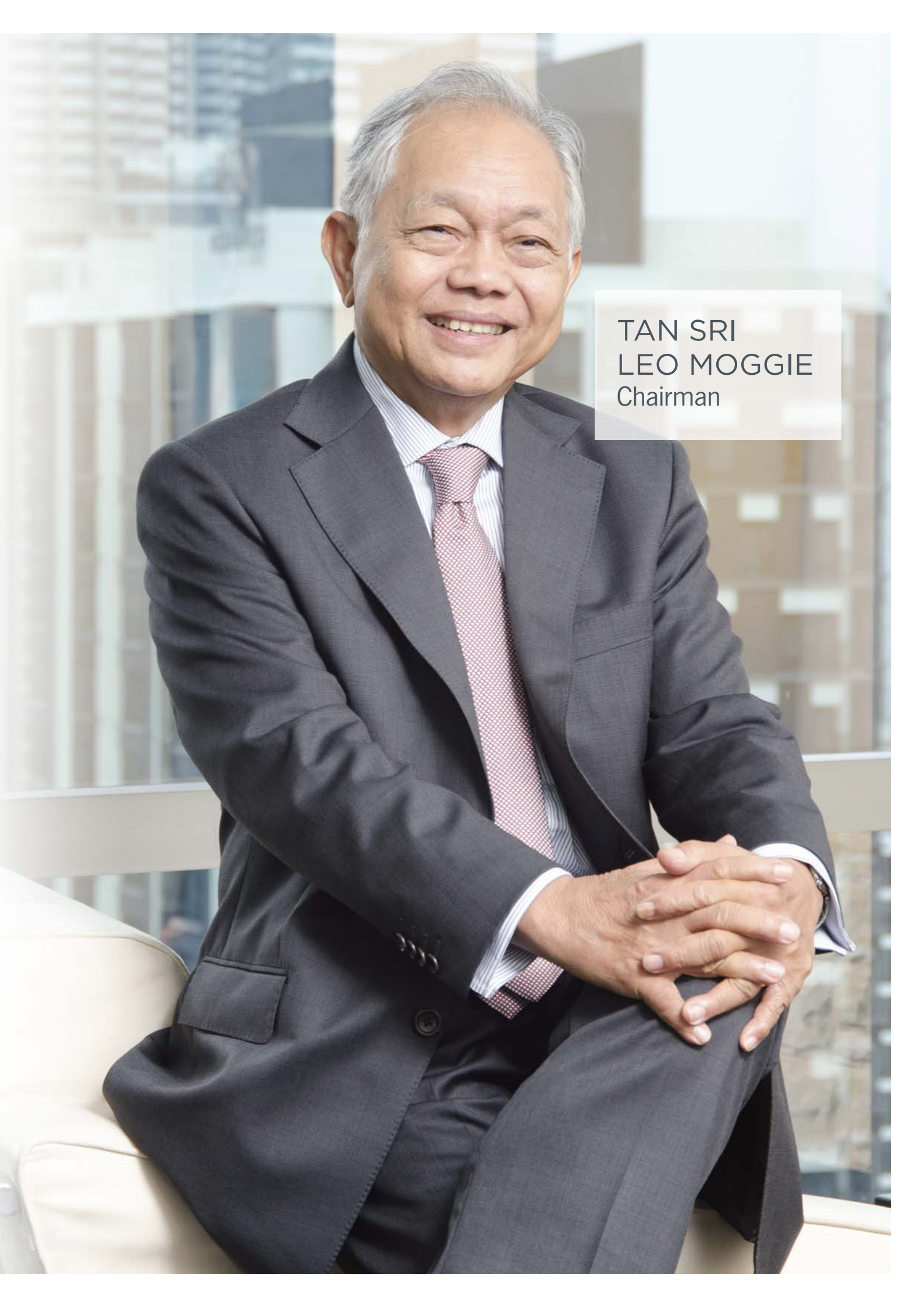
The PDPA came into force in the last quarter of 2013. The main purpose of the PDPA is to regulate and provide protection to personal data so that individual's interests are safeguarded. Some of the actions ACE Jerneh has taken to ensure compliance with the PDPA are registering itself with the Personal Data Protection Department as a user of personal data; giving the notices required under the PDPA to its agents, staff, policyholders, vendors and other relevant parties; and putting in place particular policies such as a personal data protection policy, information security policy and records retention policy.

Looking ahead, the wider economic outlook for the 2014 financial year is for stable growth, with the Malaysian economy forecasted to grow at a rate of 5% to 5.5%. This positive outlook coupled with the burgeoning SME sector and the development of construction projects in the country, present business opportunities for ACE Jerneh and will provide a strong foundation in helping us achieve sustainable and long-term profitable growth.

I would like to thank my fellow directors for their support and advice, management and all staff for their effort and dedication this year, Bank Negara Malaysia for their guidance and advice; and our intermediaries and customers for their ongoing trust and support.

ACE Jerneh kicked-off its first year as a single operating entity in 2012 on a strong footing and has proven its enviable performance in 2013. I am optimistic about the organization's growth potential and am confident that the team will achieve greater success in the years ahead.





TAN SRI  
LEO MOGGIE  
Chairman

A professional portrait of Steve Crouch, a middle-aged man with a receding hairline, smiling warmly. He is wearing a dark blue pinstriped suit jacket over a white dress shirt and a vibrant red tie. His arms are crossed, and he is wearing a silver watch on his left wrist. He is seated in a light-colored chair, positioned in front of a large window that looks out onto a cityscape with brick buildings. The lighting is bright and even, highlighting his features and the texture of his clothing.

STEVE  
CROUCH  
Country President



# COUNTRY PRESIDENT'S STATEMENT

The company achieved a strong year of growth, driven primarily by our three main product lines, Commercial Property & Casualty, Accident & Health and Personal & Business Insurance.

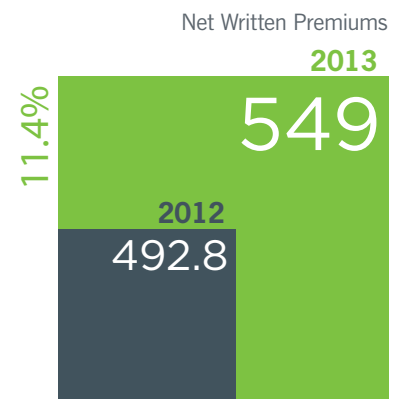
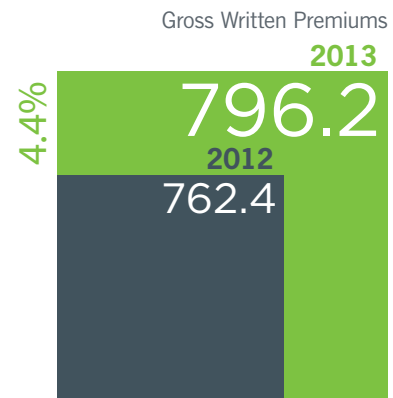
Our pleasing financial performance saw gross written premiums up 4.4% from RM762.4 million in 2012 to RM796.2 million at year-end 2013, net written premiums grew 11.4% from RM492.8 million to RM549 million.

This growth can be attributed to our underwriting expertise, diversity in distribution channels and our people. In combination, the qualities give ACE Jerneh the competitive edge and strengthen our position as one of Malaysia's top general insurers.

## Expanded Product and Distribution Capabilities

As part of our growth strategy in diversification, we broadened our product offerings by introducing four key new products this year.

Crystal Essentials Personal Accident is a revamped plan providing financial relief in the event of death or disability, as well as covering medical expenses resulting from an accident. Our new Premium DriveCare personal accident plan protects the driver and their passengers, while the My Home Insurance comprehensive policy provides customized coverage for house contents and property. Elite Professional Indemnity Insurance for Architects is specially designed to protect key professionals in small-to-medium-sized practices against possible civil liability.



Malaysia is one of the fastest developing countries in the South East Asia with an increasing number of homegrown businesses venturing overseas. Cognizant of this growing trend and in helping these multinational companies manage their global risk, ACE Jerneh introduced the ACE Global Programme Solutions and the ACE Worldview™ in 2013. The innovative global programme provides Property & Casualty, Specialty and Accident & Health programmes which can be tailor-made for multinational companies to meet their evolving risk management needs, local service requirements, risk financing and claims resolution. The award-winning ACE Worldview™ is an award-winning web-based desktop portal that is unique in the industry, exclusive to ACE; and gives clients access to their risk management programmes and our expertise in one easy-to-use application.



# COUNTRY PRESIDENT'S STATEMENT

In line with our strategy to build alternative distribution channels, ACE Jerneh expanded its distribution capacities to include telcos, airlines, travel agencies and financial institutions to reach out to a wider customer base. We successfully developed partnerships with major telcos in the country to provide mobilassurance solutions to their customers. Travelling by air is gaining popularity in Malaysia as it becomes more affordable with the availability of budget airlines and consumers' changing lifestyle. ACE's Travel Insurance made its debut in Malaysia in 2011 and is now available directly to air travelers either through our partner airlines or travel agencies.

## **Commitment to Customers and Intermediaries**

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Providing superior customer experience is the core of every business in the service industry. The commitment to consistently uphold the minimum standard becomes increasingly challenging as the organization grows. As a priority in our long-term plan, ACE Jerneh has made significant investments in various initiatives to ensure that we continue to provide our customers and intermediaries the optimal customer experience. The idea is to build an optimal operating model that provides a platform which delivers service and efficiency for our future. The Can Do Operating Model was introduced in 2013 with a single objective to help us achieve that.

The development of the operating model is expected to be completed by 2016. The enhanced operating model will support ACE Jerneh's business growth and reinforce our front and back-end operational efficiency by standardizing internal work processes, improving agency management systems, improving IT and work systems and streamlining operational tasks.

## **Our Culture**

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2013 also saw the introduction of the new ACE Jerneh culture model; a single corporate culture that defines and best represents the integrated company. It provides a strong foundation for a cohesive and productive work environment.

Built on our capabilities, recognition and behaviors and with an emphasis on open and honest communication, the model incorporates our brand promise "we bring a can do attitude to everything we do" and exemplifies our care for our shareholders, customers, employees and communities.

Human capital training and development is a key aspect in our culture. Training for our staff is important because we believe that enabling their growth and encouraging employees and agents to diversify and expand their capabilities is a significant part of our commitment to our clients. This year we held training sessions, regular meetings and maintained an ongoing dialogue with agents to keep them abreast of company and industry updates and to gather their feedback. Employee training workshops during the year contributed to enhanced professionalism, leadership, work efficiency and competency.

## **Moving Forward**

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I extend my sincere thanks to ACE Jerneh's management team and staff, agents, intermediaries, brokers and customers for their substantial contribution and commitment this past year. Your support sees the company well placed to continue to differentiate ourselves from our competitors through product diversification, commitment to quality service and the ongoing expansion of our distribution network. I would also like to extend my appreciation to the Board of Directors for their guidance and consultation.

Looking ahead, the company will continue to focus on product innovations and development, investing in training and development for employees and agents, building branding awareness; and focusing on process enhancement and operational efficiency.

# CORPORATE INFORMATION

## **BOARD OF DIRECTORS**

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YBhg Tan Sri Leo Moggie  
(Independent Non-Executive Director)

Dato' Sri Abdul Hamidy bin Abdul Hafiz  
(Independent Non-Executive Director)

Song Yam Lim  
(Independent Non-Executive Director)

Gregory Jerome Gerald Fernandes  
(Independent Non-Executive Director)

Daniel Andrew Albert Vanderkemp  
(Non-Independent Non-Executive Director)

Stephen Barry Crouch  
(Executive Director)

## **SECRETARIES**

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Wong Siew Yeen  
Cheong Choon Yin

## **AUDITORS**

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PricewaterhouseCoopers

## **REGISTERED OFFICE / PRINCIPAL PLACE OF BUSINESS**

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Wisma ACE Jerneh  
38 Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia

# BOARD OF DIRECTORS



## Tan Sri Leo Moggie

### Chairman and Independent Non-Executive Director

Tan Sri Leo Moggie is the Chairman of Tenaga Nasional Berhad and a number of companies under the Tenaga Nasional Group. He also sits on the Board of Asian Plantations Limited and a number of other private companies.

He was formerly a Member of Parliament from 1974 to 2004. He had served as a Minister in the State Government of Sarawak from 1976 to 1978. He was a Minister in the Federal Cabinet from 1978 until he retired as the Minister of Energy, Communications and Multimedia in 2004.

## Dato' Sri Abdul Hamidy Hafiz

### Independent Non-Executive Director

Dato' Sri Hamidy has over thirty (30) years of extensive banking experience in the fields of Commercial and Finance Banking, Investment Banking and Islamic Banking. He is currently the Chief Executive Officer of Kuwait Finance House (M) Bhd. He was formerly the Managing Director/Chief Executive Officer of Affin Bank Berhad. Prior to joining Affin Bank Berhad, Dato' Sri Hamidy was the Managing Director of Pengurusan Danaharta Nasional Berhad, the country's first national asset management company, established by the Government of Malaysia to resolve the issue of non-performing loans (NPLs) in the banking sector during the 1998 financial crisis.

Dato' Sri Hamidy most recently served as Chairman of Danajamin Nasional Berhad and Credit Guarantee Corporation (Malaysia) Berhad. He also sits on the Board of Sime Darby Industrial Holdings Sdn Bhd, Sime Darby Motors Sdn Bhd and is also a member of the Listing Committee of Bursa Malaysia Berhad and Chairman of Corporate Debt Restructuring Committee.

## Mr. Song Yam Lim

### Independent Non-Executive Director

Mr. Song is currently managing an in-house insurance agency for a major public listed company which has no business interest with the company. He has had extensive experience in the insurance industry having held numerous senior executive roles during his 45 years in the industry.

He was formerly the Chief Executive Officer and Executive Director for MSIG Insurance (M) Bhd., Aviva Insurance (M) Bhd. and CGU Insurance (M) Bhd.



### **Mr. Gregory J. G. Fernandes**

#### **Independent Non-Executive Director**

Mr. Fernandes is currently the Corporate Advisor for an oil and gas company involved in providing offshore support services. He is an accountant by profession and is a Member of the Malaysian Institute of Accountants (MIA) and an Associate Member of the Institute of Chartered Accountants in England & Wales.

He began his career in London with Ernst & Young and had since served in executive positions in various large corporations, the most recent as a Board Member, CFO and Senior Vice President for Global Marketing in a public limited company listed on Bursa Malaysia.



### **Mr. Daniel Vanderkemp**

#### **Non-Independent Non-Executive Director**

Mr. Vanderkemp is a Chartered Accountant (Australia) and currently the Regional Chief Financial Officer for ACE Asia Pacific. Prior to that, he was the Chief Financial Officer for ACE Australia & New Zealand where he was responsible for the company's financial affairs including corporate finance, taxation, treasury and investments.

Mr. Vanderkemp has more than 15 years of experience in the insurance industry, having served in key management positions in various international companies.



### **Mr. Steve Crouch**

#### **Non-Independent Executive Director and Country President**

Mr. Crouch has both the breadth and depth of experience in the insurance industry, with a career spanning more than 25 years which includes a variety of management positions in leading broker institutions and insurance firms.

Before his appointment as the Country President of ACE Jerneh, he was the Chief Operating Officer for ACE Asia Pacific responsible for the strategic development and the financial performance for ACE's businesses located in the Region. Prior to that, he was the Country President of ACE Australia & New Zealand where he was responsible for the operations and business development activities of ACE's key business lines. Between 2006 - 2007, he was the Country President of ACE's operations in Hong Kong.







## QUALITY

in ensuring that we provide unsurpassed customer care at various touchpoints in the company, backed by high quality claims and exceptional service.

# SHARON CHIA

Assistant Manager,  
Accident & Health - Claims

Provision of claims handling services sits at the heart of ACE Jerneh's operations. Our claims department comprises professionals with extensive claims experience and technical excellence in diverse areas of risk. Providing individual attention and care to our customers during their time of distress is important in what we do. We manage each claim professionally and in a fair manner and work closely with underwriters, adjusters and other relevant professionals to ensure that the services are delivered efficiently and timely.





# OUR BUSINESS PARTNERS



*(From left to right): Yasuhiro Kasai, Managing Director, AEON Credit Service (M) Sdn Bhd, Amir Ghaffar, Executive Vice President, ACE Jerneh Insurance Berhad*

## **AEON Credit Services (M) Berhad**

AEON Credit Service (M) Berhad first commenced operations in 1997 and has expanded rapidly over the years with total assets exceeding RM3.7 billion currently, offering a large array of products including ACE Jerneh's credit protection, personal accident, snatch theft protection, hospital income and surgical as well as living protection products. Managing Director of AEON Credit Service (M) Berhad, Mr. Yasuhiro Kasai said "This partnership has helped drive credit card usage and loyalty amongst AEON Credit's customers. ACE Jerneh has provided customised insurance products' offering and services to enable our customers to enjoy comprehensive coverage for various needs. We look forward to achieving greater success from this partnership in years to come."



## Jardine Lloyd Thompson Sdn Bhd

Jardine Lloyd Thompson Sdn Bhd was established in 1981 and today, is a market leader in insurance and reinsurance broking, employee benefits services and risk management consultancy. Its partnership with ACE Jerneh in the areas of specialty business has provided customers with the broadest possible coverage, attentiveness and value added services. Mr. Michael S. H. Leong, Chief Executive Officer of Jardine Lloyd Thompson Sdn Bhd said "ACE Jerneh's commitment and passion including their personal touch are top rated and have exceeded our expectations. The strong product knowledge of its people has reassured us that we are working with the best in the industry." Jardine Lloyd Thompson offers the following ACE Jerneh products: engineering, fire, liability, marine cargo, marine hull, miscellaneous accident, personal accident, workman's compensation, aviation and motor.

*Seated (From left to right): Michael Leong, Chief Executive Officer, Jardine Lloyd Thompson Sdn Bhd, Alex Low, Executive Director, Jardine Lloyd Thompson Sdn Bhd, James Ng, Head of Broking, ACE Jerneh Insurance Berhad*

*Standing (From left to right): Vincent Anthony, Senior Vice President, Jardine Lloyd Thompson Sdn Bhd, Woon Wei Ming, Senior Vice President, Jardine Lloyd Thompson Sdn Bhd*



## CHH Enterprise

Having its business activities begin back in the 1950's, CHH Enterprise has received performance awards from its Principals and retains its goal of providing each client with a unique solution. CHH Enterprise delivers customized solutions through various resource channels which include ACE Jerneh products such as business travel, personal accident, comprehensive general liability, products liability, professional indemnity, marine, director & officer liability and fire. Ms. Angie Eu, Managing Director of CHH Enterprise said "Not many insurance companies are able to provide specialty business coverage but ACE Jerneh is one of the strongest in this aspect especially in regards to the oil and gas industry. ACE Jerneh is also very hands-on in the arrangement of overseas surveys and this has been well received by our customers. We look forward to continuing this partnership."

*(From left to right): Angie Eu, Managing Director, CHH Enterprise, Chua Kim Soon, Head of Agency, ACE Jerneh Insurance Berhad*



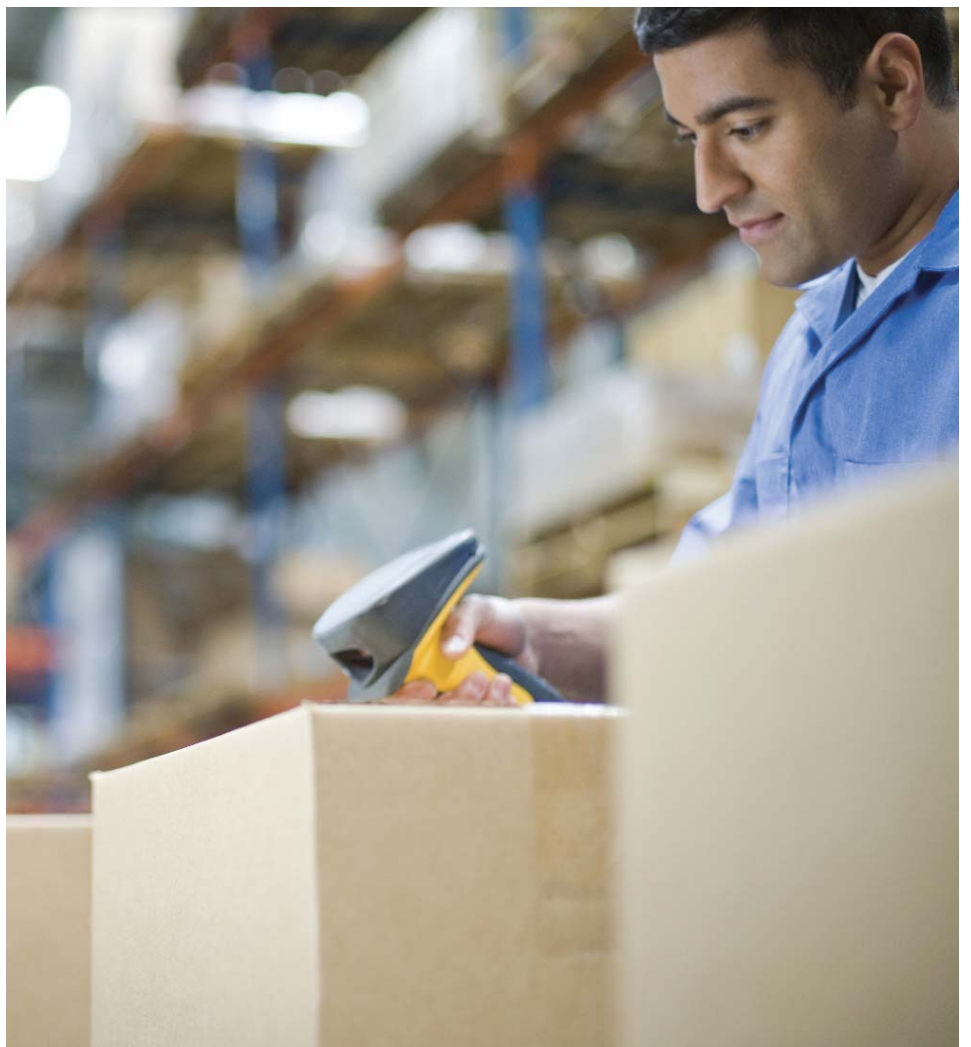


## VALUE

is not only in our dedication and high standards but it is also in what we bring to our customers and partners. From personal to professional insurance, we bring a broad range of tailored solutions and customised products for customers through innovative solutions, meeting their needs wherever they may be.











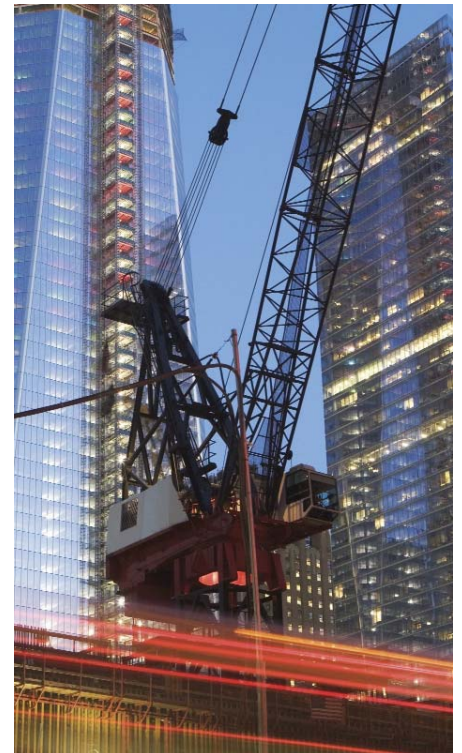
## FION FOONG

Senior Executive,  
Marketing

In a highly competitive market, it is imperative to think outside the box in order to stay ahead of the competition and to ensure continuous success. At ACE Jerneh, the breadth of our innovative products delivered through our multi-channel distribution model cater to a wide array of market segments. The diversity of our product range and distribution is key to the continual growth of our business. The marketing team diligently makes effort to ensure ultimate customer satisfaction in the products and services we deliver.

# PRODUCTS & SERVICES

At ACE Jerneh, we offer unprecedented products coupled with strong service support. Our vast range of products complements our equally diverse client base. We also find it pivotal to capitalize on our strong global expertise alongside local acumen and superior underwriting expertise to deliver unique insurance solutions designed to provide risk assurance to individuals, corporations, businesses, both small-to-medium-sized across multiple distribution channels.



## Commercial Property & Casualty

It is imperative for businesses and corporations to have insurance coverage tailored to their business needs to reduce risk and mitigate financial loss. ACE Jerneh does precisely this with our experienced underwriters, claims and risk control professionals.

Our products include:

- Casualty Insurance & Risk Control
- Civil Engineering Completed Risk (CECR)
- Energy
- Engineering
- Environmental Risk Management
- Financial Lines
- Global Programme Solutions (GPS)
- Marine
- Property
- Terrorism (Property & Business Interruption)



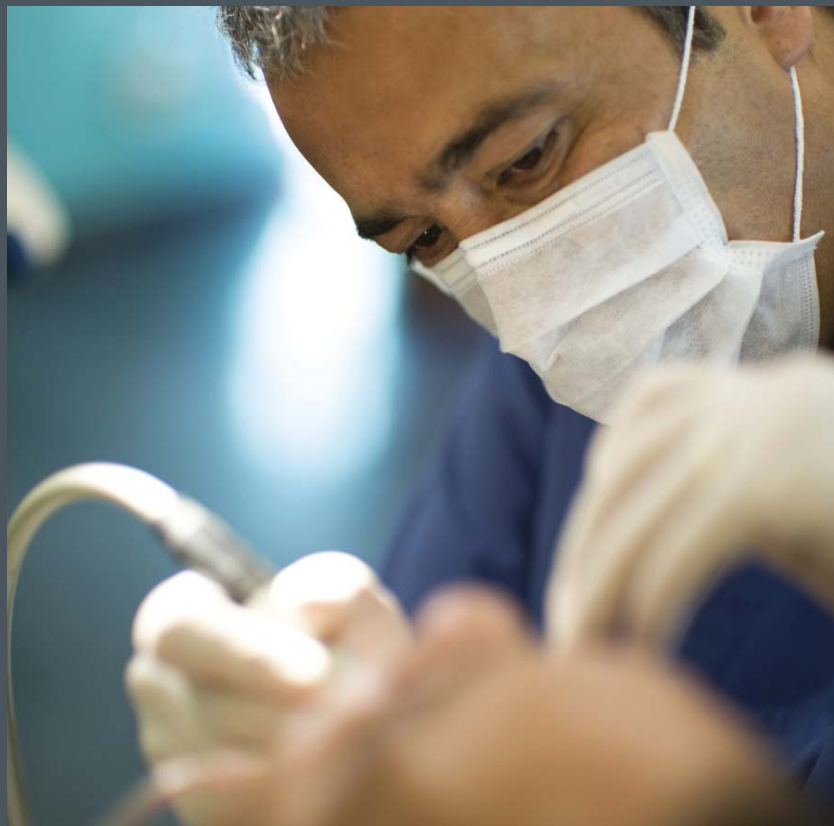




## Accident & Health

ACE Jerneh's accident and health products are designed to assist clients manage the financial impacts of unforeseen circumstances:

- Dental Insurance
- Health Insurance
- Personal Accident Insurance
- Travel Insurance (Business & Leisure)







## Personal and Business Insurance

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ACE Jerneh delivers tailored general insurance solutions to meet the coverage and risk management needs of a wide variety of small-to-medium-sized businesses and groups of individual clients. The following products protect company profitability and assets as well as individual financial security from unpredictable events:

- Householder/Houseowner Insurance
- Insurance for Small-to-Medium-Sized Businesses
- Motor Insurance
- Specialty Personal Insurance

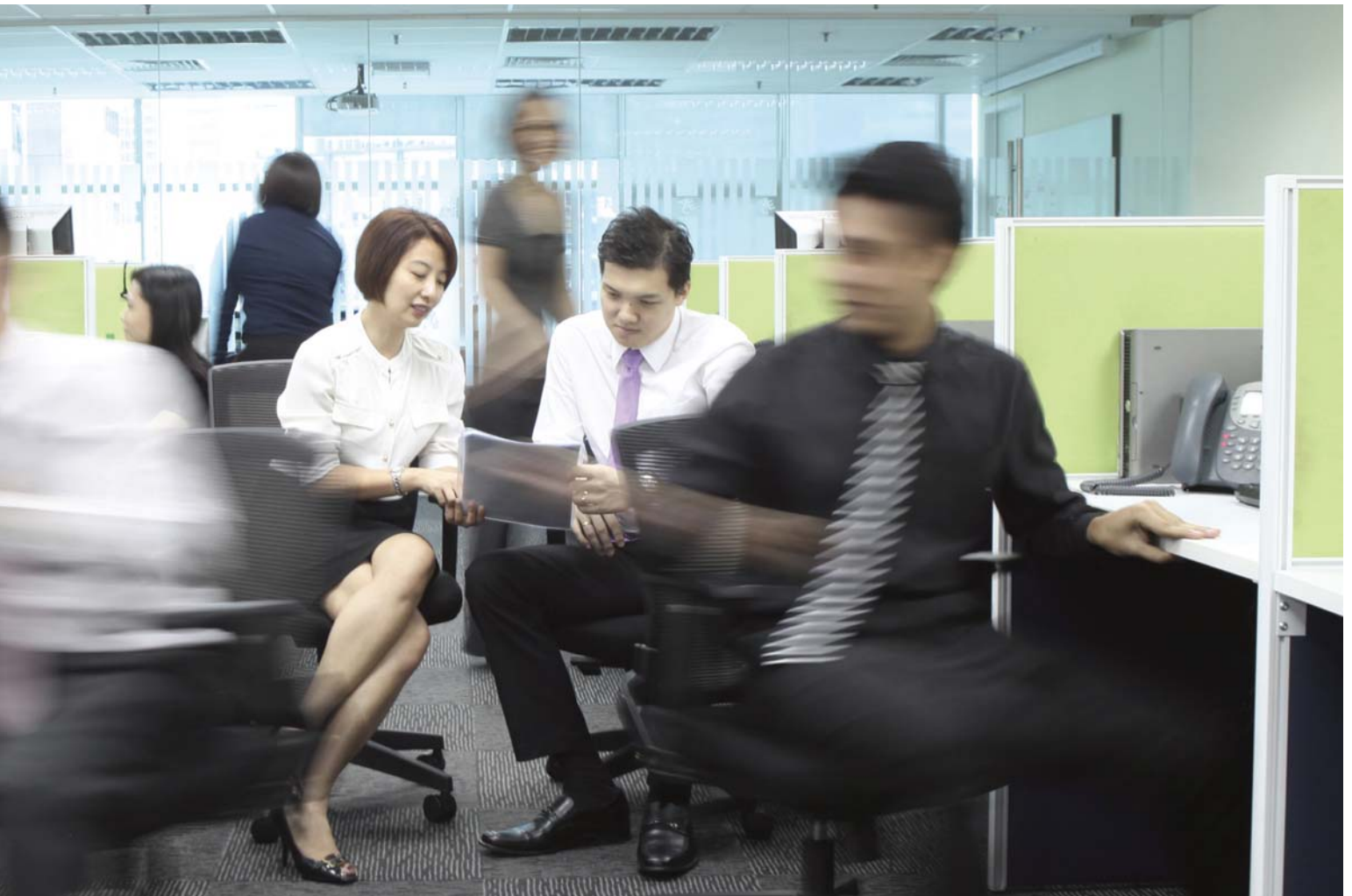






## DIVERSITY

is reflected not only in our large selection of products and services, but also in the ethnic diversity of our employees and our ability to reach customers through various distribution channels and local presence in 23 locations throughout Malaysia.





# MARCUS VINCENT SOOSAI

Executive, Broking

Each employee is a building block of an exemplary corporate culture. At ACE Jerneh, we have energetic, enthusiastic and dedicated people with diverse expertise working together in a team-focused environment. The conducive atmosphere makes working here an educative, enriching and satisfying experience. With strong bonding between colleagues who are imparted with 'can do' attitude, we are motivated to devote time and energy in our jobs. We take pride in achieving more by working collaboratively. We complement each other in work tasks by tapping into our individual strengths and talents.



## FARAH FADZIL

Senior Executive, Finance

Consistent with our corporate value and culture, an open and honest communication allows information to be easily accessible at all levels in the company. Every employee is regularly informed about ACE Jerneh's visions and plans through a proactive communication approach. The management is transparent, always approachable and receptive of new ideas. The exchange of ideas is encouraged and our feedbacks are welcomed and respected by the management. Transparency and sharing of information among employees are pivotal in the creation of an effective work environment. We are able to learn and benefit from each other.



## AMELIA TEH

Assistant Manager,  
Underwriting, Accident & Health

ACE Jerneh understands the importance of investing in its people and has been very supportive in the professional career development programme. It believes in continuous learning and development as catalyst to increased efficiency and productivity of its employees. ACE Jerneh employees are given opportunities and resources to excel in career and nurture professional progression through the enrollment of specific training and development sessions. The company is a place where we can learn new knowledge and skills, grow our roles and plan for an upward career movement. We are inspired and gain job satisfaction by applying the knowledge and skill sets learned from the training workshops in our work operations.



# CORPORATE SOCIAL RESPONSIBILITY



The 'Regional Day of Service' was initiated by ACE Asia Pacific in 2012 as an annual philanthropic activity that focuses on supporting local communities where the company operates. It also provides an opportunity for all employees to rally together and dedicate a small part of their time for community projects.







Last year was no different as 200 employees from the Head Office, Penang and Kota Kinabalu branches visited the Cheshire Home in Selangor, Penang and Sabah respectively. Cheshire Home is a nonprofit organization that provides residential care for permanently disabled individuals who are unable to support their daily living and creates opportunities for them towards an independent life. Some individuals at the centre suffer from poliomyelitis, rheumatoid arthritis, muscular dystrophy, cerebral palsy and osteogenesis imperfecta.







During the visit, employees participated in activities that included spring cleaning, general maintenance, gardening, sewing with a side of entertainment involving games and singing over lunch. Various necessities such as basic essential items, washing machine and several units of water heaters were donated to Cheshire Home.



# OUR NETWORK OF OFFICES



## 1 Head Office

Wisma ACE Jerneh  
38 Jalan Sultan Ismail  
50200 Kuala Lumpur  
Tel: 03-2058 3000  
Fax: 03-2058 3333

- |                  |                  |
|------------------|------------------|
| 2 Alor Setar     | 14 Muar          |
| 3 Bintulu        | 15 Petaling Jaya |
| 4 Bukit Mertajam | 16 Pulau Pinang  |
| 5 Ipoh           | 17 Sandakan      |
| 6 Jerantut       | 18 Segamat       |
| 7 Johor Bahru    | 19 Seremban      |
| 8 Klang          | 20 Sibu          |
| 9 Kota Kinabalu  | 21 Sitiawan      |
| 10 Kuantan       | 22 Taiping       |
| 11 Kuching       | 23 Taman Pelangi |
| 12 Melaka        | 24 Tawau         |
| 13 Miri          |                  |



# FINANCIAL STATEMENTS

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# DIRECTORS' REPORT

for the Financial Year Ended 31 December 2013

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

## Principal Activity

The principal activity of the Company is the underwriting of general insurance business.

There has been no significant change in the nature of this activity during the financial year.

## Results

	RM'000
Profit for the financial year	110,080

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## Reserves And Provisions

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

## Dividends

No dividend was paid or declared by the Company since the end of the last financial year. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2013.

## Directors

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

YBhg Tan Sri Leo Moggie (Chairman)

Dato' Sri Abdul Hamidy bin Abdul Hafiz

Song Yam Lim

Gregory Jerome Gerald Fernandes

Daniel Andrew Albert Vanderkemp

Stephen Barry Crouch

In accordance with Section 129 of the Company Act 1965, YBhg Tan Sri Leo Moggie will retire at the forthcoming Annual General Meeting and, being eligible, has offered himself for re-election.

In accordance with Article 99 of the Company's Articles of Association, Song Yam Lim and Gregory Jerome Gerald Fernandes will retire at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.



# DIRECTORS' REPORT

for the Financial Year Ended 31 December 2013 (continued)

## Corporate Governance

The Board is satisfied that the Company has substantially complied with the prescriptive applications in BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers.

## Audit Committee

The Audit Committee assists the Board in its oversight of the integrity of the Company's financial statements and financial reporting process, the Company's compliance with legal and regulatory requirements, the system of internal controls, the audit process, the performance of the Company's internal auditor and the performance and independence of the Company's external auditors.

The Audit Committee comprises of four non-executive Independent Directors:

Dato' Sri Abdul Hamidy bin Abdul Hafiz (Chairman)  
YBhg Tan Sri Leo Moggie  
Song Yam Lim  
Gregory Jerome Gerald Fernandes

## Nominating Committee

The Nominating Committee assists the Board in the ongoing processes of appointment and performance assessments of Directors, the Chief Executive Officer and key senior officers. The Committee ensures that the Board comprises a minimum of four non-executive Independent Directors with the requisite mix of skills, experience and attributes to contribute effectively to the Board.

The Nominating Committee comprises of five Directors:

YBhg Tan Sri Leo Moggie (Chairman)  
Dato' Sri Abdul Hamidy bin Abdul Hafiz  
Song Yam Lim  
Daniel Andrew Albert Vanderkemp  
Stephen Barry Crouch

## Remuneration Committee

The Remuneration Committee oversees the Company's compensation policies, including issues relating to pay and performance of Directors, Chief Executive Officer and senior officers of the Company.

The Remuneration Committee comprises of three non-executive Directors:

YBhg Tan Sri Leo Moggie (Chairman)  
Daniel Andrew Albert Vanderkemp  
Gregory Jerome Gerald Fernandes

During the financial year, the Committee reviewed the fees payable to Directors in consideration of individual Directors' performance and participation.

# DIRECTORS' REPORT

for the Financial Year Ended 31 December 2013 (continued)

## Corporate Governance (continued)

### Risk Management Committee

The Risk Management Committee oversees the Company's risk management process to ensure the adequacy and integrity of sound internal controls and risk management practices. It is recognised that such controls and practices are designed to maximise the mitigation of foreseeable risks rather than to eliminate the risk of failure.

The Risk Management Committee comprises of three non-executive Directors:

Song Yam Lim (Chairman)

YBhg Tan Sri Leo Moggie

Daniel Andrew Albert Vanderkemp

The number of Board and Board Committee meetings held during the financial year is set out below.

	Meetings of Committees				
	Board of Directors	Audit	Nominating	Remuneration	Risk Management
Number of meetings held during the financial year	7	5	1	5	4
	Number attended	Number attended	Number attended	Number attended	Number attended
YBhg Tan Sri Leo Moggie	7/7	5/5	1/1	5/5	4/4
Dato' Sri Abdul Hamidy bin Abdul Hafiz	7/7	5/5	1/1	*	*
Song Yam Lim	7/7	5/5	1/1	*	4/4
Gregory Jerome Gerald Fernandes	7/7	5/5	*	5/5	*
Daniel Andrew Albert Vanderkemp	7/7	*	1/1	5/5	4/4
Stephen Barry Crouch	7/7	*	1/1	*	*

\* Not applicable as the Director was not a member of the committees at the time when the meetings were held.

### Directors' Benefits

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the Directors' remuneration as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object is to enable the 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' Interests In Shares

According to the register of Directors' shareholdings, none of the Directors in office at the end of the financial year held any interest in shares in, or debentures of the Company or its related corporations during the financial year.

# DIRECTORS' REPORT

for the Financial Year Ended 31 December 2013 (continued)

## Statutory Information On The Financial Statements

- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps,
- (i) to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for insurers issued by Bank Negara Malaysia pursuant to Section 47(1) of the Financial Services Act, 2013;
  - (ii) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
  - (iii) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due;
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made; and
  - (iii) the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

For the purpose of paragraphs (e) and (f), contingent and other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.



# DIRECTORS' REPORT

for the Financial Year Ended 31 December 2013 (continued)

## Ultimate Holding Company

The Directors regard ACE Limited, a company incorporated in Zurich, Switzerland, as the ultimate holding company.

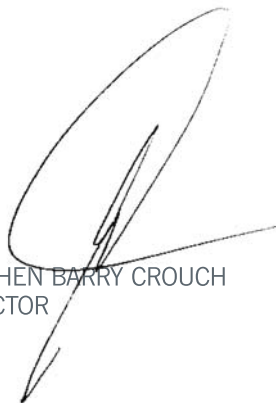
## Auditors

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 20 March 2014.



DANIEL ANDREW ALBERT VANDERKEMP  
DIRECTOR



STEPHEN BARRY CROUCH  
DIRECTOR

# STATEMENT BY DIRECTORS

We, Daniel Andrew Albert Vanderkemp and Stephen Barry Crouch, two of the Directors of ACE Jerneh Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 49 to 110 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 20 March 2014.



DANIEL ANDREW ALBERT VANDERKEMP  
DIRECTOR

Kuala Lumpur



STEPHEN BARRY CROUCH  
DIRECTOR

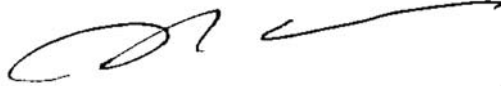
# STATUTORY DECLARATION

I, Lim Joo Leong, being the officer primarily responsible for the financial management of ACE Jerneh Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 49 to 110 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.



LIM JOO LEONG

Subscribed and solemnly declared by the named above at Kuala Lumpur before me, on 20 March 2014.



COMMISSIONER FOR OATHS



Tkt. 20, AmBank Building  
No. 55, Jalan Raja Chulan  
50200 Kuala Lumpur



# INDEPENDENT AUDITORS' REPORT

to the Member of ACE Jerneh Insurance Berhad (continued)  
(Incorporated in Malaysia) (Company No. 9827-A)

## Report On The Financial Statements

We have audited the financial statements of ACE Jerneh Insurance Berhad, which comprise the statement of financial position as at 31 December 2013 of the Company, the income statement and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements, as set out on pages 49 to 110.

## 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 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

## Opinion

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

# INDEPENDENT AUDITORS' REPORT

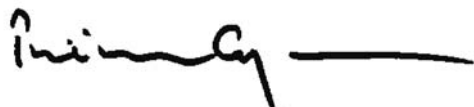
to the Member of ACE Jerneh Insurance Berhad  
(Incorporated in Malaysia) (Company No. 9827-A)

## Report On Other Legal And Regulatory Requirements

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

## Other Matters

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



PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants



SRIDHARAN NAIR  
(No. 2656/05/14 (J))  
Chartered Accountant

Kuala Lumpur  
20 March 2014

# STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Note	2013 RM'000	2012 RM'000
<b>ASSETS</b>			
Property and equipment	4	63,874	43,011
Intangible assets	5	1,367	1,567
Investments			
- Available-for-sale financial assets ("AFS")	6	969,283	914,577
Reinsurance assets	7	398,396	469,314
Insurance receivables	8	134,688	143,869
Other receivables	9	56,019	33,436
Deferred tax assets	16	10,097	5,502
Cash and cash equivalents		220,204	147,726
<b>Total assets</b>		<b>1,853,928</b>	<b>1,759,002</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	10	100,000	100,000
Retained earnings	11	535,777	425,697
Available-for-sale fair value reserves	12	(807)	6,218
Equity reserve	13	2,669	1,381
<b>Total equity</b>		<b>637,639</b>	<b>533,296</b>
Insurance contract liabilities	14	1,012,133	1,038,365
Investment contract liabilities	15	1,755	4,001
Insurance payables	17	85,035	88,784
Current tax liabilities		7,685	20,359
Other payables	18	109,681	74,197
<b>Total liabilities</b>		<b>1,216,289</b>	<b>1,225,706</b>
<b>Total equity and liabilities</b>		<b>1,853,928</b>	<b>1,759,002</b>

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



# INCOME STATEMENT

for the Financial Year Ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
Gross earned premiums	19(a)	801,443	736,290
Premiums ceded to reinsurers	19(b)	(274,385)	(271,133)
Net earned premiums		527,058	465,157
Investment income	20	39,567	37,779
Realised (losses)/gains	21	(298)	2,012
Fair value losses	22	(15)	(3,436)
Commission income	23	61,184	60,128
Other operating income		144	144
Net income		100,582	96,627
Total revenue		627,640	561,784
Gross claims paid		(274,840)	(357,793)
Claims ceded to reinsurers		79,814	189,014
Gross change to contract liabilities		20,956	27,712
Change in contract liabilities ceded to reinsurers		(43,683)	(8,996)
Net claims incurred		(217,753)	(150,063)
Commission expense		(114,541)	(108,115)
Management expenses	24	(156,728)	(130,515)
Total other expenses		(271,269)	(238,630)
Profit before taxation		138,618	173,091
Taxation	25	(28,538)	(42,050)
Profit for the financial year		110,080	131,041
Earnings per share (sen)			
Basic	26	110.08	131.04

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

# STATEMENT OF COMPREHENSIVE INCOME

for the Financial Year Ended 31 December 2013

	2013 RM'000	2012 RM'000
Profit for the financial year	110,080	131,041
Other comprehensive income:		
Items that may be subsequently reclassified to income statement:		
Available-for-sale fair value reserves		
Net (loss)/gain arising during the financial year	(9,406)	1,757
Net realised loss/(gain) transferred to income statement	39	(2,757)
Tax effects thereon (Note 16)	(9,367)	(1,000)
	2,342	250
	(7,025)	(750)
<b>Total comprehensive income for the financial year</b>	<b>103,055</b>	<b>130,291</b>

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

# STATEMENT OF CHANGES IN EQUITY

for the Financial Year Ended 31 December 2013

	Share capital RM'000	Non-distributable		Distributable	Total equity RM'000
		Equity reserve RM'000	Fair value reserves RM'000	Retained earnings RM'000	
At 1 January 2013	100,000	1,381	6,218	425,697	533,296
Total comprehensive income for the financial year	-	-	(7,025)	110,080	103,055
Share-based long term incentive plan vested	-	1,551	-	-	1,551
Share-based long term incentive plan paid	-	(263)	-	-	(263)
		1,288	-	-	1,288
<b>At 31 December 2013</b>	<b>100,000</b>	<b>2,669</b>	<b>(807)</b>	<b>535,777</b>	<b>637,639</b>
At 1 January 2012	100,000	-	6,195	294,656	400,851
Transfer from ACE INA Bhd (Note 31)	-	1,021	773	-	1,794
Total comprehensive income for the financial year	-	-	(750)	131,041	130,291
Share-based long term incentive plan vested	-	360	-	-	360
<b>At 31 December 2012</b>	<b>100,000</b>	<b>1,381</b>	<b>6,218</b>	<b>425,697</b>	<b>533,296</b>

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



# STATEMENT OF CASH FLOWS

for the Financial Year Ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
<b>OPERATING ACTIVITIES</b>			
Cash generated from operating activities	27	99,438	15,814
Interest income received		42,476	36,958
Dividend income received		125	99
Rental income on investment property received		-	1,619
Income tax paid		(43,463)	(38,168)
Net cash flows generated from operating activities		98,576	16,322
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment		105	483
Purchase of property and equipment	4	(25,594)	(5,013)
Purchase of intangibles assets	5	(609)	(2,281)
Net cash flows used in investing activities		(26,098)	(6,811)
Net increase in cash and cash equivalents		72,478	9,511
Cash and cash equivalents at beginning of the financial year		147,726	138,215
Cash and cash equivalents at end of the financial year		220,204	147,726
Cash and cash equivalents comprise:			
Fixed and call deposits:			
– Licensed financial institutions in Malaysia		216,598	130,592
Cash and bank balances		3,606	17,134
		220,204	147,726

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

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013

## 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 financial year.

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

The Directors regard ACE Limited, a company incorporated in Zurich, Switzerland, as the ultimate holding company of the Company.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 20 March 2014.

## 2 Significant Accounting Policies

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

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Company have also been prepared under the historical cost basis, except as disclosed in the summary significant accounting policies. The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital ("RBC") Framework as at the date of the statement of financial position.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during reported financial year. It also requires Directors to exercise their judgment 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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to financial statements.

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency. Unless otherwise indicated, the amounts in these financial statements have been rounded to the nearest thousand.

*Standards, amendments to published standards and interpretations those are effective.*

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2013:

- (i) Amendment to MFRS 101 'Presentation of items of other comprehensive income' 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (a) Basis of preparation (continued)

- (ii) MFRS 13, 'Fair Value Measurement' 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.
- (iii) Amendment to MFRS 7, 'Financial Instruments: Disclosures' 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.

There were no material changes to the Company's accounting policies other than enhanced disclosures to the financial statements.

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

The Company will apply the new standards, amendments to standards and interpretations in the following period:

#### (i) Effective from financial year beginning on 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. The amendment is not expected to have a material impact on the financial statements of the Company.

#### (ii) Effective date yet to be determined by the Malaysian Accounting Standards Board ("MASB")

- MFRS 9, 'Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities', replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.
- The Company has yet to assess the full impact of MFRS 9 on the Company's accounting policies. The Company will also consider the impact of the remaining phases of MFRS 9 when issued by the MASB.

All other new amendments to the published standards and interpretations to existing standards issued by the MASB effective for financial periods subsequent to 1 January 2014 are not relevant to the Company.



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (b) Property and equipment

#### (i) Measurement basis

Property and equipment are initially recorded at cost. These include expenditure that is directly attributable to the acquisition of the assets.

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 asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property and equipment are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

#### (ii) Depreciation

Freehold land is not depreciated.

Depreciation is calculated using the straight-line basis to allocate the costs of other property and equipment to their residual values over the expected useful lives of the assets.

The expected useful lives of the property and equipment are as follows:

Buildings	50 years
Computers	3 - 10 years
Office equipment, furniture and fittings	3 - 10 years
Motor vehicles	5 years

The residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged in the income statement.

### (c) Investment property

Investment property is a property held to earn rental income or for capital appreciation or for both.

#### (i) Measurement basis

Investment property is initially recorded at cost, including expenditure that is directly attributable to the acquisition of the asset.

Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (c) Investment property (continued)

#### (i) Measurement basis (continued)

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Investment property is derecognised upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

#### (ii) Depreciation

Freehold land is not depreciated. Depreciation is calculated using the straight-line basis to allocate their cost to their residual values over the expected useful lives of the assets, which is 50 years.

The residual value and useful lives are reviewed and adjusted if appropriate, at each reporting date.

### (d) Intangible assets

#### *Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring in use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and appropriate portion of relevant overheads.

Computer software costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of 5 years.

### (e) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

#### (i) Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

#### (ii) Operating lease

An operating lease is a lease other than a finance lease.

Operating lease income or operating lease rentals are credited or charged to the income statement on a straight line basis over the period of the lease.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (f) Financial instruments

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

#### (i) Financial instrument categories and measurements

##### (1) Investments

The Company classifies its investments into the following categories: fair value through profit or loss ("FVTPL"), held-to-maturity financial assets ("HTM"), available-for-sale financial assets ("AFS") and loans and receivables ("LAR").

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

##### **FVTPL**

Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future or they constitute part of the portfolio of identified securities which has evidence of actual pattern of short-term profit taking are classified as held-for-trading.

These investments are initially recorded at fair value. The gains or losses from the changes in fair value are recognised in the income statement.

##### **HTM**

Investment with fixed or determinable payments and fixed maturities are categorised as held-to-maturity when the Company has positive intention and ability to hold until maturity.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment plus transaction costs that are directly attributable to their acquisition. After initial measurement, HTM investments are measured at amortised cost, using the effective yield method, less impairment losses.

##### **AFS**

These investments are initially recorded at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS are re-measured at fair value at reporting date. Fair value gains or losses are recognised as other comprehensive income, except for impairment losses which are recognised in the income statement.

Fair value gains and losses of monetary securities denominated in foreign currency are analysed between translations differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement; translation differences on non-monetary securities are reported as a separate component of equity until the investment is derecognised.

Unquoted investments whose fair value cannot be reliably measured are measured at cost. On de-recognition, the cumulative fair value gains and losses previously recognised in other comprehensive income is transferred to the income statement.



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (f) Financial instruments (continued)

#### (i) Financial instrument categories and measurements (continued)

##### (1) Investments (continued)

###### *LAR*

Financial assets with fixed or determinable payments that are not quoted in an active market are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, LAR are carried at amortised cost, using the effective yield method, less impairment losses. LAR comprises of fixed deposits with financial institutions exceeding 3 months. Interest income is recognised in the income statement.

##### (2) Insurance receivables

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

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's insurance receivables are assessed and reviewed for evidence of impairment as described in Note 2(f)(v) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(f)(iv) to the financial statements, have been met.

All financial assets are review for impairment except for investment designated as fair value through profit or loss ("FVTPL").

##### (3) Financial liabilities

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

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

#### (ii) Determination of fair value

The fair value of financial instruments that are actively traded in organised financial market is determined by reference to quoted market bid prices for assets, at the close of business on the reporting date.

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values or offer prices for liabilities, at the close of business on the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (f) Financial instruments (continued)

#### (ii) Determination of fair value (continued)

For financial instruments where there is no active market, the fair value is determined by using valuation techniques such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and relying as little as possible on entity-specific inputs.

The fair value of floating rate and over-night deposits with financial institutions in their carrying value. The carrying value is the cost of the deposit/placement and accrued interest. The fair value of fixed interest/yield-bearing deposits is estimated using discounted cash flow techniques.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

#### (iii) Recognition of financial assets

All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

#### (iv) Derecognition of financial instruments

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. On de-recognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that was recognised in other comprehensive income is reclassified to the income statement.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On de-recognition, the difference between the carrying amount of the reduced financial liability or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognised in the income statement.

#### (v) Impairment of financial assets

##### ***Investments***

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired, with the exception of FVTPL investments and fixed and call deposits.

##### ***Financial assets carried at amortised cost***

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate yield. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (f) Financial instruments (continued)

#### (v) Impairment of financial assets (continued)

##### ***Financial assets carried at amortised cost*** (continued)

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the assets are included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

##### ***AFS***

In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment, resulting in the recognition of an impairment loss.

If an AFS is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income to the income statement. Reversals of impaired losses on debts instruments classified as AFS are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

##### ***Insurance receivables***

Insurance receivables are assessed at each reporting date for objective evidence of impairment, as a result of one or multi events having an impact on the estimated future cash flow of the assets.

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.

If in a subsequent period the fair value of insurance receivables increases and the increase can be objectively related to events occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed to the extent that the carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed.



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (g) Cash and cash equivalents

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

The Company classifies the cash flows for the purchase and disposal of investments in financial assets in its operating cash flows as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payment of insurance claims benefits.

### (h) Equity instruments

#### *Ordinary share capital*

The Company has issued ordinary shares that are classified as equity. Ordinary shares are recorded at nominal value. Costs incurred directly attributed to the issuance of the shares are accounted for as a deduction from share premium.

#### *Dividends on ordinary share capital*

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

### (i) Product classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract under which the Company (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. The recognition and measurement of insurance contracts are set out in Note 2(j) to the financial statements.

Investment contracts are those contracts that do not transfer significant insurance risk.

When insurance contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

### (j) Insurance contracts

#### *Premium from direct insurance contract*

Premium of insurance contracts is recognised in a financial year in respect of risks assumed during that particular financial year.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (j) Insurance contracts (continued)

#### **Acquisition costs**

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

#### **Claims and expenses**

Claims include all claims occurring during the financial year, whether reported or not, related external claims handling cost that are directly related to the processing and settlement of claim, a reduction for the value of salvage and other recoveries, and any adjustments to claim liabilities from previous financial year.

#### **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 insurer's unexpired risk reserves ("URR") at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall company level.

UPR represent the portion of the gross premiums of insurance policies written net of the related reinsurance premiums ceded to qualified reinsurers that relate to the unexpired periods of the policies at the end of the financial year.

UPR are computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) time apportionment method for non-annual policies;
- (iii) 1/24th method for all other classes of Malaysian general policies; and
- (iv) 1/8th method for all classes of overseas inward business.

At each reporting date, the Company reviews its unexpired risks reserve ("URR") and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. The current estimate of future contractual cash flow is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer'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 shall allow for expected future premium refunds.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (j) Insurance contracts (continued)

#### *Claims liabilities*

Claims liabilities are determined based on the estimated ultimate cost of all claims incurred but not settled at the date of statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statement of financial position.

The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions at best estimate and a PRAD calculated at the overall Company. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

### (k) Investment contract

Investment contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are initially measured at fair value being the transaction price excluding transaction costs directly attributable to the issue of the contract. Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Company re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by calculating the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

### (l) Reinsurance

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

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

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.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (l) Reinsurance (continued)

Premiums and claims on assumed facultative 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. Premiums, claims and other transactions costs on assumed treaty reinsurance are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

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.

### (m) Other revenue recognition

#### (i) Rental income

Rental income from investment property is recognised on an accrual basis straight-line basis over the term of the lease.

#### (ii) Investment income

Interest income from securities such government securities, bonds and loan stocks are recognised using the effective interest rate method.

The interest income from fixed deposits with financial institutes, are recognised in the financial statements on the accrual basis.

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

### (n) Foreign currencies

#### (i) Functional currency

Functional currency is the currency of the primary economic environment in which an entity operates.

#### (ii) Transactions and balances in foreign currencies

Transactions in currencies other than the functional currency ("foreign currencies") are translated to the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary items denominated in foreign currencies at the reporting date are translated at foreign exchange rates ruling at that date.



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (n) Foreign currencies (continued)

#### (ii) Transactions and balances in foreign currencies (continued)

Non-monetary items which are measured in terms of historical costs denominated in foreign currencies are translated at foreign exchange rates ruling at the date of the transaction.

Non-monetary items which are measured at fair values denominated in foreign currencies are translated at the foreign exchange rates ruling at the date when the fair values were determined.

Exchange differences arising on the settlement of monetary items and the translation of monetary items are included in the income statement for the period.

When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any corresponding exchange gain or loss is recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in the income statement, any corresponding exchange gain or loss is recognised in the income statement.

### (o) Employee benefits

#### (i) Short term benefits

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

#### (ii) Post-employment benefits

The Company pays fixed contributions to the Employees Provident Fund Board ("EPF") which is a defined contribution plan.

The Company's legal or constructive obligation is limited to the amount that it agrees to contribute to the EPF. The Company's contributions to the EPF 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.

#### (iii) Share-based long term incentive plan

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, ACE Limited ("ACE"). The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

Employees' services received in exchange for the share-based long term incentive plan are recognised as an expense in the Company's income statement over the vesting period of the grant with a corresponding increase in equity reserves.

The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all share grants issued in the current and prior financial years. There is no liability to the Company for the unamortised portion of the share grants issued. The amortised calculation incorporates the fair market value of ACE's common stock at grant date, in determining the expense amount.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 2 Significant Accounting Policies (continued)

### (o) Employee benefits (continued)

#### (iii) Share-based long term incentive plan (continued)

At each date of statement of financial position, the Company revises its estimate of the number of options that are expected to become vest. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity reserves over the remaining vesting period.

### (p) 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.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts 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 a 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 substantively enacted by the date of statement of financial position are used to determine deferred tax and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 3 Critical Accounting Estimates And Judgments

Estimates and judgments are continually evaluated by 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. The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are outlined below.

#### (i) Claims liabilities

Claims liabilities for each class of business are 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, claims payment and the direct and indirect claims-related expenses. The claims liabilities also include a provision of risk margin for adverse deviation ("PRAD"). PRAD is a component of the value of the insurance liabilities which is set at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. For the purpose of this valuation basis, the level of confidence is at 75% at an overall Company level. 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 to settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

The best estimate outstanding claims liabilities were assessed using four standard actuarial valuation methods:

- Incurred Claim Development method
- Paid Claim Development method
- Bornhuetter-Ferguson method on incurred claims and paid claims
- Expected loss ration method

#### (ii) Income and deferred taxes

Significant judgment is required in determining the income and deferred taxes applicable to the Company's business. There are transactions and calculations for which the ultimate tax determination is subject to agreement with the tax authorities. The Company recognises tax liabilities on anticipated issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

In determining and applying accounting policies, judgment 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 judgment to be exercised.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 4 Property And Equipment

	Freehold land RM'000	Buildings RM'000	Computers RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>						
At 1 January 2012	6,861	12,124	6,996	4,707	1,753	32,441
Transfer from ACE INA Bhd (Note 31)	-	-	709	2,040	390	3,139
Additions	-	-	711	766	397	1,874
Disposals	-	-	(6)	-	(507)	(513)
Write-offs	-	-	(203)	(3)	-	(206)
Transfer from intangible assets (Note 5)	-	-	567	-	-	567
Transfer from investment property	8,345	16,989	-	-	-	25,334
At 31 December 2012	15,206	29,113	8,774	7,510	2,033	62,636
Additions	-	6,779	5,059	13,756	-	25,594
Disposals	-	-	(824)	(133)	(85)	(1,042)
Write-offs	-	(970)	(1,318)	(4,721)	-	(7,009)
At 31 December 2013	15,206	34,922	11,691	16,412	1,948	80,179
<b>Accumulated depreciation</b>						
At 1 January 2012	-	2,701	5,909	3,814	936	13,360
Charge for the financial year	-	575	906	1,180	(419)	2,242
Disposals	-	-	(5)	-	(70)	(75)
Write-offs	-	-	(203)	(3)	-	(206)
Transfer from intangible assets (Note 5)	-	-	567	-	-	567
Transfer from investment property	-	3,737	-	-	-	3,737
At 31 December 2012	-	7,013	7,174	4,991	447	19,625
Charge for the financial year	-	707	1,472	1,552	161	3,892
Disposals	-	-	(817)	(120)	(16)	(953)
Write-offs	-	(235)	(1,318)	(4,706)	-	(6,259)
At 31 December 2013	-	7,485	6,511	1,717	592	16,305
<b>Net carrying amount</b>						
31 December 2013	15,206	27,437	5,180	14,695	1,356	63,874
31 December 2012	15,206	22,100	1,600	2,519	1,586	43,011



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 5 Intangible Assets

	2013 RM'000	2012 RM'000
<b>Cost</b>		
At beginning of financial year	9,682	7,968
Transfer from ACE INA Bhd (Note 31)	-	2,149
Additions	609	132
Transfer to property and equipment (Note 4)	-	(567)
At end of financial year	10,291	9,682
<b>Accumulated amortisation</b>		
At beginning of financial year	8,115	7,748
Amortisation for the financial year	809	934
Transfer to property and equipment (Note 4)	-	(567)
At end of financial year	8,924	8,115
Net carrying amount	1,367	1,567

Intangible assets comprise computer software.

## 6 Investments

	2013 RM'000	2012 RM'000
Malaysian Government Securities and guaranteed loans	539,775	550,268
Debt securities	429,133	363,934
Equity securities	375	375
	969,283	914,577
AFS	969,283	914,577
	969,283	914,577
Current	309,778	50,405
Non-current	659,505	864,172
	969,283	914,577

### (a) AFS

	2013 RM'000	2012 RM'000
<b>Fair value</b>		
Unquoted equity securities	375	375
Unquoted debt securities	429,133	363,934
Malaysian Government Securities and guaranteed loans	539,775	550,268
	969,283	914,577

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 6 Investments (continued)

### (b) Carrying values of financial instruments

	HTM RM'000	AFS RM'000	Total RM'000
At 1 January 2012	40,755	656,589	697,344
Transfer from ACE INA Bhd (Note 31)	-	109,239	109,239
Transfer from HTM to AFS	(40,755)	40,755	-
Purchases	-	243,810	243,810
Maturities	-	(25,000)	(25,000)
Disposals	-	(108,436)	(108,436)
Fair value (losses)/gains recorded in:			
Income statement	-	(3,436)	(3,436)
Other comprehensive income	-	1,757	1,757
Reclassification to other debtors	-	(320)	(320)
Net change in interest receivables	-	1,296	1,296
Amortisation of premium	-	(1,677)	(1,677)
At 31 December 2012	-	914,577	914,577
Purchases	-	151,597	151,597
Maturities	-	(55,000)	(55,000)
Disposals	-	(30,441)	(30,441)
Fair value losses recorded in:			
Income statement	-	(15)	(15)
Other comprehensive income	-	(9,406)	(9,406)
Net change in interest receivables	-	306	306
Amortisation of premium	-	(2,335)	(2,335)
At 31 December 2013	-	969,283	969,283

### (c) Estimation of fair values

The fair values of quoted securities and unit and property trust funds are their quoted net asset values of the underlying funds as at the end of the reporting period.

The estimated fair values of corporate debts securities and Malaysian government securities are based on the average indicative mid markets prices obtained from at least three licensed financial institutions.

The fair value of the unquoted equity security in corporations was determined to approximate the carrying amount as this is immaterial in the context of the financial statements.

#### ***Fair value hierarchy***

Included in the quoted market 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 available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those price represent actual and regularly occurring market transactions on an arm's length basis (Level 1).

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 6 Investments (continued)

### (c) Estimation of fair values (continued)

#### *Fair value hierarchy* (continued)

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 and instruments with fair values based on broker quotes (Level 2).

Financial instruments that are valued not based on observable market data are categorised as Level 3.

#### *Fair value investments*

	2013 RM'000	2012 RM'000
Valuation techniques		
- market observable inputs (Level 2)	969,283	914,577
	969,283	914,577

There are no investments that are valued at Level 1 and 3 categories.

## 7 Reinsurance Assets

	Note	2013 RM'000	2012 RM'000
Reinsurance of insurance contracts	14		
Claims liabilities		359,092	402,775
Premium liabilities		39,304	66,539
		398,396	469,314

## 8 Insurance Receivables

	2013 RM'000	2012 RM'000
Due premiums including agents/brokers and co-insurers balances	118,936	115,223
Due from reinsurers and cedants	26,679	37,556
	145,615	152,779
Allowance for impairment of doubtful debts	(10,927)	(8,910)
	134,688	143,869
Current	134,688	143,869
Non-current	-	-
	134,688	143,869

The Company does not offset its insurance receivables with insurance payables balances.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 9 Other Receivables

	2013 RM'000	2012 RM'000
Amount due from Malaysian Motor Insurance Pool ("MMIP")		
- Cash contribution to MMIP	17,989	-
- Assets held under MMIP	33,058	23,045
Deposits	1,060	1,459
Other receivables	3,908	8,928
Prepayments	4	4
	<hr/> 56,019	<hr/> 33,436
Current	54,959	31,977
Non-current	1,060	1,459
	<hr/> 56,019	<hr/> 33,436

As at 31 December 2013, there is a net payable of RM20,611,000 (2012: RM35,153,000) to MMIP, after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premiums liabilities included in Note 14 to the financial statements.

## 10 Share Capital

	2013 RM'000	2012 RM'000
Authorised:		
150,000,000 ordinary share of RM1.00 each		
At beginning and end of financial year	<hr/> 150,000	<hr/> 150,000
Issued and paid up:		
100,000,000 ordinary share of RM1.00 each		
At beginning and end of financial year	<hr/> 100,000	<hr/> 100,000

## 11 Retained Earnings

Presently, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2008 in accordance with Section 39 of the Finance Act 2007. The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act 2007.



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 11 Retained Earnings (continued)

Upon the expiry of the transitional period as at 31 December 2013, the accumulated tax credit under Section 108 of the Income Tax Act, 1967 will be disregarded, and any future dividend payment made by the Company will be governed under the single tier system. Pursuant to the single tier system, any dividends distributed by the Company will be exempted from tax in the hand of the shareholders. The Company shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders.

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

## 12 Available-For-Sale Fair Value Reserves

The fair value reserves are in respect of unrealised gains on available-for-sale investments, net of tax.

## 13 Employees Equity-Settled, Share-Based Long Term Incentive Plan

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, ACE Limited ("ACE"). The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

### ***Restricted Share Grant Plan***

Under ACE's long term incentive plan, 4,184 restricted ordinary shares were awarded during the financial year ended 31 December 2013 to eligible employees of the Company. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by ACE to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all restricted share grants issued in the current and prior financial years, and is consistent with the treatment required by MFRS 2: Share-based payment. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of ACE's common stock at grant date, in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by ACE to the eligible employees.

### ***Restricted Share Option Plan***

Under ACE's long term incentive plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by ACE to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 13 Employees Equity-Settled, Share-Based Long Term Incentive Plan (continued)

### *Restricted Share Option Plan (continued)*

	Average exercise price per share RM	2013  Share options Units	Average exercise price per share RM	2012  Share options Units
At beginning of financial year		11,052		-
Transfer from ACE INA Bhd		-		6,797
Granted	271.65	4,650	224.51	3,561
Forfeited	155.96	(318)	179.26	(2,124)
Exercised	-	-	136.08	(2,089)
Transferred in	-	-	182.31	4,907
At end of financial year		15,384		11,052

Out of the 15,384 outstanding options, 7,758 options were exercisable. Options granted in 2013 resulted in 4,650 shares options being issued at exercise price of RM271.65 each. No option was exercised in 2013. Share options outstanding at the end of the financial year have the following expiry date and exercise prices:

	Exercise price per share RM	Share options 2013 Units	2012 Units
2013	87.71	-	200
2015	141.50	130	130
2016	179.43	190	190
2017	178.60	110	110
2018	191.77	1,815	1,815
2019	122.51	856	856
2020	160.24	1,571	1,571
2021	199.28	3,106	3,106
2022	233.35	3,074	3,074
2023	271.65	4,532	-
		15,384	11,052

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM54.24 per option. The significant inputs into the model were share price of RM271.65, at the grant date, the exercise price shown above, volatility of 28%, dividend yield of 2.39%, an expected option life of 5 years and on annual risk-free interest rate of 0.89%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

### *Employee Share Purchase Plan*

The Company collects monies from local eligible employees and acquires ordinary shares in ACE on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the group level by ACE and not reimbursed from the Company.

The total expenses of employees equity-settled share-based long term incentive plan for the financial year was RM1,551,087.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 14 Insurance Contract Liabilities

	2013			2012		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
General insurance	1,012,133	(398,396)	613,737	1,038,365	(469,314)	569,051
Provision for claims reported by policyholders	547,933	(302,739)	245,194	513,882	(288,858)	225,024
Provision for incurred but not reported claims ("IBNR")	168,369	(56,353)	112,016	223,376	(113,917)	109,459
Claims liabilities	716,302	(359,092)	357,210	737,258	(402,775)	334,483
Premium liabilities	295,831	(39,304)	256,527	301,107	(66,539)	234,568
	1,012,133	(398,396)	613,737	1,038,365	(469,314)	569,051

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 14 Insurance Contract Liabilities (continued)

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

### (i) Claims liabilities

	2013			2012		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
At beginning of financial year	737,258	(402,775)	334,483	462,667	(197,050)	265,617
Transfer from ACE INA Bhd (Note 31)	-	-	-	302,303	(214,721)	87,582
Increase in claims incurred/recoveries anticipated over the financial year	307,416	(76,010)	231,406	388,329	(184,849)	203,480
Changes in key assumptions	(53,532)	39,879	(13,653)	(58,248)	4,831	(53,417)
Claims paid during the financial year	(274,840)	79,814	(195,026)	(357,793)	189,014	(168,779)
At end of financial year	716,302	(359,092)	357,210	737,258	(402,775)	334,483

### (ii) Premium liabilities

	2013			2012		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
At beginning of financial year	301,107	(66,539)	234,568	209,561	(64,609)	144,952
Transfer from ACE INA Bhd (Note 31)	-	-	-	65,402	(3,451)	61,951
Premiums written in the financial year (Note 19)	796,167	(247,150)	549,017	762,434	(269,612)	492,822
Premiums earned during the financial year	(801,443)	274,385	(527,058)	(736,290)	271,133	(465,157)
At end of financial year	295,831	(39,304)	256,527	301,107	(66,539)	234,568



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 15 Investment Contract Liabilities

	2013 RM'000	2012 RM'000
Investment contract liabilities	1,755	4,001
At beginning of financial year	4,001	-
Transfer from ACE INA Bhd (Note 31)	-	3,894
Deposits	4,027	4,956
Withdrawals	(6,273)	(4,849)
At end of financial year	1,755	4,001

The carrying amount of the investment contracts liabilities approximate fair value.

## 16 Deferred Tax Assets

	2013 RM'000	2012 RM'000
At beginning of financial year	5,502	2,086
Recognised in:		
Income statement (Note 25)	2,253	3,166
Other comprehensive income	2,342	250
At end of financial year	10,097	5,502

Deferred income 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 related to the same authority. The following amounts determined after appropriate set off are shown in the statement of financial position:

	2013 RM'000	2012 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	10,097	5,502
Current	9,229	5,744
Non-current	868	(242)
	10,097	5,502

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 16 Deferred Tax Assets (continued)

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Amortisation of premium of securities RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
<b>31 December 2013</b>							
<b>Deferred tax assets (before off-setting)</b>							
At beginning of financial year	2,227	4,120	-	1,247	-	809	8,403
Recognised in:							
Income statement	504	2,275	-	604	-	52	3,435
Other comprehensive income	-	-	-	-	269	-	269
At end of financial year	2,731	6,395	-	1,851	269	861	12,107
<b>Deferred tax liabilities (before off-setting)</b>							
At beginning of financial year	-	-	(828)	-	(2,073)	-	(2,901)
Recognised in:							
Income statement	-	-	(1,182)	-	-	-	(1,182)
Other comprehensive income	-	-	-	-	2,073	-	2,073
At end of financial year	-	-	(2,010)	-	-	-	(2,010)
Deferred tax assets (after off-setting)							10,097

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 16 Deferred Tax Assets (continued)

### 31 December 2012

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Dividend receivables RM'000	Amortisation of premium of securities RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
<b>Deferred tax assets (before off-setting)</b>								
At beginning of financial year	3,263	1,872	-	-	(933)	-	356	4,558
Recognised in: Income statement	(1,036)	2,248	-	-	2,180	-	453	3,845
At end of financial year	2,227	4,120	-	-	1,247	-	809	8,403
<b>Deferred tax liabilities (before off-setting)</b>								
At beginning of financial year	-	-	(402)	(5)	-	(2,065)	-	(2,472)
Recognised in: Income statement Other comprehensive income	-	-	(426)	5	-	(258)	-	(679)
	-	-	-	-	-	250	-	250
At end of financial year	-	-	(828)	-	-	(2,073)	-	(2,901)
Deferred tax assets (after off-setting)	<u>5,502</u>							

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 17 Insurance Payables

	2013 RM'000	2012 RM'000
Due to agents and intermediaries*	30,886	33,629
Due to reinsurers and cedants*	54,149	55,155
	<hr/> 85,035	<hr/> 88,784

The carrying amounts disclosed above approximate fair value at the reporting date. All amounts are payable within one year.

\* The amount includes the following balances for which the Company has not received third party statements to facilitate further reconciliation:

	2013 RM'000	2012 RM'000
Due to brokers and co-insurers	1,573	402
Due to reinsurers and ceding companies	8,489	5,758
	<hr/> 10,062	<hr/> 6,160

The Company does not offset its insurance payables with insurance receivables balances.

## 18 Other Payables

	2013 RM'000	2012 RM'000
Accrued liabilities	52,009	33,121
Payroll liabilities	8,096	7,044
Deposit held on bonds	25,444	18,621
Other payables	24,132	15,411
	<hr/> 109,681	<hr/> 74,197

The carrying amounts disclosed above approximate fair value at the reporting date.



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 19 Net Earned Premiums

	2013 RM'000	2012 RM'000
<b>(a) Gross earned premiums</b>		
General insurance contracts (Note 14(ii))	796,167	762,434
Change in premium liabilities	5,276	(26,144)
	<u>801,443</u>	<u>736,290</u>
<b>(b) Premium ceded</b>		
General insurance contracts (Note 14(ii))	(247,150)	(269,612)
Change in premium liabilities	(27,235)	(1,521)
	<u>(274,385)</u>	<u>(271,133)</u>
<b>Net earned premium</b>	<u>527,058</u>	<u>465,157</u>

## 20 Investment Income

	2013 RM'000	2012 RM'000
Rental income from investment property	-	1,480
Parking income from investment property	-	139
AFS		
Interest income	38,085	34,232
Dividend income		
- equity securities unquoted in Malaysia	125	99
Loans and receivables and cash and cash equivalents		
Interest income	4,697	3,924
Amortisation of premiums net of accretion of discounts	(2,335)	(1,677)
Other investment income	1,006	695
Investment advisory fees and custodian charges	(2,011)	(1,113)
	<u>39,567</u>	<u>37,779</u>

In the previous financial year, the Company reclassified the investment property to property and equipment following the discontinuation of leases to external tenants.

Rental income from the property for the current financial year ended 31 December 2013 was NIL (2012: RM1,619,000).

Direct operating expenses arising in respect of the investment property for the current financial year ended 31 December 2013 was NIL (2012: RM988,000).

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 21 Realised (Losses)/Gains

	2013 RM'000	2012 RM'000
Property and equipment: Realised gains	15	44
<b>AFS</b>		
Realised (losses)/gains: Debt securities - Unquoted in Malaysia	(39)	2,757
<b>Foreign exchange:</b>		
Realised losses	(274)	(789)
	<u>(298)</u>	<u>2,012</u>

## 22 Fair Value Losses

	2013 RM'000	2012 RM'000
Impairment loss – AFS	(15)	(3,436)

## 23 Commission Income

	2013 RM'000	2012 RM'000
Commission income related to insurance contracts	61,184	60,128

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 24 Management Expenses

	Note	2013 RM'000	2012 RM'000
Employee benefits expense	24(a)	67,984	56,246
Directors' remuneration	24(b)	582	629
Auditors' remuneration		350	358
Depreciation of property and equipment	4	3,892	2,242
Direct operating expenses of investment property			
- Other income-generating		-	988
Property and equipment written off		750	-
Rental of office		794	2,351
Amortisation of intangible assets	5	809	934
Lease rental of equipment		706	819
EDP expenses		9,805	7,095
Increase/(decrease) in allowance for impairment of doubtful debts		2,017	(4,927)
Bad debts written off		663	1,944
Bad debts recovered		(1,128)	-
Advertising		10,887	7,173
Printing and stationery		5,861	4,071
Electricity and water		1,263	1,332
Postage and telephone		1,998	2,352
Regional technical service charges		19,130	13,118
Royalty		7,072	5,871
Other expenses		23,293	27,919
		<u>156,728</u>	<u>130,515</u>

### (a) Employee benefits expense

Wages and salaries	44,217	37,964
Social security contributions	368	340
Contributions to defined contribution plan, Employees Provident Fund ("EPF")	7,196	6,474
Other benefits	16,203	11,468
	<u>67,984</u>	<u>56,246</u>

### (b) Directors' remuneration

Executive Director:		
- Salary and bonus	1,496	368
- Other emoluments	525	133
- Employees equity-settled share-based plan	156	194
	<u>2,177</u>	<u>695</u>
Non-executive Directors:		
- Fees	582	629
Directors' remuneration	<u>2,759</u>	<u>1,324</u>

Total staff costs of the Company (including Executive Director) are RM67,984,000 (2012:RM56,246,000).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM2,177,000 (2012: RM1,512,000).

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 24 Management Expenses (continued)

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

The compensation of the key management personnel including Executive Director are as follows:

	2013 RM'000	2012 RM'000
Salary and bonus	4,999	4,409
Benefits-in-kind and other remunerations	1,614	2,290
	6,613	6,699

## 25 Taxation

	2013 RM'000	2012 RM'000
Current income tax:		
Malaysian income tax	32,167	45,501
Over-provision in prior financial years	(1,376)	(285)
	30,791	45,216
Deferred tax (Note 16):		
Relating to origination and reversal of temporary differences	(2,278)	(1,883)
Under/(Over)-provision in prior financial years	25	(1,283)
	(2,253)	(3,166)
	28,538	42,050

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:

	2013 RM'000	2012 RM'000
Profit before tax	138,618	173,091
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	34,655	43,273
Arising from the transfer of business from ACE INA Bhd	-	1,071
Deduction of cash contribution to MMIP during the financial year *	(4,497)	-
Income not subject to tax	(1,391)	(1,317)
Expenses not deductible for tax purposes	1,123	591
Over-provision in prior financial years	(1,352)	(1,568)
Tax expense for the financial year	28,538	42,050

\* The deduction in respect of cash contribution to MMIP during the financial year of RM17,989,134 relates to the tax deduction allowed on MMIP cash contributions made, pursuant to the Gazette Order issued by the Attorney General Chambers of Malaysia on 28 November 2012.



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 26 Earnings Per Share

Basic earnings per share are calculated by dividing 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.

	2013 RM'000	2012 RM'000
Profit attributable to ordinary equity holders	110,080	131,041
Weighted average number of shares in issue	100,000	100,000
Basic earnings per share (sen)	110.08	131.04

## 27 Cash Flows

	2013 RM'000	2012 RM'000
Profit before tax	138,618	173,091
Investment income	(39,567)	(37,779)
Realised loss/(gain) recorded in income statement	313	(1,968)
Fair value loss recorded in income statement	15	3,436
Depreciation of property and equipment	3,892	2,242
Amortisation of intangible assets	809	934
Gain on disposal of property and equipment	(15)	(44)
Property and equipment written off	750	-
Increase/(decrease) in allowance for impairment of doubtful debts	2,017	(4,927)
Bad debts written off	663	1,944
Employees share-based long term incentive plan	1,288	360
Changes in working capital:		
Decrease/(increase) in reinsurance assets	70,918	(207,655)
Decrease/(increase) in insurance receivables	6,501	(88,276)
Increase in other receivables	(23,588)	(17,542)
(Decrease)/increase in insurance contract liabilities	(26,232)	366,137
(Decrease)/increase in insurance payables	(3,749)	23,575
Increase in other payables	35,208	17,898
Net increase in AFS investments	(66,157)	(219,613)
(Decrease)/increase in investment contract liabilities	(2,246)	4,001
Cash generated from operating activities	99,438	15,814

## 28 Operating Lease Commitments

### (a) The Company as lessee

The Company leases premises from various parties under non-cancellable operating leases. The leases typically run for a period of 2 to 6 years with the option to renew the leases after the expiry date.

The future minimum lease payments payable under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities are as follows:

	2013 RM'000	2012 RM'000
Within one year	1,255	1,669
Later than one year but not later than 6 years	269	977
	1,524	2,646

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 29 Related Party Balances And Transactions

The related parties of, and their relationship with the Company, are as follows:

Company	Country of incorporation	Relationship
ACE Limited	Switzerland	Ultimate holding company
ACE INA International Holdings Ltd	United States	Immediate holding company

In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with its ultimate holding company and related companies, being subsidiaries of ACE Limited ("ACE Group").

The related party balances as at the date of the statement of financial position and significant related party transactions arising from normal business transactions during the financial year are set out below.

Significant related party outstanding balances:

ACE Group	2013 RM'000	2012 RM'000
Reinsurance assets on claim liabilities	124,337	119,905
Insurance receivables	4,553	9,800
Other receivables	1,865	519
Insurance payables	(4,949)	(2,774)
Other payables	(35,338)	(15,331)

Significant related party transactions:

ACE Group:		
Premium income	37,212	26,471
Premium ceded	(111,732)	(85,899)
Commission income	26,177	21,922
Commission expenses	(3,822)	(1,689)
Claims recoveries	22,576	57,408
Claims incurred	(11,765)	(48,328)
Accounting and administration services	144	144
EDP system charges	(3,158)	(2,281)
Accounting services	(144)	(21)
Management fees	(1,132)	(2,038)
Royalty	(7,072)	(5,871)
Various technical support	(19,130)	(13,118)

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework

The Company recognises that the importance of effective risk management practices and embedding risk culture within the Company and therefore it is the commitment of the Company to integrate Enterprise Risk Management (“ERM”) into strategic planning and decision making.

### (a) Risk Appetite

Risk appetite outlines the degree of risk the Company is willing to assume in pursuit of its strategic objectives against the capital exposed to the risk. The risk appetite is formulated by the Board and is reviewed annually. This risk appetite articulates the risks, controls and returns for material exposures. The Company in general has a conservative risk appetite with prudent Risk Management Framework (“RMF”) in place.

### (b) Risk Management Framework

The Company’s RMF describes the role of ERM and helps the Company to achieve its business objectives, meet its corporate obligations and at the same time maintain the Company’s reputation.

The RMF puts in place a structure and a process to mitigate risks as they are identified or emerged by assessing them against the Company’s established appetite and tolerance levels, thus helping to protect and maintaining the capital in the interests of all key stakeholders.

### (c) Risk Governance and Oversight

The responsibility and oversight of ERM rests with the Board of Directors (“Board”), with the Enterprise Risk Committee (“ERC”) responsible for oversight, policy development, execution and maintaining the appropriate infrastructure. Primary ownership for the daily execution of risk management and controls rests with the business and operating units.

The Board has ultimate risk management responsibility and is also responsible for providing overall Company’s direction, strategy, setting financial objectives and for monitoring compliance with regulatory requirements and ethical standards. ACE’s Board has a specific charter setting out its duties and responsibilities. In discharging responsibility for overall risk management and control, the Board delegates a number of key functions to the Board Risk Management Committee (“BRMC”).

The ERC is charged with the responsibility of monitoring, assessing and reporting on risk related activities and meets at least once a quarter and reports to the BRMC through the Chief Risk Officer (“CRO”). Its objective is to establish, maintain and monitor compliance within a sound risk management framework that integrates risk management into all activities of the business. Its role is to provide advice and assistance including submitting recommendations to the Board on risk management.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (d) Capital Management and Capital Adequacy

Prudent capital management is the foundation for ensuring the Company is able to fulfil its financial obligations to its shareholders, policyholders, regulators and other key stakeholders. The Board is ultimately responsible for determining that the Company's capital is adequate after taking into account of the Company's strategic objectives, size and the complexity of its business.

The Company has separately documented its Internal Capital Adequacy Assessment Process ("ICAAP") to ensure that the capital held is adequate based on the Company's risk profile, business mix and complexity of operations. ICAAP outlines the procedures, systems, controls and personnel to identify, measure, monitor and manage the risks arising from capital related activities of the Company. Risk and Capital Management are inter-connected and closely aligned. Capital adequacy assessments and stress tests are conducted on a continual basis to ensure that sufficient capital is held to meet the minimum regulatory requirement with an additional buffer to withstand a range of adverse or extreme risk event scenarios.

### (e) Major Risks

The Company considers insurance risk, financial risks, market risks and operation risks as its major risks.

#### 1 Insurance Risk

The Company has in place underwriting guidelines which ensure that underwriting risk undertaken adhere to proper control procedures, the Company may be exposed to potential financial liabilities resulting from incurring higher claims cost than expected.

This is due to the random nature of claims and their unpredictable frequency and severity and the risk of change in legal or economic conditions affecting insurance pricing and conditions of insurance or reinsurance cover.

The underwriting and claims monitoring programme incorporates standards for underwriting procedures, policy retention limits, use of reinsurance and the setting of claims reserves. Underwriting standards are established to manage the initial insurability of customers. Renewal underwriting standards are in place for business that renews on a periodic basis.

#### 1.1 Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other reinsurers/insurers. Reinsurance does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. In order to minimise losses from reinsurance insolvencies, the Company's reinsurance arrangement is in line with BNM's JPI/GPI 22 on "Guidelines on General Reinsurance Arrangement".

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.2 Concentration risk

The table below sets out the concentration of the Company's general insurance business's gross written premium by types of product.

	2013			2012		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
Fire	155,759	(79,968)	75,791	149,912	(72,061)	77,851
Motor	209,743	(10,148)	199,595	183,152	(11,876)	171,276
Marine, aviation and transit	88,032	(39,150)	48,882	131,184	(78,343)	52,841
Miscellaneous	342,633	(117,884)	224,749	298,186	(107,332)	190,854
	796,167	(247,150)	549,017	762,434	(269,612)	492,822

The table below sets out the concentration of the Company's insurance contract liabilities – claims liabilities by types of product.

	2013			2012		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
Fire	190,527	(156,516)	34,011	188,672	(153,843)	34,829
Motor	205,077	(5,647)	199,430	188,041	(5,302)	182,739
Marine, aviation and transit	136,897	(103,506)	33,391	175,647	(141,195)	34,452
Miscellaneous	183,801	(93,423)	90,378	184,898	(102,435)	82,463
	716,302	(359,092)	357,210	737,258	(402,775)	334,483



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.3 Basis of estimates

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

Allowance were made for "pure IBNR" (late reported claims) and Incurred But Not Enough Reported ("IBNER") (development of known claims) and reopened claims as well as expected future claims inflations.

The Company has based its risk margin for adverse deviation for the provision for unexpired risks and insurance contract liabilities at a minimum 75% of sufficiency, according to the requirement set by BNM under the RBC Framework.

##### 1.4 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.

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

##### 1.5 Sensitivity analysis

The analysis below is performance 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.

There are no significant changes to the key assumptions used except that the Company has not applied discounting to the general insurance claims liabilities for the current financial year. The effect of this change in assumption is disclosed in Note 14(i) to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.5 Sensitivity analysis (continued)

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity # RM'000
<b>31 December 2013</b>					
Ultimate loss ratio for the latest accident year	+10%	45,596	26,194	26,194	19,645
Average claims handling expenses	+10%	1,896	1,896	1,896	1,422
PRAD*	+10%	6,405	3,213	3,213	2,410
<b>31 December 2012</b>					
Ultimate loss ratio for the latest accident year	+10%	42,165	25,226	25,226	18,920
Average claims handling expenses	+10%	2,147	1,326	1,326	994
PRAD*	+10%	6,390	2,887	2,887	2,165

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

\* Provision for Risk of Adverse Deviation

##### 1.6 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 reporting date, together with cumulative payments to-date.

The table provides a historical perspective on the adequacy of the unpaid claims estimates established in previous years. 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 reserve when there is considerable uncertainty. Generally, the uncertainty associated with 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 of adequacy of provision is relatively at its highest.

The Company believes that the estimate of the total claims outstanding as at 31 December 2013 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.6 Gross estimated general insurance contract liabilities for 2013

Accident year	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
At end of accident year	255,328	214,218	244,368	254,245	341,434	517,686	398,457	371,250
One year later	238,814	214,103	243,807	238,182	337,476	576,361	303,710	
Two years later	235,206	209,606	241,423	228,998	302,276	560,720		
Three years later	226,604	207,680	225,877	208,091	284,634			
Four years later	221,758	198,532	198,235	205,239				
Five years later	217,038	188,392	197,997					
Six years later	205,090	187,917						
Seven years later	204,490							
Current estimate of cumulative claims incurred	204,490	187,917	197,997	205,239	284,634	560,720	303,710	371,250
At end of accident year	(103,600)	(65,479)	(75,407)	(81,064)	(84,613)	(150,885)	(71,742)	(96,053)
One year later	(169,874)	(135,121)	(151,454)	(156,464)	(188,536)	(370,422)	(175,731)	
Two years later	(185,936)	(152,506)	(174,802)	(178,256)	(233,135)	(408,647)		
Three years later	(193,326)	(165,071)	(188,310)	(191,357)	(250,711)			
Four years later	(198,488)	(170,476)	(189,794)	(194,977)				
Five years later	(201,340)	(172,381)	(191,537)					
Six years later	(202,395)	(172,932)						
Seven years later	(202,943)							
Cumulative payments to-date	(202,943)	(172,932)	(191,537)	(194,977)	(250,711)	(408,647)	(175,731)	(96,053)

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.6 Gross estimated general insurance contract liabilities for 2013 (continued)

Accident year	Prior years										Total
	2006	2007	2008	2009	2010	2011	2012	2013	Total		
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Outstanding claims	10,865	1,547	6,460	10,262	33,923	152,073	127,979	275,197	633,291		
Claims handling expenses									18,964		
Total gross central estimate									652,255		
Risk margin									64,047		
Gross insurance contract liabilities per statement of financial position (Note 14(i))											716,302

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.6 Gross estimated general insurance contract liabilities for 2012

Accident year	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000
At end of accident year	208,797	255,328	214,218	244,368	254,245	341,434	517,686	398,457
One year later	189,503	238,814	214,103	243,807	238,182	337,476	576,361	
Two years later	171,372	235,206	209,606	241,423	228,998	302,276		
Three years later	165,486	226,604	207,680	225,877	208,091			
Four years later	164,290	221,758	198,532	198,235				
Five years later	162,418	217,038	188,392					
Six years later	156,292	205,090						
Seven years later	154,177							
Current estimate of cumulative claims incurred	154,177	205,090	188,392	198,235	208,091	302,276	576,361	398,457
At end of accident year	(55,900)	(103,600)	(65,479)	(75,407)	(81,064)	(84,613)	(150,885)	(71,742)
One year later	(113,304)	(169,874)	(135,121)	(151,454)	(156,464)	(188,536)	(370,422)	
Two years later	(131,582)	(185,936)	(152,506)	(174,802)	(178,256)	(233,135)		
Three years later	(138,021)	(193,326)	(165,071)	(188,310)	(191,357)			
Four years later	(144,748)	(198,488)	(170,476)	(189,794)				
Five years later	(147,243)	(201,340)	(172,381)					
Six years later	(148,268)	(202,395)						
Seven years later	(150,039)							
Cumulative payments to-date	(150,039)	(202,395)	(172,381)	(189,794)	(191,357)	(233,135)	(370,422)	(71,742)



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.6 Gross estimated general insurance contract liabilities for 2012 (continued)

Accident year	Prior years RM'000	2005	2006	2007	2008	2009	2010	2011	2012	Total RM'000
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Outstanding claims	3,950	4,138	2,695	16,011	8,441	16,734	69,141	205,939	326,715	653,764
Claims handling expenses										19,596
Total gross central estimate Risk margin										673,360 63,898
Gross insurance contract liabilities per statement of financial position (Note 14(i))										737,258

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.7 Net estimated general insurance contract liabilities for 2013

Accident year	Prior years RM'000	2006	2007	2008	2009	2010	2011	2012	2013
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		152,292	145,066	153,697	170,462	196,025	208,442	244,587	236,777
One year later		143,398	139,502	154,073	167,583	191,010	197,134	221,715	
Two years later		139,190	136,854	152,329	165,593	176,458	188,216		
Three years later		135,066	137,437	143,456	147,629	167,717			
Four years later		133,745	131,883	135,874	147,383				
Five years later		130,984	126,178	136,225					
Six years later		124,255	126,251						
Seven years later		123,937							
Current estimate of cumulative claims incurred		123,937	126,251	136,225	147,383	167,717	188,216	221,715	236,777
At end of accident year		(56,604)	(52,767)	(60,193)	(63,430)	(66,631)	(64,932)	(62,070)	(81,305)
One year later		(101,477)	(100,071)	(109,081)	(113,093)	(123,660)	(138,241)	(134,276)	
Two years later		(110,988)	(109,507)	(122,045)	(130,067)	(144,316)	(158,010)		
Three years later		(116,169)	(117,841)	(129,401)	(139,245)	(151,954)			
Four years later		(120,448)	(121,762)	(131,283)	(141,386)				
Five years later		(122,512)	(123,127)	(132,470)					
Six years later		(122,929)	(123,537)						
Seven years later		(123,066)							
Cumulative payments to-date		(123,066)	(123,537)	(132,470)	(141,386)	(151,954)	(158,010)	(134,276)	(81,305)

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.7 Net estimated general insurance contract liabilities for 2013 (continued)

Accident year	Prior years	2006	2007	2008	2009	2010	2011	2012	2013	Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Outstanding claims	3,894	871	2,714	3,755	5,997	15,763	30,206	87,439	155,472	306,111
Claims handling expenses										18,964
Total net central estimate										325,075
Risk margin										32,135
Net insurance contract liabilities per statement of financial position (Note 14(i))										357,210

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.7 Net estimated general insurance contract liabilities for 2012

Accident year	Prior years RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000
At end of accident year		120,112	152,292	145,066	153,697	170,462	196,025	208,442	244,587
One year later		112,454	143,398	139,502	154,073	167,583	191,010	197,134	
Two years later		108,075	139,190	136,854	152,329	165,593	176,458		
Three years later		104,427	135,066	137,437	143,456	147,629			
Four years later		105,349	133,745	131,883	135,874				
Five years later		104,532	130,984	126,178					
Six years later		100,648	124,255						
Seven years later		100,049							
Current estimate of cumulative claims incurred		100,049	124,255	126,178	135,874	147,629	176,458	197,134	244,587
At end of accident year		(42,367)	(56,604)	(52,767)	(60,193)	(63,430)	(66,631)	(64,932)	(62,070)
One year later		(80,197)	(101,477)	(100,071)	(109,081)	(113,093)	(123,660)	(138,241)	
Two years later		(86,809)	(110,988)	(109,507)	(122,045)	(130,067)	(144,316)		
Three years later		(90,256)	(116,169)	(117,841)	(129,401)	(139,245)			
Four years later		(94,990)	(120,448)	(121,762)	(131,283)				
Five years later		(96,894)	(122,512)	(123,127)					
Six years later		(97,729)	(122,929)						
Seven years later		(99,169)							
Cumulative payments to-date		(99,169)	(122,929)	(123,127)	(131,283)	(139,245)	(144,316)	(138,241)	(62,070)

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 1 Insurance Risk (continued)

##### 1.7 Net estimated general insurance contract liabilities for 2012 (continued)

Accident year	Prior years	2005	2006	2007	2008	2009	2010	2011	2012	Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Outstanding claims	1,711	880	1,326	3,051	4,591	8,384	32,142	58,893	182,517	293,495
Claims handling expenses										12,120
Total net central estimate										305,615
Risk margin										28,868
Net insurance contract liabilities per statement of financial position (Note 14(i))										334,483



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 2 Financial Risk

The Board recognises the Company's exposure to business, economic and financial risks and the need to develop and implement measures to mitigate the risks identified as having potentially adverse impact on the Company's operations and impairment of its financial strength. The Board has assumed the primary responsibility of developing and implementing the Company's risk management program by evaluating, managing and monitoring the principal risks.

##### 2.1 Credit risk

Credit risk is the risk of financial loss resulting from a failure of a debtor to honour its obligations to the Company.

The Company manages its credit risk in respect of receivables by establishing defined tolerance on credit period, putting in place collection procedures and rigorously monitoring its credit portfolio.

In terms of exposures to debt securities, the Company maintains a diversified portfolio of investments in government guaranteed and minimum A-rated financial instruments issued by companies with strong credit ratings.

The table below summarise the maximum credit risk exposure for the financial assets of the Company at the date of statement of financial position.

##### ***Credit exposure***

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

	2013 RM'000	2012 RM'000
AFS	969,283	914,577
Reinsurance assets	398,396	469,314
Insurance receivables	134,688	143,869
Other receivables	4,968	10,387
Cash and cash equivalents	220,204	147,726
	<hr/> 1,727,539	<hr/> 1,685,873

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 2 Financial Risk (continued)

##### 2.1 Credit 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 RM'000	Past due but not impaired RM'000	Total RM'000
<b>31 December 2013</b>			
AFS	969,283	-	969,283
Reinsurance assets	398,396	-	398,396
Insurance receivables	5,980	128,708	134,688
Other receivables	4,968	-	4,968
Cash and bank balances	220,204	-	220,204
	1,598,831	128,708	1,727,539

###### **31 December 2012**

AFS	914,577	-	914,577
Reinsurance assets	469,314	-	469,314
Insurance receivables	7,230	136,639	143,869
Other receivables	10,387	-	10,387
Cash and bank balances	147,726	-	147,726
	1,549,234	136,639	1,685,873

Age analysis of financial assets past due but not impaired:

	<60 days	61-180 days	>180 days	Total
<b>31 December 2013</b>				
Insurance receivables	69,006	37,799	21,903	128,708
<b>31 December 2012</b>				
Insurance receivables	82,113	37,878	16,648	136,639

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 2 Financial Risk (continued)

##### 2.1 Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Standard & Poor's Financial Services LLC ("S&P"), Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC") credit rating of counterparties. AAA is the highest possible rating.

	Government Guaranteed RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
<b>31 December 2013</b>							
AFS	539,775	198,882	213,404	15,298	-	1,549	968,908
Reinsurance assets							
- Claims							
reinsurance	-	-	136,427	88,089	-	134,576	359,092
receivables	-	-	157	2,578	-	131,953	134,688
Other receivables	-	-	-	-	-	4,968	4,968
Cash and bank balances	-	175,041	3,126	41,816	185	36	220,204
	539,775	373,923	353,114	147,781	185	273,082	1,687,860

	Government Guaranteed RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
<b>31 December 2012</b>							
AFS	550,268	151,411	200,734	11,789	-	-	914,202
Reinsurance assets							
- Claims							
reinsurance	-	-	129,186	69,446	-	204,143	402,775
receivables	-	-	6,867	1,521	-	135,481	143,869
Other receivables	-	-	-	-	-	10,387	10,387
Cash and bank balances	-	57,079	10,270	80,338	-	39	147,726
	550,268	208,490	347,057	163,094	-	350,050	1,618,959

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 2 Financial Risk (continued)

##### 2.1 Credit risk (continued)

###### *Impaired financial assets*

As at 31 December 2013, insurance receivables of RM10,927,000 (2012: RM8,910,000) were impaired based on individual and collective assessment. An insurance receivable is considered as individually impaired if the counterparty is in the process of liquidation, legal actions has been taken to recover the outstanding balance dispute, default or delinquency in payment. Insurance receivables with insignificant balances are grouped together and assessed collectively based on past payment trends.

The Company records impairment allowance for insurance receivables in a separate allowance account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	Note	2013 RM'000	2012 RM'000
At 1 January		8,910	13,051
Transfer from ACE INA Bhd (Note 31)		-	786
Charge/(reversal) for the financial year	24	2,017	(4,927)
At 31 December		10,927	8,910

No collateral is held as security for any past due or impaired financial assets.

In addition, the Company has impaired RM15,000 (2012: RM3,436,000) from its investment in debts securities in accordance to the Company's accounting policy as disclosed in Note 2(f)(iv) and 2(f)(v) to the financial statements.

##### 2.2 Liquidity risk

Liquidity risk arises when the Company does not have the availability of funds to honour all cash outflow commitments as they fall due.

The Company's principal liquidity objective is to ensure that funds are available to meet its insurance and reinsurance obligations. Management utilises monthly cash flow reporting and forecasting to identify known, expected and potential cash outflows to determine an appropriate operating liquidity to cover expected and potential payments.

###### *Maturity profiles*

The table below 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 contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 2 Financial Risk (continued)

#### 2.2 Liquidity risk (continued)

##### Maturity profiles (continued)

Premium liabilities and the reinsurers' share of premium liabilities have been excluded from the analysis as they do not have any contractual obligations.

##### 31 December 2013

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
Financial instruments:								
AFS	969,283	315,193	276,877	135,128	380,991	14,030	375	1,122,594
Reinsurance assets								
- claims liabilities	359,092	199,599	111,205	36,491	11,797	-	-	359,092
Insurance receivables	134,688	134,688	-	-	-	-	-	134,688
Other receivables	56,019	56,019	-	-	-	-	-	56,019
Cash and bank balances	220,204	220,204	-	-	-	-	-	220,204
<b>Total assets</b>	<b>1,739,286</b>	<b>925,703</b>	<b>388,082</b>	<b>171,619</b>	<b>392,788</b>	<b>14,030</b>	<b>375</b>	<b>1,892,597</b>
Insurance contract liabilities								
- claims liabilities	716,302	392,101	228,658	73,546	21,997	-	-	716,302
Insurance payables	85,035	85,035	-	-	-	-	-	85,035
Other payables	109,681	109,681	-	-	-	-	-	109,681
<b>Total liabilities</b>	<b>911,018</b>	<b>586,817</b>	<b>228,658</b>	<b>73,546</b>	<b>21,997</b>	<b>-</b>	<b>-</b>	<b>911,018</b>



# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 2 Financial Risk (continued)

#### 2.2 Liquidity risk (continued)

##### Maturity profiles (continued)

##### 31 December 2012

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
Financial instruments:								
AFS	914,577	57,539	503,808	256,085	226,619	14,030	375	1,058,456
Reinsurance assets								
– claims liabilities	402,775	214,424	134,726	41,363	12,262	-	-	402,775
Insurance receivables	143,869	143,869	-	-	-	-	-	143,869
Other receivables	33,436	33,436	-	-	-	-	-	33,436
Cash and bank balances	147,726	147,726	-	-	-	-	-	147,726
<b>Total assets</b>	<b>1,642,383</b>	<b>596,994</b>	<b>638,534</b>	<b>297,448</b>	<b>238,881</b>	<b>14,030</b>	<b>375</b>	<b>1,786,262</b>
Insurance contract liabilities								
– claims liabilities	737,258	401,038	240,023	74,860	21,337	-	-	737,258
Insurance payables	88,784	88,784	-	-	-	-	-	88,784
Other payables	74,197	74,197	-	-	-	-	-	74,197
<b>Total liabilities</b>	<b>900,239</b>	<b>564,019</b>	<b>240,023</b>	<b>74,860</b>	<b>21,337</b>	<b>-</b>	<b>-</b>	<b>900,239</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 3 Market Risk

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

##### 3.1 Foreign currency risk

Foreign exchange risk is the exposure of a company's financial strength to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a reduction in measures of financial strength.

The Company transacts in minimal selected currencies and monitors corresponding assets and liabilities created at transaction level to ensure optimal currency positions.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). Its exposure to foreign exchange risk is minimum and mainly arises principally with respect to United State Dollar ("USD"), Australian Dollar ("AUD"), New Zealand Dollar ("NZD") and Singapore Dollar ("SGD").

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Insurance Act, 1996, and hence, primarily denominated in the local currency as its insurance contract liabilities.

The Company does not engage in derivative transactions for speculative purposes. Where deemed necessary in line with the Company's risk management policy, the Company enters into derivative transactions solely for hedging purposes.

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

##### 3.2 Interest rate risk

Interest rate risk refers to the effect of interest rate changes on the market value of a fixed income portfolio. When interest rates (yields) of fixed income securities increase, their prices will decrease, and vice versa. Fixed income securities with longer maturity and lower coupon rates are usually more sensitive to interest rate changes.

The Company is exposed to interest rate risk through its investments in fixed income securities and money market placements with the financial institutions. These investments are managed internally, aided by an appointed investment advisor which is a licensed fund manager. Interest rate risk is managed via management and monitoring of the portfolio duration with active support from the investment advisor.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 3 Market Risk (continued)

##### 3.2 Interest rate risk (continued)

The sensitivity analysis below illustrates impact of 100bps increase/decrease in interest rate to investment value based on portfolio holdings as of 31 December 2013, holding other variables constant. Note that the sensitivity analysis assumes the following:

- 1) Money market rates are adjusted to the same quantum of any change in interest rate movement. This refers to money market placements with financial institutions.
- 2) Parallel shift in yields in the same quantum of any change in interest rate movement. This refers to investment in fixed income securities.

	Variable charges	Impact on income statement RM'000	2013 Impact on equity* after tax adjustment RM'000	Impact on income statement RM'000	2012 Impact on equity* after tax adjustment RM'000
Interest rate	+100 basis points	-	(16,914)	-	(19,481)
Interest rate	-100 basis points	-	16,914	-	19,481

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

##### 3.3 Price risk

Equity price risk refers to risk of changes in the value of an equity security. Securities may increase or decline in value due to various factors affecting equity market. Generally, it can be affected by industry-wide factors, or reasons specific to the company or its securities, such as management performance and financial positions. Price risk can be mitigated through diversification in general.

The Company is exposed to equity price risk arising from investment held by the Company and classified in the statement of financial position as available-for-sale financial assets that mainly consists of unquoted equities amounting to RM375,000 (2012: RM375,000).

As the Company's portfolio of investments in unquoted equities is insignificant, the impact arising from sensitivity in equity price risk is deemed minimal.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 30 Risk Management Framework (continued)

### (e) Major Risks (continued)

#### 4 Operational Risk

Operational risk is the risk of loss arising from system failure, human errors, 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 control, 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.

#### **Capital structure**

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

	2013 RM'000	2012 RM'000
Eligible Tier 1 Capital:		
Share capital	100,000	100,000
Retained earnings	535,777	425,697
	635,777	525,697
Tier 2 Capital:		
Available-for-sale fair value reserves	(807)	6,218
Equity reserve	2,669	1,381
Amount deducted from capital	(11,464)	(7,069)
Total capital available	626,175	526,227

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2013 (continued)

## 31 Business Combination

On 4 January 2012, ACE INA Berhad transferred its general insurance business to the Company in accordance with a Scheme of Transfer made pursuant to Section 129 of the Insurance Act 1996 (prior to the effective of Financial Services Act 2013 on 30 June 2013), which was approved by Bank Negara Malaysia and confirmed by the High Court of Malaya. The net liabilities of ACE INA Berhad that were transferred at book value are as follows:

	<b>Book value RM'000</b>
Plant and equipment (Note 4)	3,139
Intangible assets (Note 5)	2,149
Investments (Note 6(b))	109,239
Reinsurance assets (Note 14(i), (ii))	218,172
Insurance receivables (net of allowance for impairment on doubtful debts of RM786,000)	34,922
Other receivables	15,871
Cash and bank balances	3,602
Insurance contract liabilities (Note 14(i), (ii))	(367,705)
Investment contract liabilities (Note 15)	(3,894)
Insurance payables	(16,234)
Other payables	(4,588)
Equity reserve	(1,021)
Available-for-sale reserve	(773)
<b>Net liabilities transferred to ACE Jerneh</b>	<b>(7,121)*</b>

\* Outstanding balance has been settled via intercompany balances.

## 32 Authorisation For Issue Of Financial Statements

These financial statements were authorised for issue on 20 March 2014 by the Board of Directors.





## CONTACT US

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