

Company No.

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ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2015

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Company No.

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ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2015

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ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

## CORPORATE INFORMATION

DOMICILE	:	Malaysia
LEGAL FORM AND PLACE OF INCORPORATION	:	Public company limited by way of shares incorporated in Malaysia under the Companies Act, 1965
REGISTERED OFFICE	:	Wisma ACE Jerneh 38 Jalan Sultan Ismail 50250 Kuala Lumpur
PRINCIPAL PLACE OF BUSINESS	:	Wisma ACE Jerneh 38 Jalan Sultan Ismail 50250 Kuala Lumpur

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2015.

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	122,470

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.

DIVIDEND

The Company paid an interim single tier dividend of RM2.90 per ordinary share totalling RM290,000,000 in respect of the year ended 31 December 2015 on 14 September 2015. The dividend has been approved by Bank Negara Malaysia and accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ended 31 December 2015.

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	(Resigned on 23 May 2015)
Olivier Bouchard	(Appointed on 24 May 2015)
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 85 of the Company's Articles of Association, Olivier Bouchard 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, Gregory Jerome Gerald Fernandes retire at the forthcoming Annual General Meeting and, being eligible, has offered himself for re-election.

ACE JERNEH INSURANCE BERHAD  
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DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (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 the following 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 of the sufficient number of Directors with the requisite mix of skills, experience and attributes to contribute effectively to the Board.

The Nominating Committee comprises of the following Directors:

YBhg Tan Sri Leo Moggie	(Chairman)
Dato' Sri Abdul Hamidy bin Abdul Hafiz	
Song Yam Lim	
Daniel Andrew Albert Vanderkemp	(Resigned on 23 May 2015)
Olivier Bouchard	(Appointed on 24 May 2015)
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 the following Directors:

YBhg Tan Sri Leo Moggie	(Chairman)
Gregory Jerome Gerald Fernandes	
Daniel Andrew Albert Vanderkemp	(Resigned on 23 May 2015)
Olivier Bouchard	(Appointed on 24 May 2015)

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

ACE JERNEH INSURANCE BERHAD  
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DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (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 the following Directors:

Song Yam Lim	(Chairman)
YBhg Tan Sri Leo Moggie	
Gregory Jerome Gerald Fernandes	(Appointed on 26 March 2015)
Daniel Andrew Albert Vanderkemp	(Resigned on 23 May 2015)
Olivier Bouchard	(Appointed on 24 May 2015)

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

	<u>Board of Directors</u>	<u>Audit</u>	<u>Meetings of Committees</u>		
			<u>Nominating</u>	<u>Remuneration</u>	<u>Risk Management</u>
Number of meetings held during the financial year	9	6	7	4	4
	<u>Number attended</u>	<u>Number attended</u>	<u>Number attended</u>	<u>Number attended</u>	<u>Number attended</u>
YBhg Tan Sri Leo Moggie	7/9	5/6	7/7	4/4	4/4
Dato' Sri Abdul Hamidy bin Abdul Hafiz	9/9	6/6	7/7	-	-
Song Yam Lim	9/9	6/6	7/7	-	4/4
Gregory Jerome Gerald Fernandes	9/9	6/6	-	4/4	4/4
Daniel Andrew Albert Vanderkemp	4/4	-	3/3	2/2	2/2
Olivier Bouchard	4/5	-	4/4	2/2	2/2
Stephen Barry Crouch	9/9	-	7/7	-	-

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

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.

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 ("RBC") Framework for insurers issued by Bank Negara Malaysia ("BNM") 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.

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

- (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.



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ACE JERNEH INSURANCE BERHAD  
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DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

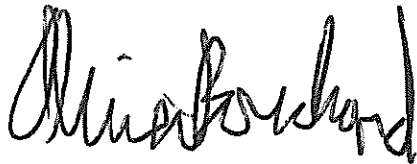
ULTIMATE HOLDING COMPANY

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

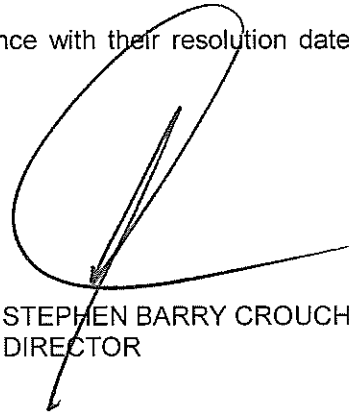
AUDITORS

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 24 March 2016.



OLIVIER BOUCHARD  
DIRECTOR



STEPHEN BARRY CROUCH  
DIRECTOR

Company No.

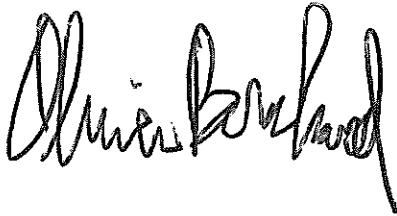
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ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

## STATEMENT BY DIRECTORS

We, Olivier Bouchard 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 11 to 87 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2015 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 24 March 2016.



OLIVIER BOUCHARD  
DIRECTOR



STEPHEN BARRY CROUCH  
DIRECTOR

Kuala Lumpur

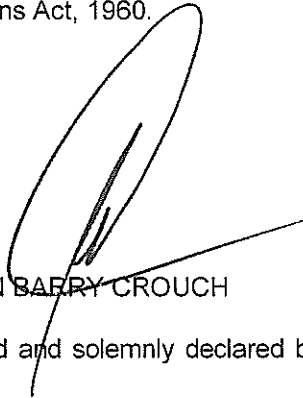
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ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

### STATUTORY DECLARATION

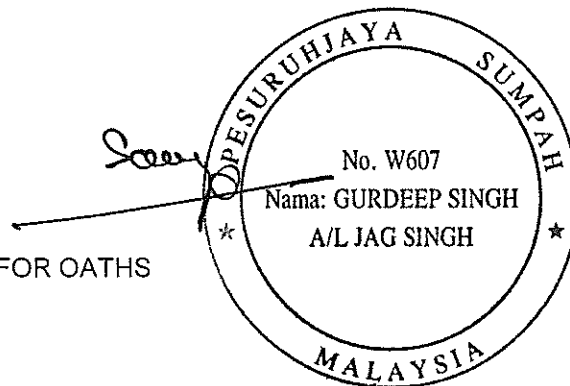
I, Stephen Barry Crouch, being the officer primarily responsible for the financial management of ACE Jerneh Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 11 to 87 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



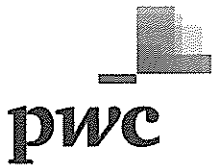
STEPHEN BARRY CROUCH

Subscribed and solemnly declared by the named above at Kuala Lumpur before me, on 24 March 2016.

COMMISSIONER FOR OATHS



5B, JALAN RAKYAT  
( JALAN TRAVERS )  
BRICKFIELDS  
50470 KUALA LUMPUR



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)  
(Company No. 9827A)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of ACE Jerneh Insurance Berhad on pages 11 to 87, which comprise the statement of financial position as at 31 December 2015 of the Company, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements, as set out on notes 1 to 30.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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.



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
ACE JERNEH INSURANCE BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 9827A)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 2015 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

MANJIT SINGH  
(No. 2954/03/17 (J))  
Chartered Accountant

Kuala Lumpur  
24 March 2016

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ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
<b>ASSETS</b>			
Property and equipment	4	60,541	61,999
Intangible assets	5	6,217	760
Investments			
- Available-for-sale financial assets ("AFS")	6	938,688	1,124,051
Reinsurance assets	7	371,456	320,850
Insurance receivables	8	169,321	157,712
Other receivables	9	79,513	69,926
Deferred tax assets	16	11,523	19,146
Current tax assets		13,080	-
Cash and cash equivalents		240,451	223,864
<b>Total assets</b>		<b>1,890,790</b>	<b>1,978,308</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	10	100,000	100,000
Retained earnings	11	524,595	692,125
Available-for-sale fair value reserves	12	(3,866)	(3,787)
Equity reserve	13	4,307	2,715
<b>Total equity</b>		<b>625,036</b>	<b>791,053</b>
Insurance contract liabilities	14	1,076,844	948,888
Investment contract liabilities	15	1,048	1,391
Insurance payables	17	84,265	79,262
Current tax liabilities		-	26,049
Other payables	18	103,597	131,665
<b>Total liabilities</b>		<b>1,265,754</b>	<b>1,187,255</b>
<b>Total equity and liabilities</b>		<b>1,890,790</b>	<b>1,978,308</b>

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

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

INCOME STATEMENT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
Gross earned premiums	19(a)	875,647	849,335
Premiums ceded to reinsurers	19(b)	(227,110)	(246,516)
Net earned premiums		<u>648,537</u>	<u>602,819</u>
Investment income	20	49,668	45,541
Realised (losses)/gains	21	(11,373)	3,046
Commission income	22	63,765	61,097
Other operating income		745	794
Net income		<u>102,805</u>	<u>110,478</u>
Total revenue		<u>751,342</u>	<u>713,297</u>
Gross claims paid		(332,153)	(389,899)
Claims ceded to reinsurers		96,421	170,424
Gross change to contract liabilities		(97,990)	82,025
Change in contract liabilities ceded to reinsurers		50,134	(71,218)
Net claims incurred		<u>(283,588)</u>	<u>(208,668)</u>
Commission expense		(125,392)	(123,778)
Management expenses	23	(179,063)	(171,577)
Total other expenses		<u>(304,455)</u>	<u>(295,355)</u>
Profit before taxation		163,299	209,274
Taxation	24	(40,829)	(52,926)
Profit for the financial year		<u>122,470</u>	<u>156,348</u>
Earnings per share (sen)			
Basic	25	<u>122.47</u>	<u>156.35</u>

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

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ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>2015</u> RM'000	<u>2014</u> RM'000
Profit for the financial year	122,470	156,348
Other comprehensive income:		
<u>Items that may be subsequently reclassified to income statement:</u>		
Available-for-sale fair value reserves		
Net (losses)/gains arising during the financial year	(843)	59
Net realised losses/(gains) transferred to income statement	738	(4,032)
	<u>(105)</u>	<u>(3,973)</u>
Tax effects thereon (Note 16)	26	993
	<u>(79)</u>	<u>(2,980)</u>
Total comprehensive income for the financial year	<u>122,391</u>	<u>153,368</u>

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



ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Share capital RM'000	Equity reserve RM'000	Non- distributable Fair value reserves RM'000	Distributable Retained earnings RM'000	Total equity RM'000
At 1 January 2015	100,000	2,715	(3,787)	692,125	791,053
Profit for the financial year	-	-	-	122,470	122,470
Other comprehensive income for the financial year	-	-	(79)	-	(79)
Dividend paid	-	-	-	(290,000)	(290,000)
Share-based long term incentive plan vested	-	1,592	-	-	1,592
Share-based long term incentive plan paid	-	-	-	-	-
	-	1,592	-	-	1,592
At 31 December 2015	100,000	4,307	(3,866)	524,595	625,036
At 1 January 2014	100,000	2,669	(807)	535,777	637,639
Profit for the financial year	-	-	-	156,348	156,348
Other comprehensive income for the financial year	-	-	(2,980)	-	(2,980)
Share-based long term incentive plan vested	-	867	-	-	867
Share-based long term incentive plan paid	-	(821)	-	-	(821)
	-	46	-	-	46
At 31 December 2014	100,000	2,715	(3,787)	692,125	791,053

The Company paid an interim single tier dividend of RM2.90 per ordinary share totaling RM290,000,000 in respect of the financial year ended 31 December 2015 on 14 September 2015 (2014: Nil). The Directors have not recommended any final dividend to be paid for the financial year ended 31 December 2015.

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

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
<b>OPERATING ACTIVITIES</b>			
Cash generated from operating activities	26	337,497	2,175
Interest income received		51,317	46,919
Dividend income received		99	66
Income tax paid		(72,309)	(42,617)
Net cash flows generated from operating activities		<u>316,604</u>	<u>6,543</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment		201	-
Purchase of property and equipment	4	(3,759)	(2,715)
Purchase of intangibles assets	5	(6,459)	(168)
Net cash flows used in investing activities		<u>(10,017)</u>	<u>(2,883)</u>
<b>FINANCING ACTIVITIES</b>			
Dividend paid		(290,000)	-
Net cash flows used in financing activities		<u>(290,000)</u>	<u>-</u>
Net increase in cash and cash equivalents		16,587	3,660
Cash and cash equivalents at beginning of the financial year		223,864	220,204
Cash and cash equivalents at end of the financial year		<u><u>240,451</u></u>	<u><u>223,864</u></u>
Cash and cash equivalents comprise:			
Fixed and call deposits:			
- Licensed financial institutions in Malaysia		229,977	218,366
Cash and bank balances		10,474	5,498
		<u><u>240,451</u></u>	<u><u>223,864</u></u>

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

**ACE JERNEH INSURANCE BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

**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 24 March 2016.

**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 the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, and comply with 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 otherwise stated in these significant accounting policies. The Company has met the minimum capital requirements as prescribed by the 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 the 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.

## ACE JERNEH INSURANCE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (a) Basis of preparation (continued)

(i) Standards, amendments to published standards and interpretations that are effective.

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2015:

- (i) Annual Improvements to MFRSs 2010 – 2012 Cycle
- (ii) Annual Improvements to MFRSs 2011 – 2013 Cycle
- (iii) Amendments to MFRS 119 "Defined Benefit Plans: Employee Contributions"

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

All other standards, amendments to published standards and interpretations that are effective for the current financial year are not relevant to the Company.

(ii) Standards, amendments to published standards and interpretations to existing standards which are effective for annual periods beginning after 1 January 2015.

## (a) Effective from financial year beginning on or after 1 January 2016

- Amendments to MFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"
- Amendments to MFRS 116 and MFRS 138 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Amendments to MFRS 10 and MFRS 128 "Sale or Contribution of Assets between Investor and its Associates or Joint Venture"
- Amendments to MFRS 127 "Equity Method in Separate Financial Statements"
- Annual Improvements to MFRSs 2012 – 2014 Cycle (Amendments to MFRS 5 "Non-current Assets Held for sale and Discontinued Operations", MFRS 7 "Financial Instruments: Disclosures", MFRS 119 "Employee Benefits", MFRS 134 "Interim Financial Reporting")
- Amendments to MFRS 10, 12 and 128 "Investment Entities – Applying the Consolidation Exception"
- Amendments to MFRS 101 "Presentation of Financial Statements – Disclosure Initiative"

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

- (ii) Standards, amendments to published standards and interpretations to existing standards which are effective for annual periods beginning after 1 January 2015. (continued)

(b) Effective from financial year beginning on or after 1 January 2018

- MFRS 15 "Revenue from Contracts with Customers"
- MFRS 9 "Financial Instruments"

None of the standards listed above were expected to have a significant effect on the financial statements of the Company upon initial application, except for MFRS 9. 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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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.

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) 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 of 5 to 7 years.

(d) 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (e) 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.



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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(1) Investments (continued)

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 in 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 are transferred to the income statement.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(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(e)(v) to the financial statements.

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

All financial assets are reviewed for impairment as described in Note 2(e)(v) to the financial statements except for investment designated as 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.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(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.

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 is 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 derecognition 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(iv) Derecognition of financial instruments (continued)

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 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.

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 assets, 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(v) Impairment of financial assets (continued)

*AFS (continued)*

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.

(f) 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Provisions

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

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost expense.

(h) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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

(i) 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.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

*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.



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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Insurance contracts (continued)

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.

*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 claims 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.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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.

(m) 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Reinsurance (continued)

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.

(n) Other revenue recognition

(i) Rental income

Rental income from investment property is recognised on an accrual basis and 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.

(o) 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) 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 ("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.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(q) 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.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (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

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4 PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Computers	Office equipment, furniture and fittings	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>						
At 1 January 2014	15,206	34,922	11,691	16,412	1,948	80,179
Additions	-	-	2,103	612	-	2,715
Write-offs	-	-	(4,505)	(864)	-	(5,369)
At 31 December 2014	15,206	34,922	9,289	16,160	1,948	77,525
Additions	-	1,800	1,246	713	-	3,759
Disposals	-	-	(7)	(5)	(743)	(755)
Write-offs	-	(651)	(1,108)	(70)	-	(1,829)
At 31 December 2015	15,206	36,071	9,420	16,798	1,205	78,700
<u>Accumulated depreciation</u>						
At 1 January 2014	-	7,485	6,511	1,717	592	16,305
Charge for the financial year	-	733	1,698	1,807	288	4,526
Write-offs	-	-	(4,505)	(800)	-	(5,305)
At 31 December 2014	-	8,218	3,704	2,724	880	15,526
Charge for the financial year	-	745	1,692	1,829	202	4,468
Disposals	-	-	(6)	(5)	(464)	(475)
Write-offs	-	(190)	(1,108)	(62)	-	(1,360)
At 31 December 2015	-	8,773	4,282	4,486	618	18,159
<u>Net carrying amount</u>						
31 December 2015	15,206	27,298	5,138	12,312	587	60,541
31 December 2014	15,206	26,704	5,585	13,436	1,068	61,999

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5 INTANGIBLE ASSETS

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Cost</u>		
At beginning of financial year	9,132	10,291
Additions	6,459	168
Write-offs	(44)	(1,327)
At end of financial year	<u>15,547</u>	<u>9,132</u>
<u>Accumulated amortisation</u>		
At beginning of financial year	8,372	8,924
Amortisation for the financial year	1,002	775
Write-offs	(44)	(1,327)
At end of financial year	<u>9,330</u>	<u>8,372</u>
Net carrying amount	<u>6,217</u>	<u>760</u>

Intangible assets comprise computer software.



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6	INVESTMENTS	2015 RM'000	2014 RM'000
	Malaysian Government Securities and guaranteed loans	518,821	627,632
	Debt securities	419,492	496,044
	Equity securities	375	375
		938,688	1,124,051
	AFS	938,688	1,124,051
	The following investments mature after 12 months:		
	Malaysian Government Securities and guaranteed loans	422,978	546,664
	Debt securities	399,252	470,658
		822,230	1,017,322
	(a) AFS		
	<u>Fair value</u>		
	Unquoted equity securities	375	375
	Unquoted debt securities	419,492	496,044
	Malaysian Government Securities and guaranteed loans	518,821	627,632
		938,688	1,124,051
		938,688	1,124,051

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6 INVESTMENTS (CONTINUED)

(b) Carrying values of financial instruments

	<u>AFS</u> RM'000
At 1 January 2014	969,283
Purchases	475,769
Maturities	(296,000)
Disposals	(24,585)
Fair value gains recorded in:	
Other comprehensive income	59
Net change in interest receivables	1,128
Amortisation of premium	(1,603)
At 31 December 2014	<u>1,124,051</u>
Purchases	190,762
Maturities	(145,000)
Disposals	(228,820)
Fair value losses recorded in:	
Other comprehensive income	(843)
Net change in interest receivables	(1,690)
Accretion of discount	228
At 31 December 2015	<u><u>938,688</u></u>

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6 INVESTMENTS (CONTINUED)

(c) Estimation of fair values

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 securities in corporations were 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).

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.

<u>Fair value investments</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
Valuation techniques		
- market observable inputs (Level 2)	938,313	1,123,676
- unobservable inputs (Level 3)	375	375
	<u>938,688</u>	<u>1,124,051</u>

There are no investments that are valued at Level 1 category.

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7	REINSURANCE ASSETS			
		<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
	Reinsurance of insurance contracts	14		
	Claims liabilities		338,008	287,874
	Premium liabilities		33,448	32,976
			<u>371,456</u>	<u>320,850</u>
8	INSURANCE RECEIVABLES			
			<u>2015</u> RM'000	<u>2014</u> RM'000
	Due premiums including agents/brokers and co-insurers balances		151,259	134,160
	Due from reinsurers and cedants		25,512	35,883
			<u>176,771</u>	<u>170,043</u>
	Allowance for impairment of doubtful debts		(7,450)	(12,331)
			<u>169,321</u>	<u>157,712</u>
	Current		169,321	157,712
	Non-current		-	-
			<u>169,321</u>	<u>157,712</u>
	<u>Financial assets</u>			
	Gross amounts of recognised financial assets		204,168	201,731
	Less: Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 17)		(27,397)	(31,688)
	Net amounts of financial assets presented in the statement of financial position		<u>176,771</u>	<u>170,043</u>

There are no financial liabilities subjected to an enforceable master netting arrangement or similar agreement financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2015 (2014: NIL).

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9 OTHER RECEIVABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Amount due from Malaysian Motor Insurance Pool ("MMIP")		
- Cash contribution to MMIP	34,359	27,348
- Assets held under MMIP	38,498	35,753
Deposits	793	800
Other receivables	5,863	6,025
	<u>79,513</u>	<u>69,926</u>
Current	78,720	69,126
Non-current	793	800
	<u>79,513</u>	<u>69,926</u>

As at 31 December 2015, there is a net payable of RM1,564,202 (2014: RM5,994,805) to MMIP, after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premiums liabilities of RM74,421,495 (2014: RM69,095,613) included in Note 14 to the financial statements.

10 SHARE CAPITAL

	<u>2015</u> RM'000	<u>2014</u> RM'000
Authorised:		
150,000,000 ordinary share of RM1.00 each		
At beginning and end of financial year	<u>150,000</u>	<u>150,000</u>
Issued and paid up:		
100,000,000 ordinary share of RM1.00 each		
At beginning and end of financial year	<u>100,000</u>	<u>100,000</u>

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**11 RETAINED EARNINGS**

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

As at 31 December 2015, the Company is already under the single-tier tax system. The Company also has no tax exempt income available for future distribution of tax exempt dividends.

The Company may distribute single tier tax exempt dividend to its shareholder out of its retained earnings. Pursuant to Section 51 (1) of the Financial Services Act 2013, the Company is required to obtain BNM written approval prior to declaring or paying any dividend.

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

**12 AVAILABLE-FOR-SALE FAIR VALUE RESERVES**

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

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13 EQUITY RESERVE

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, 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, 7,583 restricted ordinary shares were awarded during the financial year ended 31 December 2015 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:

	2015		2014	
	Average exercise price per share RM	Share options Units	Average exercise price per share RM	Share options Units
At beginning of financial year		20,056		15,384
Granted	491.89	9,759	337.50	6,118
Forfeited	439.06	(1,579)	253.66	(1,284)
Exercised	378.50	(836)	184.09	(768)
Expiration		(52)		-
Transferred out		(2,438)		-
Transferred in		5,164		606
At end of financial year		<u>30,074</u>		<u>20,056</u>

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13 EQUITY RESERVE (CONTINUED)

Restricted Share Option Plan (continued)

Out of the 30,074 outstanding options, 15,572 options were exercisable. Options granted in 2015 resulted in 9,759 shares options being issued at exercise price of RM491.89 each. 836 options were exercised in 2015 at exercise price of RM378.50.

Share options outstanding at the end of the financial year have the following expiry date and exercise prices:

	Exercise price <u>per share</u> RM	Share options	
		<u>2015</u> Units	<u>2014</u> Units
2015	190.62	166	-
2016	241.70	173	-
2017	240.59	-	-
2018	258.33	1,815	1,815
2019	165.03	476	476
2020	215.86	1,781	1,247
2021	268.44	3,448	3,156
2022	314.34	3,102	3,134
2023	365.94	4,284	2,187
2024	414.66	6,782	8,041
2025	491.89	8,047	-
		<u>30,074</u>	<u>20,056</u>

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM74.75 per option. The significant inputs into the model were share price of RM491.89, at the grant date, the exercise price shown above, volatility of 20.33%, dividend yield of 2.33%, an expected option life of 5 years and on annual risk-free interest rate of 1.62%. 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 RM1,531,682.



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	2015			2014		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
14 INSURANCE CONTRACT LIABILITIES						
General insurance	1,076,844	(371,456)	705,388	948,888	(320,850)	628,038
Provision for claims reported	485,006	(229,740)	255,266	464,523	(226,425)	238,098
Provision for incurred but not reported claims ("IBNR")	247,262	(108,268)	138,994	169,755	(61,449)	108,306
Claims liabilities	732,268	(338,008)	394,260	634,278	(287,874)	346,404
Premium liabilities	344,576	(33,448)	311,128	314,610	(32,976)	281,634
	1,076,844	(371,456)	705,388	948,888	(320,850)	628,038

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14 INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

(i) Claims liabilities	2015			2014		
	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	634,278	(287,874)	346,404	716,302	(359,092)	357,210
Increase in claims incurred/recoveries anticipated over the financial year	511,149	(179,196)	331,953	401,565	(140,245)	261,320
Change in key assumptions	(81,006)	32,641	(48,365)	(93,690)	41,039	(52,651)
Claims paid during the financial year	(332,153)	96,421	(235,732)	(389,899)	170,424	(219,475)
At end of financial year	<u>732,268</u>	<u>(338,008)</u>	<u>394,260</u>	<u>634,278</u>	<u>(287,874)</u>	<u>346,404</u>

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14	INSURANCE CONTRACT LIABILITIES (CONTINUED)	2015		2014		
		Gross RM'000	Re- insurance RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
(ii)	Premium liabilities					
	At beginning of financial year	314,610	(32,976)	295,831	(39,304)	256,527
	Premiums written in the financial year (Note 19)	905,613	(227,582)	868,114	(240,188)	627,926
	Premiums earned during the financial year	(875,647)	227,110	(849,335)	246,516	(602,819)
	At end of financial year	<u>344,576</u>	<u>(33,448)</u>	<u>314,610</u>	<u>(32,976)</u>	<u>281,634</u>

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15 INVESTMENT CONTRACT LIABILITIES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Investment contract liabilities	1,048	1,391
At beginning of financial year	1,391	1,755
Deposits	2,663	3,346
Withdrawals	(3,006)	(3,710)
At end of financial year	1,048	1,391

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

16 DEFERRED TAX ASSETS

	<u>2015</u> RM'000	<u>2014</u> RM'000
At beginning of financial year	19,146	10,097
Recognised in:		
Income statement (Note 24)	(7,649)	8,056
Other comprehensive income	26	993
At end of financial year	11,523	19,146

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 statements of financial position:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	11,523	19,146
Current	11,963	20,069
Non-current	(440)	(923)
	11,523	19,146

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16 DEFERRED TAX ASSETS (CONTINUED)

31 December 2015

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Amortisation of premium RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
Deferred tax assets (before off-setting)							
At beginning of financial year	3,110	15,784	-	681	1,262	657	21,494
Recognised in:							
Income statement	(1,324)	(5,914)	-	(775)	-	(365)	(8,378)
Other comprehensive income	-	-	-	-	26	-	26
At end of financial year	1,786	9,870	-	(94)	1,288	292	13,142
Deferred tax liabilities (before off-setting)							
At beginning of financial year	-	-	(2,348)	-	-	-	(2,348)
Recognised in:							
Income statement	-	-	729	-	-	-	729
At end of financial year	-	-	(1,619)	-	-	-	(1,619)
Deferred tax assets (after off-setting)							
							11,523

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NOTES TO THE FINANCIAL STATEMENTS  
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16 DEFERRED TAX ASSETS (CONTINUED)

31 December 2014

Deferred tax assets  
(before off-setting)

At beginning of financial year

Recognised in:

Income statement  
Other comprehensive income

At end of financial year

Deferred tax liabilities  
(before off-setting)

At beginning of financial year

Recognised in:

Income statement  
At end of financial year

Deferred tax assets  
(after off-setting)

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Amortisation of premium RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
At beginning of financial year	2,731	6,395	-	1,851	269	861	12,107
Recognised in:							
Income statement	379	9,389	-	(1,170)	-	(204)	8,394
Other comprehensive income	-	-	-	-	993	-	993
At end of financial year	3,110	15,784	-	681	1,262	657	21,494
Deferred tax liabilities <u>(before off-setting)</u>							
At beginning of financial year	-	-	(2,010)	-	-	-	(2,010)
Recognised in:							
Income statement	-	-	(338)	-	-	-	(338)
At end of financial year	-	-	(2,348)	-	-	-	(2,348)
Deferred tax assets (after off-setting)							19,146

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17 INSURANCE PAYABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Due to agents and intermediaries*	38,851	32,579
Due to reinsurers and cedants*	45,414	46,683
	<u>84,265</u>	<u>79,262</u>

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:*

	<u>2015</u> RM'000	<u>2014</u> RM'000
Due to brokers and co-insurers	612	928
Due to reinsurers and ceding companies	2,201	1,457
	<u>2,813</u>	<u>2,385</u>

Financial liabilities

Gross amounts of recognised financial liabilities	111,662	110,950
Less: Gross amounts of recognised financial assets set off in the statement of financial position (Note 8)	<u>(27,397)</u>	<u>(31,688)</u>
Net amounts of financial liabilities presented in the statement of financial position	<u>84,265</u>	<u>79,262</u>

As disclosed in Note 8 to the financial statements, there are no financial liabilities subjected to an enforceable master netting arrangement or similar agreement financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2015 (2014: NIL).

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18 OTHER PAYABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Accrued liabilities	32,287	67,642
Payroll liabilities	9,206	8,129
Deposit held on bonds	41,795	32,140
Other payables	20,309	23,754
	<u>103,597</u>	<u>131,665</u>

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

19 NET EARNED PREMIUMS

	<u>2015</u> RM'000	<u>2014</u> RM'000
(a) Gross earned premiums		
General insurance contracts (Note 14(ii))	905,613	868,114
Change in premium liabilities	(29,966)	(18,779)
	<u>875,647</u>	<u>849,335</u>
(b) Premium ceded		
General insurance contracts (Note 14(ii))	(227,582)	(240,188)
Change in premium liabilities	472	(6,328)
	<u>(227,110)</u>	<u>(246,516)</u>
Net earned premiums	<u>648,537</u>	<u>602,819</u>



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NOTES TO THE FINANCIAL STATEMENTS  
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20	INVESTMENT INCOME	<u>2015</u> RM'000	<u>2014</u> RM'000
	AFS		
	Interest income	42,537	42,601
	Dividend income		
	- unquoted equity securities in Malaysia	99	66
	Loans and receivables and cash and cash equivalents		
	Interest income	7,089	5,446
	Accretion of discounts/(amortisation of premiums)	228	(1,603)
	Other investment income	2,227	1,421
	Investment advisory fees and custodian charges	(2,512)	(2,390)
		<u>49,668</u>	<u>45,541</u>
21	REALISED (LOSSES)/GAINS	<u>2015</u> RM'000	<u>2014</u> RM'000
	<u>Property and equipment:</u>		
	Realised losses	(79)	-
	<u>AFS</u>		
	Realised (losses)/gains:		
	Unquoted debt securities in Malaysia	(738)	4,032
	<u>Foreign exchange:</u>		
	Realised losses	(10,556)	(986)
		<u>(11,373)</u>	<u>3,046</u>
22	COMMISSION INCOME	<u>2015</u> RM'000	<u>2014</u> RM'000
	Commission income related to insurance contracts	<u>63,765</u>	<u>61,097</u>

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## NOTES TO THE FINANCIAL STATEMENTS

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## 23 MANAGEMENT EXPENSES

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
Employee benefits expense	23(a)	86,177	74,998
Directors' remuneration	23(b)	626	582
Auditors' remuneration			
- Statutory audits		350	350
- Other services		26	8
Depreciation of property and equipment	4	4,468	4,526
Property and equipment written off		469	64
Rental of office		797	738
Amortisation of intangible assets	5	1,002	775
Lease rental of equipment		367	265
EDP expenses		11,513	9,471
(Decrease)/increase in allowance for impairment of doubtful debts		(4,881)	1,404
Bad debts written off		7,276	843
Bad debts recovered		(3)	(245)
Advertising		20,872	14,823
Printing and stationery		7,651	7,276
Electricity and water		1,534	1,432
Postage and telephone		1,769	1,863
Regional technical service charges		6,046	16,779
Outsource services fees		12,715	16,769
Other expenses		20,289	18,856
		<u>179,063</u>	<u>171,577</u>
 (a) Employee benefits expense			
Wages and salaries		56,606	49,575
Social security contributions		444	383
Contributions to defined contribution plan, EPF		9,108	7,985
Other benefits		20,019	17,055
		<u>86,177</u>	<u>74,998</u>

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23 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

The Directors' remuneration and other emoluments are as follows:

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Executive Directors:</u>		
Fees	70	-
Salary	1,085	1,053
Bonus	600	558
Other	1,053	753
Benefits-in-kind	442	439
	<u>3,250</u>	<u>2,803</u>
<u>Non-executive Directors:</u>		
Fees	556	582
	<u>556</u>	<u>582</u>
Total Directors' remuneration	<u>3,806</u>	<u>3,385</u>

The number of executive and non-executive Directors whose total remuneration received during the financial year that fall within the following bands are as follows:

	<u>Number of Directors</u>	
	<u>2015</u>	<u>2014</u>
<u>Executive Directors:</u>		
Below RM100,000	1	-
RM100,001-RM4,000,000	1	1
<u>Non-executive Directors:</u>		
Below RM100,000	1	-
RM100,001-RM200,000	4	5

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23 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration (continued)

Total staff costs of the Company (including Executive Director) are RM86,177,000 (2014: RM74,998,000).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM3,180,000 (2014: RM2,803,000).

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:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Salary and bonus	5,823	4,511
Benefits-in-kind and other remuneration	1,988	1,164
	<u>7,811</u>	<u>5,675</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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24 TAXATION

	<u>2015</u> RM'000	<u>2014</u> RM'000
Current income tax:		
Current financial year	35,246	54,436
(Over)/under-provision in prior financial years	(2,066)	6,546
	<u>33,180</u>	<u>60,982</u>
Deferred tax (Note 16):		
Relating to origination and reversal of temporary differences	4,861	(3,833)
Under/(over)-provision in prior financial years	2,788	(4,223)
	<u>7,649</u>	<u>(8,056)</u>
	<u>40,829</u>	<u>52,926</u>

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:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Profit before tax	<u>163,299</u>	<u>209,274</u>
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	40,825	52,319
Deduction of cash contribution to MMIP *	(1,753)	(2,340)
Income not subject to tax	(1,607)	(1,408)
Expenses not deductible for tax purposes	3,120	2,032
Change in tax rate from 25% to 24%	(478)	-
Under-provision in prior financial years	722	2,323
Tax expense for the financial year	<u>40,829</u>	<u>52,926</u>

\* The deductions in respect of cash contribution to MMIP relates to the tax deduction allowed on MMIP cash contributions made in the current financial year of RM7,011,576, pursuant to the Gazette Order issued by the Attorney General Chambers of Malaysia on 28 November 2012.

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## 25 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.

	<u>2015</u> RM'000	<u>2014</u> RM'000
Profit attributable to ordinary equity holders	122,470	156,348
Weighted average number of shares in issue	100,000	100,000
Basic earnings per share (sen)	<u>122.47</u>	<u>156.35</u>

## 26 CASH FLOWS

	<u>2015</u> RM'000	<u>2014</u> RM'000
Profit before tax	163,299	209,274
Investment income	(49,668)	(45,541)
Realised loss/(gain) on AFS investments	738	(4,032)
Realised loss on foreign exchange	10,556	986
Depreciation of property and equipment	4,468	4,526
Amortisation of intangible assets	1,002	775
Loss on disposal of property and equipment	79	-
Property and equipment written off	469	64
(Decrease)/increase in allowance for impairment of doubtful debts	(4,881)	1,404
Bad debts written off	7,276	843
Employees share-based long term incentive plan	1,592	46
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(50,606)	77,546
Increase in insurance receivables	(14,005)	(25,272)
Increase in other receivables	(9,872)	(14,876)
Increase/(decrease) in insurance contract liabilities	127,956	(63,245)
Increase/(decrease) in insurance payables	5,003	(5,773)
(Decrease)/increase in other payables	(38,624)	20,998
Net decrease/(increase) in AFS investments	183,058	(155,184)
Decrease in investment contract liabilities	(343)	(364)
Cash generated from operating activities	<u>337,497</u>	<u>2,175</u>

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27 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 4 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:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Within one year	1,627	1,424
Later than one year but not later than 4 years	1,730	1,536
	<u>3,357</u>	<u>2,960</u>

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

#### 28 RELATED PARTY BALANCES AND TRANSACTIONS

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

<u>Company</u>	<u>Country of incorporation</u>	<u>Relationship</u>
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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Reinsurance assets on claim liabilities	85,430	86,267
Insurance receivables	1,581	2,159
Other receivables	509	2,754
Insurance payables	(9,781)	(9,384)
Other payables	(10,628)	(49,878)
	<u>                    </u>	<u>                    </u>

Significant related party transactions:

#### ACE Group:

Premium income	24,766	46,550
Premium ceded	(131,118)	(129,708)
Commission income	31,534	29,812
Commission expenses	(1,071)	(2,634)
Claims recoveries	36,154	45,860
Claims incurred	(6,822)	(2,268)
Accounting and administration services	144	144
Rental and parking income	602	650
EDP system charges	(3,670)	(3,070)
Accounting services	(290)	(494)
Management fees	(1,859)	(1,347)
Various technical support	(6,046)	(16,779)
IT development cost on GST	1,960	-
	<u>                    </u>	<u>                    </u>



## ACE JERNEH INSURANCE BERHAD

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## 29 RISK MANAGEMENT FRAMEWORK

The Company recognises 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

The 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. The risk appetite articulates the risks, controls and returns for material exposures. The Company in general has a conservative risk appetite with a 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 emerge by assessing them against the Company's established appetite and tolerance levels, thus helping to protect and maintain 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 the overall Company direction and 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 its 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.

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29 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 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. Capital Management is a fundamental aspect of risk management. Capital adequacy assessments and stress tests are conducted on a regular 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 risks, financial risks, market risks, and operational 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, to mitigate the Company's exposure to potential financial liabilities resulting from incurring higher claims cost than expected.

This is due to the nature of claims which can be unpredictable in 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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## 29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)1 Insurance Risk (continued)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".

1.2 Concentration risk

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

	2015			2014		
	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000
Fire	164,859	(67,308)	97,551	154,648	(69,411)	85,237
Motor	289,262	(11,238)	278,024	254,805	(11,529)	243,276
Marine, aviation and transit	74,754	(33,309)	41,445	87,306	(39,377)	47,929
Miscellaneous	376,738	(115,727)	261,011	371,355	(119,871)	251,484
	<u>905,613</u>	<u>(227,582)</u>	<u>678,031</u>	<u>868,114</u>	<u>(240,188)</u>	<u>627,926</u>

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

	2015			2014		
	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000
Fire	204,494	(164,406)	40,088	106,817	(78,597)	28,220
Motor	227,759	(5,567)	222,192	212,691	(10,616)	202,075
Marine, aviation and transit	86,322	(57,132)	29,190	119,052	(89,517)	29,535
Miscellaneous	213,693	(110,903)	102,790	195,718	(109,144)	86,574
	<u>732,268</u>	<u>(338,008)</u>	<u>394,260</u>	<u>634,278</u>	<u>(287,874)</u>	<u>346,404</u>

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29 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.

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.5 Sensitivity analysis (continued)

	Change in <u>assumptions</u>	Impact on gross <u>liabilities</u> RM'000	Impact on net <u>liabilities</u> RM'000	Impact on profit <u>before tax</u> RM'000	Impact on <u>equity #</u> RM'000
<u>31 December 2015</u>					
Ultimate loss ratio for the latest accident year	+10%	58,420	32,200	32,200	24,150
Average claims handling expenses	+10%	1,621	1,621	1,621	1,216
PRAD*	+10%	6,783	3,688	3,688	2,766
<u>31 December 2014</u>					
Ultimate loss ratio for the latest accident year	+10%	51,230	29,107	29,107	21,830
Average claims handling expenses	+10%	1,551	1,551	1,551	1,163
PRAD*	+10%	5,781	3,140	3,140	2,355

# 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 2015 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

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NOTES TO THE FINANCIAL STATEMENTS  
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## RISK MANAGEMENT FRAMEWORK (CONTINUED)

## (e) Major Risks (continued)

## 1 Insurance Risk (continued)

## 1.6 Gross estimated general insurance claims liabilities for 2015

Accident year	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000
At end of accident year	244,368	254,245	341,434	517,686	398,457	371,250	423,208	465,667
One year later	243,807	238,182	337,476	576,361	303,710	300,665	376,209	
Two years later	241,423	228,998	302,276	560,720	280,268	287,955		
Three years later	225,877	208,091	284,634	542,166	270,279			
Four years later	198,235	205,239	274,589	549,550				
Five years later	197,997	200,996	287,580					
Six years later	204,379	202,846						
Seven years later	202,760							
Current estimate of cumulative claims incurred	202,760	202,846	287,580	549,550	270,279	287,955	376,209	465,667
At end of accident year	(75,407)	(81,064)	(84,613)	(150,885)	(71,742)	(96,053)	(134,887)	(120,578)
One year later	(151,454)	(156,464)	(188,536)	(370,422)	(175,731)	(205,404)	(271,312)	
Two years later	(174,802)	(178,256)	(233,135)	(408,647)	(206,679)	(233,636)		
Three years later	(188,310)	(191,357)	(250,711)	(490,153)	(219,270)			
Four years later	(189,794)	(194,977)	(257,667)	(506,269)				
Five years later	(191,537)	(198,050)	(264,826)					
Six years later	(202,935)	(198,778)						
Seven years later	(201,234)							
Cumulative payments to-date	(201,234)	(198,778)	(264,826)	(506,269)	(219,270)	(233,636)	(271,312)	(120,578)

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.6 Gross estimated general insurance claims liabilities for 2015 (continued)

<u>Accident year</u>	<u>Prior years</u> RM'000	<u>2008</u> RM'000	<u>2009</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>Total</u> RM'000
Outstanding claims	21,286	1,526	4,068	22,754	43,281	51,009	54,319	104,897	345,089	648,229
Claims handling expenses										16,205
Total gross central estimate Risk margin										664,434
Gross insurance claims liabilities per statement of financial position (Note 14(i))										67,834
										732,268

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**RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.6 Gross estimated general insurance claims liabilities for 2014

<u>Accident year</u>	<u>2007</u> RM'000	<u>2008</u> RM'000	<u>2009</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000
At end of accident year	214,218	244,368	254,245	341,434	517,686	398,457	371,250	423,208
One year later	214,103	243,807	238,182	337,476	576,361	303,710	300,665	
Two years later	209,606	241,423	228,998	302,276	560,720	280,268		
Three years later	207,680	225,877	208,091	284,634	542,166			
Four years later	198,532	198,235	205,239	274,589				
Five years later	188,392	197,997	200,996					
Six years later	187,917	204,379						
Seven years later	187,980							
Current estimate of cumulative claims incurred	187,980	204,379	200,996	274,589	542,166	280,268	300,665	423,208
At end of accident year	(65,479)	(75,407)	(81,064)	(84,613)	(150,885)	(71,742)	(96,053)	(134,887)
One year later	(135,121)	(151,454)	(156,464)	(188,536)	(370,422)	(175,731)	(205,404)	
Two years later	(152,506)	(174,802)	(178,256)	(233,135)	(408,647)	(206,679)		
Three years later	(165,071)	(188,310)	(191,357)	(250,711)	(490,153)			
Four years later	(170,476)	(189,794)	(194,977)	(257,667)				
Five years later	(172,381)	(191,537)	(198,050)					
Six years later	(172,932)	(202,935)						
Seven years later	(175,715)							
Cumulative payments to-date	(175,715)	(202,935)	(198,050)	(257,667)	(490,153)	(206,679)	(205,404)	(134,887)



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NOTES TO THE FINANCIAL STATEMENTS  
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29	RISK MANAGEMENT FRAMEWORK (CONTINUED)											
	(e) <u>Major Risks</u> (continued)											
	1 <u>Insurance Risk</u> (continued)											
	1.6 <u>Gross estimated general insurance claims liabilities for 2014</u> (continued)											
		Prior years RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000	
	Outstanding claims	18,191	12,265	1,444	2,946	16,922	52,013	73,589	95,261	288,321	560,952	
	Claims handling expenses										15,515	
	Total gross central estimate Risk margin										576,467	
	Gross insurance claims liabilities per statement of financial position (Note 14(i))										57,811	634,278

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29

**RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Net estimated general insurance claims liabilities for 2015

<u>Accident year</u>	<u>2008</u> RM'000	<u>2009</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000
At end of accident year	153,697	170,462	196,025	208,442	244,587	236,777	268,001	294,111
One year later	154,073	167,583	191,010	197,134	221,715	218,056	260,354	
Two years later	152,329	165,593	176,458	188,216	209,725	214,151		
Three years later	143,456	147,629	167,717	174,254	203,991			
Four years later	135,874	147,383	161,042	172,426				
Five years later	136,225	144,767	162,429					
Six years later	135,722	145,565						
Seven years later	134,552							
Current estimate of cumulative claims incurred	134,552	145,565	162,429	172,426	203,991	214,151	260,354	294,111
At end of accident year	(60,193)	(63,430)	(66,631)	(64,932)	(62,070)	(81,305)	(98,723)	(104,029)
One year later	(109,081)	(113,093)	(123,660)	(138,241)	(134,276)	(164,280)	(199,461)	
Two years later	(122,045)	(130,067)	(144,316)	(158,010)	(153,936)	(185,353)		
Three years later	(129,401)	(139,245)	(151,954)	(165,403)	(160,321)			
Four years later	(131,283)	(141,386)	(155,515)	(167,527)				
Five years later	(132,470)	(142,876)	(156,571)					
Six years later	(134,750)	(143,247)						
Seven years later	(133,260)							
Cumulative payments to-date	(133,260)	(143,247)	(156,571)	(167,527)	(160,321)	(185,353)	(199,461)	(104,029)



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**NOTES TO THE FINANCIAL STATEMENTS  
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**RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(e) <u>Major Risks</u> (continued)	<u>2007</u> RM'000	<u>2008</u> RM'000	<u>2009</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000
1 <u>Insurance Risk</u> (continued)								
1.7 <u>Net estimated general insurance claims liabilities for 2014</u>								
<u>Accident year</u>								
At end of accident year	145,066	153,697	170,462	196,025	208,442	244,587	236,777	268,001
One year later	139,502	154,073	167,583	191,010	197,134	221,715	218,056	
Two years later	136,854	152,329	165,593	176,458	188,216	209,725		
Three years later	137,437	143,456	147,629	167,717	174,254			
Four years later	131,883	135,874	147,383	161,042				
Five years later	126,178	136,225	144,767					
Six years later	126,251	135,722						
Seven years later	124,709							
Current estimate of cumulative claims incurred	124,709	135,722	144,767	161,042	174,254	209,725	218,056	268,001
At end of accident year	(52,767)	(60,193)	(63,430)	(66,631)	(64,932)	(62,070)	(81,305)	(98,723)
One year later	(100,071)	(109,081)	(113,093)	(123,660)	(138,241)	(134,276)	(164,280)	
Two years later	(109,507)	(122,045)	(130,067)	(144,316)	(158,010)	(153,936)		
Three years later	(117,841)	(129,401)	(139,245)	(151,954)	(165,403)			
Four years later	(121,762)	(131,283)	(141,386)	(155,515)				
Five years later	(123,127)	(132,470)	(142,876)					
Six years later	(123,537)	(134,750)						
Seven years later	(123,197)							
Cumulative payments to-date	(123,197)	(134,750)	(142,876)	(155,515)	(165,403)	(153,936)	(164,280)	(98,723)



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29 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.

Credit exposure

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
AFS	938,688	1,124,051
Reinsurance assets – claims liabilities	338,008	287,874
Insurance receivables	169,321	157,712
Other receivables *	6,088	5,805
Cash and cash equivalents	240,451	223,864
	<u>1,692,556</u>	<u>1,799,306</u>

\*Excluding prepayments which are not subject to credit risk.

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29 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 credit ratings of counterparties.

	Neither past- due nor <u>impaired</u> RM'000	Past due but not <u>impaired</u> RM'000	<u>Total</u> RM'000
<u>31 December 2015</u>			
AFS	938,688	-	938,688
Reinsurance assets – claims liabilities	338,008	-	338,008
Insurance receivables	12,425	156,896	169,321
Other receivables	6,088	-	6,088
Cash and cash equivalents	240,451	-	240,451
	<u>1,535,660</u>	<u>156,896</u>	<u>1,692,556</u>
<u>31 December 2014</u>			
AFS	1,124,051	-	1,124,051
Reinsurance assets – claims liabilities	287,874	-	287,874
Insurance receivables	5,433	152,279	157,712
Other receivables	5,805	-	5,805
Cash and cash equivalents	223,864	-	223,864
	<u>1,647,027</u>	<u>152,279</u>	<u>1,799,306</u>

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

Aging analysis of financial assets past due but not impaired:

	<u>&lt;60 days</u>	<u>61-180 days</u>	<u>&gt;180 days</u>	<u>Total</u>
<u>31 December 2015</u>				
Insurance receivables	88,720	45,191	22,985	156,896
<u>31 December 2014</u>				
Insurance receivables	98,001	40,925	13,353	152,279

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.

	<u>Government Guaranteed</u> RM'000	<u>AAA</u> RM'000	<u>AA</u> RM'000	<u>A</u> RM'000	<u>BBB</u> RM'000	<u>Not rated</u> RM'000	<u>Total</u> RM'000
<u>31 December 2015</u>							
AFS	518,822	207,036	206,575	-	5,880	375	938,688
Reinsurance assets							
- Claims liabilities	-	-	172,681	76,937	-	88,390	338,008
Insurance receivables	-	-	508	252	-	168,561	169,321
Other receivables	-	-	-	-	-	6,088	6,088
Cash and cash equivalents	-	198,628	9,070	32,695	38	20	240,451
	518,822	405,664	388,834	109,884	5,918	263,434	1,692,556



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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

	Government <u>Guaranteed</u> RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
<u>31 December 2014</u>							
AFS	627,631	217,562	272,821	-	5,662	375	1,124,051
Reinsurance assets							
- Claims liabilities	-	-	139,393	80,113	-	68,368	287,874
Insurance							
receivables	-	-	421	381	-	156,910	157,712
Other receivables	-	-	-	-	-	5,805	5,805
Cash and cash							
equivalents	-	162,403	8,546	52,785	94	36	223,864
	<u>627,631</u>	<u>379,965</u>	<u>421,181</u>	<u>133,279</u>	<u>5,756</u>	<u>231,494</u>	<u>1,799,306</u>

Impaired financial assets

As at 31 December 2015, insurance receivables of RM7,450,000 (2014: RM12,331,000) 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 disputed, defaulted or delinquent 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:

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
At 1 January		12,331	10,927
(Reversal)/charge for the financial year	23	(4,881)	1,404
At 31 December		<u>7,450</u>	<u>12,331</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

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

In addition, the Company has no impairment (2014: RM Nil) from its investment in debts securities in accordance to the Company's accounting policy as disclosed in Note 2(e)(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.

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29 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 2015

	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	938,688	117,676	190,096	269,817	534,803	8,378	375	1,121,145
Reinsurance assets	338,008	200,399	108,961	21,156	7,492	-	-	338,008
- claims liabilities	169,321	169,321	-	-	-	-	-	169,321
Insurance receivables	78,945	78,945	-	-	-	-	-	78,945
Other receivables	240,451	240,695	-	-	-	-	-	240,695
Cash and cash equivalents								
Total assets	1,765,413	807,036	299,057	290,973	542,295	8,378	375	1,948,114

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

	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
31 December 2015								
Insurance contract liabilities	732,268	436,447	231,832	48,000	15,989	-	-	732,268
– claims liabilities	84,265	84,265	-	-	-	-	-	84,265
Insurance payables	103,597	103,597	-	-	-	-	-	103,597
Other payables								
Total liabilities	920,130	624,309	231,832	48,000	15,989	-	-	920,130

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

- (e) Major Risks (continued)  
2 Financial Risk (continued)  
2.2 Liquidity risk (continued)  
Maturity profiles (continued)

	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
31 December 2014								
Financial instruments: AFS	1,124,051	107,362	430,033	250,276	528,780	8,415	375	1,325,241
Reinsurance assets	287,874	170,022	92,417	18,424	7,011	-	-	287,874
- claims liabilities	157,712	157,712	-	-	-	-	-	157,712
Insurance receivables	68,906	68,906	-	-	-	-	-	68,906
Other receivables	223,864	224,054	-	-	-	-	-	224,054
Cash and cash equivalents								
Total assets	1,862,407	728,056	522,450	268,700	535,791	8,415	375	2,063,787

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29 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

	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
31 December 2014								
Insurance contract liabilities	634,278	373,336	201,292	44,137	15,513	-	-	634,278
– claims liabilities	79,262	79,262	-	-	-	-	-	79,262
Insurance payables	131,665	131,665	-	-	-	-	-	131,665
Other payables								
<b>Total liabilities</b>	<b>845,205</b>	<b>584,263</b>	<b>201,292</b>	<b>44,137</b>	<b>15,513</b>	<b>-</b>	<b>-</b>	<b>845,205</b>

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NOTES TO THE FINANCIAL STATEMENTS  
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29 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, and hence, primarily denominated in the local currency as is 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.

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

3 Market Risk (continued)

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.

The sensitivity analysis below illustrates impact of 100bps increase/decrease in interest rate to investment value based on portfolio holdings as of 31 December 2015, 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	2015		2014	
		Impact on income statement RM'000	Impact on equity* RM'000	Impact on income statement RM'000	Impact on equity* RM'000
Interest rate	+100 basis points	-	(24,087)	-	(26,358)
Interest rate	-100 basis points	-	24,087	-	26,358

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



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## 29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)3 Market Risk (continued)

## 3.3 Equity 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 (2014: 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.

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.

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

Capital structure

The capital structure of the Company as at 31 December 2015, as prescribed under the RBC Framework is provided below:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Eligible Tier 1 Capital:		
Share capital	100,000	100,000
Retained earnings	524,595	692,125
	<u>624,595</u>	<u>792,125</u>
Tier 2 Capital:		
AFS reserves	(3,866)	(3,787)
Equity reserve	4,307	2,715
Amount deducted from capital	(17,740)	(19,906)
	<u>607,296</u>	<u>771,147</u>

30 AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 24 March 2016 by the Board of Directors.