

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2015

**Company No.
91603-K**

**THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)**

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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the Group and Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

RESULTS

	<u>Group</u> <u>RM</u>	<u>Company</u> <u>RM</u>
Net profit for the financial year	<u>20,069,930</u>	<u>20,057,196</u>

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

In the opinion of the Directors, the results of the operations of the Group and Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the transfer of the general insurance business from MCIS Insurance Berhad ("MCIS") as disclosed in Note 33 to the financial statements.

DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2015.

ISSUE OF SHARES, SUBORDINATED LOANS AND DEBENTURES

During the financial year, the following new ordinary shares were issued by the Company to maintain the Internal Capital Adequacy Ratio after the acquisition of the general insurance business of MCIS:

- (i) 104,500,000 new ordinary shares of RM1.00 each were issued and allotted on 25 February 2015; and
- (ii) 15,375,038 new ordinary shares of RM1.00 each were issued and allotted on 19 June 2015.

The new ordinary shares shall rank pari passu in all respects with the existing ordinary shares of the Company.

On 16 March 2015 and 19 June 2015, the Company obtained subordinated loans of RM22,800,000 and RM1,537,504 respectively from its sole shareholder, Fairfax Asia Limited.

There were no debentures issued during the financial year.

DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

Dato' Huang Sin Cheng
Sammy Chan Sum Yu
Datuk Abu Hassan bin Kendut
Abdullah bin Tarmugi
Zainul Abidin bin Mohamed Rasheed
Hashim bin Harun (appointed on 23 July 2015)
Ramaswamy Athappan (resigned on 12 March 2015)

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

In accordance with Article 60 of the Company's Articles of Association, Hashim bin Harun will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

In accordance with Article 65 of the Company's Articles of Association, Zainul Abidin bin Mohamed Rasheed will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Dato' Huang Sin Cheng, Datuk Abu Hassan bin Kendut and Abdullah bin Tarmugi will retire at the forthcoming Annual General Meeting and separate resolutions will be proposed for their re-appointment as Directors under the provision of Section 129 (6) of the said Act to hold office until the conclusion of the next Annual General Meeting of the Company.

CORPORATE GOVERNANCE

The memberships, roles and terms of reference of the Audit, Risk Management, Nominating and Remuneration Committees of the Board during the financial year are as follows:

(a) Board Responsibility and Oversight

Board Responsibility

The Board is committed to ensure that the highest standards of corporate governance are observed in the Company so that the affairs of the Company are conducted with professionalism, accountability and integrity with the objective of enhancing shareholders' value as well as safeguarding the interests of other stakeholders.

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines, BNM/RH/GL 003-1 on Minimum Standards for Prudential Management of Insurers (Consolidated) and BNM/RH/GL 003-2 on Prudential Framework of Corporate Governance for Insurers. The Company has complied with the prescriptive applications and adopted management practices that are consistent with these guidelines.

The Board has overall responsibility for the strategic direction and development plans in furthering the achievements of the Company. The Board meets regularly and has a formal schedule of matters specifically reserved for its consideration and approval, which includes the annual business and strategic plans, business operations, financial performance, risk management, investment, as well as compliance requirements under the Risk-Based Capital Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers. The Board's approval is also sought for transactions by the Company on outsourcing of certain business functions, major acquisition and disposal of assets, as well as material related party transactions. In addition, the Board also reviews the Company's investment risk management and reinsurance practices and approves the authority levels for the Company's core functions, including expenditure approving, risk acceptance and claims approval.

The Company provides an orientation training programme for the newly appointed Directors. The training serves to familiarise the newly appointed Directors with the Malaysian general insurance industry as well as the Company's operations, compliance controls, risk overview and corporate governance practices. On an ongoing basis, the Directors are kept informed through relevant training programmes and briefings to assist them to keep abreast with developments in the market place. The Directors are also updated with the policy and administrative changes as well as new guidelines issued by BNM and relevant professional bodies.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings

On a yearly basis, the Directors are subject to an internal declaration to review their status of compliance with BNM/RH/GL 018-5 on Fit and Proper Criteria, BNM/RH/GL 003-1 on Minimum Standards for Prudential Management of Insurers (Consolidated) and Section 60 of the Financial Services Act 2013 on the fulfilment of the minimum criteria of a "fit and proper person". In accordance with Section 54 of the Financial Services Act, 2013, all Directors are appointed and reappointed to the Board after prior approval has been obtained from BNM. All Directors comply with the prescribed maximum number of directorships held and none of them are active politicians.

The Directors are persons of calibre, credibility and integrity. Collectively they bring with them a wide range of business and management experience, skills and specialised knowledge that are required to lead and oversee the affairs of the Company.

The Company's Board of Directors as at 31 December 2015 consists of six (6) Directors as set out below:

<u>Members</u>	<u>Status of Directorship</u>
Dato' Huang Sin Cheng	Independent Non-Executive Director, Chairman
Ramaswamy Athappan (resigned on 12 March 2015)	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director
Hashim bin Harun (appointed on 23 July 2015)	Independent Non-Executive Director

The Board met six (6) times during the financial year and the details of the Directors' attendance are as follows:

<u>Name</u>	<u>Number of Board Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Dato' Huang Sin Cheng	6/6	100
Ramaswamy Athappan (resigned on 12 March 2015)	1/1	100
Sammy Chan Sum Yu	6/6	100
Datuk Abu Hassan bin Kendut	6/6	100
Abdullah bin Tarmugi	6/6	100
Zainul Abidin bin Mohamed Rasheed	6/6	100
Hashim bin Harun (appointed on 23 July 2015)	4/4	100

The Board members are provided with adequate and timely information and reports, including background explanatory information, on matters brought before the Board. All the Directors have full and unrestricted access to all information and records of the Company as well as services and advice of the Company Secretaries and the senior management of the Company to assist them in discharging their duties and responsibilities.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees, namely Audit Committee and Risk Management Committee which operate within clearly defined terms of reference. The committees report to the Board on matters discussed at their meetings and make recommendations on items that require the Board's approval.

(i) Audit Committee

The Audit Committee ("AC") comprises three (3) members who are independent non-executive directors. The composition of the committee is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director, Chairman
Abdullah bin Tarmugi	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director

The AC met five (5) times during the financial year and the details of the members' attendance are as follows:

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Datuk Abu Hassan bin Kendut	5/5	100
Abdullah bin Tarmugi	5/5	100
Zainul Abidin bin Mohamed Rasheed	5/5	100

The AC's terms of reference are in compliance with BNM/RH/GL/003-22 Guidelines for Audit Committees and Internal Audit Department (Part A). The AC has independent access to the Company's internal auditors, external auditors and management to enable it to discharge its functions, which include the reinforcement of the independence and objectivity of the internal and external audit functions and their scopes and results. The AC reviewed the findings of the internal/external auditors and those of the examiners from BNM, as well as the management's responses and actions taken to address the findings. The AC also reviewed, inter-alia, the Company's financial statements, the impact of new or proposed changes in accounting standards and policies on the financial statements and the maintenance of a sound system of internal control to safeguard shareholders' investment and the Company's assets. Besides reviewing and approving the annual Audit Plan, the AC also evaluated the effectiveness, independence and objectivity of the external auditors before recommending to the shareholders on their appointment or reappointment.

(ii) Risk Management Committee

The Risk Management Committee ("RMC") supports the Board in the overall risk management oversight of the Company and comprises three (3) members who are independent non-executive directors and one (1) member who is a non-independent non-executive director. The composition of the committee is as follows:

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(ii) Risk Management Committee (continued)

Members:

Status of Directorship

Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Ramaswamy Athappan (resigned on 12 March 2015)	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director

The RMC met four (4) times during the financial year and the details of the members' attendance are as follows:

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Zainul Abidin bin Mohamed Rasheed	4/4	100
Dato' Huang Sin Cheng	4/4	100
Ramaswamy Athappan (resigned on 12 March 2015)	1/1	100
Sammy Chan Sum Yu	4/4	100
Abdullah bin Tarmugi	4/4	100

BNM's Guidelines BNM/RH/GL 003-1 on Minimum Standards for Prudential Management of Insurers (Consolidated) requires the RMC to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively. During the financial year 2015, the RMC reviewed periodic management reports on risk exposure, risk portfolio and management strategies, mitigation plans and control measures ensuring adequacy of infrastructure, resources and systems for effective risk management, assessing adequacy of policies and framework for identifying, measuring, monitoring and controlling risks, as well as reviewing the extent to which these are operating effectively. The RMC was also involved in the review of requirements under the Risk-Based Capital Framework and Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers in relation to the Company's capital management plan, internal target capital level and results of periodic stress test. The Company had successfully implemented the Risk-Based Capital Framework since 2009 and the ICAAP on 1 September 2012 with a capital adequacy ratio well above the internal and supervisory capital targets.

Nomination and Remuneration Committees

The terms of reference of both Nomination Committee ("NC") and Remuneration Committee ("RC") are in compliance with the guidelines on the functions and responsibilities of the committees for insurers issued under BNM's Guidelines BNM/RH/GL 003-1 on Minimum Standards for Prudential Management of Insurers (Consolidated).

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(i) Nomination Committee

The NC comprises three (3) members who are independent non-executive directors and one (1) member who is a non-independent non-executive director. The composition of the committee is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Ramaswamy Athappan (resigned on 12 March 2015)	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director

The NC met once during the financial year and the details of the members' attendance are as follows:

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Zainul Abidin bin Mohamed Rasheed	1/1	100
Dato' Huang Sin Cheng	1/1	100
Ramaswamy Athappan (resigned on 12 March 2015)	0/1	0
Sammy Chan Sum Yu	1/1	100
Abdullah bin Tarmugi	1/1	100

The NC is entrusted with the responsibility to consider and evaluate the appointment of new directors and directors to sit on Board Committees of the Company and to recommend candidates to the Board for appointment and reappointment or re-election. The committee is also responsible to recommend to the Board the appointment of the chief executive officer and key senior officers of the Company.

With regards to retiring directors, the NC reviewed the suitability and competencies and contributions of directors for re-election and reappointment before recommending them to the Board for approval and subsequently to the shareholders for approval at the Annual General Meeting.

The NC also annually reviews the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. It also assesses on an annual basis, the effectiveness of the Board as a whole and the Board Committees and the contributions of each individual director. In addition, the NC deliberated on Board succession plans as and when appropriate.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(ii) Remuneration Committee

The RC comprises two (2) members who are independent non-executive directors and one (1) member who is a non-independent non-executive director. The composition of the committee is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Abdullah bin Tarmugi	Independent Non-Executive Director, Chairman
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Ramaswamy Athappan (resigned on 12 March 2015)	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director

The RC met once during the financial year and the details of the members' attendance of the members' are as follows:

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Abdullah bin Tarmugi	1/1	100
Datuk Abu Hassan bin Kendut	1/1	100
Ramaswamy Athappan (resigned on 12 March 2015)	1/1	100
Sammy Chan Sum Yu	1/1	100

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate the Directors, chief executive officer and key senior officers of the quality required to manage the Company. In this respect, the RC reviewed and approved the remuneration packages of the Directors, Chief Executive Officer and key senior officers of the Company.

(b) Management Accountability

The Company has an organisational structure with clearly communicated defined lines of accountability and delegated authority to ensure proper identification of responsibilities and segregation of duties. The operational authority limits covering all aspects of operations which include underwriting, claims and finance are reviewed and updated as appropriate. Clearly documented job descriptions for all management and executive employees are maintained while formal appraisals of performance are conducted at least once annually. Any changes to the organisational structure are communicated to all staff.

The Directors, Chief Executive Officer and key senior officers of the Company responsible for processing credit facilities do not have any direct or indirect interest in the facilities, in accordance to the provisions of the Financial Services Act, 2013.

The Directors who hold office or possess property do not have any direct or indirect interest, which is in conflict with their duty or interest as Directors, as referred to in Section 58 of the Financial Services Act, 2013.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(c) Corporate Independence

The Company has met all the requirements of BNM's Guidelines BNM/RH/GL 018-6 on Related Party Transactions. Other than the provision of financial services which are on normal commercial terms and in the ordinary course of business, all material related party transactions have been disclosed in the audited financial statements in accordance with MFRS124 Related Party Disclosures.

(d) Internal Controls and Operational Risk Management

The Board has the overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company in order to provide reasonable assurance for effective and efficient operations, internal financial controls and compliance with laws and regulations. There is a continuous process present for identifying, evaluating and managing the significant risks faced by the Company. This process is periodically reviewed by the RMC and the Board.

A formal risk management framework has been maintained in the Company by the Risk Management Unit ("RMU") which was headed by the Risk Management cum Compliance Officer who assumes the role and responsibilities as the Risk Management Officer ("RMO"). The RMU reports directly and independently to the RMC of the Company.

During the financial year, the following risk management initiatives were undertaken by the RMU:

- (i) On a quarterly basis, the RMU reviewed the risks identified and reported its risk assessment results to the RMC and the Board for consideration.
- (ii) The RMU assessed and identified from time to time, the significant risks faced by the Company such as business strategic risks and operational risks, which included areas related to regulatory and compliance issues, financial, underwriting and claims risks and business continuity plan. The mitigating plans and control measures were formulated and implemented to address these risks and were monitored in terms of their timeliness and effectiveness. In addition, the RMU also considered the target dates for possible improvement in the risk rating, while working towards them with the appropriate follow-up of action plans.
- (iii) The RMU maintained an updated database of all risks and controls in the form of detailed risk registers and individual risk profiles for the Company. The likelihood of the key risks occurring and their impact are periodically monitored and rated.

The disclosure of the Company's risk management policies are set out under Notes 28, 29 and 30 to the financial statements.

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company:

- (i) The Business Resumption and Contingency Plan Committee is tasked to prepare, review and periodically test the effectiveness of the Company's business continuity plan to support critical business operations. The Company has in place a Business Continuity Management ("BCM") Plan which is reviewed and updated at least once a year. The BCM Plan serves to ensure that critical resources and services of the Company are available in the event of system failures or business interruptions. It also aims to ensure that possible disruptions to operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had initiated the BCM Plan and the related IT Disaster Recovery Plan every six monthly, with observations from the internal audit team.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Internal Controls and Operational Risk Management (continued)

- (ii) The Information Technology Steering Committee ("ITSC") has the responsibility to monitor the overall efficiency, performance and effectiveness of IT services. The ITSC meets periodically to review the Company's IT operations, plans, progress of action plans, as well as investment in IT resources and to make any recommendations thereof when necessary. The IT plans formulated during the financial year included the short-term IT plans which are aligned to the business direction of the Company.
- (iii) The Anti-Money Laundering and Counter-Financing of Terrorism ("AML/CFT") – Management Committee comprising the Chief Executive Officer, Compliance Officers at the Head Office as well as Branches, and key senior officers of the Company manages the risk and areas related to AML/CFT. The Company had also introduced measures leveraging on IT as a tool to facilitate the detection of suspicious transactions.

The Company has in place an AML/CFT Framework in accordance with the relevant BNM guidelines and laws to prevent the Company from being used as a channel to launder funds in the financial system. The framework complies with the Anti-Money Laundering & Anti-Terrorism Financing Act 2001, as well as BNM's Guidelines BNM/RH/STD 029-1 on Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Insurance and Takaful (Sector 2).

- (iv) The Credit Control Committee reviews credit risk, recoverability of trade receivables and reconciliation of accounts with third parties as well as studies the requirements of Malaysian Financial Reporting Standards, International Financial Reporting Standards pertaining to credit risk and makes recommendations on its compliance. The committee also considers and implements appropriate measures to improve existing credit control procedures and practices.
- (v) The Product Development Committee undertakes the planning, design and development of new products, as well as review of the Company's products against the prevailing guidelines, eg. BNM/RH/GL 010-14 on Guidelines on Introduction of New Products for Insurance Companies and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure. All newly developed products are submitted to the Board for approval and where appropriate to BNM for its approval.
- (vi) The Company is Goods and Service Tax ("GST") registered and in compliant with the GST Act effective 1 April 2015.
- (vii) The Occupational Safety and Health Management Committee is committed to provide a working environment that emphasises on the safety and health of the employees. The Company develops and adopts relevant policies and applicable best practices to improve the standard of safety and health environment of the Company.

The Company operates in a business environment that is subject to regulatory purview and operational compliance requirement and reporting. The Company Secretaries and Management keep the Board apprised of new laws and guidelines and changes thereof as well as new accounting and insurance standards to be adopted by the Company. To address compliance risk, the Company has designated a Compliance Department responsible for placing adequate control measures to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines stipulated. The Compliance Department submits a compliance statement to the Board on a quarterly basis.

The internal audit department is headed by an internal audit manager who works in consultation with the Head of Internal Audit of Fairfax Asia Limited. The internal audit department reports directly to the AC.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Internal Controls and Operational Risk Management (continued)

The functions and responsibilities of the AC with respect to the internal audit and the functions and responsibilities of the internal audit department are in accordance with BNM's Guidelines BNM/RH/GL 003-22: Guidelines on Audit Committees and Internal Audit Department, BNM/RH/GL 013-4: Guidelines on Internal Audit Function of Licensed Institutions and BNM/RH/GL 003-2: Prudential Framework of Corporate Governance for Insurers.

The internal audit function adopts a systematic, disciplined risk-based audit methodology and prepares its audit strategy and plan based on the risk profiles of the business and functional departments of the Company, identified through a risk management process. Internal audit independently reviews the risk exposures and control processes on governance, operations and information systems implemented by management. The internal audit activities are guided by a detailed annual audit plan which is approved by the AC and thereafter updated as and when necessary with the prior approval of the AC.

The internal audit reports were tabled at the AC's meetings, at which audit findings were reviewed with the management. Follow-up audits were also conducted by internal auditors to ensure that recommendations to improve controls were promptly implemented by management. The AC met with the external auditors twice this year without management's presence to discuss any problems, issues and concerns arising from the interim and final statutory audits, as well as any other relevant matters.

These initiatives, together with the management's adoption of the external auditors' recommendations for improvement on internal controls noted during their audits, provided reasonable assurance that necessary control procedures were in place.

The other key elements of the Company's system of internal control are stated below:

(i) Corporate culture

The Board and management of the Company set the requirements for an effective control culture in the organisation through the Company's core corporate values i.e. professionalism, integrity, excellent customer service, teamwork and governance.

(ii) Organisation structure

The Company has an organisational structure showing clearly defined lines of accountability and delegated authority levels to ensure effectiveness of the internal control system. Any changes to organisational structure are communicated to all staff to ensure proper identification of responsibilities and segregation of duties.

(iii) Communication

Regular management meetings are held in the Company to discuss the financial performance, operational performance, business issues, implications of new risks and any other relevant matters.

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CORPORATE GOVERNANCE (CONTINUED)

(d) Internal Controls and Operational Risk Management (continued)

(iv) Staff competency and succession planning

The professionalism and competency of staff are enhanced through continuous training and development programmes and a structured recruitment process. A performance planning and appraisal system of staff is in place with established key performance indicators and competencies subject to mid-year and annual review. The Company has a Code of Ethics that guides all staff in their work performance and in upholding their ethical standards.

The Board is cognisant of its responsibilities to identify and develop viable candidates for long term succession planning of the senior management. The senior management has identified key staff for critical functions to ensure a smooth succession plan is in place.

(v) Whistleblowing program

Whistleblowing is considered an effective safeguard against fraud, corruption or other malpractice that undermines the internal control system and organisational reporting lines. Hence, the Company has implemented a whistleblowing program to encourage its staff to report, in good faith, any suspicion of fraud, irregularity or misdemeanour, without fear of reprisals by any party. The Board shall review concerns, including anonymous complaints, which staff or external parties may, in confidence, raise about possible misconduct or improprieties within the Company and shall have the concerns independently investigated by the internal audit department and/or external service providers whom the Board may think fit.

(vi) Independence of external auditors

The Company has adopted a policy on the provision of non-audit services by the external auditors. The Company has always ensured that the external auditors' ability to conduct audits objectively and independently is not impaired, or perceived to be impaired. Unless specifically allowed by the Board, the Company only engages the services of the external auditors for audit assurance and corporate tax. The Board also reviews the total fees earned by the external auditors from non-audit services rendered to the Company for assurance that the independence of the external auditors is not impaired.

(e) Public Accountability and Fair Practices

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company has taken the appropriate steps to ensure that all insurance policies issued or delivered to all policyholders contain the necessary information to alert them of the existence of the Financial Mediation Bureau and BNM's Consumer and Market Conduct Department, in compliance with the requirements of BNM's BNM/RH/GL 003-9 Guidelines on Claims Settlement Practices (Consolidated). The Financial Mediation Bureau and BNM's Consumer and Market Conduct Department were set up with the view to provide alternative avenues for the policyholders to seek redress against any occurrence of unfair market practices.

BNM's BNM/RH/GL 003-6 on Guidelines on Unfair Practices in Insurance Business was issued to promote higher standards of transparency, greater market discipline and accountability in the conduct of insurance business for the protection of policyholders. The Company has implemented measures for compliance with BNM/RH/GL 003-6 by having in place a Centralised Complaints Unit to provide effective and fair services to the customers.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(e) Public Accountability and Fair Practices (continued)

The Company has also taken the necessary measures to comply with the requirements pursuant to BNM's BNM/RH/GL 010-14 on Guidelines on Introduction of New Products for Insurance Companies and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure.

In line with the Bank Negara Malaysia Financial Sector Blueprint 2012-2020, the Company has taken the necessary actions to migrate payment to e-payment, as a means to improve payment efficiency to the insuring public and the prevention of fraud.

(f) Financial Reporting

The Board has overall oversight responsibility for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, the provisions of the Companies Act, 1965 in Malaysia and relevant regulatory requirements.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that financial year, did there subsist any arrangement, to which the Company was a party, whereby the Directors might acquire benefits by means of acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Notes 22 and 28 to the financial statements and the financial statements of its related corporations or the fixed salary and benefits of a full-time employee of the holding company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options in the Company and its related corporations during the financial year were as follows:

	<u>Holdings registered in name of 9 Director</u>			
	<u>01.01.2015</u>	<u>Acquired</u>	<u>Exercised</u>	<u>31.12.2015</u>
<u>Ultimate Holding Company</u>				
- Fairfax Financial Holdings Limited				
("FFHL")				
<i>(Common or Subordinate voting</i>				
<i>shares of no par value each)</i>				
Sammy Chan Sum Yu	25,673	190	-	25,863

Other than as disclosed, none of the Directors in office at the end of the financial year had any interest in shares and in options in the Company or its related corporations during the financial year.

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Group and Company were made out, the Directors took reasonable steps:
- (i) 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 had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business 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 of the Group and Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and 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 Group and 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 Group and 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 Group and 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 Group and Company to meet its obligations when they fall due; and
 - (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 Group and Company for the financial year in which this report is made.

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

- (g) Before the financial statements of the Group and Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") Framework for Insurers issued by BNM.

**Company No.
91603-K**

**THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)**

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 1 March 2015, MCIS transferred its general insurance business to the Company in accordance with a Scheme & Transfer which was approved by Bank Negara Malaysia ("BNM") and confirmed by the High Court of Malaysia.

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The Company is a wholly-owned subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.

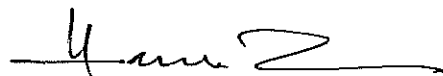
AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 17 March 2016.



**DATO' HUANG SIN CHENG
DIRECTOR**



**DATUK ABU HASSAN BIN KENDUT
DIRECTOR**

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Note	2015		2014	
		Group RM	Company RM	Group RM	Company RM
Gross earned premiums	17(a)	410,371,009	410,371,009	231,805,512	231,805,512
Earned premiums ceded to reinsurers	17(b)	(211,651,523)	(211,651,523)	(87,413,087)	(87,413,087)
Net earned premiums	17	<u>198,719,486</u>	<u>198,719,486</u>	<u>144,392,425</u>	<u>144,392,425</u>
Investment income	18	19,644,504	18,798,767	12,371,698	11,326,247
Realised (losses)/gains	19	(364,394)	(356,244)	1,608,337	2,136,112
Fair value gains and losses	20	(2,165,877)	(2,165,877)	(8,566,441)	(8,566,441)
Fee and commission income	21	42,295,574	42,295,574	15,033,185	15,033,185
Other operating revenue		3,526,681	3,916,934	1,446,747	1,773,539
Other revenue		<u>62,936,488</u>	<u>62,489,154</u>	<u>21,893,526</u>	<u>21,702,642</u>
Total revenue		<u>261,655,974</u>	<u>261,208,640</u>	<u>166,285,951</u>	<u>166,095,067</u>
Gross benefits and claims paid	13(i)	(166,233,662)	(166,233,662)	(92,911,925)	(92,911,925)
Claims ceded to reinsurers	13(i)	53,918,761	53,918,761	20,048,215	20,048,215
Gross change to claims liabilities		(41,556,847)	(41,556,847)	(40,013,000)	(40,013,000)
Change to claims liabilities ceded to reinsurers		32,149,788	32,149,788	15,280,000	15,280,000
Net benefits and claims		<u>(121,721,960)</u>	<u>(121,721,960)</u>	<u>(97,596,710)</u>	<u>(97,596,710)</u>
Fee and commission expenses		(50,837,730)	(50,837,730)	(31,373,854)	(31,373,854)
Management expenses	22	(63,831,048)	(63,396,448)	(36,855,124)	(36,669,096)
Other expenses		<u>(114,668,778)</u>	<u>(114,234,178)</u>	<u>(68,228,978)</u>	<u>(68,042,950)</u>
Finance cost		<u>(1,330,221)</u>	<u>(1,330,221)</u>	-	-
Profit before taxation		23,935,015	23,922,281	460,263	455,407
Taxation	23	(3,865,085)	(3,865,085)	2,226,312	2,226,312
Net profit for the financial year		<u>20,069,930</u>	<u>20,057,196</u>	<u>2,686,575</u>	<u>2,681,719</u>
Net profit for the financial year attributable to:					
Owner of the Company		20,057,196	20,057,196	2,681,719	2,681,719
Non-controlling interest		12,734	-	4,856	-
		<u>20,069,930</u>	<u>20,057,196</u>	<u>2,686,575</u>	<u>2,681,719</u>
Earnings per share attributable to owner of the Company (sen)					
Basic	24	<u>9.1</u>	<u>9.1</u>	<u>2.7</u>	<u>2.7</u>

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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

	2015		2014	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Net profit for the financial year	20,069,930	20,057,196	2,686,575	2,681,719
Other comprehensive income/(loss):				
<u>Items that may be subsequently</u>				
<u>reclassified to the income statement:</u>				
Available-for-sale ("AFS") reserves:				
MMIP AFS reserve	-	-	219,614	219,614
Fair value gain arising during				
the financial year	(505,602)	689,096	36,368	36,368
Fair value gain transferred to				
Statement of Income	(333,889)	(333,889)	(20,024)	(20,024)
	(839,491)	355,207	235,958	235,958
Tax effect thereon (Note 14)	(77,124)	(77,124)	(4,086)	(4,086)
	(916,615)	278,083	231,872	231,872
Total comprehensive income for				
the financial year	19,153,315	20,335,279	2,918,447	2,913,591
Total comprehensive income				
attributable to:				
Owner of the Company	19,138,372	20,335,279	2,906,269	2,913,591
Non-controlling interest	14,943	-	12,178	-
	19,153,315	20,335,279	2,918,447	2,913,591

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	2015		2014	
		Group	Company	Group	Company
		RM	RM	RM	RM
ASSETS					
Property and equipment	3	64,107,590	64,107,590	1,654,736	1,654,736
Investment properties	4	81,667	81,667	85,167	85,167
Intangible assets	5	32,140,521	32,140,521	166,953	166,953
Investments					
Available-for-sale					
financial assets	6	245,307,117	263,201,461	162,663,574	168,766,143
Fair value through profit					
or loss financial assets	6	31,747,806	31,747,806	20,108,789	20,108,789
Loans and receivables	6	24,822,130	24,822,130	22,028,618	22,028,618
Reinsurance assets	8	337,727,218	337,727,218	132,685,000	132,685,000
Insurance and others					
receivables	9	166,594,807	165,594,807	109,043,992	107,793,992
Loans	10	1,777,778	1,777,778	1,753,843	1,753,843
Deferred tax asset	14	10,516,404	10,516,404	3,413,850	3,413,850
Tax recoverable		11,065,752	11,065,752	7,840,755	7,840,755
Cash and cash equivalents		333,252,774	317,201,930	125,791,002	120,612,303
Total assets		1,259,141,564	1,259,985,064	587,236,279	586,910,149
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	11	219,875,038	219,875,038	100,000,000	100,000,000
Available-for-sale reserves		(87,515)	1,107,183	829,100	829,100
Retained profits		92,054,335	92,054,335	71,997,139	71,997,139
		311,841,858	313,036,556	172,826,239	172,826,239
Non-controlling interest		288,744	-	273,801	-
Total equity		312,130,602	313,036,556	173,100,040	172,826,239
Liabilities					
Insurance contract liabilities	13	743,898,000	743,898,000	361,911,000	361,911,000
Subordinated loan	16	25,667,725	25,667,725	-	-
Insurance and other					
payables	15	177,445,237	177,382,783	52,225,239	52,172,910
Total liabilities		947,010,962	946,948,508	414,136,239	414,083,910
Total equity and liabilities		1,259,141,564	1,259,985,064	587,236,279	586,910,149

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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

Group	Note	Attributable to owners of the Company				Non-controlling interest	Total equity
		Share capital	Available for-sale reserves	Retained earnings	Total equity attributable to owners of the Company		
		RM	RM	RM	RM	RM	RM
At 1 January 2014		100,000,000	597,228	69,315,420	169,912,648	261,623	170,174,271
Net profit for the financial year		-	-	2,681,719	2,681,719	4,856	2,686,575
Other comprehensive income for the financial year		-	231,872	-	231,872	7,322	239,194
At 31 December 2014		100,000,000	829,100	71,997,139	172,826,239	273,801	173,100,040
At 1 January 2015		100,000,000	829,100	71,997,139	172,826,239	273,801	173,100,040
Issuance of share capital		119,875,038	-	-	119,875,038	-	119,875,038
Net profit for the financial year		-	-	20,057,196	20,057,196	12,734	20,069,930
Other comprehensive income for the financial year		-	(916,615)	-	(916,615)	2,209	(914,406)
At 31 December 2015		219,875,038	(87,515)	92,054,335	311,841,858	288,744	312,130,602

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

<u>Company</u>	<u>Non-distributable</u>		<u>Distributable</u>	
	<u>Share capital</u> RM	<u>Available- for-sale reserves</u> RM	<u>Retained earnings</u> RM	<u>Total</u> RM
At 1 January 2014	100,000,000	597,228	69,315,420	169,912,648
Net profit for the financial year	-	-	2,681,719	2,681,719
Other comprehensive income for the financial year	-	231,872	-	231,872
At 31 December 2014	100,000,000	829,100	71,997,139	172,826,239
At 1 January 2015	100,000,000	829,100	71,997,139	172,826,239
Issuance of share capital	119,875,038	-	-	119,875,038
Net profit for the financial year	-	-	20,057,196	20,057,196
Other comprehensive income for the financial year	-	278,083	-	278,083
At 31 December 2015	219,875,038	1,107,183	92,054,335	313,036,556

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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

	2015		2014	
	<u>Group</u> RM	<u>Company</u> RM	<u>Group</u> RM	<u>Company</u> RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	23,935,015	23,922,281	460,263	455,407
Adjustment for:				
Depreciation of property and equipment	1,405,087	1,405,087	484,359	484,359
Gain on disposal of property and equipment	(101,373)	(101,373)	(15,400)	(15,400)
Property and equipment written-off	190,138	190,138	24,020	24,020
Intangibles written-off	-	-	315	315
Finance costs	1,330,221	1,330,221	-	-
Change in fair value of FVTPL financial assets	2,165,877	2,165,877	8,566,441	8,566,441
Foreign currency translation differences	(2,049,795)	(2,049,795)	-	-
Depreciation of investment properties	3,500	3,500	3,500	3,500
Amortisation of intangible assets	220,738	220,738	49,475	49,475
Net gain on disposal of:				
FVTPL financial assets	(66,410)	(66,410)	(2,125,023)	(2,125,023)
AFS financial assets	342,039	333,889	507,751	(20,024)
Investment income	(19,607,004)	(18,761,267)	(12,371,698)	(11,326,247)
Other interest income	(37,500)	(37,500)	(36,865)	(36,865)
Bad debts (recovery)/written-off	(96,430)	(96,430)	116,167	116,167
Provision for/(write-back of) allowance for impairment losses:				
Insurance receivables	1,037,060	1,037,060	(191,840)	(191,840)
Reinsurance assets	3,688,183	3,688,183	-	-
Profit from operations before changes in operating assets and liabilities	12,359,346	13,184,199	(4,528,535)	(4,015,715)
Purchase of investments	(177,994,289)	(169,187,300)	(52,231,645)	(52,451,788)
Proceeds from disposal/ maturity of investments	225,255,770	205,510,831	75,661,989	76,189,765
Increase in loans and receivables	537,585	537,585	(151,098)	(151,098)
Increase in reinsurance assets	(62,998,381)	(62,998,381)	(19,762,000)	(19,762,000)
Increase in insurance and other receivables	(33,131,200)	(33,381,200)	(27,592,780)	(27,592,874)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	2015		2014	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Increase in insurance contract liabilities	50,233,146	50,233,146	53,553,000	53,553,000
Increase in insurance and other payables	89,845,840	89,835,715	11,137,141	11,141,914
Cash generated from operations	104,107,817	93,734,595	36,086,072	36,911,204
Investment income received	20,828,008	20,331,294	13,084,973	11,924,891
Other interest income received	34,200	34,200	36,865	36,865
Income tax paid	(3,224,997)	(3,224,997)	(3,750,000)	(3,750,000)
Net cash generated from operating activities	121,745,028	110,875,092	45,457,910	45,122,960
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(63,786,640)	(63,786,640)	(997,596)	(997,596)
Purchase of intangible assets	(440,530)	(440,530)	(14,500)	(14,500)
Acquisition of MCIS general insurance business (Note 34)	(48,620,286)	(48,620,286)	-	-
Cash acquired from MCIS general insurance business (Note 34)	54,221,068	54,221,068	-	-
Proceeds from disposal of property and equipment	128,381	128,381	15,400	15,400
Distribution to non-controlling interest	2,209	-	7,322	-
Net cash used in investing activities	(58,495,798)	(58,498,007)	(989,374)	(996,696)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of subordinated loan	24,337,504	24,337,504	-	-
Proceeds from issuance of ordinary share capital	119,875,038	119,875,038	-	-
	144,212,542	144,212,542	-	-

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	2015		2014	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
NET INCREASE IN CASH AND CASH EQUIVALENT	207,461,772	196,589,627	44,468,536	44,126,264
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	125,791,002	120,612,303	81,322,466	76,486,039
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	<u>333,252,774</u>	<u>317,201,930</u>	<u>125,791,002</u>	<u>120,612,303</u>
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions	325,343,095	308,146,592	117,147,553	111,984,621
Cash and cash equivalents	7,909,679	9,055,338	8,643,449	8,627,682
	<u>333,252,774</u>	<u>317,201,930</u>	<u>125,791,002</u>	<u>120,612,303</u>

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

1. CORPORATE INFORMATION

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 40-1, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur, 50470 Kuala Lumpur.

The Company is a wholly-owned subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited, a company incorporated in Canada.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 17 March 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements comply with the MFRS, International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Group and Company have also been prepared on a historical cost convention, except for those financial instruments which have been measured at their fair values and insurance liabilities which have been measured in accordance with the valuation methods specified in the RBC Framework for Insurers issued by BNM.

The Company has met the minimum capital requirements as prescribed by the RBC Framework and the Guidelines on ICAAP for Insurers as at the date of the statement of financial position.

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

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3 to the financial statements.

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

- (a) The following standards have been adopted by the Group and Company for the first time for the financial year beginning on 1 January 2015:

- Annual Improvements to MFRSs 2010-2012 Cycle.
- Annual Improvements to MFRSs 2011-2013 Cycle.

Adoption of the aforesaid amendments did not have material impact to the current and prior year financial statement other than enhanced disclosures to the financial statements.

**THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) The following standards have been adopted by the Group and Company for the first time for the financial year beginning on 1 January 2015 (continued):

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

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective.

- (i) Effective for annual periods beginning on or after 1 January 2018

- MFRS 9 Financial instruments

MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit losses model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Company is currently assessing the impact on the financial statements from the adoption of MFRS 9.

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 January 2015 are not relevant to the Company.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Group refers to the Company and its investments in structured entities.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Statement of Income.

(ii) Change in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions that are transactions with the owner in their capacity as owners. The difference between fair value of any consideration paid and relevant shares equivalent of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost with change in carrying amount recognised in statement of income. The fair value is the initial carrying amount for the purposed of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of income.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries (including structured entities) are carried at fair value in accordance with MFRS 139 Financial Instruments: Recognition and Measurement. On disposal of investment in subsidiaries, the difference between the disposal proceeds and the carrying amounts of the investment is recognised in the statement of income.

(c) Property and equipment

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Depreciation is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Leasehold land and building	Over the remaining period of the lease or 50 years whichever is shorter
Office renovation	33 ¹ / ₃ %
Motor vehicles	20%
Furniture, fixtures and fittings	10%
Office equipment	10%
Computer equipment	20% - 50%

A depreciation rate of 50% is applied to computer notebooks on loan to agents of the Company.

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the statement of income.

(d) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both are classified as investment properties.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Investment properties (continued)

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Depreciation is provided for on a straight-line basis over the estimated useful life of 50 years for the investment properties. The residual values and useful lives of the investment properties are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal is recognised in the statement of income in the year in which it arises.

(e) Intangible assets

Intangible assets of the Group and Company consist of computer software and goodwill.

Computer software

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

The computer software is amortised on a straight-line basis over the estimated economic useful life of five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

Goodwill arising on acquisition of general insurance business represents the excess of the cost of acquisition of the general insurance business over the fair value of the identifiable net assets recognised at the date of acquisition. Goodwill on acquisition of general insurance business is included in the statement of financial position as intangible assets.

Goodwill on acquisition of general insurance business is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment loss on goodwill on acquisition of general insurance business is recognised immediately as an expenses and is not subsequently reversed as set out in Note 2.2(f) on the accounting policy for impairment for non-financial assets.

Goodwill is allocated to cash-generating unit ("CGU") for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. The Group allocates goodwill to the combined general insurance business as a whole, which has been identified as a CGU.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

(g) Investments and other financial assets

The Group and Company classifies its investments into financial assets at fair value through profit or loss ("FVTPL"), loans and other receivables ("LAR") and available-for-sale financial assets ("AFS").

The Group and Company determines the classification of its investments at initial recognition, depending on the purpose for which the investments were acquired or originated and re-evaluates them at every reporting date.

The Group and Company initially recognises financial assets including cash and short-term deposits, loans and other receivables when it becomes a party to the contractual provisions of the instruments.

All regular way purchases and sales of financial assets with delivery of assets within the time period established by regulation or market convention are recognised or derecognised on the trade date (i.e., the date that the Company commits to purchase or sell the asset).

(i) FVTPL

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. These investments are initially recorded at fair value and transaction costs are expensed in the statement of income. Subsequent to initial recognition, these assets are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in the statement of income.

(ii) LAR

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. After initial measurement, LAR assets are measured at amortised cost, using the effective yield method, less allowance for impairment. The Company's LAR comprises fixed and call deposits with licensed financial institutions.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

(iii) AFS

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of income.

(h) Fair value of financial instruments

All financial instruments are recognised initially at the transacted price, which is the best indicator of fair value. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For financial instruments where there is no active market such as unquoted securities, fair value is determined based on quotes from independent brokers.

(i) Impairment of financial assets

The Group and Company assesses at each date of the statement of financial position, whether a financial asset or group of financial assets is impaired.

(i) 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 through the use of an allowance account and the loss is recorded in the statement of income.

The Group and Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is 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 and 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 the date of the statement of financial position.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

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 statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) AFS financial asset

If an available-for-sale financial asset 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 statement of income, is transferred from equity through the statement of comprehensive income or from insurance contract liabilities to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the statement of income 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 statement of income.

(j) Derecognition of financial assets

Financial assets are derecognised when the Group and Company's contractual rights to the cash flows from the financial assets expire or when the Group and Company transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset.

(k) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(l) Equity instruments

Ordinary shares are classified as equity on the statement of financial position.

Dividends on ordinary shares are recognised and reflected in the statement of changes in 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 - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Product classification

The Company issues contracts that transfer insurance risk only.

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

(n) 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. Amount recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

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

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measureable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of income.

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

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

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

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

(o) Underwriting results

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(i) Premium income

Premiums from direct business are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted before the end of the reporting period for which policies are issued subsequent to the end of the reporting period are accrued at the end of the reporting period.

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

(ii) Premium liabilities

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year, and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force at the end of the financial year including allowance for insurer's expenses.

(a) Unexpired risk reserves

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year and also includes allowance for 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 expected future premium refunds.

(b) Unearned premium reserves

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

In determining the UPR at reporting date, the method that most accurately reflects the actual liability is used, as follows:

- 25% method for marine cargo, aviation cargo and transit business.
- 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower:
 - Motor and bonds 10%
 - Fire, engineering, aviation and marine hull 15%
 - Medical 10 – 15%
 - Other classes 25%
- non-annual policies are time-apportioned over the period of the risks.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(iii) Claim liabilities

Claim liabilities are recognised as the obligation to make future payments in relation to all claims that have been incurred as at the end of the financial year. They are recognised in respect of both direct insurance and inward reinsurance. The value is the best estimate value of claim liabilities which include provision for claims reported, claims incurred but not enough reserved ("IBNER"), claims incurred but not reported ("IBNR") and direct and indirect claim-related expenses as well as PRAD at 75% confidence level calculated at the overall Company level. These are based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development pattern.

(iv) Acquisition costs

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

(p) Insurance receivables

Insurance receivables are recognised when due and measured at the fair value of the consideration received and receivable.

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 statement of income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process and method as described in Note 2.2(i) to the financial statements.

(q) Insurance contract liabilities

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Insurance contract liabilities (continued)

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

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. 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 statement of income by setting up a provision for liability adequacy.

(r) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Gross dividend/distribution income from unit trust funds

Gross dividend/distribution income from unit trust funds is recognised on a declared basis when the shareholder's/unitholders' right to receive payment is established.

(iv) Net realised gain/loss on investment

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the statement of income.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the end of the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(s) Income tax (continued)

Deferred tax is provided for using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted at the end of the reporting period. Deferred tax is recognised as an income or an expense and included in the statement of income for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(t) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation. The Company makes statutory and voluntary contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the statement of income as incurred.

(iii) Employee share ownership plan

Employee share ownership plan ("ESOP") is a long term investment plan for the employees within the Fairfax group to invest in the shares of Fairfax Financial Holdings Ltd through the employees' salary deduction. The Company makes contributions to the plan and such contributions are recognised as an expense in the income statement as incurred.

(u) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. At the end of each reporting period, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange rate differences are taken to the statement of income.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) Other financial liabilities and insurance payables

Other liabilities and payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

(w) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances, and fixed and call deposits with financial institutions with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

The statement of cash flows has been prepared using the indirect method.

(x) Financial instruments

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

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

Recognition method

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

Fair value estimation

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

- the fair values of Malaysian Government Securities and Government investment issues are based on the indicative market prices;
- the fair values of unquoted corporate debt securities are based on the indicative market yield obtained from dealers and brokers;
- the fair values of quoted equity securities and Real Estate Investment Trusts ("REITs") are based on quoted prices;
- the fair values of the unit trust funds are based on the fair value of the underlying assets of the fund; and
- the carrying amounts for other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(x) Financial instruments (continued)

Fair value estimation (continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

2.3 Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

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

(a) Critical judgements made in applying the Group and Company's accounting policies

In the process of applying the Group and Company's accounting policies, management is of the opinion that there are no instances of judgement which are expected to have a significant financial impact on the amounts and balances recognised in the financial

(b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Valuation of insurance contract liabilities

For insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims IBNR reserves at the end of the reporting period.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the claim liabilities. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Link Ratio and Bornheutter-Ferguson methods.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(i) Valuation of insurance contract liabilities (continued)

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratio. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, level of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

(ii) Income and deferred taxes

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

(iii) Impairment of goodwill

The Company assesses the Impairment of goodwill on an annual basis in accordance with its accounting policy in Note 2.2(f) to the financial statements. The recoverable amount of the goodwill has been determined based on the value of expected future new business, taking into account of expected future expense overruns. The key assumptions used in the assessment are disclosed in Note 5 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

3. PROPERTY AND EQUIPMENT

<u>Group/Company</u>	<u>Office renovations</u>	<u>Motor vehicles</u>	<u>Furniture, fixtures, office equipment and computers</u>	<u>Building</u>	<u>Capital work-in progress</u>	<u>Total</u>
	RM	RM	RM	RM	RM	RM
<u>2015</u>						
<u>Cost</u>						
At 1 January 2015	1,432,630	788,832	4,325,012	-	75,567	6,622,041
Acquisition of MCIS general insurance business (Note 34)						
Additions	10 298,233	1 -	288,438 4,369,229	- 58,740,000	- 379,178	288,449 63,786,640
Disposals	-	(141,977)	(76,000)	-	-	(217,977)
Write-offs	(2,010)	-	(256,130)	-	-	(258,140)
At 31 December 2015	1,728,863	646,856	8,650,549	58,740,000	454,745	70,221,013
<u>Accumulated depreciation</u>						
At 1 January 2015	1,363,112	285,822	3,318,371	-	-	4,967,305
Additions	108,230	153,372	556,085	587,400	-	1,405,087
Disposals	-	(115,948)	(76,000)	-	-	(191,948)
Write-offs	(1,922)	-	(65,099)	-	-	(67,021)
At 31 December 2015	1,469,420	323,246	3,733,357	587,400	-	6,113,423
Net book value	259,443	323,610	4,917,192	58,152,600	454,745	64,107,590

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3. PROPERTY AND EQUIPMENT (CONTINUED)

<u>Group/Company</u>	<u>2014</u>	<u>Cost</u>	<u>Office</u>			<u>Motor</u>		<u>Furniture, fixtures, office</u>		<u>Capital</u>		<u>Total</u>
			<u>renovations</u>	<u>RM</u>	<u>RM</u>	<u>vehicles</u>	<u>RM</u>	<u>equipment and computers</u>	<u>RM</u>	<u>work-in progress</u>	<u>RM</u>	
At 1 January 2014			1,355,637		402,970		4,259,446		-		6,018,053	
Additions			76,993		385,862		459,174		75,567		997,596	
Disposals			-		-		(151,000)		-		(151,000)	
Write-offs			-		-		(242,608)		-		(242,608)	
At 31 December 2014			1,432,630		788,832		4,325,012		75,567		6,622,041	
<u>Accumulated depreciation</u>												
At 1 January 2014			1,310,761		175,100		3,366,673		-		4,852,534	
Additions			52,351		110,722		321,286		-		484,359	
Disposals			-		-		(151,000)		-		(151,000)	
Write-offs			-		-		(218,588)		-		(218,588)	
At 31 December 2014			1,363,112		285,822		3,318,371		-		4,967,305	
Net book value			69,518		503,010		1,006,641		75,567		1,654,736	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

4. INVESTMENT PROPERTIES

<u>Group/Company</u>	<u>2015</u> <u>RM</u>	<u>2014</u> <u>RM</u>
<u>Cost</u>		
At 1 January / 31 December	175,000	175,000
<u>Accumulated depreciation</u>		
At 1 January	89,833	86,333
Charge for the financial year	3,500	3,500
31 December	93,333	89,833
Net book value	81,667	85,167
Fair value	550,000	450,000

The fair value of the property is estimated at RM550,000 based on a valuation performed by an independent professionally qualified valuer. The fair value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of investment property is categorized at Level 2 of the fair value hierarchy. Fair value of the investment property is measured in whole by reference to inputs other than the quoted price included within Level 1 that are observable for the investment property, either directly or indirectly. The investment property is valued using the Comparison Method.

There were no transfers between Level 1 and 2 fair value measurements during the financial year.

As at 31 December 2015, the only commercial investment property held by the Company is leased to a third party. Rental income from the property is included in Note 18 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

5. INTANGIBLE ASSETS

<u>Group/Company</u>	<u>Goodwill</u> RM	<u>Computer Software</u> RM	<u>Total</u> RM
<u>2015</u>			
<u>Cost</u>			
At 1 January 2015	-	411,274	411,274
Acquisition of MCIS general insurance business (Note 34)	31,325,682	428,094	31,753,776
Additions	-	440,530	440,530
At 31 December 2015	31,325,682	1,279,898	32,605,580
<u>Accumulated Amortisation</u>			
At 1 January 2015	-	244,321	244,321
Additions	-	220,738	220,738
At 31 December 2015	-	465,059	465,059
Net book value	31,325,682	814,839	32,140,521

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

5. INTANGIBLE ASSETS (CONTINUED)

<u>Group/Company</u>		Computer Software RM
<u>2014</u>		
<u>Cost</u>		
At 1 January 2014		398,023
Additions		14,500
Write-offs		(1,249)
At 31 December 2014		<u>411,274</u>
<u>Accumulated Amortisation</u>		
At 1 January 2014		195,780
Additions		49,475
Write-offs		(934)
At 31 December 2014		<u>244,321</u>
Net book value		<u>166,953</u>

(a) Intangible assets comprised of computer application software and software cost which are developed or acquired to meet the unique requirements of the Company.

(b) The Company tests goodwill on acquisition of general insurance business for impairment annually in accordance with its accounting policy. More regular reviews are performed if events indicate that this is necessary.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing being the combined general business as a whole.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

5. INTANGIBLE ASSETS (CONTINUED)

In testing whether impairment is necessary, the recoverable amount of the goodwill has been determined based on expected future new business. Management's judgement is involved in estimating the value of expected future new business. The key assumptions are detailed as follow:

- (i) The growth is projected based on expected future new business at a growth rate of approximately 10% p.a.
- (ii) Loss ratio range are projected based on the Company's prior years' actual claims experience range from 60% to 65%.
- (iii) Post tax discount rate at 12.9%.
- (iii) Other assumption used include expense ratio, commission ratio and investment return.

At 31 December 2015, the recoverable amount exceeds the carrying value of goodwill.

A reasonably possible change in any key assumption is not expected to cause the carrying value of the CGU to exceed its recoverable amount.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

6. INVESTMENTS

	2015		2014	
	Group RM	Company RM	Group RM	Company RM
Malaysian Government Securities	20,484,217	20,484,217	16,318,558	15,298,047
Government Investment Issues	13,033,337	10,132,627	-	-
Corporate bonds	106,502,710	-	107,707,583	23,841,907
Unit trust investments	105,286,853	232,584,617	38,637,433	129,626,189
Equity securities	28,760,206	28,760,206	17,334,589	17,334,589
Real Estate Investment Trusts ("REITs")	2,987,600	2,987,600	2,774,200	2,774,200
Deposits with licensed financial institutions	24,822,130	24,822,130	22,028,618	22,028,618
	<u>301,877,053</u>	<u>319,771,397</u>	<u>204,800,981</u>	<u>210,903,550</u>

The financial investments are summarised by categories as follows:

AFS financial assets	245,307,117	263,201,461	162,663,574	168,766,143
FVTPL financial assets	31,747,806	31,747,806	20,108,789	20,108,789
LAR	24,822,130	24,822,130	22,028,618	22,028,618
	<u>301,877,053</u>	<u>319,771,397</u>	<u>204,800,981</u>	<u>210,903,550</u>

The following investments mature after
12 months:

AFS financial assets	<u>88,021,329</u>	<u>-</u>	<u>106,851,847</u>	<u>28,016,520</u>
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(a) AFS financial assets

Fair value

Malaysian Government Securities	20,484,217	20,484,217	16,318,558	15,298,047
Government Investment Issues	13,033,337	10,132,627	-	-
Quoted in Malaysia: Unit trust investments	105,286,853	105,286,853	38,637,433	38,637,433
Unquoted in Malaysia: Unit trust investments (Wholesale Fund)	-	127,297,764	-	90,988,756
Corporate bonds	106,502,710	-	107,707,583	23,841,907
	<u>245,307,117</u>	<u>263,201,461</u>	<u>162,663,574</u>	<u>168,766,143</u>

(b) FVTPL financial assets

Fair value

Equity securities	28,760,206	28,760,206	17,334,589	17,334,589
REITs	2,987,600	2,987,600	2,774,200	2,774,200
	<u>31,747,806</u>	<u>31,747,806</u>	<u>20,108,789</u>	<u>20,108,789</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(c) LAR

	2015		2014	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
<u>Amortised cost</u>				
Deposits with commercial banks	24,822,130	24,822,130	22,028,618	22,028,618

(d)

	<u>AFS</u>	<u>FVTPL</u>	<u>LAR</u>	<u>Total</u>
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
<u>2015</u>				
<u>Group</u>				
At 1 January 2015	162,663,574	20,108,789	22,028,618	204,800,981
Acquisition of MCIS general insurance business (Note 34)	146,627,240	-	-	146,627,240
Purchases	141,822,089	11,794,026	24,378,174	177,994,289
Maturities	(21,996,600)	-	(21,649,925)	(43,646,525)
Disposals	(181,845,947)	(38,927)	-	(181,884,874)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(2,165,877)	-	(2,165,877)
Other comprehensive income	(505,602)	-	-	(505,602)
Currency translations differences	-	2,049,795	-	2,049,795
Fair value gains transferred to Statement of Income	(333,889)	-	-	(333,889)
Movement in accrued interest	(1,176,522)	-	65,263	(1,111,259)
Amortisation of premiums	52,774	-	-	52,774
At 31 December 2015	245,307,117	31,747,806	24,822,130	301,877,052
<u>2014</u>				
<u>Group</u>				
At 1 January 2014	179,097,872	18,413,447	38,031,275	235,542,594
Purchases	19,261,993	11,319,727	21,649,925	52,231,645
Maturities	(20,000,000)	-	(37,597,576)	(57,597,576)
Disposals	(15,169,583)	(1,057,944)	-	(16,227,527)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(8,566,441)	-	(8,566,441)
Other comprehensive income	36,368	-	-	36,368
Fair value gains transferred to Statement of Income	(20,024)	-	-	(20,024)
Movement in accrued interest	(267,662)	-	(55,006)	(322,668)
Amortisation of premiums	(275,390)	-	-	(275,390)
At 31 December 2014	162,663,574	20,108,789	22,028,618	204,800,981

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6. INVESTMENTS (CONTINUED)

(d) Carrying values of financial investments (continued)

	<u>AFS</u> RM	<u>FVTPL</u> RM	<u>LAR</u> RM	<u>Total</u> RM
<u>2015</u>				
<u>Company</u>				
At 1 January 2015	168,766,143	20,108,789	22,028,618	210,903,550
Acquisition of MCIS general insurance business (Note 34)	-	-	-	-
Purchases	146,627,240	-	-	146,627,240
Maturities	133,015,100	11,794,026	24,378,174	169,187,300
Disposals	(30,999,909)	-	(21,649,925)	(52,649,834)
Fair value (losses)/gains recorded in:	(153,089,550)	(38,927)	-	(153,128,477)
Statement of Income	-	(2,165,877)	-	(2,165,877)
Other comprehensive income	689,096	-	-	689,096
Currency translations differences	-	2,049,795	-	2,049,795
Fair value gains transferred to Statement of Income	(333,889)	-	-	(333,889)
Movement in accrued interest	(1,515,887)	-	65,263	(1,450,624)
Amortisation of premiums	43,117	-	-	43,117
At 31 December 2015	<u>263,201,461</u>	<u>31,747,806</u>	<u>24,822,130</u>	<u>319,771,396</u>
<u>2014</u>				
<u>Company</u>				
At 1 January 2014	184,865,574	18,413,447	38,031,275	241,310,296
Purchases	19,482,136	11,319,727	21,649,925	52,451,788
Maturities	(20,000,000)	-	(37,597,576)	(57,597,576)
Disposals	(15,169,583)	(1,057,944)	-	(16,227,527)
Fair value (losses)/gains recorded in:	-	(8,566,441)	-	(8,566,441)
Statement of Income	-	(8,566,441)	-	(8,566,441)
Other comprehensive income	36,368	-	-	36,368
Fair value gains transferred to Statement of Income	(20,024)	-	-	(20,024)
Movement in accrued interest	(152,938)	-	(55,006)	(207,944)
Amortisation of premiums	(275,390)	-	-	(275,390)
At 31 December 2014	<u>168,766,143</u>	<u>20,108,789</u>	<u>22,028,618</u>	<u>210,903,550</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments

The following tables show financial investments recorded at fair value analysed by the different basis of fair values and valuation methods as follows:

	<u>Level 1</u> RM	<u>Level 2</u> RM
<u>Group</u>		
<u>2015</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	20,484,217
- Government Investment Issues	-	13,033,337
- Corporate bonds	-	106,502,710
- Unit trust investments	105,286,853	-
FVTPL		
- Equity securities	28,760,206	-
- Real Estate Investment Trusts ("REITs")	2,987,600	-
	<u>137,034,659</u>	<u>140,020,264</u>
<u>2014</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	16,318,558
- Corporate bonds	-	107,707,583
- Unit trust investments	38,637,433	-
FVTPL		
- Equity securities	17,334,589	-
- Real Estate Investment Trusts ("REITs")	2,774,200	-
	<u>58,746,222</u>	<u>124,026,141</u>
<u>Company</u>		
<u>2015</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	20,484,217
- Government Investment Issues	-	10,132,627
- Corporate bonds	-	-
- Unit trust investments	105,286,853	127,297,764
FVTPL		
- Equity securities	28,760,206	-
- Real Estate Investment Trusts ("REITs")	2,987,600	-
	<u>137,034,659</u>	<u>157,914,608</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

	<u>Level 1</u> RM	<u>Level 2</u> RM
<u>2014</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	15,298,047
- Corporate bonds	-	23,841,907
- Unit trust investments	38,637,433	90,988,756
FVTPL		
- Equity securities	17,334,589	-
- Real Estate Investment Trusts ("REITs")	2,774,200	-
	<u>58,746,222</u>	<u>130,128,710</u>

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 and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis (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. There are no financial instruments categorised as Level 3.

There were no transfers between level 1 and 2 during the financial year.

7. STRUCTURED ENTITIES

The Company has determined that its investment in wholesale unit trust funds amounting to RM127,297,764 (2014: RM90,988,756) as disclosed in Note 6 to the financial statements as investment in structured entities ("investee funds"). The Company invests in the investee funds whose objectives range from achieving medium to long-term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by approved asset management companies and apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund's net assets.

The investee fund is classified as available-for-sale investment and the change in fair value of the investee fund is included in the statement of other comprehensive income in the Company's separate financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

7. STRUCTURED ENTITIES (CONTINUED)

The Company's exposure to investments in the investee funds is disclosed below.

	<u>2015</u> RM	<u>2014</u> RM
Number of wholesale unit trust fund	2	1
Average net asset value per unit of wholesale unit trust funds:		
Opus Enhanced Income Fund	1.0098	1.0113
Affin Hwang Wholesale Fund 1	0.3469	-
Fair value of underlying assets:		
Corporate bonds	105,432,580	83,114,310
Malaysian Government Securities	-	1,015,600
Government Investment Securities	2,875,200	-
Deposits with licensed financial institutions	17,194,260	5,162,932
Receivables	2,097,880	2,006,730
Cash equivalents	49,042	15,314
	<u>127,648,962</u>	<u>91,314,886</u>
Total realised (loss)/gain for the financial year	<u>(8,150)</u>	<u>(527,775)</u>

The Company's maximum exposure to loss from its interests in the investee funds is equal to the fair value of its investment in the investee funds.

As the Company has control over these investee funds which are considered wholly owned structured entities, these structured entities are consolidated at Group level. The underlying assets of these structured entities have been duly consolidated as shown in Note 6 to the financial statements.

The investee funds for Opus Enhanced Income Fund are audited by Crowe Horwath and Affin Hwang Wholesale Fund are audited by PricewaterhouseCoopers.

8. REINSURANCE ASSETS

	<u>2015</u> RM	<u>2014</u> RM
<u>Group/Company</u>		
Reinsurance of insurance contracts (Note 13)	<u>337,727,218</u>	<u>132,685,000</u>

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair value at the date of the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

9. INSURANCE AND OTHER RECEIVABLES

	2015		2014	
	Group	Company	Group	Company
	RM	RM	RM	RM
Due premiums including agents /brokers and co-insurers balances	66,556,706	66,556,706	30,296,944	30,296,944
Allowance for impairment	(3,144,908)	(3,144,908)	(208,243)	(208,243)
	<u>63,411,798</u>	<u>63,411,798</u>	<u>30,088,701</u>	<u>30,088,701</u>
Amounts due from reinsurers/ ceding companies	19,410,166	19,410,166	4,071,396	4,071,396
Allowance for impairment	(2,150,389)	(2,150,389)	(198,370)	(198,370)
	<u>17,259,777</u>	<u>17,259,777</u>	<u>3,873,026</u>	<u>3,873,026</u>
Total insurance receivables	<u>80,671,575</u>	<u>80,671,575</u>	<u>33,961,727</u>	<u>33,961,727</u>
Other receivables:				
Other receivables, deposits and prepayments	12,073,392	11,073,392	11,970,684	10,720,684
Malaysian Motor Insurance Pool ("MMIP")				
- Cash call made	34,359,477	34,359,477	27,347,901	27,347,901
- Other assets held in MMIP	38,497,815	38,497,815	35,752,981	35,752,981
Service tax receivable	819,330	819,330	-	-
Income due and accrued	173,218	173,218	10,699	10,699
Total other receivables	<u>85,923,232</u>	<u>84,923,232</u>	<u>75,082,265</u>	<u>73,832,265</u>
Total insurance and other receivables	<u>166,594,807</u>	<u>165,594,807</u>	<u>109,043,992</u>	<u>107,793,992</u>
Receivable within 12 months	<u>93,737,515</u>	<u>92,737,515</u>	<u>45,943,110</u>	<u>44,693,110</u>
Receivable after 12 months	<u>72,857,292</u>	<u>72,857,292</u>	<u>63,100,882</u>	<u>63,100,882</u>

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances.

MMIP as at 31 December 2015 is a net payable of RM1,564,203 (2014: RM5,994,808) after cash call amount of RM7,011,575 and setting-off the amount receivable from MMIP against the Company's share of claims and premium liabilities amounting to RM74,421,495 (2014: RM69,095,690) included in Note 13 to the financial statements.

Financial assets

There is no netting off of the gross amount of recognised financial assets against the gross amount of financial liabilities in the statement of financial position.

There are no financial assets that are subject to enforceable master netting arrangements or similar arrangements to financial instruments received as collateral or any cash collateral pledged or received (2014: Nil).

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10. LOANS

	<u>2015</u> RM	<u>2014</u> RM
<u>Group/Company</u>		
Staff loans:		
Secured	1,753,269	1,737,726
Unsecured	24,509	16,117
	<u>1,777,778</u>	<u>1,753,843</u>
Receivable after 12 months	<u>995,480</u>	<u>1,443,585</u>

The weighted average effective interest rate for staff loans as at 31 December 2015 was 2.49% (2014: 2.09%) per annum on the basis of monthly rest.

11. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	<u>2015</u> RM	<u>2014</u> RM	<u>2015</u> RM	<u>2014</u> RM
<u>Group/Company</u>				
Authorised:				
At beginning and end of financial year	<u>500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>
Issued and paid up:				
At beginning of financial year	100,000,000	100,000,000	100,000,000	100,000,000
Issuance of share capital	119,875,038	-	119,875,038	-
At end of financial year	<u>219,875,038</u>	<u>100,000,000</u>	<u>219,875,038</u>	<u>100,000,000</u>

12. RESERVES

The Company may distribute single-tier tax exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend. Pursuant to the Risk-Based Capital Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividends would impair its Capital Adequacy Ratio position to below its internal target.

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13. INSURANCE CONTRACT LIABILITIES

Note	Group/Company	2015			2014		
		Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
	Provision for claims reported by policyholders	365,212,202	(193,565,291)	171,646,911	155,122,807	(66,637,524)	88,485,283
	Provision for incurred but not reported ("IBNR")	174,364,798	(45,775,709)	128,589,089	78,241,193	(18,200,476)	60,040,717
		539,577,000	(239,341,000)	300,236,000	233,364,000	(84,838,000)	148,526,000
	Less: impairment loss on reinsurance assets	-	5,324,782	5,324,782	-	-	-
	Claim liabilities (i)	539,577,000	(234,016,218)	305,560,782	233,364,000	(84,838,000)	148,526,000
	Premium liabilities (ii)	204,321,000	(103,711,000)	100,610,000	128,547,000	(47,847,000)	80,700,000
		743,898,000	(337,727,218)	406,170,782	361,911,000	(132,685,000)	229,226,000
(i) Claim liabilities							
	At 1 January	233,364,000	(84,838,000)	148,526,000	193,351,000	(69,558,000)	123,793,000
	Acquisition of MCIS general insurance business						
34	Claims incurred in the current accident year	264,656,153	(120,716,613)	143,939,540	-	-	-
	Claims incurred in prior accident years	241,937,650	(91,354,443)	150,583,207	123,760,118	(40,852,305)	82,907,813
	Movement in PRAD of claim liabilities at 75% confidence level	(29,413,256)	(1,233,356)	(30,646,612)	957,197	10,220,507	11,177,704
	Movement in claims handling expenses	(3,909,449)	4,882,651	973,202	7,373,093	(4,696,417)	2,676,676
	Claims paid during the financial year	(824,436)	-	(824,436)	834,517	-	834,517
		(166,233,662)	53,918,761	(112,314,901)	(92,911,925)	20,048,215	(72,863,710)
		539,577,000	(239,341,000)	300,236,000	233,364,000	(84,838,000)	148,526,000
	Less: Impairment loss on reinsurance assets	-	5,324,782	5,324,782	-	-	-
	At 31 December	539,577,000	(234,016,218)	305,560,782	233,364,000	(84,838,000)	148,526,000

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13. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premium liabilities

	Note	2015			2014		
		Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
At 1 January		128,547,000	(47,847,000)	80,700,000	115,007,000	(43,365,000)	71,642,000
Acquisition of MCIS general insurance business	34	67,097,701	(21,327,224)	45,770,477	-	-	-
Premiums written in the financial year	17	419,047,308	(246,188,299)	172,859,009	245,345,512	(91,895,087)	153,450,425
Premiums earned during the financial year	17	(410,371,009)	211,651,523	(198,719,486)	(231,805,512)	87,413,087	(144,392,425)
At 31 December		204,321,000	(103,711,000)	100,610,000	128,547,000	(47,847,000)	80,700,000

14. DEFERRED TAX ASSET

Group/Company	2015 RM	2014 RM
At 1 January		
Acquisition of MCIS general insurance business (Note 34)	3,413,850	(231,126)
- Recognised in statement of income	11,044,763	-
- Recognised in other comprehensive income	(3,865,085)	3,649,062
	(77,124)	(4,086)
At 31 December	10,516,404	3,413,850

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14. DEFERRED TAX ASSET (CONTINUED)

	Receivables RM	Fair value changes on investments RM	Unutilised tax benefit RM	Premium liabilities RM	Others RM	Total RM
<u>2015</u>						
<u>Deferred tax asset</u>						
At 1 January 2015	30,394	1,816,215	625,333	616,409	869,372	3,957,723
Acquisition of MCIS general insurance business (Note 34)	-	-	-	11,044,763 (10,925,075)	-	11,044,763 (3,543,049)
- Recognised in statement of income	757,880	(43,884)	6,483,010	-	185,020	(1,023)
- Recognised in other comprehensive income	-	(1,023)	-	-	-	-
At 31 December 2015 (before offsetting)	<u>788,274</u>	<u>1,771,308</u>	<u>7,108,343</u>	<u>736,097</u>	<u>1,054,392</u>	<u>11,458,414</u>
Offsetting						(942,010)
Net deferred tax assets (after offsetting)						<u>10,516,404</u>

	Fair value changes on investments RM	Property and equipment RM	Premium liabilities RM	Total RM
<u>2015</u>				
<u>Deferred tax liabilities</u>				
At 1 January 2015	225,762	318,111	-	543,873
- Recognised in statement of income	-	322,036	-	322,036
- Recognised in other comprehensive income	76,101	-	-	76,101
At 31 December 2015 (before offsetting)	<u>301,863</u>	<u>640,147</u>	<u>-</u>	<u>942,010</u>
Offsetting				(942,010)
Net deferred tax assets (after offsetting)				<u>-</u>

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14. DEFERRED TAX ASSET (CONTINUED)

2014

Deferred tax asset

At 1 January 2014	44,647	-	-	-	-	1,065,352	1,109,999
- Recognised in statement of income	(14,253)	1,793,615	625,333	616,409	-	(195,980)	2,825,124
- Recognised in other comprehensive income	-	22,600	-	-	-	-	22,600
At 31 December 2014 (before offsetting)	30,394	1,816,215	625,333	616,409	869,372	3,957,723	

Offsetting

Net deferred tax assets (after offsetting)

(543,873)
<u>3,413,850</u>

2014

Deferred tax liabilities

At 1 January 2014	547,071	286,391	507,663	1,341,125
- Recognised in statement of income	(347,995)	31,720	(507,663)	(823,938)
- Recognised in other comprehensive income	26,686	-	-	26,686
At 31 December 2014 (before offsetting)	225,762	318,111	-	543,873

Offsetting

Net deferred tax assets (after offsetting)

(543,873)
<u>-</u>

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14. DEFERRED TAX ASSET (CONTINUED)

	<u>2015</u> RM	<u>2014</u> RM
Current	9,632,182	3,085,156
Non-current	884,222	328,692

15. INSURANCE AND OTHER PAYABLES

	<u>2015</u>		<u>2014</u>	
	<u>Group</u> RM	<u>Company</u> RM	<u>Group</u> RM	<u>Company</u> RM
Trade payables:				
Amount due to reinsurers/ ceding companies	109,947,274	109,947,274	31,628,306	31,628,306
Amount due to brokers, co-insurers and insureds	28,360,038	28,360,038	9,633,104	9,633,104
Deposits received from reinsurers	1,247,683	1,247,683	513,578	513,578
	<u>139,554,995</u>	<u>139,554,995</u>	<u>41,774,988</u>	<u>41,774,988</u>
Other payables:				
Accrual for agents' profit commission	2,492,426	2,492,426	2,000,000	2,000,000
Accrual for bonus (including EPF for bonus)	4,234,900	4,234,900	2,895,776	2,895,776
Service tax payable	-	-	1,196,993	1,196,993
Cash collateral held for bond business	963,511	963,511	530,095	530,095
Premium funds withheld	21,432,597	21,432,597	-	-
Other payables and accrued liabilities	8,766,808	8,704,354	3,827,387	3,775,058
	<u>37,890,242</u>	<u>37,827,788</u>	<u>10,450,251</u>	<u>10,397,922</u>
Total insurance and other payables	<u>177,445,237</u>	<u>177,382,783</u>	<u>52,225,239</u>	<u>52,172,910</u>
Payable within 12 months	<u>169,288,909</u>	<u>169,226,455</u>	<u>52,059,765</u>	<u>52,007,436</u>
Payable after 12 months	<u>8,156,328</u>	<u>8,156,328</u>	<u>165,474</u>	<u>165,474</u>

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

Financial liabilities

There is no netting off of gross amount of recognised financial liabilities against the gross amount of financial assets in the statement of financial position.

There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2014: Nil).

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16. SUBORDINATED LOANS

	<u>2015</u> RM	<u>2014</u> RM
<u>Group/Company</u>		
Subordinated Loans	24,337,504	-
Add: Interest Payable	1,330,221	-
	<u>25,667,725</u>	<u>-</u>
Payable within 12 months	<u>1,330,221</u>	<u>-</u>
Payable after 12 months	<u>24,337,504</u>	<u>-</u>

On 16 March 2015 and 19 Jun 2015, the Company obtained subordinated loans of RM22,800,000 and RM1,537,504 respectively with the interest payable of 7% per annum from its shareholders, Fairfax Asia Limited. Repayment of loan will be fixed term of 5 years and will subject to prior approval of Bank Negara Malaysia .

The fair value of the subordinated loans as at 31 December 2015 amounted to RM27.5 million. The fair value is estimated based on discounted cash flow model for the remaining term of maturity and is within level 2 of the fair value hierarchy.

17. NET EARNED PREMIUMS

	<u>2015</u> RM	<u>2014</u> RM
<u>Group/Company</u>		
(a) Gross earned premiums	419,047,308	245,345,512
Change in premium liabilities	(8,676,299)	(13,540,000)
	<u>410,371,009</u>	<u>231,805,512</u>
(b) Premium ceded to reinsurers		
Ceded premiums (Note 13(ii))	(246,188,299)	(91,895,087)
Change in premium liabilities	34,536,776	4,482,000
	<u>(211,651,523)</u>	<u>(87,413,087)</u>
Net earned premiums	<u>198,719,486</u>	<u>144,392,425</u>

18. INVESTMENT INCOME

	2015		2014	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Rental income from investment properties	37,500	37,500	36,100	36,100
Financial assets at FVTPL				
Dividend income				
- equity securities	171,169	171,169	344,092	344,092
- REITs	159,274	159,274	146,470	146,470

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18. INVESTMENT INCOME (CONTINUED)

	2015		2014	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
AFS financial assets				
Interest income	8,198,848	3,363,171	4,649,543	2,390,641
Dividend income – unit trusts	1,311,660	5,629,020	3,168,608	4,455,526
Interest income from loans and receivables	793,511	793,511	1,189,008	1,189,008
Profit income from cash & cash equivalents	8,919,767	8,602,005	3,113,267	3,039,800
Amortisation of premiums, net of accretion of discounts	52,775	43,117	(275,390)	(275,390)
	<u>19,644,504</u>	<u>18,798,767</u>	<u>12,371,698</u>	<u>11,326,247</u>

19. REALISED (LOSSES)/ GAINS

	2015		2014	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
<u>Financial assets at FVTPL</u>				
Realised gains:				
Equity securities	66,410	66,410	2,125,023	2,125,023
<u>AFS financial assets</u>				
Realised (losses)/gains:				
Corporate bonds	413,863	423,813	(527,775)	-
Malaysian Government Securities/ Government Investment Issues	(755,902)	(757,702)	-	-
Unit trusts	-	-	20,024	20,024
	<u>(342,039)</u>	<u>(333,889)</u>	<u>(507,751)</u>	<u>20,024</u>
<u>Property and equipment</u>				
Realised gains	101,373	101,373	15,400	15,400
Realised losses	(190,138)	(190,138)	(24,020)	(24,020)
	<u>(88,765)</u>	<u>(88,765)</u>	<u>(8,620)</u>	<u>(8,620)</u>
<u>Intangible assets</u>				
Realised losses	-	-	(315)	(315)
	<u>(364,394)</u>	<u>(356,244)</u>	<u>1,608,337</u>	<u>2,136,112</u>

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20. FAIR VALUE GAINS AND LOSSES

	<u>2015</u> RM	<u>2014</u> RM
<u>Group/Company</u>		
Financial assets at FVTPL	<u>(2,165,877)</u>	<u>(8,566,441)</u>

21. FEES AND COMMISSION INCOME

	<u>2015</u> RM	<u>2014</u> RM
<u>Group/Company</u>		
Reinsurance commission income	<u>42,295,574</u>	<u>15,033,185</u>

22. MANAGEMENT EXPENSES

		<u>2015</u>		<u>2014</u>	
	<u>Note</u>	<u>Group</u> RM	<u>Company</u> RM	<u>Group</u> RM	<u>Company</u> RM
Employee benefits expenses	22(a)	35,900,363	35,900,363	23,090,250	23,090,250
Directors' fees	22(b)	347,815	347,815	331,600	331,600
Auditors' remuneration					
- Audit related services		284,000	284,000	167,500	167,500
- Non-audit related services		35,500	35,500	472,000	472,000
Depreciation of property and equipment	3	1,405,088	1,405,088	484,359	484,359
Depreciation of investment properties	4	3,500	3,500	3,500	3,500
Direct operating expenses of investment properties					
- revenue generating		436,373	436,373	20,530	20,530
Amortisation of intangible assets	5	220,738	220,738	49,475	49,475
Bad debts (recovery)/written-off (Write-back of)/provision for allowance for impairment losses		(96,430)	(96,430)	116,167	116,167
- insurance receivables		1,037,060	1,037,060	(191,840)	(191,840)
- reinsurance assets		3,688,183	3,688,183	-	-
Office rental		2,440,821	2,440,821	1,682,439	1,682,439
Office equipment rental		409,595	409,595	348,241	348,241
Computer maintenance		2,457,355	2,457,355	1,295,046	1,295,046
Entertainment		779,818	779,818	536,826	536,826
Transport and travelling		931,530	931,530	476,952	476,952
Printing and stationery		552,591	552,591	319,602	319,602

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22. MANAGEMENT EXPENSES (CONTINUED)

	<u>Note</u>	<u>2015</u>		<u>2014</u>	
		<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
		<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
Networking charges		509,479	509,479	418,937	418,937
Management fees to holding company		587,850	587,850	335,500	335,500
Stamp duties		150,028	150,028	1,278,162	1,278,162
Bank charges		2,988,425	2,988,425	1,545,853	1,545,853
Other expenses		8,761,366	8,326,766	4,074,025	3,887,997
		<u>63,831,048</u>	<u>63,396,448</u>	<u>36,855,124</u>	<u>36,669,096</u>
(a) Employee benefits expense					
Wages and salaries		28,251,106	28,251,106	18,551,810	18,551,810
Social security contributions		196,605	196,605	121,546	121,546
Contributions to defined contribution plan, EPF		4,144,993	4,144,993	2,742,376	2,742,376
Employee share ownership plan ("ESOP")		100,773	100,773	156,890	156,890
Other benefits		3,206,886	3,206,886	1,517,628	1,517,628
		<u>35,900,363</u>	<u>35,900,363</u>	<u>23,090,250</u>	<u>23,090,250</u>

(b) Directors' remuneration

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

	<u>2015</u>	<u>2014</u>
	<u>RM</u>	<u>RM</u>
<u>Group/Company</u>		
<u>Directors' fees</u>		
Dato' Huang Sin Cheng	72,675	74,025
Datuk Abu Hassan bin Kendut	84,350	84,000
Abdullah bin Tarmugi	89,675	91,025
Zainul Abidin bin Mohamed Rasheed	81,800	82,550
Hashim bin Harun (appointed on 23 July 2015)	19,315	-
	<u>347,815</u>	<u>331,600</u>

The number of Directors whose total remuneration received during the financial year falls within the following band is:

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22. MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration (continued)

<u>Group/Company</u>	<u>Number of Directors</u>	
	<u>2015</u>	<u>2014</u>
Non-executive Directors:		
Below RM100,000	<u>5</u>	<u>4</u>

The details of remuneration received and receivable by the CEO during the financial year are as follows :

<u>Group/Company</u>	<u>2015</u> RM	<u>2014</u> RM
Salary and other emoluments	582,872	541,995
Bonus	136,264	93,280
Contribution to defined contribution plan	20,067	104,479
Estimated money value of benefits-in-kind	318,435	17,718
	<u>1,057,638</u>	<u>757,472</u>

23. TAXATION

<u>Group/Company</u>	<u>2015</u> RM	<u>2014</u> RM
Income tax:		
Malaysian income tax	-	-
Underprovision in respect of prior years	-	1,422,750
	-	1,422,750
Deferred tax relating to origination and reversal of temporary differences (Note 14)	3,865,085	(3,649,062)
Tax expense for the financial year	<u>3,865,085</u>	<u>(2,226,312)</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2014: 25%) on the estimated assessable profit for the financial year.

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23. TAXATION (CONTINUED)

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

	<u>2015</u>	<u>2014</u>
	RM	RM
<u>Group</u>		
Profit before taxation	<u>23,935,015</u>	<u>460,263</u>
Taxation at Malaysian statutory income tax rate of 25% (2014: 25%)	5,983,754	115,066
Expenses not deductible for tax purposes	1,379,564	714,139
Income not subject to tax	(1,489,866)	(1,284,243)
Tax credit from MMIP cash calls *	(1,752,894)	(2,339,692)
Underprovision of income tax in prior years	-	1,422,750
Recognition of previously unrecognised deferred tax	(255,473)	(854,332)
Tax expense for the financial year	<u>3,865,085</u>	<u>(2,226,312)</u>
<u>Company</u>		
Profit before taxation	<u>23,922,281</u>	<u>455,407</u>
Taxation at Malaysian statutory income tax rate of 25% (2014: 25%)	5,980,570	113,852
Expenses not deductible for tax purposes	1,379,564	667,632
Income not subject to tax	(1,489,866)	(1,236,522)
Tax credit from MMIP cash calls *	(1,752,894)	(2,339,692)
Underprovision of income tax in prior years	-	1,422,750
Recognition of previously unrecognised deferred tax	(252,289)	(854,332)
Tax expense for the financial year	<u>3,865,085</u>	<u>(2,226,312)</u>

The tax credit from MMIP cash calls for the financial year of RM1,752,894 (2014: RM2,339,692) relates to the double deduction allowed on MMIP contributions made during the financial year, pursuant to the Gazette Order issued by the Attorney General Chambers of Malaysia on 28 November 2012.

24. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share of RM1.00 each is based on the profit after taxation for the financial year over the number of shares in issue during the financial year of RM219,875,038 (2014: 100,000,000).

	<u>2015</u>	<u>2014</u>
	<u>Group</u>	<u>Company</u>
	RM	RM
Net profit for the financial year	<u>20,069,930</u>	<u>2,681,719</u>

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25. DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2015.

26. OPERATING LEASE ARRANGEMENTS

The Group and Company has entered into non-cancellable operating lease agreements for the use of several of its photocopiers and printing system. The lease agreements have fixed rentals for a period of five years.

The future aggregate minimum lease payment under non-cancellable operating leases contracted for as at the end of the reporting period but not recognised as liabilities are as follows:

	<u>2015</u>	<u>2014</u>
	RM	RM
<u>Group/Company</u>		
Future minimum rental payment:		
Not later than 1 year	333,506	306,960
Later than 1 year and not later than 5 years	386,157	566,040
	<u>719,663</u>	<u>873,000</u>

27. CAPITAL COMMITMENTS

	<u>2015</u>	<u>2014</u>
	RM	RM
<u>Group/Company</u>		
Approved and contracted for:		
Office suites	5,773,131	52,866,000
Computers	2,136,875	560,452
Renovations	35,283	286,010
Office equipment	-	15,629
Furniture and fittings	-	26,320
	<u>7,945,289</u>	<u>53,754,411</u>
Approved and not contracted for:		
Computers	1,492,075	-
Office equipment	85,695	-
	<u>1,577,770</u>	<u>-</u>

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28. SIGNIFICANT RELATED PARTY DISCLOSURES

- (a) The Company is a wholly-owned subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.
- (b) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group:

<u>Group/Company</u>	<u>Significant transactions</u>		<u>Carrying value</u>	
	<u>2015</u> RM	<u>2014</u> RM	<u>2015</u> RM	<u>2014</u> RM
<u>Fellow subsidiary:</u>				
<u>Income</u>				
Commission receivable				
- CRC Reinsurance Limited (Barbados)	980,859	334,039	-	-
- First Capital Insurance Limited	12,123	232,038	-	-
- Falcon Insurance Co. (HK) Ltd	2,728	673	-	-
- Wentworth Insurance Company Limited (Labuan)	17,400,530	217,477	-	-
<u>Expense</u>				
Reinsurance premium ceded				
- CRC Reinsurance Limited (Barbados)	3,380,175	1,507,815	-	-
- First Capital Insurance Limited	20,384	2,945,259	-	-
- Falcon Insurance Co. (HK) Ltd	11,522	14,538	-	-
- Wentworth Insurance Company Limited (Labuan)	76,204,790	1,155,442	-	-
Investment management fees				
- Hamblin Watsa Investment Counsel Ltd	394,466	240,608	-	-
Management fees				
- Fairfax Asia Limited	587,850	335,500	-	-
Finance cost				
- Fairfax Asia Limited	1,330,221	-	-	-
<u>Receivables</u>				
Other balances due from				
- Fairfax Asia Limited	-	-	65,368	22,737
- Hamblin Watsa Investment Counsel Ltd	-	-	29,219	-

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28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

- (b) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group (continued):

	<u>Significant transactions</u>		<u>Carrying value</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	RM	RM	RM	RM
<u>Payables</u>				
Reinsurance balances due to				
- First Capital Insurance Limited	-	-	-	2,532,234
- Falcon Insurance Co. (HK) Ltd	-	-	6,333	563
- CRC Reinsurance Limited (Barbados)	-	-	868,375	-
- Wentworth Insurance Company Limited (Labuan)	-	-	63,062,276	842,048
Subordinated loans				
- Fairfax Asia Limited	-	-	25,667,725	-

- (c) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year was as follows:

	<u>2015</u>	<u>2014</u>
	RM	RM
Short-term employee benefits	1,817,304	1,684,131
Defined contribution plan	169,935	208,602
	<u>1,987,239</u>	<u>1,892,733</u>

Includes compensation payable to key management personnel at the end of reporting period of RM146,235 (2014: RM331,600).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The key management personnel of the Company includes the Directors, Chief Executive Officer, Senior General Manager and Chief Financial Officer.

29. RISK MANAGEMENT FRAMEWORK

- (a) Risk management framework

The Group and Company's financial risk management policies seek to ensure that the outcomes of activities involving elements of risk are consistent with the Group and Company's objectives and risk tolerance, while maintaining an appropriate risk and reward balance and protecting the Group and Company's statement of financial position from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk tolerances with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties.

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29. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Regulatory framework

Insurers have to comply with the Financial Services Act, 2014 and circulars and guidelines issued by BNM, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policies rests with the Board. The Board exercises oversight on the investments to safeguard the interests of the policyholders and shareholders.

(c) Capital management

The Group and Company's capital management policy is to create shareholder value, deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth. The RBC Framework and Guidelines on ICAAP for the insurance industry came into effect on 1 January 2009 and 1 September 2012 respectively. Under the frameworks, the Company has to maintain a capital adequacy level that commensurate with its risk profiles. The minimum capital requirement under the Risk-Based Capital Framework regulated by Bank Negara Malaysia is 130%. During this financial year, the Company maintained an ICAAP higher than the minimum requirement by the authority.

30. INSURANCE RISK

Insurance risk comprises of both actuarial and underwriting risks resulting from the pricing and acceptance of insurance contracts. The risks arise when actual claims experience are different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims.

Risks under most general insurance policies usually cover a twelve-month duration. The risk inherent in general insurance contracts is reflected in the insurance contract liabilities which include the premium and claim liabilities, as set out under Note 13 of the financial statements. The premium liabilities comprise reserve for unexpired risks, while the claim liabilities comprise the loss reserves which include both provision for outstanding claims notified and IBNR.

The Company has in place a prudent underwriting policy to ensure appropriate risk classification and premium levels. The Group and Company's reinsurance management strategy and policy are reviewed and approved by the Board.

Stress Testing ("ST") is performed twice a year. The purpose of the ST is to test the solvency of the general fund under the various scenarios according to regulatory guidelines, simulating changes in major parameters such as new business volume, claims experience, expenses and investment environment.

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30. INSURANCE RISK (CONTINUED)

<u>Group/Company</u>	2015			2014	
	<u>Gross</u> RM	<u>Reinsurance</u> RM	<u>Net</u> RM	<u>Gross</u> RM	<u>Net</u> RM
<u>Claim liabilities</u>					
Motor	247,383,000	(34,105,491)	213,277,509	107,303,000	105,487,000
Fire	68,896,000	(46,549,643)	22,346,357	22,548,000	7,343,000
Marine, Aviation and Transit	68,605,000	(54,185,413)	14,419,587	40,557,000	8,207,000
Medical and Health	11,428,000	(554,544)	10,873,456	8,600,000	8,425,000
Miscellaneous	143,265,000	(98,621,127)	44,643,873	54,356,000	19,064,000
	<u>539,577,000</u>	<u>(234,016,218)</u>	<u>305,560,782</u>	<u>233,364,000</u>	<u>148,526,000</u>
<u>Premium liabilities</u>					
Motor	104,259,000	(50,732,000)	53,527,000	57,071,000	38,205,000
Fire	18,845,000	(9,978,000)	8,867,000	9,811,000	5,833,000
Marine, Aviation and Transit	9,748,000	(5,161,000)	4,587,000	5,641,000	3,354,000
Medical and Health	45,780,000	(24,239,000)	21,541,000	41,141,000	24,460,000
Miscellaneous	25,689,000	(13,601,000)	12,088,000	14,883,000	8,848,000
	<u>204,321,000</u>	<u>(103,711,000)</u>	<u>100,610,000</u>	<u>128,547,000</u>	<u>80,700,000</u>

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.

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30. INSURANCE RISK (CONTINUED)

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

Sensitivities

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

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on Gross and Net Liabilities, Profit before Tax and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact due to changes in assumptions, these assumptions are illustrated on an individual basis. It should be noted that movements in these assumptions are non-linear.

<u>Group/Company</u>	<u>Change in assumptions</u> RM	<u>Impact on gross liabilities</u> RM	<u>Impact on net liabilities</u> RM	<u>Impact on profit before tax</u> RM	<u>Impact on equity</u> RM
<u>2015</u>					
Provision for Risk Margin for Adverse Deviation ("PRAD")					
Loss ratio	+5%	(609,000)	(1,622,000)	1,622,000	1,216,500
Claim handling expenses	+5%	12,509,000	7,067,000	(7,067,000)	(5,300,250)
	+5%	(2,162,000)	(2,162,000)	2,162,000	1,621,500
<u>2014</u>					
Provision for Risk Margin for Adverse Deviation ("PRAD")					
Loss ratio	+5%	765,000	355,000	(355,000)	(266,250)
Claim handling expenses	+5%	12,680,000	6,461,000	(6,461,000)	(4,845,750)
	+5%	318,000	318,000	(318,000)	(238,500)

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30. INSURANCE RISK (CONTINUED)

Claims development table

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

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

Two separate tables have been shown to account for claim developments for Pacific Insurance Berhad (PIB) ongoing business and MCIS run-off (ex-MCIS) business respectively with the reasons of :

- Ex-MCIS table consists of cohort of claims from existing risks of MCIS up to the point of acquisition 28 February 2015. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (PIB):

Accident year	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
<u>Group/Company</u>									
At end of accident year	128,437,501	89,290,332	80,623,250	144,171,467	135,203,325	116,338,554	123,760,119	203,716,816	
One year later	79,515,985	92,169,233	87,820,763	120,667,544	119,708,428	105,807,794	114,975,495		
Two years later	76,147,747	89,143,709	79,606,318	121,099,270	115,919,355	106,791,073			
Three years later	75,274,487	87,570,573	75,096,778	118,433,538	115,268,290				
Four years later	74,915,371	86,212,216	74,422,857	118,359,666					
Five years later	74,346,645	85,792,164	74,434,144						
Six years later	73,954,098	83,296,711							
Seven years later	75,201,530								
Current estimate of cumulative claims incurred	75,201,530	83,296,711	74,434,144	118,359,666	115,268,290	106,791,073	114,975,495	203,716,816	
At end of accident year	(42,502,687)	(44,790,938)	(36,889,706)	(45,032,760)	(38,341,088)	(42,066,707)	(39,174,817)	(51,264,771)	
One year later	(65,226,954)	(66,629,520)	(64,369,651)	(100,846,814)	(87,538,028)	(71,934,324)	(73,691,410)		
Two years later	(69,928,864)	(77,625,072)	(68,499,657)	(108,290,519)	(96,979,889)	(85,486,306)			
Three years later	(71,506,197)	(79,800,667)	(70,835,395)	(110,968,371)	(100,494,788)				
Four years later	(72,485,699)	(81,358,071)	(71,823,919)	(111,797,776)					
Five years later	(72,716,879)	(81,845,293)	(72,228,814)						
Six years later	(73,018,713)	(81,719,672)							
Seven years later	(73,914,966)								
Cumulative payments to-date	(73,914,966)	(81,719,672)	(72,228,814)	(111,797,776)	(100,494,788)	(85,486,306)	(73,691,410)	(51,264,771)	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (PIB) (continued):

Accident year	2008	2009	2010	2011	2012	2013	2014	2015	Total
<u>Group/Company</u>	RM	RM	RM	RM	RM	RM	RM	RM	RM
Gross general insurance outstanding liabilities (direct and facultative)	1,286,564	1,577,039	2,205,330	6,561,890	14,773,502	21,304,767	41,284,085	152,452,045	241,445,222
Gross general insurance outstanding liabilities (treaty inward)									59,073,494
Best estimate of claim liabilities									300,518,716
Claims handling expenses									4,791,035
PRAD at 75% confidence Level									29,469,834
Gross general insurance contract liabilities per statement of financial position									334,779,585

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (MCIS general insurance business run-off):

Accident year	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
<u>Group/Company</u>									
At end of accident year	138,812,000	122,509,000	135,798,000	135,990,000	145,104,000	105,396,000	86,623,384	18,695,705	
One year later	118,533,000	127,268,000	116,750,000	130,732,000	156,394,000	93,253,432	86,840,507		
Two years later	114,085,000	123,668,000	109,532,000	127,229,000	158,346,490	92,377,981			
Three years later	109,060,000	117,223,000	109,960,000	127,401,572	152,161,537				
Four years later	102,590,000	114,735,000	110,263,088	123,456,655					
Five years later	100,579,000	121,884,016	109,818,866						
Six years later	99,765,814	112,173,310							
Seven years later	102,233,666								
Current estimate of cumulative claims incurred	102,233,666	112,173,310	109,818,866	123,456,655	152,161,537	92,377,981	86,840,507	18,695,705	
At end of accident year	(35,867,000)	(34,987,139)	(31,393,119)	(35,455,173)	(58,383,924)	(26,581,810)	(23,780,956)	(3,073,991)	
One year later	(77,002,058)	(76,116,310)	(69,436,204)	(78,892,936)	(94,233,566)	(54,196,942)	(38,329,500)		
Two years later	(92,097,986)	(89,000,165)	(83,145,035)	(99,558,899)	(107,970,113)	(61,129,585)			
Three years later	(94,972,817)	(93,788,784)	(89,471,047)	(106,472,560)	(112,078,896)				
Four years later	(96,242,283)	(97,836,525)	(92,955,876)	(111,155,150)					
Five years later	(97,298,109)	(99,148,750)	(93,183,983)						
Six years later	(98,185,581)	(99,411,005)							
Seven years later	(98,337,212)								
Cumulative payments to-date	(98,337,212)	(99,411,005)	(93,183,983)	(111,155,150)	(112,078,896)	(61,129,585)	(38,329,500)	(3,073,991)	

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (MCIS general insurance business run-off) (continued):

Accident year	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014* RM	2015* RM	Total RM
<u>Group/Company</u>									
Gross general insurance outstanding liabilities (direct and facultative)	3,896,454	12,762,305	16,634,883	12,301,505	40,082,641	31,248,396	48,511,007	15,621,714	181,058,905
Gross general insurance outstanding liabilities (treaty inward)									1,427,877
Best estimate of claim liabilities									182,486,782
Claims handling expenses									4,061,633
PRAD at 75% confidence Level									18,249,000
Gross general insurance contract liabilities per statement of financial position									<u>204,797,415</u>

* The financial information for 2015 is based on a 6 months analysis for the period of 1 July 2015 to 31 December 2015. Financial information for 1 Mar 2015 to 30 June 2015 included in 2014.

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30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (PIB):

Accident year	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
<u>Group/Company</u>									
At end of accident year	68,953,095	67,842,838	65,160,963	70,626,350	71,293,412	76,527,904	82,907,814	121,573,096	
One year later	67,639,880	67,842,778	65,221,561	68,348,022	67,364,621	72,915,675	64,204,183		
Two years later	65,465,600	65,790,686	63,839,900	66,923,137	64,872,867	65,794,967			
Three years later	64,884,601	64,330,681	60,645,873	65,526,931	63,307,168				
Four years later	63,929,753	63,989,789	60,121,891	64,511,259					
Five years later	63,917,284	63,826,086	59,572,051						
Six years later	63,712,098	62,973,130							
Seven years later	64,297,716								
Current estimate of cumulative claims incurred	64,297,716	62,973,130	59,572,051	64,511,259	63,307,168	65,794,967	64,204,183	121,573,096	
At end of accident year	(38,288,857)	(38,768,160)	(34,150,025)	(36,266,616)	(35,186,016)	(36,078,103)	(34,893,870)	(42,820,849)	
One year later	(56,976,319)	(56,237,346)	(53,401,540)	(56,248,456)	(54,745,833)	(56,406,967)	(51,160,371)		
Two years later	(60,998,930)	(59,897,881)	(56,659,878)	(60,768,608)	(59,602,493)	(60,685,360)			
Three years later	(61,996,064)	(61,498,223)	(58,453,152)	(62,815,314)	(60,180,616)				
Four years later	(62,672,785)	(61,805,822)	(58,801,001)	(63,106,482)					
Five years later	(62,871,078)	(62,029,149)	(58,966,311)						
Six years later	(63,134,597)	(62,284,137)							
Seven years later	(63,719,324)								
Cumulative payments to-date	(63,719,324)	(62,284,137)	(58,966,311)	(63,106,482)	(60,180,616)	(60,685,360)	(51,160,371)	(42,820,849)	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (PIB) (continued):

Accident year	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
<u>Group/Company</u>									
Net general insurance outstanding liabilities (direct and facultative)	578,392	688,993	605,740	1,404,777	3,126,552	5,109,607	13,043,812	78,752,247	103,310,120
Net general insurance outstanding liabilities (treaty inward)									59,073,493
Best estimate of claim liabilities									162,383,613
Claims handling expenses									4,791,035
PRAD at 75% confidence Level									16,030,256
Net general insurance contract liabilities per statement of financial position									<u>183,204,904</u>

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30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (MCIS general insurance business run-off):

Accident year	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
<u>Group/Company</u>									
At end of accident year	66,491,000	80,223,000	89,390,000	89,931,000	83,506,000	76,525,000	69,675,872	14,530,459	
One year later	65,385,000	79,415,000	81,447,000	88,989,000	80,843,000	72,610,787	71,475,988		
Two years later	65,439,000	80,399,000	78,013,000	85,328,000	79,972,584	72,900,862			
Three years later	63,640,000	76,891,000	75,968,000	85,130,555	78,699,009				
Four years later	62,353,000	75,066,000	75,766,994	83,896,587					
Five years later	60,384,000	81,338,116	74,670,866						
Six years later	59,960,245	73,757,833							
Seven years later	59,589,243								
Current estimate of cumulative claims incurred	59,589,243	73,757,833	74,670,866	83,896,587	78,699,009	72,900,862	71,475,988	14,530,459	
At end of accident year	(25,589,275)	(28,934,054)	(26,001,267)	(29,453,892)	(29,844,489)	(22,034,001)	(22,210,967)	(2,922,588)	
One year later	(49,414,381)	(55,415,715)	(53,895,678)	(60,731,822)	(55,720,126)	(45,329,555)	(33,676,688)		
Two years later	(55,312,133)	(64,751,110)	(64,039,644)	(69,608,618)	(63,851,310)	(49,278,222)			
Three years later	(57,120,376)	(68,803,361)	(67,436,928)	(75,039,981)	(66,484,174)				
Four years later	(57,654,849)	(70,930,534)	(69,489,591)	(76,604,660)					
Five years later	(58,175,463)	(71,751,913)	(69,629,397)						
Six years later	(58,837,041)	(71,897,179)							
Seven years later	(58,933,262)								
Cumulative payments to-date	(58,933,262)	(71,897,179)	(69,629,397)	(76,604,660)	(66,484,174)	(49,278,222)	(33,676,688)	(2,922,588)	

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30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (MCIS general insurance business run-off) (continued):

Accident year	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014* RM	2015* RM	Total RM
<u>Group/Company</u>									
Net general insurance outstanding liabilities (direct and facultative)	655,981	1,860,654	5,041,469	7,291,927	12,214,835	23,622,640	37,799,300	11,607,871	100,094,677
Net general insurance outstanding liabilities (treaty inward)									1,427,878
Best estimate of claim liabilities									101,522,555
Claims handling expenses									4,061,633
PRAD at 75% confidence Level									11,446,908
Net general insurance contract liabilities per statement of financial position									117,031,096

* The financial information for 2015 is based on a 6 months analysis for the period of 1 July 2015 to 31 December 2015. Financial information for 1 Mar 2015 to 30 June 2015 included in 2014.

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2014:

Accident year	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
<u>Group/Company</u>										
At end of accident year		115,372,773	128,437,501	89,290,332	80,623,250	144,171,467	135,203,325	116,338,554	123,760,119	
One year later		85,828,743	79,515,985	92,169,233	87,820,763	120,667,544	119,708,428	105,807,794		
Two years later		108,881,419	76,147,747	89,143,709	79,606,318	121,099,270	115,919,355			
Three years later		108,411,966	75,274,487	87,570,573	75,096,778	118,433,538				
Four years later		108,312,090	74,915,371	86,212,216	74,422,857					
Five years later		108,033,202	74,346,645	85,792,164						
Six years later		107,518,171	73,954,098							
Seven years later		107,555,261								
Current estimate of cumulative claims incurred		107,555,261	73,954,098	85,792,164	74,422,857	118,433,538	115,919,355	105,807,794	123,760,119	
At end of accident year		(43,666,569)	(42,502,687)	(44,790,938)	(36,889,706)	(45,032,760)	(38,341,088)	(42,066,707)	(39,174,817)	
One year later		(81,768,206)	(65,226,954)	(66,629,520)	(64,369,651)	(100,846,814)	(87,538,028)	(71,934,324)		
Two years later		(98,501,691)	(69,928,864)	(77,625,072)	(68,499,657)	(108,290,519)	(96,979,889)			
Three years later		(103,112,378)	(71,506,197)	(79,800,667)	(70,835,395)	(110,968,371)				
Four years later		(104,527,673)	(72,485,699)	(81,358,071)	(71,823,919)					
Five years later		(106,826,990)	(72,716,879)	(81,845,293)						
Six years later		(106,102,270)	(73,018,713)							
Seven years later		(106,550,427)								
Cumulative payments to-date		(106,550,427)	(73,018,713)	(81,845,293)	(71,823,919)	(110,968,371)	(96,979,889)	(71,934,324)	(39,174,817)	

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2014 (continued):

Accident year	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
<u>Group/Company</u>										
Gross general insurance outstanding liabilities (direct and facultative)	1,918,405	(582,100)	935,385	3,946,871	2,598,938	7,465,167	18,939,466	33,873,470	84,585,302	153,680,904
Gross general insurance outstanding liabilities (treaty inward)										53,604,240
Best estimate of claim liabilities										207,285,144
Claims handling expenses										5,783,378
PRAD at 75% confidence Level										20,295,478
Gross general insurance contract liabilities per statement of financial position										233,364,000

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30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2014:

Accident year	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
<u>Group/Company</u>										
At end of accident year		71,729,810	68,953,095	67,842,838	65,160,963	70,626,359	71,293,412	76,527,904	82,907,814	
One year later		68,084,372	67,639,880	67,842,778	65,221,561	68,348,022	67,364,621	72,915,675		
Two years later		69,698,769	65,465,600	66,790,686	63,839,900	66,923,137	64,872,867			
Three years later		70,449,562	64,884,601	64,330,681	60,645,873	65,526,931				
Four years later		69,852,976	63,929,753	63,989,789	60,121,891					
Five years later		69,672,520	63,917,284	63,826,086						
Six years later		69,630,516	63,712,098							
Seven years later		69,734,493								
Current estimate of cumulative claims incurred		69,734,493	63,712,098	63,826,086	60,121,891	65,526,931	64,872,867	72,915,675	82,907,814	
At end of accident year		(37,256,847)	(38,288,857)	(38,768,160)	(34,150,025)	(36,266,616)	(35,186,016)	(36,078,103)	(34,893,870)	
One year later		(59,293,106)	(56,976,319)	(56,237,346)	(53,401,540)	(56,248,456)	(54,745,833)	(56,406,967)		
Two years later		(63,397,062)	(60,998,930)	(59,897,881)	(56,659,878)	(60,768,608)	(59,602,493)			
Three years later		(66,690,768)	(61,996,064)	(61,498,223)	(58,453,152)	(62,815,314)				
Four years later		(67,697,426)	(62,672,785)	(61,805,822)	(58,801,001)					
Five years later		(68,571,702)	(62,871,078)	(62,029,149)						
Six years later		(68,823,673)	(63,134,597)							
Seven years later		(69,207,615)								
Cumulative payments to-date		(69,207,615)	(63,134,597)	(62,029,149)	(58,801,001)	(62,815,314)	(59,602,493)	(56,406,967)	(34,893,870)	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2014 (continued):

Accident year	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
<u>Group/Company</u>										
Net general insurance outstanding liabilities (direct and facultative)	1,005,792	(159,383)	577,501	1,796,937	1,320,890	2,711,617	5,270,374	16,508,708	48,013,944	77,046,380
Net general insurance outstanding liabilities (treaty inward)										53,604,240
Best estimate of claim liabilities										130,650,620
Claims handling expenses										5,783,378
PRAD at 75% confidence Level										12,092,002
Net general insurance contract liabilities per statement of financial position										<u>148,526,000</u>

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31. FINANCIAL RISKS

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

(i) Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The major classes of financial assets of the Group are deposits with financial institutions, available-for-sale securities (unit trusts and bonds), loan receivables and trade receivables.

Credit risk arises when the Group and Company's cash assets are placed in interest-bearing instruments, mainly fixed and call deposits and repurchase agreements with licensed financial institutions. The Group and Company manages this credit risk by spreading its deposits with a large group of financial institutions.

Trade receivables are monitored regularly and the Group and Company adopts various control measures such as 60 days Premium Warranty and Cash Before Cover to minimise this credit risk.

Credit exposure

At the reporting date, the Group and Company's maximum exposure to credit risk is represented by the maximum amount of each class of financial assets recognised in the statements of financial position.

Credit exposure by credit rating

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2015					Total
<u>Group</u>					<u>RM</u>
	Neither past-due Investment grade RM		Past-due but not impaired RM	Past-due and impaired RM	<u>RM</u>
		Not rated RM			
LAR					
Fixed and call deposits	24,534,534	287,596	-	-	24,822,130
AFS financial investments					
Malaysian Government Securities	-	20,484,217	-	-	20,484,217
Government Investment Issues	-	13,033,337	-	-	13,033,337
Corporate bonds	98,347,370	8,155,340	-	-	106,502,710
Unit trusts	-	105,286,853	-	-	105,286,853
FVTPL financial investments					
Equity securities	-	28,760,206	-	-	28,760,206
REITs	-	2,987,600	-	-	2,987,600
Reinsurance assets	201,722,051	136,005,167	-	5,324,782	343,052,000
Insurance receivables	7,644,708	47,320,559	25,706,308	5,295,297	85,966,872
Cash and cash equivalents	333,242,574	10,200	-	-	333,252,774
Allowance for impairment	-	-	-	(10,620,079)	(10,620,079)
	<u>665,491,237</u>	<u>362,331,075</u>	<u>25,706,308</u>	<u>-</u>	<u>1,053,528,620</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2015	Neither past-due nor impaired		Past-due but not impaired	Past-due and impaired	Total
Company	Investment grade	Not rated	RM	RM	RM
LAR					
Fixed and call deposits	24,534,534	287,596	-	-	24,822,130
AFS financial investments					
Malaysian Government Securities	-	20,484,217	-	-	20,484,217
Government Investment Issues	-	10,132,627	-	-	10,132,627
Corporate bonds	-	-	-	-	-
Unit trusts	-	232,584,617	-	-	232,584,617
FVTPL financial investments					
Equity securities	-	28,760,206	-	-	28,760,206
REITs	-	2,987,600	-	-	2,987,600
Reinsurance assets	201,722,051	136,005,167	-	5,324,782	343,052,000
Insurance receivables	7,644,708	47,320,559	25,706,308	5,295,297	85,966,872
Cash and cash equivalents	317,191,730	10,200	-	-	317,201,930
Allowance for impairment	-	-	-	(10,620,079)	(10,620,079)
	<u>551,093,023</u>	<u>478,572,789</u>	<u>25,706,308</u>	<u>-</u>	<u>1,055,372,120</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2014	Neither past-due			Past-due but not impaired	Past-due and impaired	Total
	Investment grade	Not rated				
	RM	RM	RM	RM	RM	RM
<u>Group</u>						
LAR						
Fixed and call deposits	15,937,682	6,090,936	-	-	-	22,028,618
AFS financial investments						
Malaysian Government Securities	-	16,318,558	-	-	-	16,318,558
Corporate bonds	105,649,485	2,058,098	-	-	-	107,707,583
Unit trusts	-	38,637,433	-	-	-	38,637,433
FVTPL financial investments						
Equity securities	-	17,334,589	-	-	-	17,334,589
REITs	-	2,774,200	-	-	-	2,774,200
Reinsurance assets	-	132,685,000	-	-	-	132,685,000
Insurance receivables	1,435,521	25,620,966	6,905,240	406,613	406,613	34,368,340
Cash and cash equivalents	125,781,040	9,962	-	-	-	125,791,002
Allowance for impairment	-	-	-	(406,613)	(406,613)	(406,613)
	<u>248,803,728</u>	<u>241,529,742</u>	<u>6,905,240</u>	<u>-</u>	<u>-</u>	<u>497,238,710</u>

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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2014	Neither past-due		Past-due but not impaired	Past-due and impaired	Total
	Investment grade	Not rated			
	RM	RM	RM	RM	RM
<u>Company</u>					
LAR					
Fixed and call deposits	15,937,682	6,090,936	-	-	22,028,618
AFS financial investments					
Malaysian Government Securities	-	15,298,047	-	-	15,298,047
Corporate bonds	23,841,907	-	-	-	23,841,907
Unit trusts	-	129,626,189	-	-	129,626,189
FVTPL financial investments					
Equity securities	-	17,334,589	-	-	17,334,589
REITs	-	2,774,200	-	-	2,774,200
Reinsurance assets	-	132,685,000	-	-	132,685,000
Insurance receivables	1,435,521	25,620,966	6,905,240	406,613	34,368,340
Cash and cash equivalents	120,602,341	9,962	-	-	120,612,303
Allowance for impairment	-	-	-	(406,613)	(406,613)
	<u>161,817,451</u>	<u>329,439,889</u>	<u>6,905,240</u>	<u>-</u>	<u>498,162,580</u>

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit ratings of counterparties obtained from Rating Agency of Malaysia ("RAM"), Malaysian Rating Corporation Berhad ("MARC"), A.M. Best Company ("A.M. Best") and Standard & Poor's ("S&P"). AAA is the highest possible rating.

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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2015	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<u>Group</u>						
LAR						
Fixed and call deposits	7,953,804	11,957,417	4,623,313	-	287,596	24,822,130
AFS financial investments						
Malaysian Government Securities	-	-	-	-	20,484,217	20,484,217
Government Investment Issues	-	-	-	-	13,033,337	13,033,337
Corporate bonds	22,472,824	68,239,842	7,634,704	-	8,155,340	106,502,710
Unit trusts	-	-	-	-	105,286,853	105,286,853
FVTPL financial investments						
Equity securities	-	-	-	-	28,760,206	28,760,206
REITs	-	-	-	-	2,987,600	2,987,600
Reinsurance assets	610,490	24,510,242	176,538,861	62,458	136,005,167	337,727,218
Insurance receivables	233,884	1,543,790	5,866,935	99	73,026,867	80,671,575
Cash and cash equivalents	16,281,812	316,957,840	2,922	-	10,200	333,252,774
	<u>47,552,814</u>	<u>423,209,131</u>	<u>194,666,735</u>	<u>62,557</u>	<u>388,037,383</u>	<u>1,053,528,620</u>
Neither past-due nor impaired	47,552,814	423,209,131	194,666,735	62,557	362,331,075	1,027,822,312
Past-due but not impaired	-	-	-	-	25,706,308	25,706,308
	<u>47,552,814</u>	<u>423,209,131</u>	<u>194,666,735</u>	<u>62,557</u>	<u>388,037,383</u>	<u>1,053,528,620</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2015

Company

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
LAR						
Fixed and call deposits	7,953,804	11,957,417	4,623,313	-	287,596	24,822,130
AFS financial investments						
Malaysian Government Securities	-	-	-	-	20,484,217	20,484,217
Government Investment Issues	-	-	-	-	10,132,627	10,132,627
Corporate bonds	-	-	-	-	-	-
Unit trusts	-	-	-	-	232,584,617	232,584,617
FVTPL financial investments						
Equity securities	-	-	-	-	28,760,206	28,760,206
REITs	-	-	-	-	2,987,600	2,987,600
Reinsurance assets	610,490	24,510,242	176,538,861	62,458	136,005,167	337,727,218
Insurance receivables	233,884	1,543,790	5,866,935	99	73,026,867	80,671,575
Cash and cash equivalents	8,974,060	308,214,748	2,922	-	10,200	317,201,930
	<u>17,772,238</u>	<u>346,226,197</u>	<u>187,032,031</u>	<u>62,557</u>	<u>504,279,097</u>	<u>1,055,372,120</u>
Neither past-due nor impaired	17,772,238	346,226,197	187,032,031	62,557	478,572,789	1,029,665,812
Past-due but not impaired	-	-	-	-	25,706,308	25,706,308
	<u>17,772,238</u>	<u>346,226,197</u>	<u>187,032,031</u>	<u>62,557</u>	<u>504,279,097</u>	<u>1,055,372,120</u>

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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2014	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<u>Group</u>						
LAR						
Fixed and call deposits	5,724,854	5,743,388	4,469,440	-	6,090,936	22,028,618
AFS financial investments						
Malaysian Government Securities	-	-	-	-	16,318,558	16,318,558
Corporate bonds	18,379,971	80,302,234	6,967,280	-	2,058,098	107,707,583
Unit trusts	-	-	-	-	38,637,433	38,637,433
FVTPL financial investments						
Equity securities	-	-	-	-	17,334,589	17,334,589
REITs	-	-	-	-	2,774,200	2,774,200
Reinsurance assets	-	-	-	-	132,685,000	132,685,000
Insurance receivables	-	-	1,957,672	75,020	31,929,035	33,961,727
Cash and cash equivalents	13,517,622	112,241,983	21,435	-	9,962	125,791,002
	<u>37,622,447</u>	<u>198,287,605</u>	<u>13,415,827</u>	<u>75,020</u>	<u>247,837,811</u>	<u>497,238,710</u>
Neither past-due nor impaired	37,622,447	198,287,605	12,846,998	46,678	241,529,742	490,333,470
Past-due but not impaired	-	-	568,829	28,342	6,308,069	6,905,240
	<u>37,622,447</u>	<u>198,287,605</u>	<u>13,415,827</u>	<u>75,020</u>	<u>247,837,811</u>	<u>497,238,710</u>

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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2014	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<u>Company</u>						
LAR						
Fixed and call deposits	5,724,854	5,743,388	4,469,440	-	6,090,936	22,028,618
AFS financial investments						
Malaysian Government Securities						
Corporate bonds	13,365,565	10,476,342	-	-	15,298,047	15,298,047
Unit trusts	-	-	-	-	129,626,189	23,841,907
FVTPL financial investments						
Equity securities	-	-	-	-	17,334,589	17,334,589
REITs	-	-	-	-	2,774,200	2,774,200
Reinsurance assets	-	-	-	-	132,685,000	132,685,000
Insurance receivables	-	-	1,957,672	75,020	31,929,035	33,961,727
Cash and cash equivalents	8,354,237	112,226,669	21,435	-	9,962	120,612,303
	<u>27,444,656</u>	<u>128,446,399</u>	<u>6,448,547</u>	<u>75,020</u>	<u>335,747,958</u>	<u>498,162,580</u>
Neither past-due nor impaired	27,444,656	128,446,399	5,879,718	46,678	329,439,889	491,257,340
Past-due but not impaired	-	-	568,829	28,342	6,308,069	6,905,240
	<u>27,444,656</u>	<u>128,446,399</u>	<u>6,448,547</u>	<u>75,020</u>	<u>335,747,958</u>	<u>498,162,580</u>

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The Company uses the ratings assigned by external rating agencies to assess credit risk.

Age analysis of financial assets past-due but not impaired

<u>Group/Company</u>	<u><30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>>180 days</u>	<u>Total</u>
2015						
Insurance receivables	3,704,953	5,330,439	5,293,864	4,199,280	7,177,772	25,706,308
2014						
Insurance receivables	863,066	2,275,266	1,069,842	1,558,133	1,138,933	6,905,240

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

At 31 December 2015, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM5,259,297 (2014: RM406,613). No collateral is held as security for any past-due or impaired assets. The Group and Company records impairment allowance for insurance receivables in separate "allowance for impairment losses" account. A reconciliation of the allowance for impairment losses for insurance receivables & reinsurance assets are as follows:

Group/Company	Insurance receivable Allowance for Impairment losses		Reinsurance Assets Allowance for Impairment losses		Total
	2014		2014		
	2015	2014	2015	2014	
	RM	RM	RM	RM	RM
At 1 January	406,613	598,452	-	-	598,452
Acquisition of MCIS general insurance business	3,857,171	-	1,636,599	-	5,493,770
Allowance/(write back of) for the financial year	935,083	(75,672)	3,688,183	-	4,623,266
Bad debts write back/ (written-off)	96,430	(116,167)	-	-	96,430
At 31 December	5,295,297	406,613	5,324,782	-	10,620,079
					406,613

Liquidity risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting obligations associated with financial liabilities. The Group and Company's exposure to liquidity risk arises mainly from its lending commitments, borrowings, trade and other payables.

The Group and Company actively manages the profile of its deposits with financial institutions, operating cash flows and the availability of funding so as to ensure that all operating needs are met. As part of its overall prudent liquidity management, the Group and Company maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles

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

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

Unearned premiums reserves and the reinsurers' share of the unearned premiums reserves have been excluded from the analysis as there are no contractual obligations with those balances.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2015	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
Group								
Financial investments:								
LAR	24,822,130	25,233,439	-	-	-	-	-	25,233,439
AFS	138,804,407	35,191,843	8,129,624	54,165,596	69,527,542	16,414,022	105,286,853	288,715,480
FVTPL	31,747,806	-	-	-	-	-	31,747,806	31,747,806
Reinsurance assets on claim liabilities	239,341,000	123,452,489	77,288,750	27,861,734	10,738,027	-	-	239,341,000
Insurance receivables	80,671,575	80,671,575	-	-	-	-	-	80,671,575
Other receivables								
- staff loans	1,777,778	260,265	413,469	288,858	670,953	144,233	-	1,777,778
- bond collateral deposits								
placements	780,208	792,678	-	-	-	-	-	792,678
Cash and cash equivalents	333,252,774	325,849,214	-	-	-	-	7,909,679	333,758,893
Total financial assets	851,197,678	591,451,503	85,831,843	82,316,188	80,936,522	16,558,255	144,944,338	1,002,038,649

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31. FINANCIAL RISKS (CONTINUED)

2015		Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Total
		RM	RM	RM	RM	RM	RM	RM	RM
Company									
Financial investments:									
LAR	24,822,130	25,233,439	-	-	-	-	-	-	25,233,439
AFS	263,201,461	31,014,150	-	-	-	-	-	232,584,617	263,598,767
FVTPL	31,747,806	-	-	-	-	-	-	31,747,806	31,747,806
Reinsurance assets on									
claim liabilities	239,341,000	123,452,489	77,288,750	27,861,734	10,738,027	-	-	-	239,341,000
Insurance receivables	80,671,575	80,671,575	-	-	-	-	-	-	80,671,575
Other receivables									
- staff loans	1,777,778	260,265	413,469	288,858	670,953	144,233	-	-	1,777,778
- bond collateral deposits									
placements	780,208	792,678	-	-	-	-	-	-	792,678
Cash and cash equivalents	317,201,930	308,652,714	-	-	-	-	-	9,055,338	317,708,052
Total financial assets									
	959,543,888	570,077,310	77,702,219	28,150,592	11,408,980	144,233	273,387,761		960,871,095

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2015

Group/Company

Insurance contract liabilities

- claim liabilities	539,577,000	270,779,511	190,491,346	51,309,744	26,996,399	-	-	539,577,000
Subordinated loans	25,667,725	-	-	-	32,878,969	-	-	32,878,969
Insurance payables	139,554,995	139,554,995	-	-	-	-	-	139,554,995
Other payables								
cash collateral held for bond business	981,209	621,776	181,449	177,984	-	-	-	981,209
Total financial liabilities	705,780,929	410,956,282	190,672,795	51,487,728	59,875,368	-	-	712,992,173

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2014

Group

Financial investments:

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
LAR	22,028,618	22,377,811	-	-	-	-	-	22,377,811
AFS	162,663,574	17,466,550	19,593,120	33,766,162	79,803,824	10,334,250	38,637,433	199,601,339
FVTPL	20,108,789	-	-	-	-	-	20,108,789	20,108,789
Reinsurance assets on claim liabilities	84,838,000	183,200,664	(49,134,471)	(43,755,519)	(5,472,674)	-	-	84,838,000
Insurance receivables	33,961,727	33,961,727	-	-	-	-	-	33,961,727
Other receivables								
- staff loans	1,753,843	310,258	525,927	349,252	555,101	13,305	-	1,753,843
- bond collateral deposits								
placements	438,517	543,862	-	-	-	-	-	543,862
Cash and cash equivalents	125,791,002	117,264,228	-	-	-	-	8,642,996	125,907,224
Total financial assets	451,584,070	375,125,100	(29,015,424)	(9,640,105)	74,886,251	10,347,555	67,389,218	489,092,595

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2014

Company

Financial investments:

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
LAR	22,028,618	22,377,811	-	-	-	-	-	22,377,811
AFS	168,766,143	11,242,550	2,310,120	18,392,000	12,910,000	-	129,626,189	174,480,859
FVTPL	20,108,789	-	-	-	-	-	20,108,789	20,108,789
Reinsurance assets on claim liabilities	84,838,000	183,200,664	(49,134,471)	(43,755,519)	(5,472,674)	-	-	84,838,000
Insurance receivables	33,961,727	33,961,727	-	-	-	-	-	33,961,727
Other receivables								
- staff loans	1,753,843	310,258	525,927	349,252	555,101	13,305	-	1,753,843
- bond collateral deposits								
placements	438,517	543,862	-	-	-	-	-	543,862
Cash and cash equivalents	120,612,303	112,100,391	-	-	-	-	8,627,682	120,728,073
Total financial assets	452,507,940	363,737,263	(46,298,424)	(25,014,267)	7,992,427	13,305	158,362,660	458,792,964

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2014

Group/Company

Insurance contract liabilities

- claim liabilities

Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
233,364,000	319,424,055	(60,312,250)	(20,040,609)	(5,707,196)	-	-	233,364,000
41,774,988	41,774,988	-	-	-	-	-	41,774,988

Insurance payables

Other payables

- cash collateral held for
bond business

548,034	382,560	165,474	-	-	-	-	548,034
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Total financial liabilities

275,687,022	361,581,603	(60,146,776)	(20,040,609)	(5,707,196)	-	-	275,687,022
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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	<u>Current</u> RM	<u>Non-Current</u> RM	<u>Total</u> RM
<u>Group</u>			
<u>2015</u>			
Financial investments:			
LAR	24,822,130	-	24,822,130
AFS	140,020,041	105,287,076	245,307,117
FVTPL	31,747,806	-	31,747,806
Reinsurance assets on claim liabilities	123,452,489	115,888,511	239,341,000
Insurance receivables	80,671,575	-	80,671,575
Other receivables			
- staff loans	260,265	1,517,513	1,777,778
- bond collateral deposits placements	780,208	-	780,208
Cash and cash equivalents	333,252,774	-	333,252,774
Total financial assets	<u>735,007,288</u>	<u>222,693,100</u>	<u>957,700,388</u>
<u>2014</u>			
Financial investments:			
LAR	22,028,618	-	22,028,618
AFS	55,811,727	106,851,847	162,663,574
FVTPL	20,108,789	-	20,108,789
Reinsurance assets on claim liabilities	183,200,664	(98,362,664)	84,838,000
Insurance receivables	33,961,727	-	33,961,727
Other receivables			
- staff loans	310,258	1,443,585	1,753,843
- bond collateral deposits placements	438,517	-	438,517
Cash and cash equivalents	125,791,002	-	125,791,002
Total financial assets	<u>441,651,302</u>	<u>9,932,768</u>	<u>451,584,070</u>

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	<u>Current</u> RM	<u>Non-Current</u> RM	<u>Total</u> RM
<u>Company</u>			
<u>2015</u>			
Financial investments:			
LAR	24,822,130	-	24,822,130
AFS	263,201,461	-	263,201,461
FVTPL	31,747,806	-	31,747,806
Reinsurance assets on claim liabilities	123,452,489	115,888,511	239,341,000
Insurance receivables	80,671,575	-	80,671,575
Other receivables			
- staff loans	260,265	1,517,513	1,777,778
- bond collateral deposits placements	780,208	-	780,208
Cash and cash equivalents	317,201,930	-	317,201,930
Total financial assets	<u>842,137,864</u>	<u>117,406,024</u>	<u>959,543,888</u>
<u>2014</u>			
Financial investments:			
LAR	22,028,618	-	22,028,618
AFS	140,749,623	28,016,520	168,766,143
FVTPL	20,108,789	-	20,108,789
Reinsurance assets on claim liabilities	183,200,664	(98,362,664)	84,838,000
Insurance receivables	33,961,727	-	33,961,727
Other receivables			
- staff loans	310,258	1,443,585	1,753,843
- bond collateral deposits placements	438,517	-	438,517
Cash and cash equivalents	120,612,303	-	120,612,303
Total financial assets	<u>521,410,499</u>	<u>(68,902,559)</u>	<u>452,507,940</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Market price risk

Market price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market prices (other than interest rates).

The Company's investments in equities and REITs are subject to fluctuation in market prices of quoted securities while investments in unit trusts are subject to fluctuation in the net asset value of the unit trust funds. The Company's investments in equities are managed by licensed asset management companies. The Company has given clear investment guidelines and performance benchmarks to the asset management companies under the fund management agreements in order to manage the market risk. The unit trusts held by the Company are invested with unit trust funds governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Company monitors the performance of the investments against the relevant performance benchmarks established by the Company.

The analysis below is performed for reasonably possible price movements in the available-for-sale and trading securities of the Company. The impact on equity represents the changes in fair value of AFS financial assets.

	2015			2014		
	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM
<u>Group</u>						
<u>Market value</u>						
Available-for-sale securities:						
Unit trust investments	+5%	-	3,948,257	+5%	-	1,448,904
Unit trust investments	-5%	-	(3,948,257)	-5%	-	(1,448,904)
FVTPL:						
Equities	+5%	1,438,010	1,078,508	+5%	866,729	650,047
Equities	-5%	(1,438,010)	(1,078,508)	-5%	(866,729)	(650,047)
REITs	+5%	149,380	112,035	+5%	138,710	104,032
REITs	-5%	(149,380)	(112,035)	-5%	(138,710)	(104,032)
<u>Company</u>						
<u>Market value</u>						
Available-for-sale securities:						
Unit trust investments	+5%	-	8,721,923	+5%	-	4,860,982
Unit trust investments	-5%	-	(8,721,923)	-5%	-	(4,862,982)
FVTPL:						
Equities	+5%	1,438,010	1,078,508	+5%	866,729	650,047
Equities	-5%	(1,438,010)	(1,078,508)	-5%	(866,729)	(650,047)
REITs	+5%	149,380	112,035	+5%	138,710	104,032
REITs	-5%	(149,380)	(112,035)	-5%	(138,710)	(104,032)

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Interest rate risk

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

The Company's primary interest rate risk relates to interest-bearing assets. The interest-bearing assets are made up primarily of fixed and call deposits with licensed financial institutions, Malaysian Government Securities and bonds issued by corporations in Malaysia. Floating rate/yield instruments expose the Company to cash flow interest/profit risk, whereas fixed rate/yield instruments expose the Company to fair value interest/profit risk.

The Company manages the interest rate risk of its deposits with licensed financial institutions by maintaining a prudent mix of short and longer term deposits and actively reviewing its portfolio of deposits.

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

<u>Group</u>	<u>Impact on profit before tax RM</u>	<u>Impact on equity* RM</u>
Change in interest rates:		
<u>2015</u>		
+50 basis points	(1,824,737)	(1,368,552)
- 50 basis points	1,969,647	1,477,235
<u>2014</u>		
+50 basis points	(1,098,119)	(823,589)
- 50 basis points	2,368,691	1,776,518
<u>Company</u>		
Change in interest rates:		
<u>2015</u>		
+50 basis points	1,255,248	941,436
- 50 basis points	(1,256,248)	(942,186)
<u>2014</u>		
+50 basis points	77,184	57,888
- 50 basis points	(66,377)	(49,783)

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

32. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2015, as prescribed under the Risk-Based Capital Framework is provided below:

	<u>2015</u> RM	<u>2014</u> RM
<u>Eligible Tier 1 Capital</u>		
Share capital (paid-up)	219,875,038	100,000,000
Reserves, including retained earnings	92,054,335	71,997,139
	<u>311,929,373</u>	<u>171,997,139</u>
<u>Tier 2 Capital</u>		
Available-for-sale-reserves	1,107,183	829,100
Subordinated term debts	25,667,725	-
Goodwill	(32,140,521)	(166,953)
Deferred tax assets	(10,516,404)	(3,413,850)
Total Capital Available	<u>296,047,356</u>	<u>169,245,436</u>

33. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 1 March 2015, MCIS transferred its general insurance business to the Company in accordance with a Scheme of Transfer which was approved by Bank Negara Malaysia ("BNM") and confirmed by the High Court of Malaysia.

34. BUSINESS COMBINATION

On 1 March 2015, the Company completed the acquisition of certain assets and liabilities of the general insurance business of MCIS Insurance Berhad for a cash consideration of RM48,620,286.

The carrying amount of the assets and liabilities transferred to the Pacific Insurance Berhad on 1 March 2015 are as follows:

	<u>2015</u> RM
<u>Assets</u>	
Cash and cash equivalents	54,221,068
Property, plant and equipment	288,449
Intangible assets	428,094
Staff loans	561,520
Investment	
Malaysian Government Securities	75,833,874
Government Islamic Issue	13,123,782
Bond - Low Risk	26,953,315
Bond - Unsecured Credit Facilities	30,716,269

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

34. BUSINESS COMBINATION (CONTINUED)

	<u>2015</u> RM
<u>Assets (continued)</u>	
Insurance receivables	27,107,927
Other receivables	2,099,718
Reinsurance assets	142,043,837
	<u>373,377,853</u>
<u>Liabilities</u>	
Insurance contract liabilities	331,753,854
Insurance payables	34,406,414
Other payables	<u>967,744</u>
	<u>367,128,012</u>
Net assets acquired	<u>6,249,841</u>
The goodwill of RM31,325,682 is computed as follow:	
Total purchase consideration	48,620,286
Less : Fair value of net assets acquired	(6,249,841)
Less : Tax benefit on premium liabilities	(11,044,763)
Goodwill on acquisition (Note 5)	<u>31,325,682</u>

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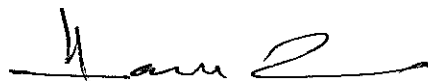
STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Dato' Huang Sin Cheng and Datuk Abu Hassan bin Kendut, being two of the Directors of The Pacific Insurance Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 15 to 106 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and of the results and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 17 March 2016.



DATO' HUANG SIN CHENG
DIRECTOR



DATUK ABU HASSAN BIN KENDUT
DIRECTOR

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

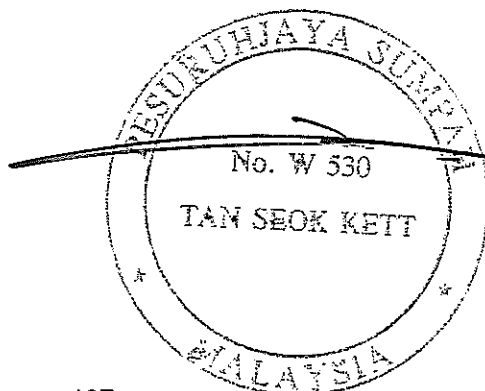
I, Athappan Gobinath Arvind, being the Officer primarily responsible for the financial management of The Pacific Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 15 to 106 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



ATHAPPAN GOBINATH ARVIND

Subscribed and solemnly declared by the abovenamed Athappan Gobinath Arvind at Kuala Lumpur in Wilayah Persekutuan on 17 March 2016, before me

COMMISSIONER FOR OATHS



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
THE PACIFIC INSURANCE BERHAD
(Company No. 91603 K)
(Incorporated in Malaysia)**

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of The Pacific Insurance Berhad, which comprise the statement of financial position as at 31 December 2015, of the Group and Company and the statements of income, comprehensive income, changes in equity and cash flows of the Group and Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements, as set out on pages 15 to 106.

Directors' responsibility for the financial statements

The Directors of the Group and 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 are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 the 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 the 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 THE PACIFIC INSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 91603 K)

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 Group and of the Company as of 31 December 2015 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in note 7 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiary that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes; and
- (d) The audit reports on the financial statements of the subsidiary did not contain any qualification or any adverse comment made under Section 174(3) 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

Kuala Lumpur
17 March 2016

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