Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2014

1558A5/fm

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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THE PACIFIC INSURANCE BERHAD

(Incorporated in Malaysia)

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 2014.

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

	Group RM	Company RM
Net profit for the financial year	2,686,575	2,681,719

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.

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 2014.

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
Ramaswamy Athappan
Sammy Chan Sum Yu
Datuk Abu Hassan bin Kendut
Abdullah bin Tarmugi
Zainul Abidin bin Mohamed Rasheed

DIRECTORS (CONTINUED)

In accordance with Article 65 of the Company's Articles of Association, Sammy Chan Sum Yu will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves 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 a resolution 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

(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.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Responsibility (continued)

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.

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 2014 consists of six Directors as set out below:

Members	Status of Directorship
Dato' Huang Sin Cheng	Independent Non-Executive Director, Chairman
Ramaswamy Athappan	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

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

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

Name	Number of Board Meetings	
	Attended	Percentage (%)
Dato' Huang Sin Cheng	6/6	100
Ramaswamy Athappan	6/6	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

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.

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 members who are independent non-executive directors. The composition of the committee is as follows:

Members	Status of Directorship
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

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(i) Audit Committee (continued)

The AC met four (4) times during the financial year and the attendance of the members was as follows:

Name	Number of Meetings	
	Attended	Percentage (%)
Datuk Abu Hassan bin Kendut	4/4	100
Abdullah bin Tarmugi	4/4	100
Zainul Abidin bin Mohamed Rasheed	4/4	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 Audit Committee ("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 members who are independent non-executive directors and two members who are non-independent non-executive directors. The composition of the committee is as follows:

Members	Status of Directorship
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Ramaswamy Athappan	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(ii) Risk Management Committee (continued)

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

Name	Number of Meetings	
	Attended	Percentage (%)
Zainul Abidin bin Mohamed Rasheed	4/4	100
Dato' Huang Sin Cheng	4/4	100
Ramaswamy Athappan	3/4	75
Sammy Chan Sum Yu	3/4	75
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 2014, 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).

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(i) Nomination Committee

The NC comprises three members who are independent non-executive directors and two members who are non-independent non-executive directors. The composition of the committee is as follows:

Members	Status of Directorship
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Ramaswamy Athappan	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director

The NC met three (3) times during the financial year and the attendance of the members was as follows:

Name	Number of Meetings	
	Attended	Percentage (%)
Zainul Abidin bin Mohamed Rasheed	3/3	100
Dato' Huang Sin Cheng	3/3	100
Ramaswamy Athappan	2/3	67
Sammy Chan Sum Yu	3/3	100
Abdullah bin Tarmugi	3/3	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.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(ii) Remuneration Committee

The RC comprises two members who are independent non-executive directors and two members who are non-independent non-executive directors. The composition of the committee is as follows:

Members	Status of Directorship
Abdullah bin Tarmugi	Independent Non-Executive Director, Chairman
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Ramaswamy Athappan	Non-Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Non-Executive Director

The RC met two (2) times during the financial year and the attendance of the members was as follows:

Name	Number of Meetings	
	Attended	Percentage (%)
Abdullah bin Tarmugi	2/2	100
Datuk Abu Hassan bin Kendut	2/2	100
Ramaswamy Athappan	2/2	100
Sammy Chan Sum Yu	2/2	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.

CORPORATE GOVERNANCE (CONTINUED)

(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.

(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.

CORPORATE GOVERNANCE (CONTINUED)

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

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 successfully tested the BCM Plan and the related IT Disaster Recovery Plan during the financial year, with observations from the internal audit team and an external audit service provider.

During the financial year, with the approval of BNM, the Company had engaged the services of Crowe Horwath Governance Sdn. Bhd., an international accounting firm, to perform a review on the Business Continuity Management ("BCM") Framework, "live" testing of the BCM and Information Technology function.

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 Company has a Product Development Committee which 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.

CORPORATE GOVERNANCE (CONTINUED)

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

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

(vi) A Goods and Services Tax ("GST") Committee has been in place since 2007 in view of the proposed GST implementation. The early planning in this area serves to prepare the Company for the GST regime to implement necessary operational adjustments in the areas of business processes, system development and personnel training. On 17 December 2014 the Company engaged the services of a consultant, Pricewaterhouse Coopers Taxation Services Sdn Bhd to embark on the first phase of the project by mapping the GST input/output transactions and identifying the GST implications in the Company's business operations and management information system. Based on the projected timeline as provided by the consultant, the Company should be GST ready in time for the implementation of the GST regime by the Government 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.

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.

CORPORATE GOVERNANCE (CONTINUED)

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

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.

(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.

CORPORATE GOVERNANCE (CONTINUED)

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

(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.

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 21 and 27 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:

	Holdings registered in name of Director			
	1.1.2014	Acquired	Exercised	31.12.2014
Ultimate Holding Company				
- Fairfax Financial Holdings Limited ("FFHL")				
(Common or Subordinate voting shares of no par value each)				
Ramaswamy Athappan	5,781	-	-	5,781
Sammy Chan Sum Yu	24,933	740	-	25,673

	Holdings registered in name of nominee *			
	1.1.2014	Acquired	Exercised	31.12.2014
Fellow Subsidiary				
- First Capital Insurance Limited ("FCIL")				
(Ordinary shares of SGD1 each)				
Ramaswamy Athappan	1	-	-	1

* The share is held in trust for the holding company, Fairfax Asia Limited.

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.

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.

OTHER STATUTORY INFORMATION (CONTINUED)

(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.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 7 November 2014, Bank Negara Malaysia approved the joint application made on the proposed business transfer scheme of the general insurance business of MCIS Insurance Berhad ("MCIS") to The Pacific Insurance Berhad ("PIB").

PIB and MCIS have executed the business transfer scheme, in which PIB will assume responsibility of assets and liabilities of the general insurance business of MCIS on completion date. The business transfer scheme was confirmed by the High Court of Malaysia on 27 January 2015 and is effective from 1 March 2015.

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 20 March 2015.

DATO' HUANG SIN CHENG DIRECTOR	DATUK ABU HASSAN BIN KENDUT DIRECTOR

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 Group RM	2014 Company RM	2013 Group RM	2013 Company RM
ASSETS					
Property and equipment	3	1,654,736	1,654,736	1,165,519	1,165,519
Investment properties	4	85,167	85,167	88,667	88,667
Intangible assets	5	166,953	166,953	202,243	202,243
Investments	6				
Available-for-sale financial assets		162,663,574	168,766,143	179,097,872	184,865,574
Fair value through profit or loss financial assets		20,108,789	20,108,789	18,413,447	18,413,447
Loans and receivables		22,028,618	22,028,618	38,031,275	38,031,275
Reinsurance assets	8	132,685,000	132,685,000	112,923,000	112,923,000
Insurance and other receivables	9	109,043,992	107,793,992	81,490,756	80,240,756
Loans	10	1,753,843	1,753,843	1,602,745	1,602,745
Deferred tax asset	14	3,413,850	3,413,850	-	-
Tax recoverable		7,840,755	7,840,755	5,513,505	5,513,505
Cash and cash equivalents		125,791,002	120,612,303	81,322,466	76,486,039
TOTAL ASSETS		587,236,279	586,910,149	519,851,495	519,532,770
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	11	100,000,000	100,000,000	100,000,000	100,000,000
Available-for-sale reserves		829,100	829,100	597,228	597,228
Retained earnings		71,997,139	71,997,139	69,315,420	69,315,420
		172,826,239	172,826,239	169,912,648	169,912,648
Non-controlling interest		273,801	-	261,623	-
Total equity		173,100,040	172,826,239	170,174,271	169,912,648
Insurance contract liabilities	13	361,911,000	361,911,000	308,358,000	308,358,000
Deferred tax liabilities	14	-	-	231,126	231,126
Insurance and other payables	15	52,225,239	52,172,910	41,088,098	41,030,996
Total liabilities		414,136,239	414,083,910	349,677,224	349,620,122
TOTAL EQUITY AND LIABILITIES		587,236,279	586,910,149	519,851,495	519,532,770

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

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

Group	Share capital RM	Available for-sale reserves RM	Retained earnings RM	Total equity attributable to owners of the Company RM	Non-controlling interest RM	Total equity RM
At 1 January 2013	100,000,000	1,938,187	47,893,964	149,832,151	195,826	150,027,977
Net profit for the financial year	-	-	21,421,456	21,421,456	8,768	21,430,224
Other comprehensive income for the financial year	-	(1,340,959)	-	(1,340,959)	57,029	(1,283,930)
At 31 December 2013	100,000,000	597,228	69,315,420	169,912,648	261,623	170,174,271
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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

		Non-distributable	Distributable	
Company	Share capital	Available-for-sale reserves	Retained earnings	Total
	RM	RM	RM	RM
At 1 January 2013	100,000,000	1,938,187	47,893,964	149,832,151
Net profit for the financial year	-	-	21,421,456	21,421,456
Other comprehensive income for the financial year	-	(1,340,959)	-	(1,340,959)
At 31 December 2013	100,000,000	597,228	69,315,420	169,912,648
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

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

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	Group 2014 RM	Company 2014 RM	Group 2013 RM	Company 2013 RM
Gross earned premiums	16(a)	231,805,512	231,805,512	228,780,977	228,780,977
Premiums ceded to reinsurers	16(b)	(87,413,087)	(87,413,087)	(81,832,557)	(81,832,557)
Net earned premiums	16	144,392,425	144,392,425	146,948,420	146,948,420
Investment income	17	12,371,698	11,326,247	12,393,896	11,048,421
Realised gains and losses	18	1,608,337	2,136,112	1,231,108	835,112
Fair value (losses)/gains	19	(8,566,441)	(8,566,441)	991,526	991,526
Fee and commission income	20	15,033,185	15,033,185	13,457,892	13,457,892
Other operating income		1,446,747	1,773,539	1,419,247	1,504,476
Other revenue		21,893,526	21,702,642	29,493,669	27,837,427
Total revenue		166,285,951	166,095,067	176,442,089	174,785,847
Gross benefits and claims paid	13(i)	(92,911,925)	(92,911,925)	(108,663,252)	(108,663,252)
Claims ceded to reinsurers	13(i)	20,048,215	20,048,215	40,365,054	40,365,054
Gross change in contract liabilities		(40,013,000)	(40,013,000)	(5,318,000)	(5,318,000)
Change in contract liabilities ceded to reinsurers		15,280,000	15,280,000	(18,899,000)	(18,899,000)
Net claims		(97,596,710)	(97,596,710)	(92,515,198)	(92,515,198)
Fee and commission expense		(31,373,854)	(31,373,854)	(29,473,719)	(29,473,719)
Management expenses	21	(36,855,124)	(36,669,096)	(31,845,437)	(30,197,963)
Other expenses		(68,228,978)	(68,042,950)	(61,319,156)	(59,671,682)
Profit before taxation		460,263	455,407	22,607,735	22,598,967
Taxation	22	2,226,312	2,226,312	(1,177,511)	(1,177,511)
Net profit for the financial year		2,686,575	2,681,719	21,430,224	21,421,456
Net profit for the financial year attributable to:					
Owners of the Company		2,681,719	2,681,719	21,421,456	21,421,456
Non-controlling interest		4,856	-	8,768	-
		2,686,575	2,681,719	21,430,224	21,421,456
Earnings per share attributable to owners of the Company (sen)					
Basic	23	2.7	2.7	21.4	21.4

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

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	Group 2014 RM	Company 2014 RM	Group 2013 RM	Company 2013 RM
Net profit for the financial year		2,686,575	2,681,719	21,430,224	21,421,456
Other comprehensive income:					
Items that may be subsequently reclassified to the income statement:					
Available-for-sale fair value reserves					
MMIP AFS reserve		219,614	219,614	-	-
Fair value gain/(loss) arising during the financial year		36,368	36,368	(1,434,951)	(1,434,951)
Fair value gain transferred to Statement of Income		(20,024)	(20,024)	(352,995)	(352,995)
		235,958	235,958	(1,787,946)	(1,787,946)
Tax effect thereon (Note 14)		(4,086)	(4,086)	446,987	446,987
		231,872	231,872	(1,340,959)	(1,340,959)
Total comprehensive income for the financial year		2,918,447	2,913,591	20,089,265	20,080,497
Total comprehensive income attributable to:					
Owner of the Company		2,906,269	2,913,591	20,023,468	20,080,497
Non-controlling interest		12,178	-	65,797	-
		2,918,447	2,913,591	20,089,265	20,080,497

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

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Group 2014 RM	Company 2014 RM	Group 2013 RM	Company 2013 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	460,263	455,407	22,607,735	22,598,967
Adjustment for:				
Depreciation of property and equipment	484,359	484,359	440,085	440,085
Gain on disposal of property and equipment	(15,400)	(15,400)	(12,483)	(12,483)
Gain on disposal of investment property	-	-	(121,466)	(121,466)
Property and equipment written-off	24,020	24,020	5,230	5,230
Intangibles written-off	315	315	-	-
Change in fair value of FVTPL financial assets	8,566,441	8,566,441	(991,526)	(991,526)
Depreciation of investment properties	3,500	3,500	3,500	3,500
Amortisation of intangible assets	49,475	49,475	34,169	34,169
Net gain on disposal of:				
FVTPL financial assets	(2,125,023)	(2,125,023)	(353,398)	(353,398)
AFS financial assets	507,751	(20,024)	(748,991)	(352,995)
Investment income	(12,371,698)	(11,326,247)	(12,393,896)	(11,048,421)
Other interest income	(36,865)	(36,865)	(42,076)	(42,076)
Bad debts written-off	116,167	116,167	2,221	2,221
(Write-back of)/provision for allowance for impairment losses:				
Insurance receivables	(191,840)	(191,840)	40,040	40,040
AFS investments	-	-	1,250,000	-
Profit from operations before changes in operating assets and liabilities	(4,528,535)	(4,015,715)	9,719,144	10,201,847
Purchase of investments	(52,231,645)	(52,451,788)	(79,059,324)	(78,616,545)
Proceeds from disposal/maturity of investments	75,661,989	76,189,765	69,957,789	69,561,794
(Increase)/decrease in loans and receivables	(151,098)	(151,098)	127,561	127,561
(Increase)/decrease in reinsurance assets	(19,762,000)	(19,762,000)	24,141,000	24,141,000
Increase in insurance and other receivables	(27,592,780)	(27,592,874)	(30,919,195)	(28,400,475)
Increase in insurance contract liabilities	53,553,000	53,553,000	4,992,000	4,992,000
Increase in insurance and other payables	11,137,141	11,141,914	1,381,254	1,418,201
Cash generated from operations	36,086,072	36,911,204	340,229	3,425,383

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

	Group 2014 RM	Company 2014 RM	Group 2013 RM	Company 2013 RM
Investment income received	13,084,973	11,924,891	13,090,998	11,684,232
Other interest income received	36,865	36,865	42,076	42,076
Income tax paid	(3,750,000)	(3,750,000)	(4,138,775)	(4,138,775)
Net cash generated from operating activities	45,457,910	45,122,960	9,334,528	11,012,916
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(997,596)	(997,596)	(578,949)	(578,949)
Purchase of intangible assets	(14,500)	(14,500)	(212,399)	(212,399)
Proceeds from disposal of investment properties	-	-	340,000	340,000
Proceeds from disposal of property and equipment	15,400	15,400	16,450	16,450
Distribution to non-controlling interest	7,322	-	57,029	-
Net cash used in investing activities	(989,374)	(996,696)	(377,869)	(434,898)
NET INCREASE IN CASH AND CASH EQUIVALENT	44,468,536	44,126,264	8,956,659	10,578,018
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	81,322,466	76,486,039	72,365,807	65,908,021
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	125,791,002	120,612,303	81,322,466	76,486,039
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions	117,147,553	111,984,621	69,780,749	69,967,865
Cash and cash equivalents	8,643,449	8,627,682	11,541,717	6,518,174
	125,791,002	120,612,303	81,322,466	76,486,039

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

1 CORPORATE INFORMATION

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.

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 6, Menara Prudential, No. 10, Jalan Sultan Ismail, 50250 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 20 March 2015.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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 2014:

- Amendment to MFRS 132 "Financial Instruments: Presentation" on offsetting Financial Assets and Financial Liabilities.
- Amendments to MFRS 136 "Impairment of Assets", on the recoverable amount disclosures for non-financial assets.
- IC Interpretation 21 "Levies"

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

All other standards, amendments to published standards and interpretations that are effective for the current financial year are not relevant to the Company.1

(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". The complete version of MFRS 9 was issued in November 2014.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

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

- MFRS 9 Financial instruments (continued)

  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.
  There is now a new expected credit losses model on impairment for all financial assets 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.

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 and Company has control. The Group and Company controls an entity when the Group/ Company 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.

(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.

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:

Office renovations	$33^{1}/3\%$
Motor vehicles	20%
Furniture and fittings	10%
Office equipment	10%
Computers	20% - 50%

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Property and equipment (continued)

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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment of non-financial assets

The carrying amounts of assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash generating unit (“CGU”) to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in the statement of income in the period in which it arises. An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the assets in prior years. A reversal of impairment loss for an asset is recognised in the statement of income.

(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”), held-to-maturity financial assets (“HTM”) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

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) <u>FVTPL</u>

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) <u>LAR</u>

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.

(iii) <u>HTM</u>

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. After initial measurement, HTM assets are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains or losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

(iv) <u>AFS</u>

Available-for-sale (“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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

(ii) Available-for-sale financial assets

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.

(m) Product classification

The Group and 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(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%

- 1/8th method for all other classes of overseas inward treaty business, with a deduction of 20% for commission

- non-annual policies are time-apportioned over the period of the risks

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(r) Other revenue recognition (continued)

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company’s accounting policies

In the process of applying the 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 statements.

(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.

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.

3 PROPERTY AND EQUIPMENT

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Capital work-in progress RM	Total
Group/Company					
2014					
Cost					
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
Accumulated depreciation					
At 1 January 2014	1,310,761	175,100	3,366,673	-	4,852,534
Charge for the financial year	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

3 PROPERTY AND EQUIPMENT (CONTINUED)

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
Group/Company				
2013				
Cost				
At 1 January 2013	1,355,637	402,970	5,564,023	7,322,630
Additions	-	-	578,949	578,949
Disposals	-	-	(80,650)	(80,650)
Write-offs	-	-	(1,802,876)	(1,802,876)
At 31 December 2013	1,355,637	402,970	4,259,446	6,018,053
Accumulated depreciation				
At 1 January 2013	1,263,290	96,477	4,927,011	6,286,778
Charge for the financial year	47,471	78,623	313,991	440,085
Disposals	-	-	(76,683)	(76,683)
Write-offs	-	-	(1,797,646)	(1,797,646)
At 31 December 2013	1,310,761	175,100	3,366,673	4,852,534
Net book value	44,876	227,870	892,773	1,165,519

4 INVESTMENT PROPERTIES

	2014 RM	2013 RM
Group/Company		
Cost		
At 1 January / 31 December	175,000	175,000
Accumulated depreciation		
At 1 January	86,333	82,833
Charge for the financial year	3,500	3,500
31 December	89,833	86,333
Net book value	85,167	88,667
Fair value	450,000	450,000

The fair value of the property is estimated at RM450,000 based on a valuation performed by an independent professionally qualified valuer as at 31 December 2014. 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 2014, the only commercial investment property held by the Company is leased to a third party. Rental income from the property is included in Note 17 to the financial statements.

5 INTANGIBLE ASSETS

	Computer software	
	2014	2013
	RM	RM
Group/Company		
Cost		
At 1 January	398,023	220,123
Additions	14,500	212,399
Write-offs	(1,249)	(34,499)
At 31 December	411,274	398,023
Accumulated amortisation		
At 1 January	195,780	196,110
Charge for the financial year	49,475	34,169
Write-offs	(934)	(34,499)
At 31 December	244,321	195,780
Net book value	166,953	202,243

6 INVESTMENTS

	2014		2013	
	Group	Company	Group	Company
	RM	RM	RM	RM
Malaysian Government Securities	16,318,558	15,298,047	25,553,471	25,553,471
Corporate bonds	107,707,583	23,841,907	126,501,525	34,535,617
Unit trust investments	38,637,433	129,626,189	25,556,033	124,776,486
Short term commercial papers	-	-	1,486,843	-
Equity securities	17,334,589	17,334,589	15,949,647	15,949,647
Real Estate Investment Trusts (“REITs”)	2,774,200	2,774,200	2,463,800	2,463,800
Deposits with licensed financial institutions	22,028,618	22,028,618	38,031,275	38,031,275
	204,800,981	210,903,550	235,542,594	241,310,296

6 INVESTMENTS (CONTINUED)

The financial investments are summarised by categories as follows:

	2014		2013	
	Group RM	Company RM	Group RM	Company RM
AFS financial assets	162,663,574	168,766,143	179,097,872	184,865,574
FVTPL financial assets	20,108,789	20,108,789	18,413,447	18,413,447
LAR	22,028,618	22,028,618	38,031,275	38,031,275
	204,800,981	210,903,550	235,542,594	241,310,296
The following investments mature after 12 months:				
AFS financial assets	106,851,847	28,016,520	142,479,236	49,930,164

(a) AFS financial assets

	2014		2013	
	Group RM	Company RM	Group RM	Company RM
Fair value				
Malaysian Government Securities	16,318,558	15,298,047	25,553,471	25,553,471
Quoted in Malaysia:				
Unit trust investments	38,637,433	38,637,433	25,556,033	25,556,033
Unquoted in Malaysia:				
Unit trust investments (Wholesale Fund)	-	90,988,756	-	99,220,453
Corporate bonds	107,707,583	23,841,907	126,501,525	34,535,617
Short term commercial papers	-	-	1,486,843	-
	162,663,574	168,766,143	179,097,872	184,865,574

(b) FVTPL financial assets

	2014 Group RM	2014 Company RM	2013 Group RM	2013 Company RM
Fair value				
Equity securities	17,334,589	17,334,589	15,949,647	15,949,647
REITs	2,774,200	2,774,200	2,463,800	2,463,800
	20,108,789	20,108,789	18,413,447	18,413,447

6 INVESTMENTS (CONTINUED)

	2014		2013	
	Group	Company	Group	Company
	RM	RM	RM	RM
(c) LAR				
Amortised cost				
Deposits with commercial banks	22,028,618	22,028,618	38,031,275	38,031,275

(d) Carrying values of financial investments

Group	AFS	FVTPL	LAR	Total
	RM	RM	RM	RM
2014				
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
2013				
At 1 January 2013	179,030,694	8,613,462	39,199,174	226,843,330
Purchases	32,371,929	9,089,819	37,597,576	79,059,324
Maturities	(15,000,000)	-	(38,738,735)	(53,738,735)
Disposals	(14,835,305)	(281,360)	-	(15,116,665)
Fair value gains/(losses) recorded in:				
Statement of Income	-	991,526	-	991,526
Other comprehensive income	(1,434,951)	-	-	(1,434,951)
Fair value gains transferred to Statement of Income	(352,995)	-	-	(352,995)
Movement in accrued interest	(215,096)	-	(26,740)	(241,836)
Amortisation of premiums	(466,404)	-	-	(466,404)
At 31 December 2013	179,097,872	18,413,447	38,031,275	235,542,594

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(d) Carrying values of financial investments (continued)

Company	AFS RM	FVTPL RM	LAR RM	Total RM
2014				
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:				
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	168,766,143	20,108,789	22,028,618	210,903,550
2013				
At 1 January 2013	185,179,524	8,613,462	39,199,174	232,992,160
Purchases	31,929,150	9,089,819	37,597,576	78,616,545
Maturities	(15,000,000)	-	(38,738,735)	(53,738,735)
Disposals	(14,835,305)	(281,360)	-	(15,116,665)
Fair value gains/(losses) recorded in:				
Statement of Income	-	991,526	-	991,526
Other comprehensive Income	(1,434,951)	-	-	(1,434,951)
Fair value gains transferred to Statement of Income	(352,995)	-	-	(352,995)
Movement in accrued interest	(153,445)	-	(26,740)	(180,185)
Amortisation of premiums	(466,404)	-	-	(466,404)
At 31 December 2013	184,865,574	18,413,447	38,031,275	241,310,296

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:

Group

	Level 1 RM	Level 2 RM
2014		
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	-
	58,746,222	124,026,141
2013		
AFS		
- Malaysian Government Securities	-	25,553,471
- Corporate bonds	-	126,501,525
- Short term commercial papers	-	1,486,843
- Unit trust investments	25,556,033	-
FVTPL		
- Equity securities	15,949,647	-
- Real Estate Investment Trusts ("REITs")	2,463,800	-
	43,969,480	153,541,839

Company

	Level 1 RM	Level 2 RM
2014		
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	-
	58,746,222	130,128,710

6 INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

Company	Level 1 RM	Level 2 RM
2013		
AFS		
- Malaysian Government Securities	-	25,553,471
- Corporate bonds	-	34,535,617
- Unit trust investments	25,556,033	99,220,453
FVTPL		
- Equity securities	15,949,647	-
- Real Estate Investment Trusts ("REITs")	2,463,800	-
	43,969,480	159,309,541

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 RM90,988,756 (2013: RM99,220,453) 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.

7 STRUCTURED ENTITIES (CONTINUED)

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

	2014 RM	2013 RM
Number of wholesale unit trust fund	1	2
Average net asset value per unit of wholesale unit trust funds:		
Pacific Select Bond Fund	-	1.0040
Opus Enhanced Income Fund	1.0113	1.0046
Fair value of underlying assets:		
Corporate bonds	83,114,310	91,094,907
Malaysian Government Securities	1,015,600	-
Short term commercial papers	-	1,486,843
Deposits with licensed financial institutions	5,162,932	4,438,641
Receivables	2,006,730	2,121,361
Cash equivalents	15,314	397,426
	91,314,886	99,539,178
Total realised (loss)/gain for the financial year	(527,775)	395,996

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 above are audited by firms other than PricewaterhouseCoopers.

8 REINSURANCE ASSETS

	2014 RM	2013 RM
Group/Company		
Reinsurance of insurance contracts (Note 13)	132,685,000	112,923,000

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.

9 INSURANCE AND OTHER RECEIVABLES

	2014		2013	
	Group RM	Company RM	Group RM	Company RM
Insurance receivables:				
Due premiums including agents/ brokers and co-insurers balances	30,296,944	30,296,944	22,843,129	22,843,129
Allowance for impairment`	(208,243)	(208,243)	(376,247)	(376,247)
	30,088,701	30,088,701	22,466,882	22,466,882
Amounts due from reinsurers/ceding companies	4,071,396	4,071,396	3,710,459	3,710,459
Allowance for impairment	(198,370)	(198,370)	(222,205)	(222,205)
	3,873,026	3,873,026	3,488,254	3,488,254
Total insurance receivables	33,961,727	33,961,727	25,955,136	25,955,136
Other receivables:				
Other receivables, deposits and prepayments	11,970,684	10,720,684	4,474,558	3,224,558
Malaysian Motor Insurance Pool (“MMIP”)				
- Cash call made	27,347,901	27,347,901	17,989,134	17,989,134
- Other assets held in MMIP	35,752,981	35,752,981	33,058,229	33,058,229
Income due and accrued	10,699	10,699	13,699	13,699
Total other receivables	75,082,265	73,832,265	55,535,620	54,285,620
Total insurance and other receivables	109,043,992	107,793,992	81,490,756	80,240,756
Receivable within 12 months	45,943,110	44,693,110	30,443,393	29,193,393
Receivable after 12 months	63,100,882	63,100,882	51,047,363	51,047,363

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

MMIP as at 31 December 2014 is a net payable of RM5,994,808 (2013: RM6,213,212) after setting-off the amount receivable from MMIP against the Company’s share of claims and premium liabilities amounting to RM69,095,690 (2013: RM57,260,575) included in Note 13 to the financial statements.

9 INSURANCE AND OTHER RECEIVABLES (CONTINUED)

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 (2013: Nil).

10 LOANS

	2014 RM	2013 RM
Group/Company		
Staff loans:		
Secured	1,737,726	1,581,099
Unsecured	16,117	21,646
	1,753,843	1,602,745
Receivable after 12 months	1,443,585	1,332,911

The weighted average effective interest rate for staff loans as at 31 December 2014 was 2.09% (2013: 2.27%) per annum on the basis of monthly rest.

11 SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2014	2013	2014	2013
			RM	RM
Group/Company				
Authorised:				
At beginning and end of financial year	500,000,000	500,000,000	500,000,000	500,000,000
Issued and paid up:				
At beginning and end of financial year	100,000,000	100,000,000	100,000,000	100,000,000

12 RESERVES

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

As at 31 December 2014, the Company is already under the single-tier tax system. 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES

	2014			2013		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Group/Company	RM	RM	RM	RM	RM	RM
Provision for claims reported by policyholders	155,122,807	(66,637,524)	88,485,283	136,180,905	(57,356,941)	78,823,964
Provision for incurred but not reported claims ("IBNR")	78,241,193	(18,200,476)	60,040,717	57,170,095	(12,201,059)	44,969,036
Claim liabilities (i)	233,364,000	(84,838,000)	148,526,000	193,351,000	(69,558,000)	123,793,000
Premium liabilities (ii)	128,547,000	(47,847,000)	80,700,000	115,007,000	(43,365,000)	71,642,000
	361,911,000	(132,685,000)	229,226,000	308,358,000	(112,923,000)	195,435,000

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	2014			2013		
Group/Company	Gross RM	Re-insurance RM	Net RM	Gross RM	Re-insurance RM	Net RM
(i) Claim liabilities						
At 1 January	193,351,000	(69,558,000)	123,793,000	188,033,000	(88,457,000)	99,576,000
Claims incurred in the current accident year	123,760,118	(40,852,305)	82,907,813	116,338,555	(39,810,651)	76,527,904
Claims incurred in prior accident years	957,197	10,220,507	11,177,704	(5,247,486)	17,282,324	12,034,838
Movement in PRAD of claim liabilities at 75% confidence level	7,373,093	(4,696,417)	2,676,676	2,124,056	1,062,273	3,186,329
Movement in claims handling expenses	834,517	-	834,517	766,127	-	766,127
Claims paid during the financial year	(92,911,925)	20,048,215	(72,863,710)	(108,663,252)	40,365,054	(68,298,198)
At 31 December	233,364,000	(84,838,000)	148,526,000	193,351,000	(69,558,000)	123,793,000
(ii) Premium liabilities						
At 1 January	115,007,000	(43,365,000)	71,642,000	115,333,000	(48,607,000)	66,726,000
Premiums written in the financial year (Note 16)	245,345,512	(91,895,087)	153,450,425	228,454,977	(76,590,557)	151,864,420
Premiums earned during the financial year (Note 16)	(231,805,512)	87,413,087	(144,392,425)	(228,780,977)	81,832,557	(146,948,420)
At 31 December	128,547,000	(47,847,000)	80,700,000	115,007,000	(43,365,000)	71,642,000

14 DEFERRED TAX ASSET

Group/Company	2014 RM	2013 RM
At 1 January	(231,126)	193,265
- Recognised in the statement of income (Note 22)	3,649,062	(871,378)
- Recognised in other comprehensive income	(4,086)	446,987
At 31 December	3,413,850	(231,126)

	Receivables RM	Fair value changes on investments RM	Unutilised tax loss RM	Premium liabilities RM	Others RM	Total RM
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						(543,873)
Net deferred tax assets (after offsetting)						3,413,850

14 DEFERRED TAX ASSET (CONTINUED)

2014	Fair value changes on investments RM	Property and equipment RM	Premium liabilities RM	Total RM
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				(543,873)
Net deferred tax liabilities (after offsetting)				-

2013	Receivables RM	Others RM	Total RM
Deferred tax asset			
At 1 January 2013	33,966	1,086,374	1,120,340
- Recognised in statement of income	10,681	(21,022)	(10,341)
At 31 December 2013 (before offsetting)	44,647	1,065,352	1,109,999
Offsetting			(1,109,999)
Net deferred tax assets (after offsetting)			-

14 DEFERRED TAX ASSET (CONTINUED)

	Fair value changes on investments RM	Property and equipment RM	Premium liabilities RM	Total RM
2013				
Deferred tax liabilities				
At 1 January 2013	746,176	180,899	-	927,075
- Recognised in statement of income	247,882	105,492	507,663	861,037
- Recognised in other comprehensive income	(446,987)	-	-	(446,987)
At 31 December 2013 (before offsetting)	547,071	286,391	507,663	1,341,125
Offsetting				(1,109,999)
Net deferred tax liabilities (after offsetting)				231,126

	2014 RM	2013 RM
Current	3,085,158	518,281
Non-current	328,692	(749,407)

15 INSURANCE AND OTHER PAYABLES

	2014		2013	
	Group RM	Company RM	Group RM	Company RM
Trade payables:				
Amount due to reinsurers/ ceding companies	31,628,306	31,628,306	19,182,975	19,182,975
Amount due to brokers, co-insurers and insureds	9,633,104	9,633,104	10,752,539	10,752,539
Deposits received from reinsurers	513,578	513,578	-	-
	41,774,988	41,774,988	29,935,514	29,935,514

15 INSURANCE AND OTHER PAYABLES (CONTINUED)

	2014		2013	
	Group RM	Company RM	Group RM	Company RM
Other payables:				
Accrual for agents' profit commission	2,000,000	2,000,000	2,051,326	2,051,326
Accrual for bonus (including EPF for bonus)	2,895,776	2,895,776	3,120,087	3,120,087
Service tax payable	1,196,993	1,196,993	896,551	896,551
Cash collateral held for bond business	530,095	530,095	1,410,190	1,410,190
Other payables and accrued liabilities	3,827,387	3,775,058	3,674,430	3,617,328
	10,450,251	10,397,922	11,152,584	11,095,482
Total insurance and other payables	52,225,239	52,172,910	41,088,098	41,030,996
Payable within 12 months	52,059,765	52,007,436	39,972,940	39,915,838
Payable after 12 months	165,474	165,474	1,115,158	1,115,158

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 (2013: Nil).

16 NET EARNED PREMIUMS

Group/Company	2014 RM	2013 RM
(a) Gross earned premiums		
Written premiums (Note 13(ii))	245,345,512	228,454,977
Change in premium liabilities	(13,540,000)	326,000
	231,805,512	228,780,977
(b) Premium ceded to reinsurers		
Ceded premiums (Note 13(ii))	(91,895,087)	(76,590,557)
Change in premium liabilities	4,482,000	(5,242,000)
	(87,413,087)	(81,832,557)
Net earned premiums	144,392,425	146,948,420

17 INVESTMENT INCOME

	2014		2013	
	Group RM	Company RM	Group RM	Company RM
Rental income from investment properties	36,100	36,100	39,848	39,848
Financial assets at FVTPL				
Dividend income				
- equity securities	344,092	344,092	183,323	183,323
- REITs	146,470	146,470	141,072	141,072
AFS financial assets				
Interest income	4,649,543	2,390,641	8,146,002	3,431,639
Dividend income – unit trusts	3,168,608	4,455,526	898,507	4,379,050
Interest income from loans and receivables	1,189,008	1,189,008	1,258,882	1,258,882
Profit income from cash & cash equivalents	3,113,267	3,039,800	2,192,666	2,081,011
Amortisation of premiums, net of accretion of discounts	(275,390)	(275,390)	(466,404)	(466,404)
	12,371,698	11,326,247	12,393,896	11,048,421

18 REALISED (LOSSES)/ GAINS

	2014 Group RM	2014 Company RM	2013 Group RM	2013 Company RM
Financial assets at FVTPL				
Realised gains:				
Equity securities	2,125,023	2,125,023	316,950	316,950
REITs	-	-	36,448	36,448
Total realised gains for financial assets at FVTPL	2,125,023	2,125,023	353,398	353,398
AFS financial assets				
Realised gains:				
Corporate bonds	(527,775)	-	748,991	352,995
Unit trusts	20,024	20,024	-	-
Total realised (losses)/ gains for AFS financial assets	(507,751)	20,024	748,991	352,995
Property and equipment				
Realised gains	15,400	15,400	12,483	12,483
Realised losses	(24,020)	(24,020)	(5,230)	(5,230)
Total realised (losses)/gains for property and equipment	(8,620)	(8,620)	7,253	7,253
Intangible assets				
Realised losses	(315)	(315)	-	-
Investment properties				
Realised gains	-	-	121,466	121,466
	1,608,337	2,136,112	1,231,108	835,112

19 FAIR VALUE GAINS AND LOSSES

Group/Company	2014 RM	2013 RM
Financial assets at FVTPL	(8,566,441)	991,526

20 FEES AND COMMISSION INCOME

Group/Company	2014 RM	2013 RM
Reinsurance commission income	15,033,185	13,457,892

21 MANAGEMENT EXPENSES

	Note	2014 Group RM	2014 Company RM	2013 Group RM	2013 Company RM
Employee benefits expenses	21(a)	23,090,250	23,090,250	20,472,549	20,472,549
Directors' fees	21(b)	331,600	331,600	321,275	321,275
Auditors' remuneration					
- Audit related services		167,500	167,500	161,958	150,000
- Non-audit related services		472,000	472,000	22,000	22,000
Depreciation of property and equipment	3	484,359	484,359	440,085	440,085
Depreciation of investment properties	4	3,500	3,500	3,500	3,500
Direct operating expenses of investment properties					
- revenue generating	4	20,530	20,530	26,643	26,643
Amortisation of intangible assets	5	49,475	49,475	34,169	34,169
Bad debts written-off		116,167	116,167	2,221	2,221
(Write-back of)/provision for allowance for impairment losses					
- insurance receivables		(191,840)	(191,840)	40,040	40,040
- AFS investments		-	-	1,250,000	-
Office rental		1,682,439	1,682,439	1,717,801	1,717,801
Office equipment rental		348,241	348,241	369,164	369,164
Computer maintenance		1,295,046	1,295,046	1,297,170	1,297,170
Entertainment		536,826	536,826	434,915	434,915
Transport and travelling		476,952	476,952	400,474	400,474
Printing and stationery		319,602	319,602	242,456	242,456
Padunet networking charges		418,937	418,937	435,756	435,756
Management fees to holding company		335,500	335,500	-	-
Stamp duties on business transfer agreement		1,278,162	1,278,162	-	-
Bank charges		1,545,853	1,545,853	1,385,939	1,385,637
Other expenses		4,074,025	3,887,997	2,787,322	2,402,108
		36,855,124	36,669,096	31,845,437	30,197,963

21 MANAGEMENT EXPENSES (CONTINUED)

(a) Employee benefits expense

	2014		2013	
	Group	Company	Group	Company
	RM	RM	RM	RM
Wages and salaries	18,551,810	18,551,810	16,401,581	16,401,581
Social security contributions	121,546	121,546	116,529	116,529
Contributions to defined contribution plan, EPF	2,742,376	2,742,376	2,514,589	2,514,589
Employee share ownership plan ("ESOP")	156,890	156,890	73,567	73,567
Other benefits	1,517,628	1,517,628	1,366,283	1,366,283
	23,090,250	23,090,250	20,472,549	20,472,549

(b) Directors' remuneration

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

	2014	2013
	RM	RM
Group/Company		
Non-executive Directors' fees	331,600	321,275

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

	Number of Directors	
	2014	2013
Group/Company		
Non-executive Directors:		
Below RM100,000	4	4

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

Group/Company	2014 RM	2013 RM
Salary and other emoluments	541,995	430,071
Bonus	93,280	364,446
Contribution to defined contribution plan	104,479	126,471
Estimated money value of benefits-in-kind	17,718	17,273
	757,472	938,261

22 TAXATION

Group/Company	2014 RM	2013 RM
Income tax:		
Malaysian income tax	-	101,666
Underprovision in respect of prior years	1,422,750	204,467
	1,422,750	306,133
Deferred tax relating to origination and reversal of temporary differences (Note 14)	(3,649,062)	871,378
Tax expense for the financial year	(2,226,312)	1,177,511

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2013: 25%) on the estimated assessable profit for the financial year.

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:

Group	2014 RM	2013 RM
Profit before taxation	460,263	22,607,735
Taxation at Malaysian statutory income tax rate of 25% (2013: 25%)	115,066	5,651,934
Expenses not deductible for tax purposes	714,139	425,868
Income not subject to tax	(1,284,243)	(1,486,316)
Tax credit from MMIP cash calls *	(2,339,692)	(4,497,284)
Underprovision of income tax in prior years	1,422,750	204,467
Recognition of previously unrecognised deferred tax	(854,332)	878,842
Tax expense for the financial year	(2,226,312)	1,177,511

22 TAXATION (CONTINUED)

	2014 RM	2013 RM
Group/Company		
Profit before taxation	455,407	22,598,967
Taxation at Malaysian statutory income tax rate of 25% (2013: 25%)	113,852	5,649,742
Expenses not deductible for tax purposes	667,632	117,605
Income not subject to tax	(1,236,522)	(1,175,861)
Tax credit from MMIP cash calls *	(2,339,692)	(4,497,284)
Underprovision of income tax in prior years	1,422,750	204,467
Recognition of previously unrecognised deferred tax	(854,332)	878,842
Tax expense for the financial year	(2,226,312)	1,177,511

* The tax credit from MMIP cash calls for the financial year of RM2,339,692 (2013: RM4,497,284) 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.

23 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 100,000,000 (2013: 100,000,000).

	2014		2013	
	Group RM	Company RM	Group RM	Company RM
Net profit for the financial year	2,686,575	2,681,719	21,430,224	21,421,456

24 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 2014.

25 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:

Group/Company	2014 RM	2013 RM
Future minimum rental payment:		
Not later than 1 year	306,960	301,440
Later than 1 year and not later than 5 years	566,040	846,780
	873,000	1,148,220

26 CAPITAL COMMITMENTS

	2014 RM	2013 RM
Group/Company		
Approved and contracted for:		
Office suites	52,866,000	-
Computers	560,452	7,260
Renovations	286,010	-
Intangibles	-	132,789
Office equipment	15,629	4,288
Furniture and fittings	26,320	-
	53,754,411	144,337

27 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.

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:

	Significant transactions		Carrying value	
	2014	2013	2014	2013
Group/Company	RM	RM	RM	RM
Fellow subsidiary:				
Income				
Commission receivable				
- CRC Reinsurance Limited (Barbados)	334,039	-	-	-
- First Capital Insurance Limited	232,038	79,658	-	-
- Falcon Insurance Co. (HK) Ltd	673	673	-	-
- Wentworth Insurance Company Limited (Labuan)	217,477	-	-	-
Expense				
Reinsurance premium ceded				
- CRC Reinsurance Limited (Barbados)	1,507,815	-	-	-
- First Capital Insurance Limited	2,945,259	825,235	-	-
- Falcon Insurance Co. (HK) Ltd	14,538	22,225	-	-
- Wentworth Insurance Company Limited (Labuan)	1,155,442	-	-	-
Investment management fees				
- Hamblin Watsa Investment Counsel Ltd	240,608	200,009	-	-
Management fees				
- Fairfax Asia Limited	335,500	-	-	-
Receivables				
Other balances due from				
- Fairfax Asia Limited	-	-	22,737	-
Payables				
Reinsurance balances due to				
- First Capital Insurance Limited	-	-	2,532,234	507,717
- Falcon Insurance Co. (HK) Ltd	-	-	563	7,742
- Wentworth Insurance Company Limited (Labuan)	-	-	842,048	-
Key management of the company:				
Secured staff loans outstanding	-	-	-	84,524

27 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Compensation of key management personnel

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

	2014 RM	2013 RM
Short-term employee benefits	1,684,131	1,978,969
Defined contribution plan	208,602	338,842
	1,892,733	2,317,811

* Includes compensation payable to key management personnel at the end of reporting period of RM331,600 (2013: RM975,325).

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 Head of Financial Services.

28 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.

(b) Regulatory framework

Insurers have to comply with the Financial Services Act, 2013 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.

28 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(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%.

29 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.

29 INSURANCE RISK

The Group and Company's insurance contract liabilities exposure by class of business is as follows:

	2014			2013		
Group/Company	Gross RM	Re-insurance RM	Net RM	Gross RM	Re-insurance RM	Net RM
Claim liabilities						
Motor	107,303,000	(1,816,000)	105,487,000	88,111,000	(1,727,000)	86,384,000
Fire	22,548,000	(15,205,000)	7,343,000	18,694,000	(12,727,000)	5,967,000
Marine, Aviation and Transit	40,557,000	(32,350,000)	8,207,000	24,054,000	(20,487,000)	3,567,000
Medical and Health	8,600,000	(175,000)	8,425,000	8,004,000	(132,000)	7,872,000
Miscellaneous	54,356,000	(35,292,000)	19,064,000	54,488,000	(34,485,000)	20,003,000
	233,364,000	(84,838,000)	148,526,000	193,351,000	(69,558,000)	123,793,000
Premium liabilities						
Motor	57,071,000	(18,866,000)	38,205,000	47,994,000	(15,667,000)	32,327,000
Fire	9,811,000	(3,978,000)	5,833,000	6,649,000	(2,748,000)	3,901,000
Marine, Aviation and Transit	5,641,000	(2,287,000)	3,354,000	4,876,000	(2,015,000)	2,861,000
Medical and Health	41,141,000	(16,681,000)	24,460,000	40,055,000	(16,556,000)	23,499,000
Miscellaneous	14,883,000	(6,035,000)	8,848,000	15,433,000	(6,379,000)	9,054,000
	128,547,000	(47,847,000)	80,700,000	115,007,000	(43,365,000)	71,642,000

29 INSURANCE RISK (CONTINUED)

Key assumptions

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

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

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

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.

29 INSURANCE RISK (CONTINUED)

Sensitivities (continued)

Group/Company	Change in assumptions	Impact on gross liabilities RM	Impact on net liabilities RM	Impact on profit before tax RM	Impact on equity RM
2014					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	765,000	355,000	(355,000)	(266,250)
Loss ratio	+5%	12,680,000	6,461,000	(6,461,000)	(4,845,750)
Claim handling expenses	+5%	318,000	318,000	(318,000)	(238,500)
2013					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	447,000	272,000	(272,000)	(204,000)
Loss ratio	+5%	16,635,000	6,456,000	(6,456,000)	(4,842,000)
Claim handling expenses	+5%	272,000	271,000	(271,000)	(203,250)

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2014:

Group/Company

Accident year	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
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 late		(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		(105,826,990)	(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)	
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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2014: (continued)

Group/Company

Accident year	Note	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
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	13										233,364,000

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities for 2014:

Group/Company

Accident year	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
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		68,064,372	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	65,790,686	63,839,900	66,923,137	64,872,867			
Three years late		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)	
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

29 INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities for 2014: (continued)

Group/Company

Accident year	Note	Prior to 2007 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
Net general insurance outstanding liabilities (treaty inwards)											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	13										148,526,000

29 INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2013:

Group/Company

Accident year	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		77,898,739	115,372,773	128,437,501	89,290,332	80,623,250	144,171,467	135,203,325	116,338,554	
One year later		75,864,402	85,828,743	79,515,985	92,169,233	87,820,763	120,667,544	119,708,428		
Two years later		53,444,656	108,881,419	76,147,747	89,143,709	79,606,318	121,099,270			
Three years later		71,750,374	108,411,966	75,274,487	87,570,573	75,096,778				
Four years later		71,278,686	108,312,090	74,915,371	86,212,216					
Five years later		70,866,751	108,033,202	74,346,645						
Six years later		70,897,996	107,518,171							
Seven years later		66,438,902								
Current estimate of cumulative claims incurred		66,438,902	107,518,171	74,346,645	86,212,216	75,096,778	121,099,270	119,708,428	116,338,554	
At end of accident year		(35,651,536)	(43,666,569)	(42,502,687)	(44,790,938)	(36,889,706)	(45,032,760)	(38,341,088)	(42,066,707)	
One year later		(58,977,943)	(81,768,206)	(65,226,954)	(66,629,520)	(64,369,651)	(100,846,814)	(87,538,028)		
Two years later		(62,694,290)	(98,501,691)	(69,928,864)	(77,625,072)	(68,499,657)	(108,290,519)			
Three years late		(64,536,458)	(103,112,378)	(71,506,197)	(79,800,667)	(70,835,395)				
Four years later		(66,091,734)	(104,527,673)	(72,485,699)	(81,358,071)					
Five years later		(66,413,002)	(105,826,990)	(72,716,879)						
Six years later		(66,605,175)	(106,102,270)							
Seven years later		(66,748,098)								
Cumulative payments to-date		(66,748,098)	(106,102,270)	(72,716,879)	(81,358,071)	(70,835,395)	(108,290,519)	(87,538,028)	(42,066,707)	
Gross general insurance outstanding liabilities (direct and facultative)	1,060,250	(309,196)	1,415,901	1,629,766	4,854,145	4,261,383	12,808,751	32,170,400	74,271,847	132,163,247

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29 INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2013 (continued):

Group/Company

Accident year	Note	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
Gross general insurance outstanding liabilities (treaty inward)											43,316,507
Best estimate of claim liabilities											175,479,754
Claims handling expenses											4,948,861
PRAD at 75% confidence level											12,922,385
Gross general insurance contract liabilities per statement of financial position	13										193,351,000

29 INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities for 2013:

Group/Company

Accident year	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		66,582,424	71,729,810	68,953,095	67,842,838	65,160,963	70,626,359	71,293,412	76,527,904	
One year later		64,158,819	68,064,372	67,639,880	67,842,778	65,221,561	68,348,022	67,364,621		
Two years later		60,061,777	69,698,769	65,465,600	65,790,686	63,839,900	66,923,137			
Three years late		60,308,636	70,449,562	64,884,601	64,330,681	60,645,873				
Four years later		60,114,203	69,852,976	63,929,753	63,989,789					
Five years later		59,976,494	69,672,520	63,917,284						
Six years later		59,807,380	69,630,516							
Seven years later		58,824,096								
Current estimate of cumulative claims incurred		58,824,096	69,630,516	63,917,284	63,989,789	60,645,873	66,923,137	67,364,621	76,527,904	
At end of accident year		(32,641,681)	(37,256,847)	(38,288,857)	(38,768,160)	(34,150,025)	(36,266,616)	(35,186,016)	(36,078,103)	
One year later		(52,282,674)	(59,293,106)	(56,976,319)	(56,237,346)	(53,401,540)	(56,248,456)	(54,745,833)		
Two years later		(55,226,345)	(63,397,062)	(60,998,930)	(59,897,881)	(56,659,878)	(60,768,608)			
Three years later		(56,959,090)	(66,690,768)	(61,996,064)	(61,498,223)	(58,453,152)				
Four years later		(58,352,746)	(67,697,426)	(62,672,785)	(61,805,822)					
Five years later		(58,702,848)	(68,571,702)	(62,871,078)						
Six years later		(58,880,911)	(68,823,673)							
Seven years later		(59,061,747)								
Cumulative payments to-date		(59,061,747)	(68,823,673)	(62,871,078)	(61,805,822)	(58,453,152)	(60,768,608)	(54,745,833)	(36,078,103)	
Net general insurance outstanding liabilities (direct and facultative)	897,102	(237,651)	806,843	1,046,206	2,183,967	2,192,721	6,154,529	12,618,788	40,449,801	66,112,306

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities for 2013: (continued)

Group/Company

Accident year	Note	Prior to 2006 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
Net general insurance outstanding liabilities (treaty inwards)											43,316,507
Best estimate of claim liabilities											109,428,813
Claims handling expenses											4,948,861
PRAD at 75% confidence level											9,415,326
Net general insurance contract liabilities per statement of financial position	13										123,793,000

30 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.

<u>Credit exposure</u>

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.

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating

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

2014	Neither past-due nor impaired: Investment grade	Neither past-due nor impaired: Not rated	Past-due but not impaired	Past-due and impaired	Total
	RM	RM	RM	RM	RM
Group					
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	34,368,340
Cash and cash equivalents	125,781,040	9,962	-	-	125,791,002
Allowance for impairment	-	-	-	(406,613)	(406,613)
	248,803,728	241,529,742	6,905,240	-	497,238,710
Company					
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)
	161,817,451	329,439,889	6,905,240	-	498,162,580

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2013	Neither past-due nor impared Investment grade	Not rated	Past-due but not impaired	Past due and impared	Total
	RM	RM	RM	RM	
Group					
LAR					
Fixed and call deposits	30,872,363	7,158,912	-	-	38,031,275
AFS financial investments					
Malaysian Government Securities	-	25,553,471	-	-	25,553,471
Corporate bonds	126,501,525	-	-	-	126,501,525
Unit trusts	-	25,556,033	-	-	25,556,033
Short term commercial papers	1,486,843	-	-	-	1,486,843
FVTPL financial investments					
Equity securities	-	15,949,647	-	-	15,949,647
REITs	-	2,463,800	-	-	2,463,800
Reinsurance assets	-	112,923,000	-	-	112,923,000
Insurance receivables	1,107,053	20,135,588	4,712,495	598,452	26,553,588
Cash and cash equivalents	81,305,589	16,877	-	-	81,322,466
Allowance for impairment	-	-	-	(598,452)	(598,452)
	241,273,373	209,757,328	4,712,495	-	455,743,196
Company					
LAR					
Fixed and call deposits	30,872,363	7,158,912	-	-	38,031,275
AFS financial investments					
Malaysian Government Securities	-	25,553,471	-	-	25,553,471
Corporate bonds	34,535,617	-	-	-	34,535,617
Unit trusts	-	124,776,486	-	-	124,776,486
FVTPL financial investments					
Equity securities	-	15,949,647	-	-	15,949,647
REITs	-	2,463,800	-	-	2,463,800
Reinsurance assets	-	112,923,000	-	-	112,923,000
Insurance receivables	1,107,053	20,135,588	4,712,495	598,452	26,553,588
Cash and cash equivalents	76,469,162	16,877	-	-	76,486,039
Allowance for impairment	-	-	-	(598,452)	(598,452)
	142,984,195	308,977,781	4,712,495	-	456,674,471

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

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

2014	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
Group						
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
	37,622,447	198,287,605	13,415,827	75,020	247,837,811	497,238,710
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
	37,622,447	198,287,605	13,415,827	75,020	247,837,811	497,238,710

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2014	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
Company						
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	-	-	-	-	15,298,047	15,298,047
Corporate bonds	13,365,565	10,476,342	-	-	-	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	-	-	1,957,672	75,020	31,929,035	33,961,727
Cash and bank balances	8,354,237	112,226,669	21,435	-	9,962	120,612,303
	27,444,656	128,446,399	6,448,547	75,020	335,747,958	498,162,580
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
	27,444,656	128,446,399	6,448,547	75,020	335,747,958	498,162,580

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2013	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
Group						
LAR						
Fixed and call deposits	8,808,921	8,078,367	13,987,075	-	7,156,912	38,031,275
AFS financial investments						
Malaysian Government Securities	-	-	-	-	25,553,471	25,553,471
Corporate bonds	28,207,115	86,361,163	11,933,247	-	-	126,501,525
Unit trusts	-	-	-	-	25,556,033	25,556,033
Short term Commercial papers	1,486,843	-	-	-	-	1,486,843
FVTPL financial investments						
Equity securities	-	-	-	-	15,949,647	15,949,647
REITs	-	-	-	-	2,463,800	2,463,800
Reinsurance assets	-	-	-	-	112,923,000	112,923,000
Insurance receivables	-	-	1,663,374	143,288	24,148,474	25,955,136
Cash and bank balances	10,761,495	70,534,912	9,182	-	16,877	81,322,466
	49,264,374	164,974,442	27,592,878	143,288	213,768,214	455,743,196
Neither past-due nor impaired	49,264,374	164,974,442	26,897,854	138,703	209,755,328	451,030,701
Past-due but not impaired	-	-	695,024	4,585	4,012,886	4,712,495
	49,264,374	164,974,442	27,592,878	143,288	213,768,214	455,743,196

30 FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2013	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
Company						
LAR						
Fixed and call deposits	8,808,921	8,078,367	13,987,075	-	7,156,912	38,031,275
AFS financial investments						
Malaysian Government Securities	-	-	-	-	25,553,471	25,553,471
Corporate bonds	13,359,357	21,176,260	-	-	-	34,535,617
Unit trusts	-	-	-	-	124,776,486	124,776,486
FVTPL financial investments						
Equity securities	-	-	-	-	15,949,647	15,949,647
REITs	-	-	-	-	2,463,800	2,463,800
Reinsurance assets	-	-	-	-	112,923,000	112,923,000
Insurance receivables	-	-	1,663,374	143,288	24,148,474	25,955,136
Cash and bank balances	6,322,494	70,137,486	9,182	-	16,877	76,486,039
	28,490,772	99,392,113	15,659,631	143,288	312,988,667	456,674,471
Neither past-due nor impaired	28,490,772	99,392,113	14,964,607	138,703	308,975,781	451,961,976
Past-due but not impaired	-	-	695,024	4,585	4,012,886	4,712,495
	28,490,772	99,392,113	15,659,631	143,288	312,988,667	456,674,471

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.

30 FINANCIAL RISKS (CONTINUED)

Age analysis of financial assets past-due but not impaired

Group/Company	<30 days	31 to 60 days	61 to 90 days	91 to 180 days	>180 days	Total
2014						
Insurance receivables	863,066	2,275,266	1,069,842	1,558,133	1,138,933	6,905,240
2013						
Insurance receivables	1,278,861	321,348	795,191	1,473,039	844,056	4,712,495

* 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.

At 31 December 2014, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM598,452 (2013: RM558,413). 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 is as follows:

	Allowance for impairment losses	
	2014	2013
	RM	RM
Group/Company		
At 1 January	598,452	558,413
(Write back of)/allowance for the financial year	(75,672)	42,260
Bad debts written-off	(116,167)	(2,221)
At 31 December	406,613	598,452

30 FINANCIAL RISKS (CONTINUED)

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.

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.

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2014								
Group								
Financial investments:								
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

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2014								
Company								
Financial investments:								
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

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2014								
Group/Company								
Insurance contract liabilities – claim liabilities	233,364,000	319,424,055	(60,312,250)	(20,040,609)	(5,707,196)	-	-	233,364,000
Insurance payables	41,774,988	41,774,988	-	-	-	-	-	41,774,988
Other payables - cash collateral held for bond business	548,034	382,560	165,474	-	-	-	-	548,034
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 2014 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2013								
Group								
Financial investments:								
LAR	38,031,275	38,840,570	-	-	-	-	-	38,840,570
AFS	179,097,872	27,849,290	49,089,430	22,924,813	79,707,350	3,565,100	25,556,033	208,692,016
FVTPL	18,413,447	-	-	-	-	-	18,413,447	18,413,447
Reinsurance assets on claim liabilities	69,558,000	40,180,697	16,822,688	11,284,516	1,270,099	-	-	69,558,000
Insurance receivables	25,955,136	25,955,136	-	-	-	-	-	25,955,136
Other receivables								
- staff loans	1,602,745	269,834	435,040	306,737	564,559	26,575	-	1,602,745
- bond collateral deposits placements	1,375,968	1,407,814	-	-	-	-	-	1,407,814
Cash and cash equivalents	81,322,466	74,695,641	-	-	-	-	6,915,600	81,611,241
Total financial assets	415,356,909	209,198,982	66,347,158	34,516,066	81,542,008	3,591,675	50,885,080	446,080,969

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2013								
Company								
Financial investments:								
LAR	38,031,275	38,840,570	-	-	-	-	-	38,840,570
AFS	184,865,574	10,254,700	14,102,330	5,954,000	39,335,000	-	124,776,486	194,422,516
FVTPL	18,413,447	-	-	-	-	-	18,413,447	18,413,447
Reinsurance assets on claim liabilities	69,558,000	40,180,697	16,822,688	11,284,516	1,270,099	-	-	69,558,000
Insurance receivables	25,955,136	25,955,136	-	-	-	-	-	25,955,136
Other receivables								
- staff loans	1,602,745	269,834	435,040	306,737	564,559	26,575	-	1,602,745
- bond collateral deposits placements	1,375,968	1,407,814	-	-	-	-	-	1,407,814
Cash and cash equivalents	76,486,039	70,256,281	-	-	-	-	6,518,174	76,774,455
Total financial assets	416,288,184	187,165,032	31,360,058	17,545,253	41,169,658	26,575	149,708,107	426,974,683

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to 1 year RM	1 – 3 years RM	3 – 5 years RM	5 – 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2013								
Group/Company								
Insurance contract liabilities – claim liabilities	193,351,000	125,563,154	35,871,931	27,446,923	4,468,992	-	-	193,351,000
Insurance payables	29,935,514	29,935,514	-	-	-	-	-	29,935,514
Other payables - cash collateral held for bond business	1,425,586	310,428	1,115,158	-	-	-	-	1,425,586
Total financial liabilities	224,712,100	155,809,096	36,987,089	27,446,923	4,468,992	-	-	224,712,100

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-current RM	Total RM
Group			
2014			
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	441,651,302	9,932,768	451,584,070
2013			
Financial investments:			
LAR	38,031,275	-	38,031,275
AFS	36,618,636	142,479,236	179,097,872
FVTPL	18,413,447	-	18,413,447
Reinsurance assets on claim liabilities	40,180,697	29,377,303	69,558,000
Insurance receivables	25,955,136	-	25,955,136
Other receivables			
- staff loans	269,834	1,332,911	1,602,745
- bond collateral deposits placements	1,375,968	-	1,375,968
Cash and cash equivalents	81,322,466	-	81,322,466
Total financial assets	242,167,459	173,189,450	415,356,909

30 FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-current RM	Total RM
Company			
2014			
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	521,410,499	(68,902,559)	452,507,940
2013			
Financial investments:			
LAR	38,031,275	-	38,031,275
AFS	134,935,410	49,930,164	184,865,574
FVTPL	18,413,447	-	18,413,447
Reinsurance assets on claim liabilities	40,180,697	29,377,303	69,558,000
Insurance receivables	25,955,136	-	25,955,136
Other receivables			
- staff loans	269,834	1,332,911	1,602,745
- bond collateral deposits placements	1,375,968	-	1,375,968
Cash and cash equivalents	76,486,039	-	76,486,039
Total financial assets	335,647,806	80,640,378	416,288,184

30 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.

30 FINANCIAL RISKS (CONTINUED)

Market price risk

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.

	2014			2013		
	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
Group						
Market value						
Available-for-sale securities:						
Unit trust investments	+5%	-	1,448,904	+5%	-	958,351
Unit trust investments	-5%	-	(1,448,904)	-5%	-	(958,351)
FVTPL:						
Equities	+5%	866,729	650,047	+5%	797,482	598,112
Equities	-5%	(866,729)	(650,047)	-5%	(797,482)	(598,112)
REITs	+5%	138,710	104,032	+5%	123,190	92,392
REITs	-5%	(138,710)	(104,032)	-5%	(123,190)	(92,392)
Company						
Market value						
Available-for-sale securities:						
Unit trust investments	+5%	-	4,860,982	+5%	-	4,679,118
Unit trust investments	-5%	-	(4,862,982)	-5%	-	(4,679,118)
FVTPL:						
Equities	+5%	866,729	650,047	+5%	797,482	598,112
Equities	-5%	(866,729)	(650,047)	-5%	(797,482)	(598,112)
REITs	+5%	138,710	104,032	+5%	123,190	92,392
REITs	-5%	(138,710)	(104,032)	-5%	(123,190)	(92,392)

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

30 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:

Group	Impact on profit before tax RM	Impact on equity* RM
2014		
Change in interest rates		
+50 basis points	(1,098,119)	(823,589)
- 50 basis points	2,368,691	1,776,518
2013		
Change in interest rates		
+50 basis points	(1,334,208)	(1,000,656)
- 50 basis points	2,242,677	1,682,008

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

30 FINANCIAL RISKS (CONTINUED)

Interest rate risk (continued)

Company	Impact on profit before tax RM	Impact on equity* RM
2014		
Change in interest rates		
+50 basis points	77,184	57,888
- 50 basis points	(66,377)	(49,783)
2013		
Change in interest rates		
+50 basis points	(502,638)	(376,978)
- 50 basis points	531,152	398,364

* Impact on equity reflects adjustments for tax, where applicable

31 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2014, as prescribed under the Risk-Based Capital Framework is provided below:

	2014 RM	2013 RM
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000,000	100,000,000
Reserves, including retained earnings	71,997,139	69,315,420
	171,997,139	169,315,420
Tier 2 Capital		
Available-for-sale-reserves	829,100	597,228
Amount deducted from capital	(3,580,803)	(202,243)
Total Capital Available	169,245,436	169,710,405

32 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 7 November 2014, Bank Negara Malaysia approved the joint application made on the proposed business transfer scheme of the general insurance business of MCIS Insurance Berhad ("MCIS") to The Pacific Insurance Berhad ("PIB").

PIB and MCIS have executed the business transfer scheme, in which PIB will assume responsibility of assets and liabilities of the general insurance business of MCIS on completion date. The business transfer scheme was confirmed by the High Court of Malaysia on 27 January 2015 and is effective from 1 March 2015.

Company No.

91603	K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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 19 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 2014 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 20 March 2015.

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 19 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 20 March 2015, before me

PESURUHJAYA SUMPAH
(W 591)
YAP LEE CHIN
MALAYSIA

COMMISSIONER FOR OATHS

No. 1, Tingkat 2,
Jalan Ampang,
50450 Kuala Lumpur

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INDEPENDENT AUDITORS' REPORT TO THE MEMBER 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 2014, 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 19 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 controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of 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 accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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 Company as at 31 December 2014 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 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

(c) Our audit report 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	MANJIT SINGH
(No. AF: 1146)	(No. 2954/03/15 (J))
Chartered Accountants	Chartered Accountant

Kuala Lumpur
20 March 2015