

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2018

**Company No.
91603-K**

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

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THE PACIFIC INSURANCE BERHAD
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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and Company for the financial year ended 31 December 2018.

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.

FINANCIAL RESULTS

	<u>Group</u> <u>RM</u>	<u>Company</u> <u>RM</u>
Net profit for the financial year	<u>1,150,936</u>	<u>1,668,410</u>

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

In the opinion of the Directors, the results of the operations of the Group and Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

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 2018.

DIRECTORS

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

Dato' Huang Sin Cheng
Sammy Chan Sum Yu
Datuk Abu Hassan bin Kendut
Zainul Abidin bin Mohamed Rasheed
Hashim bin Harun
Arumugam a/l Saminathan (appointed on 19 March 2019)
Abdullah bin Tarmugi (resigned on 4 April 2018)
Rasalingam a/l Kanagalingam (resigned on 13 December 2018)

In accordance with Article 62 (i) (d) of the Company's Constitution, Dato' Huang Sin Cheng, Datuk Abu Hassan bin Kendut, Zainul Abidin bin Mohamed Rasheed and Arumugam a/l Saminathan will retire at the forthcoming Annual General Meeting and separate resolutions will be proposed for their re-appointment as Directors in accordance with Article 62 (ii) of the Company's Constitution to hold office until the conclusion of the next Annual General Meeting of the Company.

In accordance with Article 59 of the Company's Constitution, Arumugam a/l Saminathan will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

In accordance with Article 65 of the Company's Constitution, Sammy Chan Sum Yu will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

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

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

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, the interest of a Director in office at the end of the financial year in shares and options in the Company and its related corporations during the financial year was as follows:

	<u>Holdings registered in name of a Director</u>			
	<u>01.01.2018</u>	<u>Acquired</u>	<u>Exercised</u>	<u>31.12.2018</u>
<u>Ultimate Holding Company</u>				
- Fairfax Financial Holdings Limited				
("FFHL")				
<i>(Common or Subordinate voting shares of no par value each)</i>				
Sammy Chan Sum Yu	26,378	82	-	26,460

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.

DIRECTORS' REMUNERATION

	<u>Group</u>	<u>Company</u>
	<u>RM</u>	<u>RM</u>
Directors' fees	455,505	455,505

Details of Directors' remuneration are set out in Note 22(b) to the financial statements.

INDEMNIFICATION OF DIRECTORS

The Directors and Officers of the Company are covered by a Directors' and Officers' Liability insurance maintained by the ultimate holding company, Fairfax Financial Holdings Limited ("FFHL"). The insurance covers the Malaysian subsidiaries of FFHL up to an aggregate limit of USD 10 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Directors and Officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. The premium for the insurance is RM20,112.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE

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

(a) Board Responsibility and Oversight

Board Responsibility

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

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines, BNM Policy Document ("PD") on Corporate Governance issued on 3 August 2016. The Company has complied with the standards and adopted management practices that are consistent with these guidelines and PD.

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 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.

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 Policy Document on Corporate Governance issued on 3 August 2016 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.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

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

<u>Members:</u>	<u>Status of Directorship</u>
Dato' Huang Sin Cheng	Independent Non-Executive Director, Chairman
Sammy Chan Sum Yu	Executive Director
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director
Hashim bin Harun	Independent Non-Executive Director
Arumugam a/l Saminathan (appointed on 19 March 2019)	Non-Independent Non-Executive Director
Abdullah bin Tarmugi (resigned on 4 April 2018)	Independent Non-Executive Director
Rasalingam a/l Kanagalingam (resigned on 13 December 2018)	Non-Independent Non-Executive Director

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

<u>Name</u>	<u>Number of Board Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Dato' Huang Sin Cheng	6/6	100
Sammy Chan Sum Yu	6/6	100
Datuk Abu Hassan bin Kendut	6/6	100
Zainul Abidin bin Mohamed Rasheed	6/6	100
Hashim bin Harun	6/6	100
Abdullah bin Tarmugi (resigned on 4 April 2018)	1/1	100
Rasalingam a/l Kanagalingam (resigned on 13 December 2018)	5/5	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 Secretary and the senior management of the Company to assist them in discharging their duties and responsibilities.

Directors' Profile

Dato' Huang Sin Cheng
Chairman / Independent Non-Executive Director

Dato' Huang Sin Cheng was appointed as Chairman of the Board on 24 March 2011. He is also a member of the Board Risk Management Committee, Board Nomination Committee and Board Remuneration Committee.

Dato' Huang graduated with a Bachelor of Arts (Hons) in Economics and History from the University of Malaya and obtained a Banking Diploma from the Institute of Bankers, London. He is also a Fellow of the Institute of Bankers Malaysia.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile (continued)

Dato' Huang Sin Cheng (continued)

Dato' Huang has more than 40 years of experience in the banking industry and was formerly the Deputy Governor of Bank Negara Malaysia.

Sammy Chan Sum Yu
Executive Director

Mr. Sammy Chan Sum Yu was appointed to the Board on 24 March 2011. He is also a member of the Board Nomination Committee.

Mr. Sammy Chan graduated from the University of Waterloo with a Bachelor of Mathematics (major in Actuarial Science).

Mr. Sammy Chan has over 40 years of experience in property and casualty insurance companies. Currently, he is the President of Fairfax Asia Ltd. and a key member of the due diligence team on mergers and acquisition. Mr Sammy Chan is also a member of the Board of Directors of Falcon Insurance Limited, Hong Kong; Falcon (1998) Co. Ltd., Hong Kong; The Falcon Insurance Public Co. Ltd., Thailand; as well as Alltrust Insurance Co. Ltd., China.

Datuk Abu Hassan bin Kendut
Independent Non-Executive Director

Datuk Abu Hassan bin Kendut was appointed to the Board on 16 May 2012. He is also the Chairman of the Board Audit Committee and the Board Remuneration Committee.

Datuk Abu Hassan is a member of The Malaysian Institute of Certified Public Accountants ("MICPA") and Malaysian Institute of Accountants ("MIA").

Datuk Abu Hassan has more than 40 years of experience in the field of audit and finance. He is currently the Chairman of Metrod Holding Berhad. He is also a past president of MICPA and the Asean Federation of Accountants, and was also formerly the Senior Partner of Coopers & Lybrand (currently known as PricewaterhouseCoopers PLT).

Zainul Abidin bin Mohamed Rasheed
Independent Non-Executive Director

Mr. Zainul Abidin bin Mohamed Rasheed was appointed to the Board on 31 October 2012. He is also the Chairman of the Board Risk Management Committee and the Board Nomination Committee, and a member of the Board Audit Committee.

Mr. Zainul Abidin graduated with Bachelor of Arts (Hons) in Economics and Malay Studies from the University of Singapore.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile (continued)

Zainul Abidin bin Mohamed Rasheed (continued)

Mr. Zainul Abidin comes with 40 years of wide experience relevant to the Company including managing a news media company and serving as President of the Statutory Board of the Islamic Religious Council of Singapore (MUIS). He was also the Chief Executive Officer of the Council for the Development of the Muslim Community. Currently Mr. Zainul Abidin serves on a few company boards including as an Independent Deputy Chairman of AGX-listed OM Holdings Ltd. He is also a Corporate Advisor to Temasek International Pte Ltd.

Mr. Zainul Abidin was formerly a Member of Parliament in Singapore (1997 – 2011) and served as the Senior Minister of State for Ministry of Foreign Affairs in Singapore.

**Hashim bin Harun
Independent Non-Executive Director**

Mr. Hashim bin Harun was appointed to the Board on 23 July 2015. He is a member of the Board Risk Management Committee and the Board Nomination Committee. Mr. Hashim was appointed a member of the Board Audit Committee on 21 June 2018.

Mr. Hashim graduated with a Bachelor of Arts (Hons) from the University of Malaya.

Mr. Hashim has more than 35 years of working experience at senior levels that included more than 15 years in the general insurance and reinsurance industries in Malaysia. He was the past Chairman of the Malaysian Insurance Institute ("MII") where he has served as its Chairman from 2009 to 2017. He was also a director of the Asian Institute of Finance ("AIF") from 2012 to 2017.

Mr. Hashim was previously the CEO of both Uni Asia General Insurance Bhd and Malaysian Reinsurance Berhad ("Malaysian Re") where he was instrumental in leading the companies to scale new heights by enhancing their competitiveness and efficiency. In recent years, Malaysian Re has grown in stature as an important international player having established a strong market presence in Asia, the Middle East and North Africa.

**Arumugam a/I Saminathan
Non-Independent Non-Executive Director**

Dr. Arumugam a/I Saminathan was appointed to the Board on 19 March 2019. He is also a member of the Board Audit Committee and the Board Remuneration Committee.

Dr. Arumugam graduated with a Diploma in Business Administration from Wales University, UK in 1988, a Certificate in Finance from COADY Institute St. Francis University Canada in 1989 and a Diploma in Social Studies Rural Leadership from Xavier University, Philippines in 1993. He later obtained his Master of Business Administration from Southern Pacific University, USA in 2005, and was conferred Honorable Doctorate from University California.

Dr. Arumugam is currently the Chairman of two (2) cooperatives namely, Koperasi MCIS Berhad and Koperasi Kredit Pekerja Berhad. He is also the Director of Koperasi Konsumer Berhad and MCIS Travel & Tours Sdn. Bhd.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Training attended by Board of Directors

The following are the trainings attended by the Directors:

- (i) Briefing by the in-house Accountant on MFRS 9 and Flow Rate Model.
- (ii) Financial Institution Directors' Education ("FIDE") Core Programme (Module B), attended by Mr. Rasalingam a/l Kanagalingam.
- (iii) Panel discussion on the topic of "Effective Policy Making: Harnessing Synergies and Cooperation" organised by Bank Negara Malaysia, attended by Dato' Huang Sin Cheng and Mr. Hashim bin Harun.
- (iv) FIDE Refresher Elective Programme - Emerging Risks, the Future Board, and Return on Compliance, attended by Mr. Zainul Abidin bin Mohamed Rasheed.

Board Committees

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees, namely the Board Audit Committee, Board Risk Management Committee and the Board Nomination Committee as well as the Board Remuneration 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) Board Audit Committee

The Board Audit Committee ("BAC") comprises three (3) members who are independent non-executive directors and one (1) non-independent non-executive director. The composition of the BAC is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director, Chairman
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director
Hashim bin Harun (appointed on 21 June 2018)	Independent Non-Executive Director
Arumugam a/l Saminathan (appointed on 19 March 2019)	Non-Independent Non-Executive Director
Abdullah bin Tarmugi (resigned on 4 April 2018)	Independent Non-Executive Director
Rasalingam a/l Kanagalingam (resigned on 13 December 2018)	Non-Independent Non-Executive Director

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

<u>Name</u>	<u>Number of Meetings Attended</u>	<u>Percentage (%)</u>
Datuk Abu Hassan bin Kendut	4/4	100
Zainul Abidin bin Mohamed Rasheed	4/4	100
Hashim bin Harun (appointed on 21 June 2018)	2/2	100
Abdullah bin Tarmugi (resigned on 4 April 2018)	1/1	100
Rasalingam a/l Kanagalingam (resigned on 13 December 2018)	4/4	100

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(i) Board Audit Committee (continued)

The BAC's terms of reference are in compliance with BNM PD on Corporate Governance. The BAC has independent access to the Company's internal auditors, external auditors and management so as 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 scope of work and results. The BAC reviewed the findings of the internal/external auditors and those of the examiners from BNM, as well as management's responses and actions taken to address the findings. The BAC 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 controls to safeguard shareholders' investment and the Company's assets. Besides reviewing and approving the Annual Audit Plan, the BAC also evaluated the independence, objectivity and effectiveness of the external auditors before recommending to the shareholders on their appointment or reappointment.

(ii) Board Risk Management Committee

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

<u>Members:</u>	<u>Status of Directorship</u>
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Hashim bin Harun	Independent Non-Executive Director

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

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Zainul Abidin bin Mohamed Rasheed	4/4	100
Dato' Huang Sin Cheng	4/4	100
Hashim bin Harun	4/4	100

BNM's Guidelines BNM/RH/GL 013-5 on Risk Governance requires the Board to ensure that the Company's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities. The Board must also provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework. During the financial year 2018, the BRMC 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.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(ii) Board Risk Management Committee (continued)

The BRMC was also involved in the review of requirements under the Risk-Based Capital Framework and the Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers, which included the review of the Company's capital management plan, internal target capital level and results of periodic stress tests. The Company had successfully implemented the Risk-Based Capital Framework since 2009 and the ICAAP since 2012 with a capital adequacy ratio above the internal and supervisory target capital levels.

(iii) Board Nomination and Board Remuneration Committees

The terms of reference of both Board Nomination Committee ("BNC") and Board Remuneration Committee ("BRC") are in compliance with the guidelines on the functions and responsibilities of the committees for insurers issued under BNM's PD on Corporate Governance.

Board Nomination Committee

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

<u>Members:</u>	<u>Status of Directorship</u>
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Sammy Chan Sum Yu	Executive Director
Hashim bin Harun	Independent Non-Executive Director
Abdullah bin Tarmugi (resigned on 4 April 2018)	Independent Non-Executive Director
Rasalingam a/l Kanagalingam (appointed on 21 June 2018 and resigned on 13 December 2018)	Non-Independent Non-Executive Director

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

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Zainul Abidin bin Mohamed Rasheed	4/4	100
Dato' Huang Sin Cheng	4/4	100
Sammy Chan Sum Yu	4/4	100
Hashim bin Harun	4/4	100
Abdullah bin Tarmugi (resigned on 4 April 2018)	1/1	100
Rasalingam a/l Kanagalingam (appointed on 21 June 2018 and resigned on 13 December 2018)	1/1	100

The BNC 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 regard to retiring directors, the BNC 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.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(iii) Board Nomination and Board Remuneration Committees (continued)

Board Nomination Committee (continued)

The BNC 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 BNC deliberated on Board succession plans as and when appropriate.

Board Remuneration Committee

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

<u>Members:</u>	<u>Status of Directorship</u>
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng (appointed on 21 June 2018)	Independent Non-Executive Director
Arumugam a/l Saminathan (appointed on 19 March 2019)	Non-Independent Non-Executive Director
Abdullah bin Tarmugi (resigned on 4 April 2018)	Independent Non-Executive Director
Rasalingam a/l Kanagalingam (resigned on 13 December 2018)	Non-Independent Non-Executive Director

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

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Datuk Abu Hassan bin Kendut	1/1	100
Dato' Huang Sin Cheng (appointed on 21 June 2018)	0/0	-
Abdullah bin Tarmugi (resigned on 4 April 2018)	1/1	100
Rasalingam a/l Kanagalingam (resigned on 13 December 2018)	1/1	100

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

(b) Management Accountability

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(b) Management Accountability (continued)

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) Remuneration Policy

The Remuneration Policy ("Policy") is one of the key components of the Human Resources strategy to fully support the overall business strategy.

The main functions of the Policy are to:

- support the Company's strategy to build a healthy and high performance based culture that attracts, retains, motivates and rewards employees based on merit.
- promote the achievement of strategic objectives within the company's risk appetite.

Scope of Coverage

The policy is applicable to all permanent and contract employees of the Company. We believe the long term success of the Company is directly linked to the positive attitude and caliber of employees that we employ and the working environment that we create.

Remuneration Philosophy

The company's remuneration philosophy is to:

- recruit, motivate, reward and retain employees who believe in, and live by, the Company's culture and values.
- maintain a healthy working environment that motivates high performance so that all employees can positively contribute to the strategy, vision, goals and values of the Company.
- set employees' total remuneration package at a competitive level by benchmarking to the market and providing incentives geared to agreed performance outcomes, where appropriate.

Key Remuneration Principles

The Remuneration Policy is based fundamentally on the following principles:

- The Policy is aligned to the overall business strategy, objectives and values of the Company without being detrimental to the interests of its policy holders.
- The Policy contains arrangements for ensuring that executive remuneration is fair and responsible in the context of overall company remuneration.
- The remuneration includes fixed, variable, short and long-term as well as intangible rewards (in line with market practice), or any other rewards the Company may deem fit from time to time.
- The Policy encourages employees to be prudent risk takers and to act in the interest of the Company.
- Incentives aimed at encouraging retention are clearly distinguished from those relating to rewarding performance.
- Bonus is at the discretion of the Board, subject to the performance of the Company.
- The Policy ensures compliance with the regulatory requirements and Law.
- Performance measures take into account both quantitative as well as qualitative factors consistent with Company's culture.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(c) Remuneration Policy (continued)

Remuneration Guiding Principle

Base Principle

- The key objective is to provide the base element of remuneration that reflects the person's role/position in the Company and is payable for doing the expected job.
- Base Salary is determined generally by job at a competitive and fair market rate.
- Base Salary should exclude Fixed Allowances.
- Base Salary is targeted at market median (P50) in general, but can be targeted at between market P50 to P75 for critical positions, key talents and high-value specialists.
- External competitiveness and internal equity should be well balanced.

Market Benchmarking & Positioning

- Comparisons of reward programs are primarily made against major companies that the Company competes with for business and talents in the markets where we operate in.
- Pay positioning is benchmarked to both local and foreign companies of similar size in the market.
- Participation in the remuneration survey of the financial services industry.
- Internal salary structure should be market competitive and reviewed as and when necessary.

Benefits

- Risk and non-risk benefits are market driven whilst always maintaining a balance between benefits to employees and costs to / long term interest of the Company.
- Cope with emerging benefits trends.
- Comply with local regulations.
- Long term cost containment.

Elements of the Remuneration Plan

The remuneration plan includes, but is not limited to, the following elements:

Remuneration Element	Purpose
Guaranteed package	<ul style="list-style-type: none">- Pays based on overall job requirements, accountability, complexity / variety of tasks.- Ensures that the Company attracts and retains high-performing people by paying market based guaranteed package.- May be performance based.
Short-term incentives <ul style="list-style-type: none">- Performance Bonus- Pay-for-Performance	<ul style="list-style-type: none">- Focuses on attaining results in both the short and medium term, whilst at the same time ensuring successful execution of the Company's strategic plan.- Variable component that rewards contributions based on performance and prudent risk taking behaviour.- Offers the opportunity for Pay-for-Performance to incentivise employees.
Long-term incentives	<ul style="list-style-type: none">- Crucial in retaining dedication and committed employees.- Rewards sustainable performance.
Recognition	<ul style="list-style-type: none">- Supports and reinforces innovation and entrepreneurship.- Recognises employees living the values of the company and contributing towards an entrepreneurial culture.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(c) Remuneration Policy (continued)

Communication

- Email communication to the Head of Departments (HODs) on the annual appraisal exercise and the requirements.
- Communicate the key elements and process to managers.

Interpretation

The Chief Executive Officer is authorised to resolve any issues, which may arise in the course of administering the Compensation Schemes/Plans.

Policy Review

The Policy shall be reviewed from time to time, as necessary and appropriate. Any revision to the Policy shall be reviewed by the Remuneration Committee to recommend to the Board for approval.

Material Risk Takers

Material Risk Takers are also the key management personnel and the remuneration structure is as disclosed in Note 28 to the financial statements.

(d) Corporate Independence

The Company has met all the requirements of BNM's Guidelines BNM/RH/GL 018-6 on Related Party Transactions and BNM Circular on Intercompany Charges paid to Financial Group. 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.

(e) Internal Controls and Operational Risk Management

The Board must oversee the design and development of the risk management framework and ensure that the framework is effective for controlling risk-taking activities of the Company in line with its risk appetite and has taken into account changes in the business environment. In doing so, the Board should provide constructive challenge to management on the credibility and robustness of the framework to ensure that there are no material gaps or weaknesses.

The risk management framework must enable the identification, measurement, and continuous monitoring of all relevant and material risks on a group and company-wide basis, supported by robust management information systems that facilitate the timely and reliable reporting of risks and the integration of information across the Company. The sophistication of the Company's risk management framework must keep pace with any changes in the Company's risk profile (including its business growth and complexity) and the external risk environment.

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 key risks of the Company. This process is periodically reviewed by the RMC and the Board.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

A formal risk management framework has been maintained in the Company by the Risk Management Department ("RMD") which is headed by the Head of Risk Management. The RMD reports directly and independently to the RMC of the Company.

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

- (i) The RMD identified and assessed the Company's keys risks in the risk registers on a regular basis. The key risks of the Company comprised of strategic risks, insurance risks (i.e. product risks and underwriting risks), financial risks, operational risks, and emerging risks. Control measures were formulated to mitigate all risks. In addition, the RMD also set target dates for lowering the risk rating of 'high' and 'significant' (i.e. critical) rated risks with appropriate action plans.
- (ii) The RMD maintained a database of all key risks, their control measures, any action plan, and other supporting information, in detailed risk registers.
- (iii) On a quarterly basis, the RMD reviewed the key risks, identified new/emerging risks and reported the assessment of the critical rated risks to the RMC and the Board for consideration.

The disclosure of the Company's risk management policies are set out under Notes 29, 30 and 31 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 Continuity Plan Committee is tasked to prepare, review and periodically test the effectiveness of the Company's business continuity plan ("BCP") to support critical business functions in the event of a disruption to the operations. It also has in place an IT Disaster Recovery Plan ("ITDRP") which aims to ensure that disruptions to IT operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had tested the BCP and the ITDRP last year, with observation by the internal audit team.
- (ii) The Information Technology Steering Committee ("ITSC") has the responsibility to monitor the overall efficiency, performance and effectiveness of IT services. The IT plans formulated during the financial year include the short-term and long-term IT plans which are aligned to the business strategy of the Company.
- (iii) The Pricing Steering Committee addresses the challenges of the detariffication for motor and fire. During the year, the Company increased the scope of the Pricing Steering Committee to a Product Development and Pricing Steering Committee to include the review of existing products and undertake the planning, design and development of new products, to meet the prevailing BNM guidelines, e.g. BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure. The Committee has hence been renamed to Product Development and Pricing Steering Committee. All newly developed products within the scope of the policy document are submitted to the Board for notation or approval and where appropriate to BNM for approval.

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

- (iv) 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 Committee 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 highly regulated business environment that is subject to prudential and supervisory review by BNM and Persatuan Insuran Am Malaysia ("PIAM"). The Company Secretary 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 risks, the Company has a designated Compliance Officer who is responsible for implementing a compliance framework to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines. The Compliance Department submits a compliance statement to the Board on a quarterly basis.

The Internal Audit department is headed by the Chief Internal Auditor. The Internal Audit department reports directly to the BAC.

The roles and responsibilities of the BAC with respect to Internal Audit functions are in accordance with BNM's PD on Corporate Governance issued on 3 August 2016.

Internal Audit function adopts a systematic and disciplined, risk-based audit methodology, and prepares its audit strategy and annual plan based on the risk profiles of the business and functional departments of the Company, identified through an audit risk management process. Internal Audit independently reviews the risk exposures and control processes of governance, operations and information systems implemented by Management. Internal Audit activities are guided by the annual audit plan approved by the BAC, with its status of achievement reported at every BAC meeting.

Internal Audit reports are tabled at the BAC meetings, after audit findings have been addressed by Management. Follow-up procedures are carried out by Internal Audit to ensure that agreed action plans to improve controls are implemented by Management on a timely basis. The BAC meets with the external auditors at least once annually without the presence of management 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 implementation of the external auditors' recommendations for improvement on internal controls, provided reasonable assurance that necessary control procedures are 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.

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

(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 annual review. The Company has a Code of Ethics that guides all staff in their work performance and in upholding their ethical standards.

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

(v) Whistleblowing program

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

(vi) Independence of external auditors

The Company has adopted a policy on the provision of non-audit services to be rendered by the external auditors. The Company ensures 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. 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.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(f) 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 Ombudsman for Financial Services and BNM LINK, in compliance with the requirements of BNM's BNM/RH/GL 003-9 Guidelines on Claims Settlement Practices (Consolidated) and BNM/RH/GL 000-3 Guidelines on Product Transparency and Disclosure. The Ombudsman for Financial Services and BNM LINK were set up with the view to provide alternative avenues for the policyholders/claimants to seek redress if the complaint/appeal is not resolved by the Financial Service Provider.

The Company has also taken the necessary measures to comply with the requirements pursuant to BNM's BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure and BNM/RH/PD 029-8 Phased Liberalisation of Motor and Fire Tariffs.

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.

(g) 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 ("MFRSs"), International Financial Reporting Standards, the provisions of the Companies Act, 2016 in Malaysia and relevant regulatory requirements.

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 impaired debts and the making of impairment allowance for impaired debts, and had satisfied themselves that all known impaired debts had been written off and that adequate impairment allowance had been made for impaired debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for impairment 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.

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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

(d) 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 other than as disclosed in Note 34.

(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

(f) In the opinion of the Directors:

- (i) no contingent or other liability other than as disclosed in Note 34 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.

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

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

AUDITORS' REMUNERATION

	<u>Group</u>	<u>Company</u>
	RM	RM
Auditors' remuneration	388,529	367,770
Indemnity given or insurance effected for any auditor of the company	-	-

Details of auditors' remuneration are set out in Note 22 to the financial statements.

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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 19 March 2019.



DATO' HUANG SIN CHENG
DIRECTOR



DATUK ABU HASSAN BIN KENDUT
DIRECTOR

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018		2017	
		<u>Group</u> RM	<u>Company</u> RM	<u>Group</u> RM	<u>Company</u> RM
Gross earned premiums	17(a)	561,198,012	561,198,012	503,015,272	503,015,272
Earned premiums ceded to reinsurers	17(b)	(300,917,397)	(300,917,397)	(278,217,649)	(278,217,649)
Net earned premiums	17	<u>260,280,615</u>	<u>260,280,615</u>	<u>224,797,623</u>	<u>224,797,623</u>
Investment income	18	25,802,841	24,905,128	21,545,839	20,696,017
Fee and commission income	21	64,448,518	64,448,518	60,541,325	60,541,325
Other operating revenue		1,004,752	1,001,002	1,084,104	1,083,954
Other revenue		<u>91,256,111</u>	<u>90,354,648</u>	<u>83,171,268</u>	<u>82,321,296</u>
Total revenue		<u>351,536,726</u>	<u>350,635,263</u>	<u>307,968,891</u>	<u>307,118,919</u>
Gross benefits and claims paid	13(i)	(287,510,644)	(287,510,644)	(253,412,901)	(253,412,901)
Claims ceded to reinsurers	13(i)	132,571,009	132,571,009	122,567,531	122,567,531
Gross change to claims liabilities		(49,770,966)	(49,770,966)	(22,497,810)	(22,497,810)
Change to claims liabilities ceded to reinsurers		30,268,762	30,268,762	14,017,132	14,017,132
Net benefits and claims		<u>(174,441,839)</u>	<u>(174,441,839)</u>	<u>(139,326,048)</u>	<u>(139,326,048)</u>
Fee and commission expenses		(68,632,829)	(68,632,829)	(61,444,564)	(61,444,564)
Management expenses	22	(93,494,768)	(92,623,052)	(85,296,249)	(84,668,684)
Realised (losses)/gains	19	(5,623,939)	(5,076,718)	1,742,427	1,286,094
Fair value (losses)/gains	20	(10,146,264)	(10,146,264)	6,164,946	6,164,946
Other expenses		<u>(177,897,800)</u>	<u>(176,478,863)</u>	<u>(138,833,440)</u>	<u>(138,662,208)</u>
Finance cost		<u>(1,703,625)</u>	<u>(1,703,625)</u>	<u>(1,703,622)</u>	<u>(1,703,622)</u>
(Loss)/Profit before taxation		(2,506,538)	(1,989,064)	28,105,781	27,427,041
Taxation	23	3,657,474	3,657,474	(4,626,343)	(4,626,343)
Net profit for the financial year		<u>1,150,936</u>	<u>1,668,410</u>	<u>23,479,438</u>	<u>22,800,698</u>
Net profit for the financial year attributable to:					
Owner of the Company		1,131,095	1,668,410	23,354,650	22,800,698
Unitholders		19,841	-	124,788	-
		<u>1,150,936</u>	<u>1,668,410</u>	<u>23,479,438</u>	<u>22,800,698</u>
Earnings per share attributable to owner of the Company (sen)					
Basic	24	<u>0.5</u>	<u>0.8</u>	<u>10.6</u>	<u>10.4</u>

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	2018		2017	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Net profit for the financial year	1,150,936	1,668,410	23,479,438	22,800,698
Other comprehensive income/(loss):				
<u>Items that may be subsequently</u>				
<u>reclassified to the income statement:</u>				
Fair value gain arising during the financial year	381,666	400,972	2,698,412	2,890,522
Fair value gain transferred to Statement of Income	(71,573)	(618,795)	(1,706,943)	(1,250,610)
	310,093	(217,823)	991,469	1,639,912
Tax effect thereon (Note 14)	(430)	(430)	(393,579)	(393,579)
	309,663	(218,253)	597,890	1,246,333
Total comprehensive income for the financial year	1,460,599	1,450,157	24,077,328	24,047,031
Total comprehensive income attributable to:				
Owner of the Company	1,437,596	1,450,157	23,950,536	24,047,031
Unitholders	23,003	-	126,792	-
	1,460,599	1,450,157	24,077,328	24,047,031

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS At 31 DECEMBER 2018

	Note	2018		2017	
		<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
		RM	RM	RM	RM
ASSETS					
Property and equipment	3	44,957,879	44,957,879	61,972,338	61,972,338
Investment properties	4	16,494,223	16,494,223	74,667	74,667
Intangible assets	5	41,172,631	41,172,631	40,886,685	40,886,685
Investments					
Available-for-sale					
financial assets	6	442,729,936	453,463,740	451,257,917	454,274,373
Fair value through profit					
or loss financial assets	6	31,426,016	31,426,016	52,691,351	52,691,351
Loans and receivables	6	52,312,288	52,312,288	46,446,574	46,446,574
Reinsurance assets	8	527,707,036	527,707,036	491,676,323	491,676,323
Insurance and other					
receivables	9	127,921,184	128,176,088	145,691,313	145,912,686
Loans	10	943,557	943,557	1,197,238	1,197,238
Deferred tax asset	14	6,997,899	6,997,899	2,107,181	2,107,181
Tax recoverable		11,318,150	11,318,150	12,551,824	12,551,824
Cash and cash equivalents		199,875,565	188,325,242	111,965,232	108,184,713
Total assets		<u>1,503,856,364</u>	<u>1,503,294,749</u>	<u>1,418,518,643</u>	<u>1,417,975,953</u>
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	11	219,875,038	219,875,038	219,875,038	219,875,038
Available-for-sale reserves		3,387,028	3,671,784	3,080,527	3,890,037
Retained profits		138,104,163	137,831,248	136,973,068	136,162,838
Total equity		<u>361,366,229</u>	<u>361,378,070</u>	<u>359,928,633</u>	<u>359,927,913</u>
Liabilities					
Insurance contract liabilities	13	938,893,006	938,893,006	869,329,969	869,329,969
Subordinated loan	16	30,783,265	30,783,265	29,079,640	29,079,640
Insurance and other					
payables	15	172,813,864	172,240,408	160,180,401	159,638,431
Total liabilities		<u>1,142,490,135</u>	<u>1,141,916,679</u>	<u>1,058,590,010</u>	<u>1,058,048,040</u>
Total equity and liabilities		<u>1,503,856,364</u>	<u>1,503,294,749</u>	<u>1,418,518,643</u>	<u>1,417,975,953</u>

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

<u>Group</u>	<u>Note</u>	<u>Attributable to owners of the Company</u>			
		<u>Share capital</u> RM	<u>Available for-sale reserves</u> RM	<u>Retained earnings</u> RM	<u>Total equity</u> RM
At 1 January 2017		219,875,038	2,484,641	113,618,418	335,978,097
Net profit for the financial year		-	-	23,354,650	23,354,650
Other comprehensive income for the financial year		-	595,886	-	595,886
At 31 December 2017		<u>219,875,038</u>	<u>3,080,527</u>	<u>136,973,068</u>	<u>359,928,633</u>
At 1 January 2018		219,875,038	3,080,527	136,973,068	359,928,633
Net profit for the financial year		-	-	1,131,095	1,131,095
Other comprehensive income for the financial year		-	306,501	-	306,501
At 31 December 2018		<u>219,875,038</u>	<u>3,387,028</u>	<u>138,104,163</u>	<u>361,366,229</u>

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

Company No.
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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	<u>Non-distributable</u>		<u>Distributable</u>		<u>Total</u> RM
	<u>Share capital</u> RM	<u>Available-for-sale reserves</u> RM	<u>Retained earnings</u> RM		
<u>Company</u>					
At 1 January 2017	219,875,038	2,643,704	113,362,140		335,880,882
Net profit for the financial year	-	-	22,800,698		22,800,698
Other comprehensive income for the financial year	-	1,246,333	-		1,246,333
At 31 December 2017	219,875,038	3,890,037	136,162,838		359,927,913
At 1 January 2018	219,875,038	3,890,037	136,162,838		359,927,913
Net profit for the financial year	-	-	1,668,410		1,668,410
Other comprehensive income for the financial year	-	(218,253)	-		(218,253)
At 31 December 2018	219,875,038	3,671,784	137,831,248		361,378,070

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018		2017	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/profit before taxation	(2,506,538)	(1,989,064)	28,105,781	27,427,041
Adjustment for:				
Depreciation of property and equipment	2,460,632	2,460,632	2,670,382	2,670,382
Gain on disposal of property and equipment	(11,399)	(11,399)	(35,484)	(35,484)
Property and equipment written-off	49,322	49,322	24,982	24,982
Finance costs	1,703,625	1,703,625	1,703,622	1,703,622
Change in fair value of FVTPL financial assets	11,155,899	11,155,899	(8,982,333)	(8,982,333)
Foreign currency translation differences	(1,009,635)	(1,009,635)	2,817,387	2,817,387
Depreciation of investment properties	121,228	121,228	3,500	3,500
Amortisation of intangible assets	297,910	297,910	239,666	239,666
Intangible assets written-off	-	-	261	261
Net gain on disposal of:				
AFS financial assets	(74,735)	(618,795)	(1,806,935)	(1,250,610)
Investment income	(25,402,566)	(24,504,853)	(21,171,972)	(19,431,530)
Other interest income	-	-	(37,045)	(37,045)
Bad debts written-off/(recovery)	315,703	315,703	(344,011)	(344,011)
(Write-back of)/provision for allowance for impairment losses:				
Insurance receivables and reinsurance recoverables	(868,095)	(868,095)	207,242	207,242
Reinsurance assets	(1,132,066)	(1,132,066)	(348,049)	(348,049)
Profit from operations before changes in operating assets and liabilities	(14,900,715)	(14,029,588)	3,046,994	4,665,021
Purchase of investments	(722,473,137)	(285,357,817)	(434,665,578)	(291,084,917)
Proceeds from disposal/ maturity of investments	736,911,128	292,243,404	192,056,626	94,922,439
Increase in loans and receivables	113,942	52,670	654,931	654,931
Increase in reinsurance assets	(36,030,713)	(36,030,713)	(28,157,805)	(28,157,805)
Increase in insurance and other receivables	19,234,973	19,201,442	14,459,018	14,234,937

THE PACIFIC INSURANCE BERHAD
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STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018		2017	
	Group	Company	Group	Company
	RM	RM	RM	RM
Increase in insurance contract liabilities	69,563,037	69,563,037	42,595,578	42,595,578
Increase in insurance and other payables	12,622,213	12,601,977	240,150	207,954
Cash generated from operations	65,040,728	58,244,412	(209,770,086)	(161,961,862)
Investment income received	25,486,932	24,504,853	19,187,880	19,187,880
Other interest income received	-	-	37,046	39,753
Income tax paid	-	-	(732,859)	(732,859)
Net cash generated from operating activities	90,527,660	82,749,265	(191,278,019)	(143,467,088)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(2,125,579)	(2,125,579)	(1,507,396)	(1,507,396)
Purchase of intangible assets	(494,556)	(494,556)	(86,441)	(86,441)
Completion cash payment from PAMB from acquisition of Prudential general insurance business (Note 33)	-	-	(10,000,000)	(10,000,000)
Acquisition of Prudential general insurance business (Note 33)	-	-	12,245,867	12,245,867
Cash acquired from Prudential general insurance business (Note 33)	-	-	75,711	75,711
Proceeds from disposal of property and equipment	11,399	11,399	46,447	46,447
Distribution to minority unitholders	(8,591)	-	2,004	-
Net cash used in investing activities	(2,617,327)	(2,608,736)	776,192	774,188
NET INCREASE IN CASH AND CASH EQUIVALENTS	87,910,333	80,140,529	(190,501,827)	(142,692,900)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	111,965,232	108,184,713	302,467,059	250,877,613
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	199,875,565	188,325,242	111,965,232	108,184,713

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
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STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018		2017	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions	162,327,395	150,808,452	90,621,988	86,841,469
Cash and cash equivalents	37,548,170	37,516,790	21,343,244	21,343,244
	<u>199,875,565</u>	<u>188,325,242</u>	<u>111,965,232</u>	<u>108,184,713</u>

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

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018

1. CORPORATE INFORMATION

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

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

The Company is a 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 19 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with the provisions of Financial Services Act 2013, Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The Company has met the minimum capital requirements as prescribed by the RBC Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers as at the date of the statements of financial position.

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

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.

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company that are effective

On 1 January 2018, the Company adopted the following standards mandatory for financial year beginning on or after 1 January 2018:

- MFRS 15 - Revenue from Contracts with Customers
- Amendments to MFRS 2 - Share-based Payment – Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 140 - Investment Property – Transfers of Investment Property
- IC Interpretation 22 - Foreign Currency Transactions and Advance Consideration
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 128 - Investments in Associates and Joint Ventures

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company that are effective (continued)

- Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 'Financial Instruments' before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for the Company:

- (i) temporary exemption from MFRS 9 for entities that meet specific requirements; and
- (ii) the overlay approach. Both approaches are optional

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018 and may start applying the overlay approach when it applies MFRS 9 for the first time.

The Company's business activity is predominantly insurance as the liabilities connected with the Company's insurance businesses made up of more than 90% of the Company's total liabilities. Hence, the Company qualifies for the temporary exemption from applying MFRS 9.

The following additional disclosures, required by Amendments to MFRS 4 for entity qualified and elected the temporary exemption from applying MFRS 9, present the Company's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company that are effective (continued)

- Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts (continued)

<u>Group</u>	Fair value as at 31.12.2018 RM	Change in fair value RM	Cash flows characteristic
Financial assets			
Malaysian Government Securities	68,781,903	(1,018,543)	SPPI
Government Investment Issues	82,809,272	261,262	SPPI
Corporate bonds	118,857,608	1,220,621	SPPI
Corporate bonds	7,195,116	45,360	Non-SPPI
Unit trust investments	165,086,037	21,007	Non-SPPI
Equity securities	28,199,020	(10,165,664)	Non-SPPI
Real Estate Investment Trusts ("REITs")	3,226,996	19,400	Non-SPPI
Deposits with licensed financial institutions	52,312,288	-	SPPI
Loans	943,557	-	SPPI
Cash and cash equivalents	199,875,565	-	SPPI
	<u>727,287,362</u>	<u>(9,616,557)</u>	

<u>Company</u>	Fair value as at 31.12.2018 RM	Change in fair value RM	Cash flows characteristic
Financial assets			
Corporate bonds	7,195,116	45,360	Non-SPPI
Unit trust investments	446,268,624	(43,571)	Non-SPPI
Equity securities	28,199,020	(10,165,664)	Non-SPPI
Real Estate Investment Trusts ("REITs")	3,226,996	19,400	Non-SPPI
Deposits with licensed financial institutions	52,312,288	-	SPPI
Loans	943,557	-	SPPI
Cash and cash equivalents	188,325,242	-	SPPI
	<u>726,470,843</u>	<u>(10,144,475)</u>	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company that are effective (continued)

- Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts (continued)

<u>Group</u>	Financial assets with SPPI <u>cash flows</u>	All other financial <u>assets</u>	<u>Total</u>
Changes in fair value during the financial year	RM	RM	RM
Malaysian Government Securities	(1,018,543)	-	(1,018,543)
Government Investment Issues	261,262	-	261,262
Corporate bonds	1,220,621	45,360	1,265,981
Unit trust investments	-	21,007	21,007
Equity securities	-	(10,165,664)	(10,165,664)
Real Estate Investment Trusts ("REITs")	-	19,400	19,400
Deposits with licensed financial institutions	-	-	-
Loans	-	-	-
Cash and cash equivalents	-	-	-
	<u>463,340</u>	<u>(10,079,897)</u>	<u>(9,616,557)</u>

<u>Company</u>	Financial assets with SPPI cash <u>flows</u>	All other financial <u>assets</u>	<u>Total</u>
Changes in fair value during the financial year	RM	RM	RM
Corporate bonds	-	45,360	45,360
Unit trust investments	-	(43,571)	(43,571)
Equity securities	-	(10,165,664)	(10,165,664)
Real Estate Investment Trusts ("REITs")	-	19,400	19,400
Deposits with licensed financial institutions	-	-	-
Loans	-	-	-
Cash and cash equivalents	-	-	-
Total	<u>-</u>	<u>(10,144,475)</u>	<u>(10,144,475)</u>

The adoption of MFRS 9 does not have impact on the credit risk rating grades of financial assets.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

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 Group and Company but not yet effective

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

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

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 income statement, unless this creates an accounting mismatch.

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

The Company's business activities are predominantly insurance and hence qualify for the temporary exemption from applying MFRS 9 under the Amendments to MFRS 4, Insurance Contracts, which allows insurers to defer and adopt MFRS 9 together with MFRS 17, Insurance Contracts on 1 January 2021. The Company has adopted MFRS 9 on 1 January 2019.

- MFRS 16 'Leases' (effective 1 January 2019).

MFRS 16 'Leases' supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

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 Group and Company but not yet effective (continued)

- MFRS 16 'Leases' (effective 1 January 2019) (continued)

The Company is in the midst of finalising the initial assessment of the potential impact on its financial statements. The impact of applying MFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate, the composition of the lease portfolio at that date, the latest assessment of whether the Company will exercise any lease renewal options, and the extent to which the Company chooses to use practical expedients and recognition exemptions. The most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases. As at 31 December 2018, the Company's future minimum lease payments under non-cancellable operating leases amounting to RM9,042,790 on an undiscounted basis (Note 26). The Company will adopt MFRS 16 on 1 January 2019, using the modified retrospective approach.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

- Amendments to MFRS 128 'Long-term Interests in Associates and Joint Ventures' (effective 1 January 2019) clarify that an entity should apply MFRS 9 'Financial Instruments' (including the impairment requirements) to long-term interests in an associate or joint venture, which are in substance form part of the entity's net investment, for which settlement is neither planned nor likely to occur in the foreseeable future.

In addition, such long-term interest are subject to loss allocation and impairment requirements in MFRS 128.

The amendments shall be applied retrospectively.

- Amendments to MFRS 9 'Prepayment features with negative compensation' (effective 1 January 2019) allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will be applied retrospectively.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

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 Group and Company but not yet effective (continued)

- MFRS 17 "Insurance Contracts (effective 1 January 2021) replaces MFRS 4 "Insurance Contracts"

MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 "Revenue". An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that related to financial risks either in profit or loss or in other comprehensive income.

Alternative measurement models are provided for the different insurance coverages:

- (i) Simplified Premium Allocation Approach if the insurance coverage period is a year or less.
- (ii) Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 17.

- Amendments to MFRS 119 'Plan amendment, curtailment or settlement' (effective 1 January 2019) requires an entity to use the updated actuarial assumptions from remeasurement of its net defined benefit liability or asset arising from plan amendment, curtailment or settlement, to determine current service cost and net interest for the remaining period after the change to the plan. The amendments will be applied prospectively.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

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 Group and Company but not yet effective (continued)

- Annual Improvements to MFRSs 2015 - 2017 Cycle:
 - Amendments to MFRS 3 'Business Combinations' (effective 1 January 2019) clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.
 - Amendments to MFRS 112 'Income Taxes' (effective 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.
- Amendments to MFRS 3 'Definition of a Business' (effective 1 January 2020) revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments provide guidance to determine whether an input and a substantive process are present, including situation where an acquisition does not have outputs. To be a business without outputs, there will now need to be an organised workforce. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

In addition, the revised definition of the term 'outputs' is narrower, focusses on goods or services provided to customers, generating investment returns and other income but excludes returns in the form of cost savings.

The amendments introduce an optional simplified assessment known as 'concentration test' that, if met, eliminates the need for further assessment. Under this concentration test, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar assets), the assets acquired would not represent a business.

The amendments shall be applied prospectively.

- Amendments to MFRS 101 and MFRS 108 "Definition of Material" effective for annual periods beginning on or after 1 January 2020

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

2.2 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

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

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, 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. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. See accounting policy Note 5 to the financial statements on goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the gain is recognised directly in the statement of income. Acquisition related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. This may indicate an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary which is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the statement of income attributable to the parent.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Investment in subsidiaries

In the Group's separate financial statements, investment in a subsidiary is stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 2.2(i) to the financial statements on impairment of financial assets. The amount due from subsidiary of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in the subsidiary.

(iii) 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 transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iv) 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 purposes 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.

(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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable for operating in the manner intended by management.

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

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

(e) Intangible assets

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

Computer software

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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

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

Goodwill

Goodwill arising on acquisition of general insurance business represents the excess of the cost of acquisition of the general insurance business over the fair value of the identifiable net assets recognised at the date of acquisition. Goodwill on acquisition of general insurance business is included in the statement of financial position as intangible assets. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Intangible assets (continued)

Goodwill (continued)

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

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

(f) Impairment of non-financial assets

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

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

(g) Investments and other financial assets

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

(i) FVTPL

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Certain financial assets are designated at initial recognition at fair value through profit or loss when one of the designation criteria is met:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- Its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The item is a hybrid contract that contains one or more embedded derivatives.

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. Interest and dividend income are separately recognised in the profit or loss.

(ii) LAR

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

(iii) AFS

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

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividends income on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

(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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

(ii) AFS financial asset

For debt securities, the Group uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

(ii) AFS financial asset (continued)

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss in subsequent periods.

(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.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(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.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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 Company issues contracts that transfer insurance risk only.

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

(n) Reinsurance

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Reinsurance (continued)

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.

(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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(ii) Premium liabilities (continued)

(b) Unearned premium reserves

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

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

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

(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 a 75% confidence level calculated at the overall Company level. These estimates are based on an actuarial valuation performed by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development patterns.

(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 and reinsurance recoverable

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

If there is objective evidence that the insurance receivables and reinsurance recoverables is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the 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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

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.

(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.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(r) Other revenue recognition (continued)

(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 of 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 in full 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. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

(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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(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 ("RM") which is also the functional currency of the Company.

Foreign currency transactions are translated into RM using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in 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.

(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.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(x) Financial instruments (continued)

Fair value estimation

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

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

(y) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of income within.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(z) Operating Leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the lease period.

Initial direct costs incurred by the Company in negotiating and arranging operating leases are recognised in profit or loss when incurred.

2.3 Significant accounting estimates and judgements

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting estimates and judgements (continued)

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

(i) Valuation of insurance contract liabilities (continued)

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

(ii) Impairment of goodwill

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

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

3. PROPERTY AND EQUIPMENT

<u>Group/Company</u>	<u>Office renovations</u> RM	<u>Motor vehicles</u> RM	<u>Furniture, fixtures, office equipment and computers</u> RM	<u>Building</u> RM	<u>Capital work-in progress</u> RM	<u>Total</u> RM
<u>2018</u>						
<u>Cost</u>						
At 1 January 2018	1,441,994	536,725	9,753,853	58,740,000	261,779	70,734,351
Additions	309,093	-	903,993	912,493	-	2,125,579
Disposals	-	-	(94,161)	-	-	(94,161)
Write-offs	(258,202)	(3,693)	(789,873)	-	-	(1,051,768)
Reclassification	-	-	-	(17,659,200)	(89,300)	(17,748,500)
At 31 December 2018	1,492,885	533,032	9,773,812	41,993,293	172,479	53,965,501
<u>Accumulated depreciation</u>						
At 1 January 2018	985,101	279,077	4,560,835	2,937,000	-	8,762,013
Charge for the financial year	213,268	105,858	1,082,802	1,058,704	-	2,460,632
Disposals	-	-	(94,161)	-	-	(94,161)
Write-offs	(252,922)	(3,324)	(746,200)	-	-	(1,002,446)
Reclassification	-	-	-	(1,118,416)	-	(1,118,416)
At 31 December 2018	945,447	381,611	4,803,276	2,877,288	-	9,007,622
Net book value	547,438	151,421	4,970,536	39,116,005	172,479	44,957,879

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

3. PROPERTY AND EQUIPMENT (CONTINUED)

<u>Group/Company</u>	<u>2017</u>	<u>Cost</u>	<u>Office</u>				<u>Furniture, fixtures, office equipment and computers</u>		<u>Building</u>	<u>Capital work-in progress</u>		<u>Total</u>
			<u>renovations</u>	<u>Motor vehicles</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
At 1 January 2017			1,099,585	648,785			8,739,252		58,740,000	974,298		70,201,920
Additions			480,333	138,796			1,600,786		-	(712,519)		1,507,396
Disposals			-	(250,856)			(226,910)		-	-		(477,766)
Write-offs			(137,924)	-			(359,275)		-	-		(497,199)
At 31 December 2017			1,441,994	536,725			9,753,853		58,740,000	261,779		70,734,351
<u>Accumulated depreciation</u>												
At 1 January 2017			919,404	444,896			3,904,151		1,762,200	-		7,030,651
Charge for the financial year			197,296	85,038			1,213,248		1,174,800	-		2,670,382
Disposals			-	(250,857)			(215,946)		-	-		(466,803)
Write-offs			(131,599)	-			(340,618)		-	-		(472,217)
At 31 December 2017			985,101	279,077			4,560,835		2,937,000	-		8,762,013
Net book value			456,893	257,648			5,193,018		55,803,000	261,779		61,972,338

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

4. INVESTMENT PROPERTIES

<u>Group/Company</u>	<u>2018</u> <u>RM</u>	<u>2017</u> <u>RM</u>
<u>Cost</u>		
At 1 January	175,000	175,000
Reclassification	17,659,200	-
At 31 December	<u>17,834,200</u>	<u>175,000</u>
<u>Accumulated depreciation</u>		
At 1 January	100,333	96,833
Charge for the financial year	121,228	3,500
Reclassification	1,118,416	-
31 December	<u>1,339,977</u>	<u>100,333</u>
Net book value	<u>16,494,223</u>	<u>74,667</u>
Fair value	<u>18,850,000</u>	<u>550,000</u>

The fair value of the properties are estimated at RM18,850,000 based on valuations performed by an independent professionally qualified valuer. The fair value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

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

As at 31 December 2018, one commercial investment property held by the Company is leased to a third party. Rental income from the property is included in Note 18 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

5. INTANGIBLE ASSETS

<u>Group/Company</u>	<u>Goodwill</u> RM	<u>Computer Software</u> RM	<u>Capital work-in progress</u> RM	<u>Total</u> RM
<u>2018</u>				
<u>Cost</u>				
At 1 January 2018	40,103,501	1,644,814	-	41,748,315
Additions	-	41,313	453,243	494,556
Written Off	-	(105,637)	-	(105,637)
Reclassification	-	-	89,300	89,300
At 31 December 2018	40,103,501	1,580,490	542,543	42,226,534
<u>Accumulated Amortisation</u>				
At 1 January 2018	-	861,630	-	861,630
Charge for the financial year	-	297,910	-	297,910
Written Off	-	(105,637)	-	(105,637)
At 31 December 2018	-	1,053,903	-	1,053,903
Net book value	40,103,501	526,587	542,543	41,172,631

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

5. INTANGIBLE ASSETS (CONTINUED)

<u>Group/Company</u>		<u>Goodwill</u> RM	<u>Computer Software</u> RM	<u>Total</u> RM
<u>2017</u>				
<u>Cost</u>				
At 1 January 2017		31,325,682	1,286,064	32,611,746
Acquisition of Prudential general insurance business (Note 33)		8,777,819	283,874	9,061,693
Additions		-	86,441	86,441
Written Off		-	(11,565)	(11,565)
At 31 December 2017		40,103,501	1,644,814	41,748,315
<u>Accumulated Amortisation</u>				
At 1 January 2017		-	633,268	633,268
Charge for the financial year		-	239,666	239,666
Written Off		-	(11,304)	(11,304)
At 31 December 2017		-	861,630	861,630
Net book value		40,103,501	783,184	40,886,685

(a) The Company tests goodwill on acquisition of general insurance business for impairment annually in accordance with its accounting policy. More regular reviews will be performed if events indicate that this is necessary, this was not the case in current financial year.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

5. INTANGIBLE ASSETS (CONTINUED)

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

- (i) The growth is projected based on expected future new business at a growth rate ranging from 4.5% to 6.8% p.a (2017: ranging from 4.5% p.a. to 13.9% p.a.).
- (ii) Loss ratio range are projected based on the Company's prior years' actual claims experience of 61.5% (2017: 66.0%).
- (iii) Post tax discount rate at 11.2% (2017: 12.9%).
- (iv) Other assumption used include expense ratio, commission ratio and investment return.

At 31 December 2018, the recoverable amount exceeds the carrying value of goodwill.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

6. INVESTMENTS

	2018		2017	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Malaysian Government Securities	68,781,903	-	154,513,930	-
Government Investment Issues	82,809,272	-	25,099,151	-
Corporate Bonds	126,052,724	7,195,116	110,285,097	7,149,756
Unit Trust Investments	165,086,037	446,268,624	161,359,739	447,124,617
Equity securities	28,199,020	28,199,020	49,567,951	49,567,951
Real Estate Investment Trusts ("REITs")	3,226,996	3,226,996	3,123,400	3,123,400
Deposits with Licensed Financial Institutions	52,312,288	52,312,288	46,446,574	46,446,574
	<u>526,468,240</u>	<u>537,202,044</u>	<u>550,395,842</u>	<u>553,412,298</u>

The financial investments are summarised by categories as follows:

AFS financial assets	442,729,936	453,463,740	451,257,917	454,274,373
FVTPL financial assets	31,426,016	31,426,016	52,691,351	52,691,351
LAR	52,312,288	52,312,288	46,446,574	46,446,574
	<u>526,468,240</u>	<u>537,202,044</u>	<u>550,395,842</u>	<u>553,412,298</u>

The following investments mature after 12 months:

AFS financial assets	<u>272,518,683</u>	<u>7,195,116</u>	<u>282,367,124</u>	<u>7,149,756</u>
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(a) AFS financial assets

Fair value

Malaysian Government Securities	68,781,903	-	154,513,930	-
Government Investment Issues	82,809,272	-	25,099,151	-
Unit Trust Investments:				
- Quoted in Malaysia	165,086,037	165,086,037	161,359,739	161,359,739
- Unquoted in Malaysia	-	281,182,587	-	285,764,878
Corporate bonds	126,052,724	7,195,116	110,285,097	7,149,756
	<u>442,729,936</u>	<u>453,463,740</u>	<u>451,257,917</u>	<u>454,274,373</u>

(b) FVTPL financial assets

Fair value

Equity securities	28,199,020	28,199,020	49,567,951	49,567,951
REITs	3,226,996	3,226,996	3,123,400	3,123,400
	<u>31,426,016</u>	<u>31,426,016</u>	<u>52,691,351</u>	<u>52,691,351</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(c) LAR

	2018		2017	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
<u>Amortised cost</u>				
Deposits with Commercial Banks	52,312,288	52,312,288	46,446,574	46,446,574

Deposits with Commercial Banks have interest rates which range from 3.60% to 4.10% (2017: 2.80% to 4.08%) per annum with an average maturity period ranging from 24 to 333 days (2017: 24 to 333 days).

(d) Carrying values of financial investments

	<u>AFS</u>	<u>FVTPL</u>	<u>LAR</u>	<u>Total</u>
	RM	RM	RM	RM
<u>2018</u>				
<u>Group</u>				
At 1 January 2018	451,257,917	52,691,351	46,446,574	550,395,843
Purchases	671,078,758	-	51,394,379	722,473,137
Maturities	(153,446,540)	-	(45,645,480)	(199,092,020)
Disposals	(526,544,268)	(11,203,267)	-	(537,747,535)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(11,155,899)	-	(11,155,899)
Other comprehensive income	601,280	-	-	601,280
Currency translations differences	-	1,009,635	-	1,009,635
Fair value gain transferred to Statement of Income	(71,573)	-	-	(71,573)
Movement in accrued interest	(61,272)	-	116,815	55,543
Dividend receivable	-	84,196	-	84,196
Amortisation of premiums	(84,366)	-	-	(84,366)
At 31 December 2018	442,729,936	31,426,016	52,312,288	526,468,240
<u>2017</u>				
<u>Group</u>				
At 1 January 2017	236,784,207	33,158,405	26,677,467	296,620,079
Purchases	375,652,098	13,368,000	45,645,480	434,665,578
Maturities	(50,000,000)	-	(26,222,300)	(76,222,300)
Disposals	(114,127,383)	-	-	(114,127,383)
Fair value (losses)/gains recorded in:				
Statement of Income	-	8,982,333	-	8,982,333
Other comprehensive income	2,796,400	-	-	2,796,400
Currency translations differences	-	(2,817,387)	-	(2,817,387)
Fair value gain transferred to Statement of Income	(1,706,943)	-	-	(1,706,943)
Movement in accrued interest	1,908,199	-	345,927	2,254,126
Amortisation of premiums	(48,661)	-	-	(48,661)
At 31 December 2017	451,257,917	52,691,351	46,446,574	550,395,842

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(d) Carrying values of financial investments (continued)

	<u>AFS</u> RM	<u>FVTPL</u> RM	<u>LAR</u> RM	<u>Total</u> RM
<u>2018</u>				
<u>Company</u>				
At 1 January 2018	454,274,373	52,691,351	46,446,574	553,412,298
Purchases	233,963,438	-	51,394,379	285,357,817
Maturities	(130,000,000)	-	(45,645,480)	(175,645,480)
Disposals	(104,775,862)	(11,203,267)	-	(115,979,129)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(11,155,899)	-	(11,155,899)
Other comprehensive income	620,586	-	-	620,586
Currency translations differences	-	1,009,635	-	1,009,635
Fair value gain transferred to Statement of Income	(618,795)	-	-	(618,795)
Movement in accrued interest	-	-	116,815	116,815
Dividend receivable	-	84,196	-	84,196
Amortisation of premiums	-	-	-	-
At 31 December 2018	<u>453,463,740</u>	<u>31,426,016</u>	<u>52,312,288</u>	<u>537,202,044</u>
<u>2017</u>				
<u>Company</u>				
At 1 January 2017	287,893,457	33,158,405	26,677,467	347,729,329
Purchases	232,071,437	13,368,000	45,645,480	291,084,917
Maturities	(50,000,000)	-	(26,222,300)	(76,222,300)
Disposals	(17,449,529)	-	-	(17,449,529)
Fair value (losses)/gains recorded in:				
Statement of Income	-	8,982,333	-	8,982,333
Other comprehensive income	2,890,522	-	-	2,890,522
Currency translations differences	-	(2,817,387)	-	(2,817,387)
Fair value gain transferred to Statement of Income	(1,250,610)	-	-	(1,250,610)
Movement in accrued interest	119,096	-	345,927	465,023
Amortisation of premiums	-	-	-	-
At 31 December 2017	<u>454,274,373</u>	<u>52,691,351</u>	<u>46,446,574</u>	<u>553,412,298</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments

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

	<u>Level 1</u>	<u>Level 2</u>
	RM	RM
<u>Group</u>		
<u>2018</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	68,781,903
- Government Investment Issues	-	82,809,272
- Corporate Bonds	-	126,052,724
- Unit Trust Investments	165,086,037	-
FVTPL		
- Equity Securities	28,199,020	-
- Real Estate Investment Trusts ("REITs")	3,226,996	-
	<u>196,512,053</u>	<u>277,643,899</u>
<u>2017</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	154,513,930
- Government Investment Issues	-	25,099,151
- Corporate Bonds	-	110,285,097
- Unit Trust Investments	161,359,739	-
FVTPL		
- Equity Securities	49,567,951	-
- Real Estate Investment Trusts ("REITs")	3,123,400	-
	<u>214,051,090</u>	<u>289,898,178</u>
<u>Company</u>		
<u>2018</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Corporate Bonds	-	7,195,116
- Unit Trust Investments	165,086,037	281,182,587
FVTPL		
- Equity Securities	28,199,020	-
- Real Estate Investment Trusts ("REITs")	3,226,996	-
	<u>196,512,053</u>	<u>288,377,703</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

	<u>Level 1</u>	<u>Level 2</u>
	RM	RM
<u>2017</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	-
- Government Investment Issues	-	-
- Corporate Bonds	-	7,149,756
- Unit Trust Investments	161,359,739	285,764,878
FVTPL		
- Equity Securities	49,567,951	-
- Real Estate Investment Trusts ("REITs")	3,123,400	-
	<u>214,051,090</u>	<u>292,914,634</u>

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

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market and instruments with fair values based on broker quotes (Level 2).

Financial instruments that are valued not based on observable market data are categorised as Level 3. There are no financial instruments categorised as Level 3.

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

7. STRUCTURED ENTITIES

The Company has determined that its investment in wholesale unit trust funds amounting to RM281,182,587 (2017: RM285,764,878) as disclosed in Note 6 to the financial statements as investment in structured entities ("investee funds"). The Company invests in the investee funds whose objectives range from achieving medium to long-term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by approved asset management companies and apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund's net assets.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

7. STRUCTURED ENTITIES (CONTINUED)

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

	<u>2018</u> RM	<u>2017</u> RM
Number of wholesale unit trust fund	3	3
Average net asset value per unit of wholesale unit trust funds:		
Opus Enhanced Income Fund	1.0411	1.0297
Affin Hwang Wholesale Fund 1	0.3560	0.3584
AmlIncome Select	0.9868	0.9899
Fair value of underlying assets:		
Corporate bonds	117,098,395	101,673,808
Malaysian Government Securities	68,152,974	152,879,932
Government Investment Securities	81,855,819	24,797,407
Deposits with licensed financial institutions	11,502,188	3,743,838
Receivables	2,902,529	2,963,964
Cash equivalents	30,250	26,800
Other payables	(359,568)	(320,871)
	<u>281,182,587</u>	<u>285,764,878</u>
Total realised (loss)/gain for the financial year	<u>(199,556)</u>	<u>455,722</u>

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

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

The investee funds for Opus Enhanced Income Fund, Affin Hwang Wholesale Fund and AmlIncome Select Fund are audited by Crowe Horwath, PricewaterhouseCoopers PLT and Ernst & Young respectively.

8. REINSURANCE ASSETS

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
Reinsurance of insurance contracts (Note 13)	<u>527,707,036</u>	<u>491,676,323</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

9. INSURANCE AND OTHER RECEIVABLES

	2018		2017	
	Group	Company	Group	Company
	RM	RM	RM	RM
Due premiums including agents /brokers and co-insurers balances	45,207,819	45,207,819	50,370,709	50,370,709
Allowance for impairment	(742,764)	(742,764)	(1,136,730)	(1,136,730)
	<u>44,465,055</u>	<u>44,465,055</u>	<u>49,233,979</u>	<u>49,233,979</u>
Amounts due from reinsurers/ ceding companies	23,662,017	23,662,017	29,249,439	29,249,439
Allowance for impairment	(4,987,342)	(4,987,342)	(5,455,925)	(5,455,925)
	<u>18,674,675</u>	<u>18,674,675</u>	<u>23,793,514</u>	<u>23,793,514</u>
Total insurance receivables and reinsurance recoverables	<u>63,139,730</u>	<u>63,139,730</u>	<u>73,027,493</u>	<u>73,027,493</u>
Other receivables:				
Other receivables, deposits and prepayments	11,299,469	11,299,469	7,037,563	7,037,563
Malaysian Motor Insurance Pool ("MMIP")				
- Cash call made	21,859,477	21,859,477	25,359,477	25,359,477
- Other assets held in MMIP	31,038,529	31,038,529	33,860,768	33,860,768
GST receivable	483,910	483,910	6,394,524	6,394,524
Income due and accrued	100,069	354,973	11,488	232,861
Total other receivables	<u>64,781,454</u>	<u>65,036,358</u>	<u>72,663,820</u>	<u>72,885,193</u>
Total insurance and other receivables	<u>127,921,184</u>	<u>128,176,088</u>	<u>145,691,313</u>	<u>145,912,686</u>
Receivable within 12 months	<u>127,921,184</u>	<u>128,176,088</u>	<u>145,691,313</u>	<u>145,912,686</u>

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

MMIP as at 31 December 2018 is a net receivable of RM12,443,499 (2017: RM12,694,550) after setting-off the amount payable from MMIP against the Company's share of claims and premium liabilities amounting to RM40,454,507 (2017: RM46,525,695) included in Note 13 to the financial statements.

Financial assets

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

There are no financial assets that are subject to enforceable master netting arrangements or similar arrangements to financial instruments received as collateral or any cash collateral pledged or received (2017: Nil).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

10. LOANS

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
Staff loans:		
Secured	940,923	1,192,854
Unsecured	2,634	4,384
	<u>943,557</u>	<u>1,197,238</u>
Receivable after 12 months	<u>733,577</u>	<u>881,269</u>

The weighted average effective interest rate for staff loans as at 31 December 2018 was 2.30% (2017: 2.08%) per annum on the basis of monthly rest.

11. SHARE CAPITAL

	<u>Number of ordinary shares</u>		<u>Amount</u>	
	<u>2018</u> Unit	<u>2017</u> Unit	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>				
Issued and paid up:				
At beginning and end of financial year	<u>219,875,038</u>	<u>219,875,038</u>	<u>219,875,038</u>	<u>219,875,038</u>

12. RESERVES

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

13. INSURANCE CONTRACT LIABILITIES

Group/Company	Note	2018			2017		
		<u>Gross</u> RM	<u>Reinsurance</u> RM	<u>Net</u> RM	<u>Gross</u> RM	<u>Reinsurance</u> RM	<u>Net</u> RM
Provision for claims reported by policyholders		469,008,884	(286,788,147)	182,220,737	429,437,514	(267,397,026)	162,040,488
Provision for incurred but not reported ("IBNR")		210,365,826	(103,739,878)	106,625,948	200,166,230	(92,862,237)	107,303,993
		679,374,710	(390,528,025)	288,846,685	629,603,744	(360,259,263)	269,344,481
Less: impairment loss on reinsurance assets		-	730,457	730,457	-	1,862,523	1,862,523
Claim liabilities (i)		679,374,710	(389,797,568)	289,577,142	629,603,744	(358,396,740)	271,207,004
Premium liabilities (ii)		259,518,296	(137,909,468)	121,608,828	239,726,225	(133,279,583)	106,446,642
		938,893,006	(527,707,036)	411,185,970	869,329,969	(491,676,323)	377,653,646
(i) Claim liabilities							
At 1 January		629,603,744	(360,259,263)	269,344,481	597,958,486	(342,476,478)	255,482,008
Acquisition of Prudential general insurance business		-	-	-	9,147,448	(3,765,653)	5,381,795
Claims incurred in the current accident year		420,477,178	(218,484,828)	201,992,350	348,931,503	(172,059,090)	176,872,413
Claims incurred in prior accident years		(86,361,471)	56,875,859	(29,485,612)	(69,471,759)	34,815,564	(34,656,195)
Movement in PRAD of claim liabilities at 75% confidence level		1,727,114	(1,230,802)	496,312	(2,675,476)	658,863	(2,016,613)
Movement in claims handling expenses		1,438,789	-	1,438,789	(873,557)	-	(873,557)
Claims paid during the financial year		(287,510,644)	132,571,009	(154,939,635)	(253,412,901)	122,567,531	(130,845,370)
		679,374,710	(390,528,025)	288,846,685	629,603,744	(360,259,263)	269,344,481
Less: Impairment loss on reinsurance assets		-	730,457	730,457	-	1,862,523	1,862,523
At 31 December		679,374,710	(389,797,568)	289,577,142	629,603,744	(358,396,740)	271,207,004

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

13. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premium liabilities

	Note	2018			2017		
		Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
At 1 January		239,726,225	(133,279,583)	106,446,642	213,552,970	(118,503,894)	95,049,076
Acquisition of Prudential general insurance business (Note 33)		-	-	-	6,075,487	(983,066)	5,092,421
Premiums written during the financial year	17	580,990,083	(305,547,282)	275,442,801	523,113,040	(292,010,272)	231,102,768
Premiums earned during the financial year	17	(561,198,012)	300,917,397	(260,280,615)	(503,015,272)	278,217,649	(224,797,623)
At 31 December		259,518,296	(137,909,468)	121,608,828	239,726,225	(133,279,583)	106,446,642

14. DEFERRED TAX ASSET

Group/Company	2018 RM	2017 RM
At 1 January	2,107,181	3,363,034
Acquisition of Prudential general insurance business (Note 33)	-	1,222,182
Recognised in statement of income	4,891,148	(2,084,456)
Recognised in other comprehensive income	(430)	(393,579)
At 31 December	6,997,899	2,107,181

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

14. DEFERRED TAX ASSET (CONTINUED)

2018

Deferred tax asset

At 1 January 2018

Recognised in statement of income

Recognised in other comprehensive income

At 31 December 2018 (before offsetting)

Offsetting

Net deferred tax assets (after offsetting)

	Receivables RM	Fair value changes on investments RM	Premium liabilities RM	Unutilised tax loss RM	Others RM	Total RM
At 1 January 2018	2,001,223	225,771	208,199	-	1,963,682	4,398,875
Recognised in statement of income	(476,220)	2,435,103	245,185	2,595,246	(343,743)	4,455,571
Recognised in other comprehensive income	-	-	-	-	-	-
At 31 December 2018 (before offsetting)	1,525,003	2,660,874	453,384	2,595,246	1,619,939	8,854,446
Offsetting						(1,856,547)
Net deferred tax assets (after offsetting)						6,997,899

2018

Deferred tax liabilities

At 1 January 2018

Recognised in statement of income

Recognised in other comprehensive income

At 31 December 2018 (before offsetting)

Offsetting

Net deferred tax liabilities (after offsetting)

	Fair value changes on investments RM	Property and equipment RM	Total RM
At 1 January 2018	1,159,081	1,132,613	2,291,694
Recognised in statement of income	-	(435,577)	(435,577)
Recognised in other comprehensive income	430	-	430
At 31 December 2018 (before offsetting)	1,159,511	697,036	1,856,547
Offsetting			(1,856,547)
Net deferred tax liabilities (after offsetting)			-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

14. DEFERRED TAX ASSET (CONTINUED)

2017

Deferred tax asset

At 1 January 2017
Acquisition of Prudential general insurance (Note 33)
Recognised in statement of income
Recognised in other comprehensive income
At 31 December 2017 (before offsetting)

	<u>Receivables</u> RM	<u>Fair value changes on investments</u> RM	<u>Premium liabilities</u> RM	<u>Others</u> RM	<u>Total</u> RM
	1,637,231	1,774,119	474,835	1,526,826	5,413,011
	-	-	1,222,182	-	1,222,182
	363,992	(1,548,348)	(1,488,818)	436,856	(2,236,318)
	-	-	-	-	-
	<u>2,001,223</u>	<u>225,771</u>	<u>208,199</u>	<u>1,963,682</u>	<u>4,398,875</u>
Offsetting					(2,291,694)
Net deferred tax assets (after offsetting)					<u>2,107,181</u>

2017

Deferred tax liabilities

At 1 January 2017
Recognised in statement of income
Recognised in other comprehensive income
At 31 December 2017 (before offsetting)

	<u>Fair value changes on investments</u> RM	<u>Property and equipment</u> RM	<u>Others</u> RM	<u>Total</u> RM
	787,080	1,226,383	36,514	2,049,977
	(21,578)	(93,770)	(36,514)	(151,862)
	393,579	-	-	393,579
	<u>1,159,081</u>	<u>1,132,613</u>	<u>-</u>	<u>2,291,694</u>
Offsetting				(2,291,694)
Net deferred tax assets (after offsetting)				<u>-</u>

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

14. DEFERRED TAX ASSET (CONTINUED)

	<u>2018</u> RM	<u>2017</u> RM
Current	7,694,935	3,239,794
Non-current	(697,036)	(1,132,613)

15. INSURANCE AND OTHER PAYABLES

	<u>2018</u>		<u>2017</u>	
	<u>Group</u> RM	<u>Company</u> RM	<u>Group</u> RM	<u>Company</u> RM
Trade payables:				
Amount due to reinsurers/ ceding companies	89,698,133	89,698,133	78,405,144	78,405,144
Amount due to brokers, co-insurers and insureds	16,112,205	16,112,205	20,161,981	20,161,981
	<u>105,810,338</u>	<u>105,810,338</u>	<u>98,567,125</u>	<u>98,567,125</u>
Other payables:				
Accrual for agents' profit commission	2,993,490	2,993,490	3,495,051	3,495,051
Accrual for bonus (including EPF for bonus)	4,250,000	4,250,000	5,273,247	5,273,247
Amount due to unitholders	446,589	-	435,339	-
Cash collateral held for bond business	1,175,917	1,175,917	1,374,688	1,374,688
Premium funds withheld	37,349,284	37,349,284	45,672,365	45,672,365
Other payables and accrued liabilities	20,788,246	20,661,379	5,362,586	5,255,955
	<u>67,003,526</u>	<u>66,430,070</u>	<u>61,613,276</u>	<u>61,071,306</u>
Total insurance and other payables	<u>172,813,864</u>	<u>172,240,408</u>	<u>160,180,401</u>	<u>159,638,431</u>
Payable within 12 months	<u>135,106,126</u>	<u>134,532,670</u>	<u>113,744,554</u>	<u>113,202,584</u>
Payable after 12 months	<u>37,707,738</u>	<u>37,707,738</u>	<u>46,435,847</u>	<u>46,435,847</u>

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

Financial liabilities

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

There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2017: Nil).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

16. SUBORDINATED LOANS

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
Subordinated Loans	24,337,504	24,337,504
Add: Interest Payable	6,445,761	4,742,136
	<u>30,783,265</u>	<u>29,079,640</u>
Payable within 12 months	<u>6,445,761</u>	<u>4,742,136</u>
Payable after 12 months	<u>24,337,504</u>	<u>24,337,504</u>

The fair value of the subordinated loans as at 31 December 2018 amounted to RM24.3 million (2017: RM24.3 million). The fair value is estimated based on discounted cash flow model for the remaining term of maturity and is within level 2 of the fair value hierarchy.

17. NET EARNED PREMIUMS

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
(a) Gross premiums written	580,990,083	523,113,040
Change in premium liabilities	(19,792,071)	(20,097,768)
Gross earned premium	<u>561,198,012</u>	<u>503,015,272</u>
(b) Premium ceded to reinsurers		
Ceded premiums (Note 13(ii))	(305,547,282)	(292,010,272)
Change in premium liabilities	4,629,885	13,792,623
Earned premiums ceded to reinsurers	<u>(300,917,397)</u>	<u>(278,217,649)</u>
Net earned premiums	<u>260,280,615</u>	<u>224,797,623</u>

18. INVESTMENT INCOME

	<u>2018</u>		<u>2017</u>	
	<u>Group</u> RM	<u>Company</u> RM	<u>Group</u> RM	<u>Company</u> RM
Rental income from investment properties	400,275	400,275	37,045	37,045
Financial assets at FVTPL				
Interest income - equity securities	16,726	16,726	-	-
Dividend income - REITs	167,228	167,228	155,976	155,976

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

18. INVESTMENT INCOME (CONTINUED)

	2018		2017	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
AFS financial assets				
Interest income	13,119,220	483,000	9,719,329	416,258
Dividend income – unit trusts	6,127,312	18,297,353	3,691,728	12,562,212
Interest income from loans and receivables	1,865,715	1,865,715	1,276,207	1,276,207
Profit and interest income from cash & cash equivalents	4,190,731	3,674,831	6,714,216	6,248,319
Amortisation of premiums, net of accretion of discounts	(84,366)	-	(48,662)	-
	<u>25,802,841</u>	<u>24,905,128</u>	<u>21,545,839</u>	<u>20,696,017</u>

19. REALISED (LOSSES)/GAINS

	2018		2017	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
<u>Financial assets at FVTPL</u>				
Realised gains/(losses):				
Equity securities	(5,657,590)	(5,657,590)	-	-
<u>AFS financial assets</u>				
Realised gains/(losses):				
Corporate bonds	(580,509)	-	(39,827)	-
Malaysian Government Securities/ Government Investment Issues	379,065	-	496,160	-
Unit trusts	273,018	618,795	1,250,610	1,250,610
	<u>71,574</u>	<u>618,795</u>	<u>1,706,943</u>	<u>1,250,610</u>
<u>Property and equipment</u>				
Realised gains	11,399	11,399	60,726	60,726
Realised losses	(49,322)	(49,322)	(25,242)	(25,242)
	<u>(37,923)</u>	<u>(37,923)</u>	<u>35,484</u>	<u>35,484</u>
	<u>(5,623,939)</u>	<u>(5,076,718)</u>	<u>1,742,427</u>	<u>1,286,094</u>

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20. FAIR VALUE (LOSSES)/GAINS

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
Financial assets at FVTPL	<u>(10,146,264)</u>	<u>6,164,946</u>

21. FEES AND COMMISSION INCOME

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
Reinsurance commission income	<u>64,448,518</u>	<u>60,541,325</u>

22. MANAGEMENT EXPENSES

		<u>2018</u>		<u>2017</u>	
	<u>Note</u>	<u>Group</u> RM	<u>Company</u> RM	<u>Group</u> RM	<u>Company</u> RM
Employee benefits expenses	22(a)	49,845,090	49,845,090	43,817,713	43,817,713
Directors' fees	22(b)	455,505	455,505	461,117	461,117
Auditors' remuneration					
- Audit related services		344,179	323,420	344,134	331,500
- Non-audit related services					
- Current year		8,500	8,500	8,500	8,500
- Underprovision of prior year		35,850	35,850	22,500	22,500
Depreciation of property and equipment	3	2,460,632	2,460,632	2,670,382	2,670,382
Depreciation of investment properties	4	121,228	121,228	3,500	3,500
Direct operating expenses of investment properties					
- revenue generating		19,056	19,056	49,945	49,945
Amortisation of intangible assets	5	297,910	297,910	239,666	239,666
Bad debts written-off/(recovery)		315,703	315,703	(344,011)	(344,011)
(Write-back of)/provision for allowance for impairment losses					
- insurance receivables and reinsurance recoverables		(868,095)	(868,095)	207,242	207,242
- reinsurance assets		(1,132,066)	(1,132,066)	(348,049)	(348,049)
Office rental		1,139,447	1,139,447	1,124,411	1,124,411
Office equipment rental		621,831	621,831	703,563	703,563
Computer maintenance		8,890,248	8,890,248	6,542,480	6,542,480
Entertainment		1,248,298	1,248,298	1,447,944	1,447,944
Investment advisory fees		1,951,994	1,951,994	1,106,569	1,106,569
Fund managers' fees		62,604	62,604	124,909	124,909

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22. MANAGEMENT EXPENSES (CONTINUED)

	<u>Note</u>	<u>2018</u>		<u>2017</u>	
		<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
		<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
Networking charges		995,941	995,941	747,083	747,083
Management fees to holding company		2,864,103	2,864,103	1,440,110	1,440,110
Stamp duties		20,602	20,602	307,223	307,223
Bank charges		3,661,383	3,661,383	3,687,775	3,687,775
Training		3,754,078	3,754,078	6,035,364	6,035,364
Advertising and Marketing fees		3,536,442	3,536,442	2,444,233	2,444,233
Third Party Administrator fees		895,380	895,380	695,138	695,138
Policy printing fees		4,429,067	4,429,067	2,953,196	2,953,196
Transport and travelling		1,337,817	1,337,817	1,254,951	1,254,951
Printing and stationery		392,173	392,173	503,442	503,443
Other expenses		5,789,868	4,938,911	7,045,219	6,430,287
		<u>93,494,768</u>	<u>92,623,052</u>	<u>85,296,249</u>	<u>84,668,684</u>

(a) Employee benefits expense

Wages and salaries	40,565,282	40,565,282	35,808,685	35,808,685
Social security contributions	350,421	350,421	280,457	280,457
Contributions to defined contribution plan, EPF	5,910,358	5,910,358	5,065,877	5,065,877
Employee share ownership plan ("ESOP")	271,848	271,848	226,452	226,452
Staff insurance	1,464,054	1,464,054	1,406,777	1,406,777
Other benefits	1,283,127	1,283,127	1,029,465	1,029,465
	<u>49,845,090</u>	<u>49,845,090</u>	<u>43,817,713</u>	<u>43,817,713</u>

(b) Directors' remuneration

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

<u>Group/Company</u>	<u>2018</u> <u>RM</u>	<u>2017</u> <u>RM</u>
<u>(i) Directors' fees</u>		
Dato' Huang Sin Cheng	97,616	90,200
Datuk Abu Hassan bin Kendut	93,328	91,900
Abdullah bin Tarmugi	21,754	91,814
Zainul Abidin bin Mohamed Rasheed	92,600	87,200
Hashim bin Harun	79,416	58,032
Rasalingam a/l Kanagalingam	70,791	41,971
	<u>455,505</u>	<u>461,117</u>

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23. TAXATION

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
Income tax:		
Malaysian income tax	-	2,710,289
Underprovision of income tax in respect of prior years	1,233,674	(168,402)
	<u>1,233,674</u>	<u>2,541,887</u>
Deferred tax relating to origination and reversal of temporary differences (Note 14)	(4,891,148)	2,084,456
Tax (income)/expense for the financial year	<u>(3,657,474)</u>	<u>4,626,343</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% 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:

	<u>2018</u> RM	<u>2017</u> RM
<u>Group</u>		
(Loss)/profit before taxation	<u>(2,506,538)</u>	<u>28,105,781</u>
Taxation at Malaysian statutory income tax rate of 24%	(601,569)	6,745,387
Expenses not deductible for tax purposes	2,183,340	2,201,256
Income not subject to tax	(6,479,982)	(3,436,512)
Underprovision of income tax in prior years	1,233,674	(168,402)
Under/(over)provision of deferred tax in prior years	7,063	(541,741)
Unabsorbed tax losses from prior year	-	(173,645)
Tax (income)/expense for the financial year	<u>(3,657,474)</u>	<u>4,626,343</u>
<u>Company</u>		
(Loss)/profit before taxation	<u>(1,989,064)</u>	<u>27,427,041</u>
Taxation at Malaysian statutory income tax rate of 24%	(477,375)	6,582,490
Expenses not deductible for tax purposes	2,059,146	2,364,153
Income not subject to tax	(6,479,982)	(3,436,512)
Underprovision of income tax in prior years	1,233,674	(168,402)
Under/(over)provision of deferred tax in prior years	7,063	(541,741)
Unabsorbed tax losses from prior year	-	(173,645)
Tax (income)/expense for the financial year	<u>(3,657,474)</u>	<u>4,626,343</u>

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24. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on the profit after taxation for the financial year over the number of shares in issue during the financial year of RM219,875,038 (2017: RM219,875,038).

<u>Group</u>	<u>2018</u> RM	<u>2017</u> RM
Profit attributable to shareholders	1,131,095	23,354,650
Weighted average number of shares in issue	219,875,038	219,875,038
Basic earnings per ordinary share (sen)	0.5	10.6

25. DIVIDENDS

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

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2018.

26. OPERATING LEASE ARRANGEMENTS

The Group and Company has entered into non-cancellable operating lease agreements in respect of rental of office equipment, IT equipment, software licences and premises as well as leasehold expenses. The lease agreements have fixed rentals for a period of one to five years.

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

<u>Group/Company</u>	<u>2018</u> RM	<u>2017</u> RM
Future minimum rental payment:		
Not later than 1 year	3,882,486	3,098,227
Later than 1 year and not later than 5 years	5,160,304	7,809,483
	<u>9,042,790</u>	<u>10,907,710</u>

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27. CAPITAL COMMITMENTS

	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>		
Approved and contracted for:		
Intangible asset	7,116,731	7,602,841
Computers	76,015	56,600
Renovations	-	76,000
Office equipment	-	63,293
Furniture and fittings	55,024	26,300
	<u>7,247,770</u>	<u>7,825,034</u>
Approved and not contracted for:		
Furniture and fittings	20,306	17,816
Renovations	56,890	-
	<u>77,196</u>	<u>17,816</u>

28. SIGNIFICANT RELATED PARTY DISCLOSURES

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

	<u>Significant transactions</u>		<u>Carrying value</u>	
	<u>2018</u> RM	<u>2017</u> RM	<u>2018</u> RM	<u>2017</u> RM
<u>Group/Company</u>				
Fellow subsidiary:				
<u>Income</u>				
Claim recovery				
- Wentworth Insurance Company Limited (Labuan)	10,116,737	13,400,981	-	-
- Allied World Assurance Company, Ltd (Labuan)	15,179	-	-	-
Commission Income				
- CRC Reinsurance Limited (Barbados)	7,696	13,855	-	-
- Wentworth Insurance Company Limited (Labuan)	1,820,875	1,787,083	-	-
- Allied World Assurance Company, Ltd (Labuan)	272,600	341,391	-	-

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28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	<u>Significant transactions</u>		<u>Carrying value</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	RM	RM	RM	RM
<u>Group/Company</u>				
Fellow subsidiary:				
<u>Expense</u>				
Reinsurance premium ceded				
- CRC Reinsurance Limited (Barbados)	30,235	96,303	-	-
- Wentworth Insurance Company Limited (Labuan)	12,310,711	8,780,556	-	-
- Allied World Assurance Company, Ltd (Labuan)	1,596,805	2,397,092	-	-
Interest expense on premium withheld				
- Wentworth Insurance Company Limited (Labuan)	138,221	131,546	-	-
Investment management fees				
- Hamblin Watsa Investment Counsel Ltd	1,951,994	1,106,569	-	-
Management fees				
- Fairfax Asia Limited	2,864,103	1,440,110	-	-
Finance cost				
- Fairfax Asia Limited	1,703,625	1,703,622	-	-
Financial Services				
-FFH Management Services	-	99,031	-	-

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28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	<u>Significant transactions</u>		<u>Carrying value</u>	
	<u>2018</u> RM	<u>2017</u> RM	<u>2018</u> RM	<u>2017</u> RM
<u>Payables</u>				
Other balances due to				
- CRC Reinsurance Limited (Barbados)	-	-	21,139	11,624
- Wentworth Insurance Company Limited (Labuan)	-	-	1,980,693	4,427,146
- Fairfax Asia Limited	-	-	32,803,114	30,097,023
- Hamblin Watsa Investment Counsel Ltd	-	-	1,027,260	71,291
- Allied World Assurance Company, Ltd (Labuan)	-	-	498,183	1,323,042

- (c) Compensation of key management personnel

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

	<u>2018</u> RM	<u>2017</u> RM
Short-term employee benefits	3,711,638	2,583,062
Defined contribution plan	317,834	105,614
	<u>4,029,472</u>	<u>2,688,676</u>

Includes compensation payable to key management personnel at the end of reporting period of RM907,505 (2017: RM811,117).

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 Executive Vice President and personnel with corporate ranking General Manager and above (2017 : Directors, Chief Executive Officer, Senior Executive Vice President, Senior General Manager and Chief Financial Officer).

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

<u>Group/Company</u>	<u>2018</u> RM	<u>2017</u> RM
Salary and other emoluments	621,000	628,954
Bonus	300,000	350,000
Contribution to defined contribution plan	30,163	29,041
Estimated money value of benefits-in-kind	335,682	342,096
	<u>1,286,845</u>	<u>1,350,091</u>

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29. RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Group and Company's Risk Management Framework ("RMF") sets out a framework of principles on risk management to guide the board and senior management in performing their risk oversight function, and sets forth the principles and guidelines of the Company's risk management strategy.

The RMF is designed to:

- Provide the board and senior management reasonable assurance that the Company's business objectives will be achieved by aligning risk appetite and strategy, proactively responding to risks, reducing operational surprises and losses, and identifying and managing cross-enterprise risks.
- Improve deployment of capital.
- Enhance corporate governance and successfully respond to a changing business environment.
- Assist management in implementing a sound and risk-based internal control system and provide the risk reporting tools to be used to identify significant control lapses/weaknesses and monitor corrective action.
- Guide staff in understanding the risk assessment methodology and strengthen their risk awareness and capability to identify, manage and control business risks.
- Assist Internal Audit in implementing a risk-based audit process for their independent review of the Company's RMF.

The RMF has the following core components:

1. A risk appetite framework which sets out the type and amount of risk the Company able and willing to
2. A risk management system that is used to identify, assess and manage the risks in accordance with the risk appetite framework; and
3. A risk governance culture which encourages all employees to engage actively in risk management through the operation of risk policies, standards and procedures.

(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.

(c) Capital management

The Group and Company's capital management policy is to 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 these requirements, the Company has to maintain a capital adequacy ratio (CAR) that commensurate with its risk profile. The minimum Statutory Target Capital Level requirement under the Risk-Based Capital Framework for insurers is 130%. Throughout the financial year, the Company maintained a CAR higher than the minimum requirement set by the Authority.

(d) Counter financing of terrorism

Following the Anti-Money Laundering Anti-Terrorism Financing and Proceeds of Unlawful Activities (AMLATFPUA) (Amendment of First Schedule) Order 2014, whereby general insurers are no longer defined as Reporting Institutions under the AMLATFPUA Act 2001 with effect from 5 November 2014, and the Technical Note dated 14.7.2016 issued by BNM, the scope of AML/CFT risk monitoring under the AMLATFPUA Act 2001 for general insurers had been significantly scaled down. Based on the development, the Company has in place an AML/CFT Policy in accordance with the relevant BNM guidelines/technical note and the AMLATFPUA Act 2001 to mitigate the risk of prevent the Company from being used as a channel for financing of terrorism. Towards this end, the Company is leveraging on IT program to facilitate the detection of suspicious transactions against the database of named individuals and entities published in the relevant United Nations Security Council Resolutions (UNSCRs) and Ministry of Home Affairs Orders.

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30. INSURANCE RISK

In designing and pricing the general insurance products the Company make several assumptions about the expected number of claims, the average cost of each claim, and the average premium that will be received (together these risks are defined as premium risk). The Company also assesses each year, the expected level of claims that must be paid based on events which have already occurred but where claim settlement remains outstanding (reserve risk). In setting the assumptions, the Company has also taken into consideration the impact and development trend of large insurance claims (large loss risk); as well as the potential exposure to claims arising from natural catastrophe events (natural catastrophe risk). In all the above instances the risk to the Company arises from the fact that the actual outcome will be different from our assumptions.

Hence, the key risk here is the variability of the claim events which may differ from the assumptions made during the acceptance of the business and also during the assessment of the expected level of claims after an event occurs.

The variability of the claim events is reduced through writing a more diversified portfolio of insurance contracts and also through the use of proper reinsurance arrangements. In addition, selection of risks appropriate implementation of underwriting strategy and guidelines, good claims management and adequate control systems aid to ensure a robust insurance risk management.

The objective of the Company is to control and manage insurance risk to reduce volatility of operating profits has been achieved and has done it through the following:

- The Company's underwriting approach is governed by an underwriting policy and guidelines which sets out a control framework for risk acceptance and referrals, underwriting capacity and authority limits granted to the various operations.
- The Company's claims philosophy which provides the framework for claims management, regular claims review and claims handling procedures with the objective to minimise the uncertainty of claims development and inflationary costs as well as to mitigate dubious or fraudulent claims whilst ensuring fair claims settlement.
- Reinsurance is used to limit the Company's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.

The key assumptions made when setting the premiums and valuation of technical provisions are that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of the possibility and magnitude of future claims development and also the expenses involved in handling claims. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example isolated occurrence of large claims as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

The risk inherent in general insurance contracts is reflected in the technical provisions 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. This is currently done at the 75% sufficiency level, according to the requirement set by Bank Negara under the RBC Framework.

Estimates of an insurance company's premium and claim liabilities are affected by future events, which can be unpredictable. Hence, the assumptions made may well vary from actual experience. In order for the management to understand the impact of these assumption difference, a Stress Testing exercise is performed annually to test the solvency of the company under various scenarios, simulating changes in major parameters such as new business volume, claims experience, expenses and investment environment, according to regulatory guidelines. This will help inform the management of the key areas with significant impact to the business and to manage the Company more effectively.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

<u>Group/Company</u>	2018			2017		
	<u>Gross</u> RM	<u>Reinsurance</u> RM	<u>Net</u> RM	<u>Gross</u> RM	<u>Reinsurance</u> RM	<u>Net</u> RM
<u>Claim liabilities</u>						
Motor	362,953,218	(162,742,429)	200,210,789	314,582,534	(135,276,760)	179,305,774
Fire	83,226,297	(66,307,393)	16,918,904	90,849,655	(66,513,152)	24,336,503
Marine, Aviation and Transit	98,658,077	(85,095,253)	13,562,824	73,760,248	(60,990,869)	12,769,379
Medical and Health	13,191,939	(262,176)	12,929,763	11,332,890	(241,381)	11,091,509
Miscellaneous	121,345,179	(76,120,774)	45,224,405	139,078,417	(97,237,101)	41,841,316
	<u>679,374,710</u>	<u>(390,528,025)</u>	<u>288,846,685</u>	<u>629,603,744</u>	<u>(360,259,263)</u>	<u>269,344,481</u>
<u>Premium liabilities</u>						
Motor	152,666,702	(81,907,158)	70,759,544	130,621,162	(70,901,238)	59,719,924
Fire	29,426,695	(21,789,489)	7,637,206	42,111,393	(32,941,996)	9,169,397
Marine, Aviation and Transit	22,430,863	(18,664,216)	3,766,647	11,656,262	(9,129,573)	2,526,689
Medical and Health	27,945,777	(3,930,897)	24,014,880	25,720,236	(4,007,100)	21,713,136
Miscellaneous	27,048,259	(11,617,708)	15,430,551	29,617,172	(16,299,676)	13,317,496
	<u>259,518,296</u>	<u>(137,909,468)</u>	<u>121,608,828</u>	<u>239,726,225</u>	<u>(133,279,583)</u>	<u>106,446,642</u>

Key assumptions

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

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

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30. INSURANCE RISK (CONTINUED)

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

Sensitivities

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

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

<u>Group/Company</u>	<u>Change in assumptions</u> RM	<u>Impact on gross liabilities</u> RM	<u>Impact on net liabilities</u> RM	<u>Impact on profit before tax</u> RM	<u>Impact on equity</u> RM
<u>2018</u>					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	2,338,797	873,987	(873,987)	(664,230)
Loss ratio	+5%	125,269,858	59,176,982	(59,176,982)	(44,974,506)
Claim handling expenses	+5%	633,364	633,364	(633,364)	(481,357)
<u>2017</u>					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	2,232,389	829,487	(829,487)	(630,410)
Loss ratio	+5%	102,437,888	50,916,676	(50,916,676)	(38,696,674)
Claim handling expenses	+5%	578,356	578,356	(578,356)	(439,550)

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30. INSURANCE RISK (CONTINUED)

Claims development table

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

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

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

- Ex-MCIS table consists of cohort of claims from existing risks of MCIS up to the point of acquisition 28 February 2016. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.
- Ex-PAMB table consists of cohort of claims from existing risks of PAMB up to the point of acquisition 30 August 2017. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (PIB):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		116,338,554	123,760,119	203,716,816	317,146,705	335,408,814	412,875,380
One year later		105,807,794	114,975,495	208,908,915	295,572,540	319,931,530	
Two years later		106,791,073	111,045,828	190,026,570	274,896,467		
Three years later		104,834,497	109,759,689	173,811,064			
Four years later		104,377,724	110,560,974				
Five years later		103,587,697					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		103,587,697	110,560,974	173,811,064	274,896,467	319,931,530	412,875,380
At end of accident year		(42,066,707)	(39,174,817)	(51,264,771)	(84,733,806)	(93,494,069)	(105,157,920)
One year later		(71,934,324)	(73,691,410)	(124,567,293)	(178,156,018)	(195,921,333)	
Two years later		(85,486,306)	(87,747,029)	(150,468,251)	(214,883,707)		
Three years later		(91,334,354)	(95,024,687)	(158,450,240)			
Four years later		(97,660,478)	(98,751,059)				
Five years later		(97,908,021)					
Six years later							
Seven years later							
Cumulative payments to-date		(97,908,021)	(98,751,059)	(158,450,240)	(214,883,707)	(195,921,333)	(105,157,920)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (PIB) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	3,880,744	5,679,676	11,809,915	15,360,824	60,012,760	124,010,197	307,717,460	528,471,576
Gross general insurance outstanding liabilities (treaty inward)								31,005,248
Best estimate of claim liabilities								559,476,824
Claims handling expenses								10,642,816
PRAD at 75% confidence Level								48,601,698
Gross general insurance contract liabilities per statement of financial position								<u>618,721,338</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (MCIS general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		105,396,000	86,623,384	18,695,705	167,828	-	-
One year later		93,253,432	86,840,507	21,626,874	287,700	-	
Two years later		92,377,981	83,113,690	19,916,415	331,340		
Three years later		87,378,959	79,206,629	18,587,448			
Four years later		84,834,914	75,705,886				
Five years later		81,080,508					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		81,080,508	75,705,886	18,587,448	331,340	-	-
At end of accident year		(26,581,810)	(23,780,956)	(3,073,991)	-	-	-
One year later		(54,196,942)	(38,329,500)	(8,496,081)	(19,769)	-	
Two years later		(61,129,585)	(55,233,080)	(14,298,513)	(76,166)		
Three years later		(68,642,256)	(62,316,541)	(15,784,130)			
Four years later		(70,289,378)	(67,585,119)				
Five years later		(70,752,302)					
Six years later							
Seven years later							
Cumulative payments to-date		(70,752,302)	(67,585,119)	(15,784,130)	(76,166)	-	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	26,588,295	10,328,206	8,120,767	2,803,318	255,174	-	-	48,095,760
Gross general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								48,809,797
Claims handling expenses								1,116,164
PRAD at 75% confidence Level								3,949,272
Gross general insurance contract liabilities per statement of financial position								<u>53,875,233</u>

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (Prudential general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year							
One year later					6,207,659	5,748,141	1,157,937
Two years later				7,847,268	6,226,732	6,155,823	
Three years later			9,196,681	7,830,286			
Four years later		10,164,700	9,215,493				
Five years later		10,211,909					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		10,211,909	9,215,493	7,830,286	6,226,732	6,155,823	1,157,937
At end of accident year							
One year later				(5,801,310)	(2,656,448)	(3,450,422)	(483,694)
Two years later			(8,967,075)	(6,168,223)	(4,195,671)	(4,435,109)	
Three years later		(9,823,038)	(9,065,935)	(6,184,841)	(5,022,474)		
Four years later		(10,065,433)	(9,084,327)				
Five years later		(10,068,448)					
Six years later							
Seven years later							
Cumulative payments to-date		(10,068,448)	(9,084,327)	(6,184,841)	(5,022,474)	(4,435,109)	(483,694)

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	299,102	143,461	131,166	1,645,445	1,204,258	1,720,714	674,243	5,818,389
Gross general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								5,818,389
Claims handling expenses								195,369
PRAD at 75% confidence Level								764,381
Gross general insurance contract liabilities per statement of financial position								<u>6,778,139</u>

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (PIB):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		76,527,904	82,907,814	121,532,796	150,715,647	163,233,359	194,471,543
One year later		72,915,675	64,204,183	121,955,485	142,324,732	157,952,520	
Two years later		65,794,967	60,252,225	115,029,552	135,606,014		
Three years later		64,247,522	59,043,708	108,271,022			
Four years later		63,869,542	58,632,769				
Five years later		63,601,350					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		63,601,350	58,632,769	108,271,022	135,606,014	157,952,520	194,471,543
At end of accident year		(36,078,103)	(34,893,870)	(42,780,549)	(57,094,912)	(60,684,046)	(68,271,450)
One year later		(56,406,967)	(51,160,371)	(82,033,698)	(96,246,726)	(111,036,463)	
Two years later		(60,685,360)	(54,989,373)	(95,997,486)	(114,319,389)		
Three years later		(61,894,440)	(56,268,953)	(99,383,175)			
Four years later		(62,351,437)	(57,341,537)				
Five years later		(62,396,209)					
Six years later							
Seven years later							
Cumulative payments to-date		(62,396,209)	(57,341,537)	(99,383,175)	(114,319,389)	(111,036,463)	(68,271,450)

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (PIB) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	258,084	1,205,141	1,291,232	8,887,847	21,286,625	46,916,057	126,200,093	206,045,079
Net general insurance outstanding liabilities (treaty inward)								31,005,248
Best estimate of claim liabilities								237,050,327
Claims handling expenses								10,642,816
PRAD at 75% confidence Level								22,686,379
Net general insurance contract liabilities per statement of financial position								<u>270,379,522</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (MCIS general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		76,525,000	69,675,872	14,530,459	23,937	-	-
One year later		72,610,787	71,475,987	14,557,068	39,688	-	
Two years later		72,900,862	43,832,305	13,431,149	38,977		
Three years later		55,813,147	42,375,851	12,345,946			
Four years later		54,608,309	41,104,263				
Five years later		53,252,038					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		53,252,038	41,104,263	12,345,946	38,977	-	-
At end of accident year		(22,034,001)	(22,210,967)	(2,922,588)	-	-	-
One year later		(45,329,555)	(33,676,688)	(7,614,617)	(5,387)	-	
Two years later		(49,278,223)	(34,477,349)	(10,212,208)	(14,557)		
Three years later		(49,539,391)	(37,001,563)	(10,594,819)			
Four years later		(49,937,501)	(38,550,506)				
Five years later		(50,125,247)					
Six years later							
Seven years later							
Cumulative payments to-date		(50,125,247)	(38,550,506)	(10,594,819)	(14,557)	-	-

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	3,818,753	3,126,791	2,553,757	1,751,127	24,420	-	-	11,274,848
Net general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								11,988,885
Claims handling expenses								1,116,164
PRAD at 75% confidence Level								847,038
Net general insurance contract liabilities per statement of financial position								13,952,087

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (Prudential general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		10,011,520	8,602,421	6,248,605	6,190,620	5,292,896	1,122,934
One year later		9,343,655	7,694,913	6,765,166	5,637,703	5,394,646	
Two years later		9,082,945	7,678,580	6,388,061	5,633,741		
Three years later		9,081,461	7,550,671	6,367,969			
Four years later		8,993,745	7,569,013				
Five years later		9,039,773					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		9,039,773	7,569,013	6,367,969	5,633,741	5,394,646	1,122,934
At end of accident year		(4,632,641)	(3,817,365)	(3,456,977)	(2,490,530)	(3,124,049)	(466,517)
One year later		(7,947,200)	(6,587,588)	(5,476,125)	(3,978,040)	(4,079,538)	
Two years later		(8,514,934)	(7,326,801)	(5,833,496)	(4,629,029)		
Three years later		(8,664,745)	(7,423,196)	(5,848,981)			
Four years later		(8,896,964)	(7,441,128)				
Five years later		(8,899,905)					
Six years later							
Seven years later							
Cumulative payments to-date		(8,899,905)	(7,441,128)	(5,848,981)	(4,629,029)	(4,079,538)	(466,517)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	67,781	139,868	127,885	518,988	1,004,712	1,315,108	656,417	3,830,759
Net general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								3,830,759
Claims handling expenses								195,369
PRAD at 75% confidence Level								488,948
Net general insurance contract liabilities per statement of financial position								<u>4,515,076</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (PIB):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
<u>Group/Company</u>							
At end of accident year		135,203,325	116,338,554	123,760,119	203,716,816	317,146,705	335,408,810
One year later		119,708,428	105,807,794	114,975,495	208,908,915	295,572,540	
Two years later		115,919,355	106,791,073	111,045,828	190,026,570		
Three years later		115,268,290	104,834,497	109,759,689			
Four years later		110,443,503	104,377,724				
Five years later		109,193,122					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		109,193,122	104,377,724	109,759,689	190,026,570	295,572,540	335,408,810
At end of accident year		(38,341,088)	(42,066,707)	(39,174,817)	(51,264,771)	(84,733,806)	(93,494,069)
One year later		(87,538,028)	(71,934,324)	(73,691,410)	(124,567,293)	(178,156,018)	
Two years later		(96,979,889)	(85,486,306)	(87,747,029)	(150,468,251)		
Three years later		(100,494,788)	(91,334,354)	(95,024,687)			
Four years later		(105,516,825)	(97,660,478)				
Five years later		(105,804,141)					
Six years later							
Seven years later							
Cumulative payments to-date		(105,804,141)	(97,660,478)	(95,024,687)	(150,468,251)	(178,156,018)	(93,494,069)

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (PIB) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	1,855,371	3,388,981	6,717,246	14,735,002	39,558,319	117,416,522	241,914,741	425,586,182
Gross general insurance outstanding liabilities (treaty inward)								35,938,450
Best estimate of claim liabilities								461,524,632
Claims handling expenses								8,366,903
PRAD at 75% confidence Level								41,416,143
Gross general insurance contract liabilities per statement of financial position								511,307,678

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (MCIS general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
<u>Group/Company</u>							
At end of accident year		145,104,000	105,396,000	86,623,384	18,695,705	167,828	-
One year later		156,394,000	93,253,432	86,840,507	21,626,874	287,700	
Two years later		158,346,490	92,377,981	83,113,690	19,916,415		
Three years later		152,161,537	87,378,959	79,206,629			
Four years later		150,706,019	84,834,914				
Five years later		151,169,625					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		151,169,625	84,834,914	79,206,629	19,916,415	287,700	-
At end of accident year		(58,383,924)	(26,581,810)	(23,780,956)	(3,073,991)	-	-
One year later		(94,233,566)	(54,196,942)	(38,329,500)	(8,496,081)	(19,769)	
Two years later		(107,970,113)	(61,129,585)	(55,233,080)	(14,298,513)		
Three years later		(112,078,896)	(68,642,256)	(62,316,541)			
Four years later		(116,886,455)	(70,289,378)				
Five years later		(117,980,725)					
Six years later							
Seven years later							
Cumulative payments to-date		(117,980,725)	(70,289,378)	(62,316,541)	(14,298,513)	(19,769)	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	26,608,317	33,188,900	14,545,536	16,890,088	5,617,902	267,931	-	97,118,674
Gross general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								97,832,711
Claims handling expenses								1,909,570
PRAD at 75% confidence Level								9,482,716
Gross general insurance contract liabilities per statement of financial position.								109,224,997

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (Prudential general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
<u>Group/Company</u>							
At end of accident year							5,748,141
One year later						6,207,659	
Two years later					7,847,268		
Three years later				9,196,681			
Four years later			10,164,700				
Five years later		9,830,303					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		9,830,303	10,164,700	9,196,681	7,847,268	6,207,659	5,748,141
At end of accident year							(3,450,422)
One year later						(4,195,671)	
Two years later					(6,168,223)		
Three years later				(9,065,935)			
Four years later			(10,065,433)				
Five years later		(9,729,438)					
Six years later							
Seven years later							
Cumulative payments to-date		(9,729,438)	(10,065,433)	(9,065,935)	(6,168,223)	(4,195,671)	(3,450,422)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	1,827,127	100,865	99,267	130,746	1,679,045	2,011,988	2,297,719	8,146,757
Gross general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								8,146,757
Claims handling expenses								239,087
PRAD at 75% confidence Level								685,225
Gross general insurance contract liabilities per statement of financial position								<u>9,071,069</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (PIB):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
<u>Group/Company</u>							
At end of accident year		71,293,412	76,527,904	82,907,814	121,532,796	150,715,647	163,233,359
One year later		67,364,621	72,915,675	64,204,183	121,955,485	142,324,732	
Two years later		64,872,867	65,794,967	60,252,225	115,029,552		
Three years later		63,307,168	64,247,522	59,043,708			
Four years later		62,065,027	63,869,542				
Five years later		61,722,173					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		61,722,173	63,869,542	59,043,708	115,029,552	142,324,732	163,233,359
At end of accident year		(35,186,016)	(36,078,103)	(34,893,870)	(42,780,549)	(57,094,912)	(60,684,046)
One year later		(54,745,833)	(56,406,967)	(51,160,371)	(82,033,698)	(96,246,726)	
Two years later		(59,602,493)	(60,685,360)	(54,989,373)	(95,997,486)		
Three years later		(60,180,616)	(61,894,440)	(56,268,953)			
Four years later		(60,723,891)	(62,351,437)				
Five years later		(60,793,315)					
Six years later							
Seven years later							
Cumulative payments to-date		(60,793,315)	(62,351,437)	(56,268,953)	(95,997,486)	(96,246,726)	(60,684,046)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (PIB) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	505,587	928,858	1,518,105	2,774,755	19,032,066	46,078,006	102,549,313	173,386,690
Net general insurance outstanding liabilities (treaty inward)								35,938,450
Best estimate of claim liabilities								209,325,140
Claims handling expenses								8,366,903
PRAD at 75% confidence Level								21,171,465
Net general insurance contract liabilities per statement of financial position								<u>238,863,508</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (MCIS general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
<u>Group/Company</u>							
At end of accident year		83,506,000	76,525,000	69,675,872	14,530,459	23,937	-
One year later		80,843,000	72,610,787	71,475,987	14,557,068	39,688	
Two years later		79,972,584	72,900,862	43,832,305	13,431,149		
Three years later		78,699,009	55,813,147	42,375,851			
Four years later		70,386,354	54,608,309				
Five years later		70,393,598					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		70,393,598	54,608,309	42,375,851	13,431,149	39,688	-
At end of accident year		(29,844,489)	(22,034,001)	(22,210,967)	(2,922,588)	-	-
One year later		(55,720,126)	(45,329,555)	(33,676,688)	(7,614,617)	(5,387)	
Two years later		(63,851,310)	(49,278,223)	(34,477,349)	(10,212,208)		
Three years later		(66,484,174)	(49,539,391)	(37,001,563)			
Four years later		(66,293,975)	(49,937,501)				
Five years later		(66,442,572)					
Six years later							
Seven years later							
Cumulative payments to-date		(66,442,572)	(49,937,501)	(37,001,563)	(10,212,208)	(5,387)	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	2,927,372	3,951,026	4,670,808	5,374,288	3,218,941	34,301	-	20,176,736
Net general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								20,890,773
Claims handling expenses								1,909,570
PRAD at 75% confidence Level								1,890,174
Net general insurance contract liabilities per statement of financial position								24,690,517

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (Prudential general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
<u>Group/Company</u>							
At end of accident year		9,227,049	10,011,520	8,602,421	6,248,605	6,190,620	5,292,896
One year later		8,592,820	9,343,655	7,694,913	6,765,166	5,637,703	
Two years later		8,571,345	9,082,945	7,678,580	6,388,061		
Three years later		8,672,289	9,081,461	7,550,671			
Four years later		8,494,630					
Five years later		8,462,960					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		8,462,960	8,993,745	7,550,671	6,388,061	5,637,703	5,292,896
At end of accident year		(4,511,680)	(4,632,641)	(3,817,365)	(3,456,977)	(2,490,530)	(3,124,049)
One year later		(7,500,538)	(7,947,200)	(6,587,588)	(5,476,125)	(3,978,040)	
Two years later		(8,148,473)	(8,514,934)	(7,326,801)	(5,833,496)		
Three years later		(8,212,418)	(8,664,745)	(7,423,196)			
Four years later		(8,358,465)					
Five years later		(8,364,616)					
Six years later							
Seven years later							
Cumulative payments to-date		(8,364,616)	(8,896,964)	(7,423,196)	(5,833,496)	(3,978,040)	(3,124,049)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	381,283	98,344	96,781	127,475	554,565	1,659,663	2,168,847	5,086,958
Net general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								5,086,958
Claims handling expenses								239,087
PRAD at 75% confidence Level								464,411
Net general insurance contract liabilities per statement of financial position								5,790,456

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31. FINANCIAL RISKS

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

(i) Credit risk

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

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

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

Credit exposure

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

Credit exposure by credit rating

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

Company No.
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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2018	<u>Group</u>	Neither past-due nor impaired		Past-due but not impaired	Past-due and impaired	Total
		Government Guaranteed	Investment grade			
		RM	RM	RM	RM	RM
	LAR					
	Fixed and call deposits	-	52,312,288	-	-	52,312,288
	AFS financial investments					
	Malaysian Government Securities	68,781,903	-	-	-	68,781,903
	Government Investment Issues	82,809,272	-	-	-	82,809,272
	Corporate bonds	21,386,309	93,067,765	11,598,650	-	126,052,724
	Unit trusts	-	-	165,086,037	-	165,086,037
	FVTPL financial investments					
	Equity securities	-	-	28,199,020	-	28,199,020
	REITs	-	-	3,226,996	-	3,226,996
	Reinsurance assets	-	41,684,331	486,022,705	730,457	528,437,493
	Insurance receivables and reinsurance recoverables	-	971,691	52,627,228	5,730,106	68,869,836
	Cash and cash equivalents	-	199,865,465	10,100	-	199,875,565
	Allowance for impairment	-	-	-	(6,460,563)	(6,460,563)
		172,977,484	387,901,540	746,770,736	9,540,811	1,317,190,571

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2018	Company	Neither past-due nor impaired			Past-due but not impaired	Past-due and impaired	Total
		Government Guaranteed	Investment grade	Not rated			
		RM	RM	RM	RM	RM	RM
LAR							
Fixed and call deposits		-	52,312,288	-	-	-	52,312,288
AFS financial investments							
Malaysian Government Securities		-	-	-	-	-	-
Government Investment Issues		-	-	-	-	-	-
Corporate bonds		-	-	7,195,116	-	-	7,195,116
Unit trusts		-	-	446,268,624	-	-	446,268,624
FVTPL financial investments							
Equity securities		-	-	28,199,020	-	-	28,199,020
REITs		-	-	3,226,996	-	-	3,226,996
Reinsurance assets		-	41,684,331	486,022,705	-	730,457	528,437,493
Insurance receivables and reinsurance recoverables		-	971,691	52,627,228	9,540,811	5,730,106	68,869,836
Cash and cash equivalents		-	188,315,142	10,100	-	-	188,325,242
Allowance for impairment		-	-	-	-	(6,460,563)	(6,460,563)
		-	283,283,452	1,023,549,789	9,540,811	-	1,316,374,052

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired			Past-due but not impaired	Past-due and impaired	Total
	Government Guaranteed	Investment grade	Not rated			
	RM	RM	RM	RM	RM	RM
2017						
<u>Group</u>						
LAR						
Fixed and call deposits	-	46,446,574	-	-	-	46,446,574
AFS financial investments						
Malaysian Government Securities	154,513,930	-	-	-	-	154,513,930
Government Investment Issues	25,099,151	-	-	-	-	25,099,151
Corporate bonds	2,046,754	98,296,124	9,942,219	-	-	110,285,097
Unit trusts	-	-	161,359,739	-	-	161,359,739
FVTPL financial investments						
Equity securities	-	-	49,567,951	-	-	49,567,951
REITs	-	-	3,123,400	-	-	3,123,400
Reinsurance assets	-	43,878,931	447,797,392	-	1,862,523	493,538,846
Insurance receivables and reinsurance recoverables	-	3,461,362	42,572,387	26,993,744	6,592,655	79,620,148
Cash and cash equivalents	-	111,955,232	10,000	-	-	111,965,232
Allowance for impairment	-	-	-	-	(8,455,178)	(8,455,178)
	181,659,835	304,038,223	714,373,088	26,993,744	-	1,227,064,890

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2017 Company	Neither past-due nor impaired		Past-due but not impaired RM	Past-due and impaired RM	Total RM
	Government Guaranteed RM	Investment grade RM			
LAR	-	46,446,574	-	-	46,446,574
Fixed and call deposits	-	-	-	-	-
AFS financial investments	-	-	-	-	-
Malaysian Government Securities	-	-	-	-	-
Government Investment Issues	-	7,149,756	-	-	7,149,756
Corporate bonds	-	447,124,617	-	-	447,124,617
Unit trusts	-	-	-	-	-
FVTPL financial investments	-	49,567,951	-	-	49,567,951
Equity securities	-	3,123,400	-	-	3,123,400
REITs	-	447,797,392	-	1,862,523	493,538,846
Reinsurance assets	-	-	-	-	-
Insurance receivables and reinsurance recoverables	-	3,461,362	26,993,744	6,592,655	79,620,148
Cash and cash equivalents	-	108,174,713	-	-	108,184,713
Allowance for impairment	-	-	-	(8,455,178)	(8,455,178)
	-	201,961,580	997,345,503	26,993,744	1,226,300,827

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"), Standard & Poor's ("S&P") and Fitch Solution. AAA is the highest possible rating.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

		<u>Government Guaranteed</u> RM	<u>AAA</u> RM	<u>AA</u> RM	<u>A</u> RM	<u>B</u> RM	<u>Not rated</u> RM	<u>Total</u> RM
2018								
<u>Group</u>								
LAR								
Fixed and call deposits		-	44,092,080	2,886,418	5,333,790	-	-	52,312,288
AFS financial investments								
Malaysian Government Securities	68,781,903	-	-	-	-	-	-	68,781,903
Government Investment Issues	82,809,272	-	-	-	-	-	-	82,809,272
Corporate bonds	21,386,309	13,561,176	53,453,696	26,052,893	-	-	11,598,650	126,052,724
Unit trusts	-	-	-	-	-	-	165,086,037	165,086,037
FVTPL financial investments								
Equity securities	-	-	-	-	-	-	28,199,020	28,199,020
REITs	-	-	-	-	-	-	3,226,996	3,226,996
Reinsurance assets	-	-	5,293	41,679,038	-	-	486,022,705	527,707,036
Insurance receivables and reinsurance recoverables	-	-	-	4,503	967,188	-	62,168,039	63,139,730
Cash and cash equivalents	-	36,640,313	160,299,568	-	-	2,925,584	10,100	199,875,565
	<u>172,977,484</u>	<u>94,293,569</u>	<u>216,649,478</u>	<u>74,032,909</u>	<u>2,925,584</u>	<u>756,311,547</u>	<u>1,317,190,571</u>	
Neither past-due nor impaired	172,977,484	94,293,569	216,649,478	74,032,909	2,925,584	746,770,736	1,307,649,760	
Past-due but not impaired	-	-	-	-	-	9,540,811	9,540,811	
	<u>172,977,484</u>	<u>94,293,569</u>	<u>216,649,478</u>	<u>74,032,909</u>	<u>2,925,584</u>	<u>756,311,547</u>	<u>1,317,190,571</u>	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

		<u>Government Guaranteed</u> RM	<u>AAA</u> RM	<u>AA</u> RM	<u>A</u> RM	<u>B</u> RM	<u>Not rated</u> RM	<u>Total</u> RM
2018								
<u>Company</u>								
LAR								
Fixed and call deposits	-	44,092,080	2,886,418	5,333,790	-	-	-	52,312,288
AFS financial investments								
Malaysian Government Securities	-	-	-	-	-	-	-	-
Government Investment Issues	-	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-	7,195,116	7,195,116
Unit trusts	-	-	-	-	-	-	446,268,624	446,268,624
FVTPL financial investments								
Equity securities	-	-	-	-	-	-	28,199,020	28,199,020
REITs	-	-	-	-	-	-	3,226,996	3,226,996
Reinsurance assets	-	-	5,293	41,679,038	-	-	486,022,705	527,707,036
Insurance receivables and reinsurance recoverables	-	-	4,503	967,188	-	-	62,168,039	63,139,730
Cash and cash equivalents	-	36,619,997	151,695,145	-	-	-	10,100	188,325,242
	-	80,712,077	154,591,359	47,980,016	-	-	1,033,090,600	1,316,374,052
Neither past-due nor impaired	-	80,712,077	154,591,359	47,980,016	-	-	1,023,549,789	1,306,833,241
Past-due but not impaired	-	-	-	-	-	-	9,540,811	9,540,811
	-	80,712,077	154,591,359	47,980,016	-	-	1,033,090,600	1,316,374,052

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2017	Government Guaranteed RM	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<u>Group</u>							
LAR							
Fixed and call deposits	-	39,512,182	2,787,185	4,147,207	-	-	46,446,574
AFS financial investments							
Malaysian Government Securities	154,513,930	-	-	-	-	-	154,513,930
Government Investment Issues	25,099,151	-	-	-	-	-	25,099,151
Corporate bonds	2,046,754	12,911,934	50,395,972	34,988,218	-	9,942,219	110,285,097
Unit trusts	-	-	-	-	-	161,359,739	161,359,739
FVTPL financial investments							
Equity securities	-	-	-	-	-	49,567,951	49,567,951
REITs	-	-	-	-	-	3,123,400	3,123,400
Reinsurance assets	-	-	13,985,944	29,892,987	-	447,797,392	491,676,323
Insurance receivables and reinsurance recoverables	-	-	2,604,517	856,845	-	69,566,131	73,027,493
Cash and cash equivalents	-	20,644,584	88,682,018	2,998	2,625,632	10,000	111,965,232
	181,659,835	73,068,700	158,455,636	69,888,255	2,625,632	741,366,832	1,227,064,890
Neither past-due nor impaired	181,659,835	73,068,700	158,455,636	69,888,255	2,625,632	714,373,088	1,200,071,146
Past-due but not impaired	-	-	-	-	-	26,993,744	26,993,744
	181,659,835	73,068,700	158,455,636	69,888,255	2,625,632	741,366,832	1,227,064,890

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	2017	Government Guaranteed RM	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
<u>Company</u>								
LAR								
Fixed and call deposits	-	39,512,182	2,787,185	4,147,207	-	-	-	46,446,574
AFS financial investments								
Malaysian Government Securities	-	-	-	-	-	-	-	-
Government Investment Issues	-	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-	7,149,756	7,149,756
Unit trusts	-	-	-	-	-	-	447,124,617	447,124,617
FVTPL financial investments								
Equity securities	-	-	-	-	-	-	49,567,951	49,567,951
REITs	-	-	-	-	-	-	3,123,400	3,123,400
Reinsurance assets	-	-	13,985,944	29,892,987	-	-	447,797,392	491,676,323
Insurance receivables and reinsurance recoverables	-	-	2,604,517	856,845	-	-	69,566,131	73,027,493
Cash and cash equivalents	-	20,623,419	87,548,296	2,998	-	-	10,000	108,184,713
	-	60,135,601	106,925,942	34,900,037	-	-	1,024,339,247	1,226,300,827
Neither past-due nor impaired	-	60,135,601	106,925,942	34,900,037	-	-	997,345,503	1,199,307,083
Past-due but not impaired	-	-	-	-	-	-	26,993,744	26,993,744
	-	60,135,601	106,925,942	34,900,037	-	-	1,024,339,247	1,226,300,827

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

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

Age analysis of financial assets past-due but not impaired

<u>Group/Company</u>	<u><30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>>180 days</u>	<u>Total</u>
2018						
Insurance receivables and reinsurance recoverables	(7,677,491)	8,804,256	1,054,721	746,960	6,612,365	9,540,811
2017						
Insurance receivables and reinsurance recoverables	3,073,843	3,038,990	1,819,064	6,129,423	12,932,424	26,993,744

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

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31. FINANCIAL RISKS (CONTINUED)

At 31 December 2018, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables and reinsurance recoverables and reinsurance assets of RM6,485,886 (2017: RM8,455,178). No collateral is held as security for any past-due or impaired assets. The Group and Company records impairment allowance for insurance receivables, reinsurance recoverables and reinsurance assets in separate "allowance for impairment losses" account. A reconciliation of the allowance for impairment losses for insurance receivables & reinsurance assets are as follows:

	Insurance receivables and reinsurance recoverables		Reinsurance Assets Allowance for		Total	
	Impairment losses		Impairment losses			
	2018 RM	2017 RM	2018 RM	2017 RM	2018 RM	2017 RM
<u>Group/Company</u>						
At 1 January	6,592,655	6,822,585	1,862,523	2,125,942	8,455,178	8,948,527
Acquisition of Prudential general insurance business	-	111,295	-	84,630	-	195,925
Write back for the financial year	(546,846)	(685,236)	(1,132,066)	(348,049)	(1,678,912)	(1,033,285)
Bad debts (written-off) / write back	(315,703)	344,011	-	-	(315,703)	344,011
At 31 December	5,730,106	6,592,655	730,457	1,862,523	6,460,563	8,455,178

Liquidity risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2018

Group

Financial investments:

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
LAR	52,312,288	53,427,309	-	-	-	-	-	53,427,309
AFS	442,729,936	35,859,000	12,830,250	98,220,278	219,642,820	79,938,075	134,762,037	581,252,460
FVTPL	31,426,016	-	-	-	-	-	31,426,016	31,426,016
Reinsurance assets on claim liabilities	389,797,568	208,288,553	143,173,661	30,371,005	7,964,349	-	-	389,797,568
Insurance receivables and reinsurance recoverable	63,139,730	63,139,730	-	-	-	-	-	63,139,730
Other receivables								
- staff loans	943,557	209,980	243,081	114,984	288,594	86,918	-	943,557
- bond collateral deposits placements	1,052,436	1,064,215	-	-	-	-	-	1,064,215
Cash and cash equivalents	199,875,565	162,508,242	-	-	-	-	37,547,094	200,055,336
Total financial assets	1,181,277,096	524,497,029	156,246,992	128,706,267	227,895,763	80,024,993	203,735,147	1,321,106,191

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2017								
<u>Group</u>								
Financial investments:								
LAR	46,446,574	47,389,508	-	-	-	-	-	47,389,508
AFS	451,257,917	78,763,125	52,551,600	47,797,750	205,096,300	114,628,150	90,579,112	589,416,037
FVTPL	52,691,351	-	-	-	-	-	52,691,351	52,691,351
Reinsurance assets on claim liabilities	358,396,740	209,433,135	115,846,171	25,732,729	7,384,705	-	-	358,396,740
Insurance receivables and reinsurance recoverables	73,027,493	73,027,493	-	-	-	-	-	73,027,493
Other receivables								
- staff loans	1,197,238	315,969	294,102	229,098	260,231	97,838	-	1,197,238
- bond collateral deposits placements	1,430,082	1,446,288	-	-	-	-	-	1,446,288
Cash and cash equivalents	111,965,232	90,634,730	-	-	-	-	21,294,375	111,929,105
Total financial assets	1,096,412,627	501,010,248	168,691,873	73,759,577	212,741,236	114,725,988	164,564,838	1,235,493,760

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	<u>Current</u> RM	<u>Non-Current</u> RM	<u>Total</u> RM
<u>Group</u>			
<u>2018</u>			
Financial investments:			
LAR	52,312,288	-	52,312,288
AFS	170,211,253	272,518,683	442,729,936
FVTPL	31,426,016	-	31,426,016
Reinsurance assets on claim liabilities	208,288,553	181,509,015	389,797,568
Insurance receivables and reinsurance recoverables	63,139,730	-	63,139,730
Other receivables			
- staff loans	209,980	733,577	943,557
- bond collateral deposits placements	1,052,436	-	1,052,436
Cash and cash equivalents	199,875,564	-	199,875,564
Total financial assets	<u>726,515,820</u>	<u>454,761,275</u>	<u>1,181,277,095</u>
<u>2017</u>			
Financial investments:			
LAR	46,446,574	-	46,446,574
AFS	168,890,792	282,367,125	451,257,917
FVTPL	52,691,351	-	52,691,351
Reinsurance assets on claim liabilities	209,433,135	148,963,605	358,396,740
Insurance receivables and reinsurance recoverables	73,027,493	-	73,027,493
Other receivables			
- staff loans	315,969	881,269	1,197,238
- bond collateral deposits placements	1,430,082	-	1,430,082
Cash and cash equivalents	111,965,232	-	111,965,232
Total financial assets	<u>664,200,628</u>	<u>432,211,999</u>	<u>1,096,412,627</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

<u>Company</u>	<u>Current</u> RM	<u>Non-Current</u> RM	<u>Total</u> RM
<u>2018</u>			
Financial investments:			
LAR	52,312,288	-	52,312,288
AFS	446,268,624	7,195,116	453,463,740
FVTPL	31,426,016	-	31,426,016
Reinsurance assets on claim liabilities	208,288,553	181,509,015	389,797,568
Insurance receivables and reinsurance recoverables	63,139,730	-	63,139,730
Other receivables			
- staff loans	209,980	733,577	943,557
- bond collateral deposits placements	1,052,436	-	1,052,436
Cash and cash equivalents	188,325,242	-	188,325,242
Total financial assets	<u>991,022,869</u>	<u>189,437,708</u>	<u>1,180,460,577</u>
<u>2017</u>			
Financial investments:			
LAR	46,446,574	-	46,446,574
AFS	447,124,617	7,149,756	454,274,373
FVTPL	52,691,351	-	52,691,351
Reinsurance assets on claim liabilities	209,433,135	148,963,605	358,396,740
Insurance receivables and reinsurance recoverables	73,027,493	-	73,027,493
Other receivables			
- staff loans	315,969	881,269	1,197,238
- bond collateral deposits placements	1,430,082	-	1,430,082
Cash and cash equivalents	108,184,713	-	108,184,713
Total financial assets	<u>938,653,934</u>	<u>156,994,630</u>	<u>1,095,648,564</u>

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Market price risk

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

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

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

	2018			2017		
	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM
<u>Group</u>						
<u>Market value</u>						
Available-for-sale securities:						
Unit trust investments	+5%	-	6,273,269	+5%	-	6,131,670
Unit trust investments	-5%	-	(6,273,269)	-5%	-	(6,131,670)
FVTPL:						
Equities	+5%	1,409,951	1,071,563	+5%	2,478,398	1,883,582
Equities	-5%	(1,409,951)	(1,071,563)	-5%	(2,478,398)	(1,883,582)
REITs	+5%	161,350	122,626	+5%	156,170	118,689
REITs	-5%	(161,350)	(122,626)	-5%	(156,170)	(118,689)
<u>Company</u>						
<u>Market value</u>						
Available-for-sale securities:						
Unit trust investments	+5%	-	16,958,208	+5%	-	16,990,735
Unit trust investments	-5%	-	(16,958,208)	-5%	-	(16,990,735)
FVTPL:						
Equities	+5%	1,409,951	1,071,563	+5%	2,478,398	1,883,582
Equities	-5%	(1,409,951)	(1,071,563)	-5%	(2,478,398)	(1,883,582)
REITs	+5%	161,350	122,626	+5%	156,170	118,689
REITs	-5%	(161,350)	(122,626)	-5%	(156,170)	(118,689)

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Interest rate risk

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

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

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

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

	Impact on profit before tax RM	Impact on equity* RM
<u>Group</u>		
Change in interest rates:		
<u>2018</u>		
+50 basis points	(6,749,233)	(5,206,335)
- 50 basis points	7,099,965	5,474,260
<u>2017</u>		
+50 basis points	(6,702,540)	(5,190,955)
- 50 basis points	7,084,484	5,481,799
<u>Company</u>		
Change in interest rates:		
<u>2018</u>		
+50 basis points	781,369	516,922
- 50 basis points	(781,369)	(515,554)
<u>2017</u>		
+50 basis points	1,101,204	739,891
- 50 basis points	(1,101,204)	(739,324)

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

32. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as At 31 December 2018, as prescribed under the Risk-Based Capital Framework is provided below:

	<u>2018</u> RM	<u>2017</u> RM
<u>Eligible Tier 1 Capital</u>		
Share capital (paid-up)	219,875,038	219,875,038
Reserves, including retained earnings	137,831,248	136,162,838
	<u>357,706,286</u>	<u>356,037,876</u>
<u>Tier 2 Capital</u>		
Available-for-sale-reserves	3,671,784	3,890,037
Subordinated term debts	30,783,265	29,079,640
	<u>34,455,049</u>	<u>32,969,677</u>
<u>Deductions</u>		
Goodwill & other intangible assets	(41,172,631)	(40,886,685)
Deferred tax assets	(6,997,899)	(2,107,180)
	<u>(48,170,530)</u>	<u>(42,993,865)</u>
Total Capital Available	<u>343,990,805</u>	<u>346,013,688</u>

33. BUSINESS COMBINATION

On 30 August 2017, the Company completed the acquisition of certain assets and liabilities of the general insurance business of Prudential Assurance Malaysia Berhad for a cash consideration of RM10,000,000.

The carrying amount of the assets and liabilities transferred to the Pacific Insurance Berhad on 30 August 2017 are as follows:

	<u>2017</u> RM
<u>Assets</u>	
Cash and cash equivalents	75,711
Intangible assets	283,874
Insurance receivables	323,095
Other receivables	
Reinsurance assets	4,664,088
	<u>5,346,768</u>
<u>Liabilities</u>	
Insurance contract liabilities	15,222,935
Insurance payables	1,461,888
Other payables	907,812
	<u>17,592,635</u>
Net assets/(liabilities) acquired *	<u>(12,245,867)</u>

* The net liabilities acquired of RM12,245,867 have been settled via a completion cash payment from Prudential Assurance Malaysia Berhad.

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

33. BUSINESS COMBINATION (CONTINUED)

	<u>2017</u> RM
The goodwill of RM8,777,819 is computed as follow:	
Total purchase consideration	10,000,000
Completion cash payment (Received by PIB)	(12,245,867)
Fair value of net assets acquired	12,245,867
Tax benefit on premium liabilities	(1,222,181)
Goodwill on acquisition (Note 5)	<u>8,777,819</u>

34. CONTINGENT LIABILITY

In August 2016, Malaysia Competition Commission ("MyCC") had commenced investigation under Section 15(1) of the Competition Act 2010 ("the Act") against the General Insurance Association of Malaysia ("PIAM") and its 22 member companies with regards to an alleged infringement of Section 4(2)(a) of the Act in relation to an agreement to fix parts trade discount and labour rates for 6 vehicle makes. On 22 February 2017, MyCC issued a proposed decision to all 22 member companies, proposing to impose collective penalty of RM213.5 million on the general insurance industry. As an 'industry collective action', the Company together with PIAM, submitted written representation and made oral representation to MyCC on 25 April 2017 and 29 January 2018 respectively to defend the allegation.

Due to the changes of Chairman of MyCC and new members being added to MyCC, the new Chairman decided that there would be a re-hearing of the case. The hearing session which was set for 19 - 21 February 2019 has concluded that as the dates given were not sufficient for all the insurers to submit their arguments, further hearing dates have been set for May and June 2019.

The Proposed Decision is not final as at the date of this report, and the Company is in consultation with its legal advisers will take such appropriate actions to defend its position that it has not been in infringement of Section 4(2)(a) of the Act.

Saved as disclosed above, the Company does not have any other contingent assets and liabilities since the last annual balance sheet date.

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

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 20 to 133 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2018 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 19 March 2019.



DATO' HUANG SIN CHENG
DIRECTOR



DATUK ABU HASSAN BIN KENDUT
DIRECTOR

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

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 20 to 133 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 19 March 2019, before me

Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur

COMMISSIONER FOR OATHS





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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of The Pacific Insurance Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 20 to 134.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, 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*



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises Directors' Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit 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 Group's and Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 7 to the financial statements.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.


PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants


JAYARAJAN A/L U. RATHINASAMY
02059/06/2020 J
Chartered Accountant

Kuala Lumpur
19 March 2019