Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2014

Asia Capital Reinsurance Malaysia Sdn. Bhd.
(Company No. 762294-T)
(Incorporated in Malaysia)

Directors' report for the year ended 31 December 2014

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2014.

Principal activities

The Company is principally engaged in the underwriting of general reinsurance business. There has been no significant change in the nature of these activities during the year.

Results

	RM'000
Profit for the year	3,579

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

No dividends were paid during the financial year under review. The final ordinary dividends recommended by the Directors in respect of the financial year ended 31 December 2014 is 1.15 sen per ordinary share amounted RM3,450,000. Such dividend, if approved, will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year ending 31 December 2015.

Directors of the Company

Directors who served since the date of the last report are:

Raja Tan Sri Dato' Seri Arshad Bin Raja Tun Uda (Chairman)
Tunku Ali Redhauddin Ibni Tuanku Muhriz (resigned w.e.f. 31 August 2014)
Chan Wei Beng
Tan Kwang Kherng
Wong Ah Kow
Dato' Dr. R. Thillainathan A/L Ramasamy
Dato' Mohd Salleh Bin Haji Harun

Six members of the Board are Non-executive Directors and one member of the Board is an Executive Director. Two of the Non-executive Directors are also Independent Directors. All the Board members have complied with the requirement of serving on the board of not more than fifteen companies.

Directors' interests in shares

None of the Directors holding office at 31 December 2014 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 24 to the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares and debentures

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Provision for insurance liabilities

Before the statement of profit or loss and other comprehensive income and statement of financial position of the 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 Part D of the Risk-Based Capital Framework for Insurers.

Other statutory information

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to be realised in the ordinary course of the business have been written down to an amount which they might be expected so to realise.

Other statutory information (continued)

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or

(ii) that would render the amount of provision for insurance liabilities, inadequate to any substantial extent, or

(iii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or

(iv) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or

(v) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Company misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

(ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

In the opinion of the Directors, except as disclosed in the financial statements, the financial performance of the Company for the financial year ended 31 December 2014 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Statement on corporate governance and internal controls

i) Board responsibilities

The Board of Directors of the Company ("the Board") met six times during the period between 1 January 2014 to 31 December 2014 to decide on the Company's objectives and strategy and any other specific matters which are reserved for its decision.

In discharging its duties, the Board is responsible for ensuring compliance with the Financial Services Act 2013, Bank Negara Malaysia ("BNM")'s Guidelines and other directives. The Board also has to comply with the tenets of corporate governance by adopting the best practices as stipulated under BNM's Guidelines of Prudential Framework of Corporate Governance for Insurers.

The Board directly oversees the on-going implementation of appropriate systems to manage risks and also review and approve the strategies and financial objectives to be implemented by the management.

The Board is also responsible for creating the framework and policies within which the Company should be operating and the management is responsible for implementing them. This demarcation reinforces the supervisory role of the Board.

The Directors, with different backgrounds and diverse experiences, collectively bring with them a wide range of skills and specialised knowledge that are required to provide guidance for the management of the Company. The following are the Committees established to assist the Board in discharging its responsibilities:

Audit Committee

The Audit Committee, comprising non-executive and independent members of the Board, meets regularly and a total of five (5) meetings were held during the year ended 31 December 2014. The Committee reviews the annual audited financial statements of the Company which is then tabled to the Board for approval. The activities of the Audit Committee are governed by its Terms of Reference that are approved by the Board.

The duties and responsibilities of the Audit Committee are as follows:

(i) To review and report the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its works.

(ii) To review the results of the Company's internal audit procedures and the adequacy of actions taken by the management based on the reports.

(iii) To ensure that the external auditors fulfil the minimum qualification criteria set by BNM and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors (including their remuneration, terms of engagement and scope of the external audit).

Statement on corporate governance and internal controls (continued)

i) Board responsibilities (continued)

Audit Committee (continued)

(iv) To review the external and internal audit plans; and assess the effectiveness of the audit process, discuss with the external and internal auditors the findings of their work and any major issue that arose during the course of the audit or any other matters which the auditors may wish to discuss.

(v) To review and approve non-audit services rendered by the external auditors.

(vi) To review the annual audited financial statements of the Company and thereafter submit them to the Board for approval.

(vii) To review the adequacy and effectiveness of risk management and internal control systems instituted within the Company.

(viii) To review any related party transactions and conflicts of interest situations that may arise within the Company.

(ix) To perform any other functions as may be agreed by the Audit Committee and the Board.

Risk Management Committee

The Company has in place a formal and integrated enterprise-wide risk management framework to identify, evaluate and manage risks by identifying all major risks in critical areas of operations, assessing the possible impact of significant exposures and risk mitigation measures taken.

The duties and responsibilities of the Risk Management Committee are as follows:

(i) To review and recommend risk management strategies, policies and risk tolerance for the Boards' approval.

(ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.

(iii) To ensure that adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities.

Statement on corporate governance and internal controls (continued)

i) Board responsibilities (continued)

Risk Management Committee (continued)

(iv) To review the management's periodic reports on the risk exposure, risk portfolio composition and risk management activities.

(v) To review and assess the risk capital profiles to ensure adequacy of the capital available in the insurance and shareholder's equity to support the total capital required as specified in the Risk-Based Capital Framework for Insurers issued by BNM.

(vi) To ensure that the investment of insurance funds is in accordance with the approved investment and risk management policy of the Board.

(vii) To review the outsourcing risk management programme and policies for the Board's approval.

(viii) To review the management's evaluation on the materiality of all existing and prospective outsourcing, based on the requirements of the standards on outsourcing for reinsurers, related party transactions, other directives imposed by BNM from time to time as well as the framework approved by the Board.

(ix) To ensure that the approved outsourcing policies and procedures are implemented.

(x) To review the management's periodic review on the outsourcing policies and procedures implemented to ensure their continued effectiveness in managing outsourcing risks.

(xi) To review and receive communication from the management on the information pertaining to material outsourcing risks in a timely manner.

(xii) To perform any other functions in relation to risk management as may be agreed by the Risk Management Committee and the Board of Directors.

Nominating Committee

The Nominating Committee has the responsibility of assessing and reviewing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer.

Statement on corporate governance and internal controls (continued)

i) Board responsibilities (continued)

Nominating Committee (continued)

The duties and responsibilities of the Nominating Committee are as follows:

(i) To establish the minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively.

To oversee the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive, Non-Executive and Independent Directors, and mix of skills and other core competencies required, through annual reviews.

(ii) To assess and recommend nominees for directorship, the Directors nominated to serve on Board Committees, as well as nominees for the position of Chief Executive Officer. This would include assessing Directors and the Chief Executive Officer proposed for reappointment, before an application for approval is submitted to BNM.

(iii) To establish a formal mechanism for annual review and assessment on the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer.

(iv) To recommend to the Board the removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities.

(v) To ensure that all Directors undergo appropriate induction programmes and receive continuous training.

(vi) To carry out annual reviews of the Fit and Proper Policy and annual assessments on the fitness and propriety of Directors and Chief Executive Officer.

(vii) To oversee the appointment, management succession planning and performance evaluation of key senior officers and recommending to the Board the removal of key senior officers if they are ineffective, errant or negligent in discharging their responsibilities.

Remuneration Committee

The Remuneration Committee has the responsibility of reviewing and recommending the Board a framework of remuneration including employee benefits such as salaries, social security contributions, paid annual leave, paid sick leave, bonuses and retirement benefits for the employees of the Company as well as the Directors and the Chief Executive Officer.

Statement on corporate governance and internal controls (continued)

ii) Management accountability

Whilst the Board is responsible for creating the framework and policies within which the Company should operate, the management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

iii) Corporate independence

All material related party transactions have been disclosed in Note 28 to the financial statements.

iv) Risk management framework

The Company maintains a risk management framework that is designed to be consistent with the basic principles of sound management practices.

The framework is made of a Policy Statement that is implemented and monitored by using a "three-line-of-defence" model. The model comprises three (3) elements of risk governance, which are as follows:

- Management: the first line of defence - The management is responsible for setting strategies, performance measurement and establishment and maintenance of internal controls and risk management in the business;

- Risk assessment: the second line of defence - The Enterprise Risk Management Committee and Risk Management Committee respectively are responsible for setting policies and minimum standards and to provide objective oversight and challenge to the first line of risk management activities; and

- Independent assurance: the third line of defence - The Internal Auditor provides independent and objective assurance on the effectiveness of the Company's system of internal control established by the first and second lines of defence.

v) Financial reporting

The Directors are responsible for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with applicable approved Malaysian Financial Reporting Standards issued by the Malaysian Accounting Standards Board, accounting principles generally accepted in Malaysia, the Companies Act, 1965, and the Financial Services Act, 2013.

vi) Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

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Holding and ultimate holding companies

The immediate and ultimate holding companies are Kuala Selangor Ventures Sdn. Bhd. and Khazanah Nasional Berhad, respectively, both companies incorporated in Malaysia.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board:

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Raja Tan Sri Dato' Seri Arshad Bin Raja Tun Uda

....

Wong Ah Kow

Date: 20 MAR 2015

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)
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Statement of financial position as at 31 December 2014

	Note	2014 RM'000	2013 RM'000
Assets			
Property and equipment	3	9,271	8,924
Investment properties	4	38,806	38,416
Investments	5	434,941	412,937
Reinsurance assets	6	592,332	376,841
Insurance receivables	7	97,086	95,766
Other receivables	8	8,181	7,299
Tax recoverable		3,906	2,445
Deferred acquisition costs	9	3,019	6,051
Deferred tax assets	10	-	3,654
Deposits with financial institutions	11	12,032	98,817
Cash and cash equivalents	12	122,117	78,681
Total assets		1,321,691	1,129,831
Equity and liabilities			
Equity			
Share capital	13	255,000	255,000
Share premium		20,000	20,000
Reserves	13	(42,021)	(44,925)
Total equity		232,979	230,075
Liabilities			
Loans and borrowings	14	60,000	60,000
Insurance contract liabilities	15	833,636	651,512
Insurance payables	16	187,516	183,261
Other payables	17	5,730	4,866
Deferred tax liabilities	10	1,830	117
Total liabilities		1,088,712	899,756
Total equity and liabilities		1,321,691	1,129,831

The notes on pages 17 to 85 are an integral part of these financial statements.

Asia Capital Reinsurance Malaysia Sdn. Bhd.

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Statement of profit or loss and other comprehensive income for the year ended 31 December 2014

	Note	2014 RM'000	2013 RM'000
Operating revenue	18	392,261	353,091
Gross earned premiums	15(b)	350,357	343,703
Premiums ceded to reinsurers	15(b)	(296,065)	(231,016)
Net earned premiums	19	54,292	112,687
Investment income	20	18,655	18,697
Realised gains and losses	21	-	1,663
Fair value gains and losses	22	390	266
Commission income	23	89,035	60,785
Other operating income	25	7,515	7,040
Other revenue		115,595	88,451
Gross benefits and claims paid		(238,690)	(147,556)
Claims ceded to reinsurers		158,964	53,177
Change in gross contract liabilities		(158,875)	(46,031)
Change in contract liabilities ceded to reinsurers		181,558	63,378
Net claims incurred	15(a)	(57,043)	(77,032)
Realised gains and losses	21	(1,085)	-
Commission expenses	23	(85,298)	(71,171)
Management expenses	24	(12,001)	(9,282)
Other operating expenses	25	(88)	(1,519)
Finance cost		(4,800)	(4,800)
Other expenses		(103,272)	(86,772)
Profit before tax		9,572	37,334
Tax expense	26	(5,993)	(15,098)
Profit for the year		3,579	22,236
Profit for the year attributable to equity holders of Company		3,579	22,236

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Statement of profit or loss and other comprehensive income for the year ended 31 December 2014 (continued)

	Note	2014 RM'000	2013 RM'000
Profit for the year		3,579	22,236
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
- Surplus on property revaluation		344	253
Items that may be reclassified subsequently to profit or loss			
Fair value of available-for-sale financial assets			
- Losses arising during the year		(3,774)	(498)
- Reclassification adjustments for gains included in profit or loss		1,085	(1,663)
	5(c)	(2,689)	(2,161)
- Impairment loss of available-for-sale financial assets	20	1,352	119
		(993)	(1,789)
Tax effect thereon:			
Items that will not be reclassified subsequently to profit or loss			
- Surplus on property revaluation		(17)	(12)
Items that may be reclassified subsequently to profit or loss			
Fair value of available-for-sale financial assets			
- Losses arising during the year		944	124
- Reclassification adjustments for gains included in profit or loss		(271)	416
		673	540
- Impairment loss of available-for-sale financial assets		(338)	(30)
Other comprehensive loss for the year		(675)	(1,291)
Total comprehensive income for the year attributable to equity holders of Company		2,904	20,945

The notes on pages 17 to 85 are an integral part of these financial statements.

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Statement of changes in equity for the year ended 31 December 2014

	----------------------Non-Distributable---------------------					
	Share capital RM'000	**Share premium RM'000**	**Property revaluation reserve RM'000**	**Available-for-sale RM'000**	**Accumulated losses RM'000**	**Total equity RM'000**
At 1 January 2013	255,000	20,000	1,984	2,598	(70,452)	209,130
Issuance of ordinary shares						
Fair value of available-for-sale financial assets						
Gain arising during the year	-	-	-	(374)	-	(374)
Impairment loss of financial assets	-	-	-	89	-	89
Reclassification adjustments for gains included in profit or loss	-	-	-	(1,247)	-	(1,247)
Surplus on revaluation	-	-	241	-	-	241
Profit for the year	-	-	-	-	22,236	22,236
Total comprehensive income for the year	-	-	241	(1,532)	22,236	20,945
At 31 December 2013	255,000	20,000	2,225	1,066	(48,216)	230,075
	Note 13		Note 13	Note 13	Note 13	

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Statement of changes in equity for the year ended 31 December 2014 (continued)

	---------------------*Non-Distributable*---------------------					
	Share capital RM'000	**Share premium RM'000**	**Property revaluation reserve RM'000**	**Available-for-sale RM'000**	**Accumulated losses RM'000**	**Total equity RM'000**
At 1 January 2014	255,000	20,000	2,225	1,066	(48,216)	230,075
Issuance of ordinary shares						
Fair value of available-for-sale financial assets						
Gains arising during the year	-	-	-	(2,830)	-	(2,830)
Impairment loss of financial assets	-	-	-	1,014	-	1,014
Reclassification adjustments for losses included in profit or loss	-	-	-	814	-	814
Surplus on revaluation	-	-	327	-	-	327
Profit for the year	-	-	-	-	3,579	3,579
Total comprehensive income for the year	-	-	327	(1,002)	3,579	2,904
At 31 December 2014	255,000	20,000	2,552	64	(44,637)	232,979
	Note 13		Note 13	Note 13	Note 13	

The notes on pages 17 to 85 are an integral part of these financial statements.

Asia Capital Reinsurance Malaysia Sdn. Bhd.

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Statement of cash flow for the year ended 31 December 2014

	Note	2014 RM'000	2013 RM'000
Cash flows from operating activities			
Profit before tax		9,572	37,334
Adjustments for:			
Depreciation of property and equipment		491	376
Loss on disposals		88	-
Fair value gains and losses		(390)	(266)
Investment income		(19,711)	(19,897)
(Loss)/Gain on disposal of investments, net		1,085	(1,663)
Accretion of discounts		(60)	(13)
Amortisation of premium		1,000	1,461
Net impairment loss of available-for-sale financial assets		1,352	119
Operating (loss)/profit before changes in working capital		(6,573)	17,451
Purchase of securities/investments		(223,773)	(114,292)
Proceeds from disposal of securities/investments		197,055	109,498
Decrease/(Increase) in fixed deposits with licensed banks in Malaysia		86,785	(47,517)
Increase in reinsurance assets		(215,491)	(103,318)
Decrease in deferred acquisition costs		3,032	9,999
Increase in receivables		(2,633)	(24,340)
Increase in insurance contract liabilities		182,124	36,722
Increase in payables		5,119	97,796
Cash generated from/(used in) operations		25,645	(18,001)
Tax paid		(1,769)	-
Interest received		19,556	19,566
Dividend received		586	572
Net cash generated from operating activities		44,018	2,137

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Statement of cash flow for the year ended 31 December 2014 (continued)

	Note	2014 RM'000	2013 RM'000
Cash flows from investing activities			
Purchase of property and equipment		(648)	(308)
Purchase of investment property		-	(6,000)
Proceeds from disposal of property and equipment		66	-
Net cash used in investing activities		(582)	(6,308)
Net increase/(decrease) in cash and cash equivalents		43,436	(4,171)
Cash and cash equivalents at beginning of year		78,681	82,852
Cash and cash equivalents at end of year	12	122,117	78,681

Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Note	2014 RM'000	2013 RM'000
Fixed deposits with licensed banks in Malaysia	12	100,642	72,838
Cash and bank balances	12	21,475	5,843
		122,117	78,681

Asia Capital Reinsurance Malaysia Sdn. Bhd.

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Notes to the financial statements

Asia Capital Reinsurance Malaysia Sdn. Bhd. is a limited liability company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:

Registered office and principal place of business
Unit A-12A-8, Level 12A,
Menara UOA Bangsar,
5 Jalan Bangsar Utama 1,
59000 Kuala Lumpur.

The Company is principally engaged in underwriting general reinsurance business. There have been no significant changes in this activity during the financial year.

The immediate and ultimate holding companies during the financial year were Kuala Selangor Ventures Sdn. Bhd. and Khazanah Nasional Berhad respectively. Both companies were incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors on 20 MAR 2015

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the Companies Act, 1965 in Malaysia and the Financial Services Act, 2013.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014(continued)

- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interest in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiatives*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- *MFRS 15, Revenue from Contracts with Customers*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments* (2014)

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2015 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014, except for Amendments to MFRS 1, MFRS 2, MFRS 3, MFRS 8, MFRS 119, and MFRS 138 which are not applicable to the Company.

- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for Amendments to MFRS 5, MFRS 10, MRFS 14, MFRS 119, MFRS 127, MFRS 128 and MFRS 141 which are not applicable to the Company.

- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Company except for MFRS 9, *Financial Instruments* and MFRS 15, *Revenue from Contracts with Customers.*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting. The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 15 replaces the guidance in MFRS 111, Construction Contracts, MFRS 118, Revenue, IC Interpretation 13, Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfer of Assets from Customers and IC Interpretation 131, Revenue – Barter Transactions Involving Advertising Services. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition for non-insurance contracts might be different as compared with the current practices.

The adoption of MFRS 15 may result in a change in accounting policy. The Company is currently assessing the financial impact of adopting MFRS 15.Company No. 762294-T

1. Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on historical cost basis other than as disclosed in the Note 2.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2(s) – Claims and premiums liabilities
- Note 3 & Note 4 – Valuation of buildings and investment properties
- Note 10 – Recognition of deferred tax assets

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

2. Significant accounting policies (continued)

(a) Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments, which are recognised in other comprehensive income.

(b) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within “other operating income” and “other operating expenses” respectively in profit or loss.

The Company revalues its buildings every 5 years or at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value. Additions subsequent to their revaluation are stated in the financial statements at cost until the next revaluation exercise.

Surplus arising on revaluation are credited to the property revaluation reserve account. Any deficit arising from the revaluation is charged against the property revaluation account to the extent of a previous surplus held in that account for the same assets. In all other cases, a decrease in the carrying amount is charged to the profit or loss.

2. Significant accounting policies (continued)

(b) Property and equipment (continued)

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Office equipment	3 years
Furniture, fittings and renovations	3 years
Motor vehicles	5 years
Computer equipment	3 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

2. Significant accounting policies (continued)

(c) Operating leases

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(d) Investment properties

(i) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(ii) Reclassifications to/from investment properties carried at fair value

When an item of property and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

2. Significant accounting policies (continued)

(e) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(b) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(c) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market which includes deposits with financial institutions and other receivables.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

(e) Insurance receivables

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

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

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(f)(i) and (ii)).

Financial liabilities

All financial liabilities (including insurance payable) are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all risks and rewards of the financial asset is transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2. Significant accounting policies (continued)

(f) Impairment

(i) Financial assets, excluding insurance receivables

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2(f)(ii) below) and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument 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, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the insurance receivables is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables 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, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss.

(iii) Other assets

The carrying amounts of other assets (except for investment properties measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(iii) Other assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro-rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Compound financial instruments

A compound financial instrument is a non-derivative financial instrument that contains both a liability and an equity component.

Compound financial instruments issued by the Company comprise convertible subordinated term loan that can be converted to share capital at the option of the holder, when the numbers of shares to be issued does not vary with changes in their fair value.

The proceeds are first allocated to the liability component, determined based on the fair value of the similar liability that does not have a conversion feature or similar associated equity component. The residual amount is allocated as the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognised in profit or loss. On conversion, the financial liability is reclassified to equity, no gain or loss is recognised on conversion.

2. Significant accounting policies (continued)

(g) Compound financial instruments (continued)

Interest and losses and gains relating to the financial liability are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

(h) Product classification

The Company issues contracts that transfer insurance risk or financial risk or both.

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. Insurance risk is the risk other than financial risk.

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 cedants) by agreeing to compensate the cedants if a specified uncertain future event (the insured event) adversely affects the cedants. 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.

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract, or if the host insurance contract is measured at fair value through profit or loss.

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

2. Significant accounting policies (continued)

(i) Reinsurance

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

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

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

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

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 expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

2. Significant accounting policies (continued)

(j) General insurance underwriting results

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

Written premiums include premiums on contracts entered into during the period, irrespective whether they relate in part to later financial period. Written premiums are disclosed gross of commission payable to cedants and intermediaries.

(i) Facultative business

Premium from facultative business including premium in the pipeline is recognised as income on the inception date basis.

(ii) Treaty business

Premium from treaty business including premium in the pipeline is recognised on an accrual basis. The management of the Company is of the view that the policy gives a true and fair view of the financial position and the results of its operations as it accords with the accrual basis of accounting, resulting in consistently four quarters of treaty business being recognised in a particular financial year.

Provision for Unearned Premiums

Provision for unearned premiums is the higher of the aggregate of the Unearned Premium Reserves (“UPR”) for all lines of business and the best estimate of the Unexpired Risk Reserves (“URR”) at the required risk margin for adverse deviation.

Unearned Premium Reserves

The UPR represents the portion of net premium income of reinsurance policies written that relates to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at the end of the reporting period, the method that most accurately reflects the actual unearned premium is used. The methods used at the end of the current and previous financial year are set out below.

2. Significant accounting policies (continued)

(j) General insurance underwriting results (continued)

Malaysian and Non-Malaysian Business – method prescribed by Bank Negara Malaysia

"1/8" method is applied to premiums for Malaysian and Non-Malaysian policies. This is further adjusted for reinsurance ceded to foreign reinsurers by deducting the lower of:

(i) the premium ceded to foreign reinsurers as required under the guidelines issued by Bank Negara Malaysia; and

(ii) the deposits retained from foreign reinsurers for which premiums are accounted during the preceding twelve months.

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 valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

(k) Insurance contract liabilities

General insurance contract liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision are 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 reporting date 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 is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents 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.

2. Significant accounting policies (continued)

(l) Acquisition cost and deferred acquisition costs (“DAC”)

The cost of acquiring and renewing reinsurance policies net of income derived from retroceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Acquisition costs or retroceding income which are not recoverable, or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

Subsequent to initial recognition, these costs are amortised/allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss.

DAC is derecognised when the related contracts are either settled or disposed of.

(m) Other income recognition

(i) Interest income

Interest income is recognised on an accrual basis using the effective yield method in profit or loss. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective yield of the instrument.

(ii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Company’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

2. Significant accounting policies (continued)

(m) Other income recognition (continued)

(iv) Realised gains and losses on investments

Realised gains and losses recorded in profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(n) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company’s contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short-term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

2. Significant accounting policies (continued)

(p) Provisions

A provision is recognised if, as a result of a past event, the Company has a present, legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

2. Significant accounting policies (continued)

(q) Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Affiliated company

Affiliated company is a company having an equity interest of between 20% to 50% in the Company and including other corporations related to the said affiliated company.

(s) Significant accounting judgements, estimates and assumptions

The Company has assessed the development, selection and disclosure of the critical accounting policies and estimates, and the application of these policies and estimates. The critical accounting estimates made by the management in applying accounting policies relate mainly to the provision for unearned premiums and insurance claims.

Insurance contract provisions for general reinsurance business consist of claims liabilities and premium liabilities. The process undertaken by the Company to derive the insurance contract provisions of the general reinsurance business is as follow:

(i) Process in determining claims liabilities

The Company determines the claims liabilities in accordance with the Risk-Based Capital Framework as well as internationally recognised practices. The assumptions used in the estimation of insurance assets and liabilities are intended to result in provision which are sufficient to cover any liabilities arising out of insurance contracts to the extent that can be reasonably foreseen.

However, given the uncertainty in establishing a provision for insurance claims, it is likely that the final outcome will prove to be different from the original liability established.

Provision is made at the end of the reporting period for the expected ultimate cost of settlement for all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses plus a “Provision of Risk Margin for Adverse Deviation” (“PRAD”) at 75% probability of adequacy.

2. Significant accounting policies (continued)

(s) Significant accounting judgements, estimates and assumptions (continued)

(i) Process in determining claims liabilities (continued)

The data used for determining the expected ultimate claims liability is collated internally based on information received from cedants relating to business underwritten by the Company. This is further supplemented by externally available information on industry statistic and trends plus internal pricing loss assumptions used in the pricing model, where available.

The Company's reserving methodology is intended to result in the expected outcome for the ultimate loss settlement for each type and class of business. The Company also considers the nature of the risk underwritten, geographical location, sum insured, and previous experience to estimate expected loss ratios for each class of business and underwriting year. The derived expected loss ratios are checked to ensure that they are consistent with observable market trends, internal pricing loss ratios or other market information, as considered necessary.

The Company sets aside case reserve after taking into consideration the claim circumstances, current available information and historical evidence of similar claims. Case estimates are reviewed regularly and updated as and when new information becomes available. However, the ultimate claim liabilities may vary as a result of subsequent development.

The Company systematically and periodically reviews the provisions established and adjust the loss estimation process in an effort to achieve minimum variation between the actual final outcome and the original projection. The provision for outstanding claims liabilities have been determined in current values.

In estimating the claim liabilities, the selected Ultimate Loss Ratios ("ULRs") for each reserving cohort have been based on Estimated Loss ratio, Link Ratio and Bornhuetter-Ferguson methods. Triangulations have been built for all lines of business. The selected ULR is then applied to Net Earned Premium ("NEP") in order to project the amount of ultimate loss for each underwriting year. The ultimate loss amount is then reduced by claims paid or incurred for known claims for each underwriting year in order to estimate the amount of Incurred But Not Reported ("IBNR") losses.

2. Significant accounting policies (continued)

(s) Significant accounting judgements, estimates and assumptions (continued)

(ii) Process in determining premium liabilities

The Company determines the premium liabilities based on the higher of unearned premium reserves ("UPR") and unexpired risk reserves ("URR") at the required risk margin of adverse deviation.

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

(t) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 access 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.

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3. Property and equipment

	Buildings RM'000	Computer Equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Renovation RM'000	Motor Vehicles RM'000	Total RM'000
Cost/Valuation							
At 1 January 2013	8,301	824	184	254	278	387	10,228
Additions	-	308	-	-	-	-	308
Revaluation of property	75	-	-	-	-	-	75
At 31 December 2013/1 January 2014	8,376	1,132	184	254	278	387	10,611
Additions	-	150	15	5	90	388	648
Revaluation of property	161	-	-	-	-	-	161
Disposals	-	-	-	-	-	(387)	(387)
At 31 December 2014	8,537	1,282	199	259	368	388	11,033
Accumulated depreciation							
At 1 January 2013	14	672	125	196	250	232	1,489
Depreciation for the year	180	135	24	26	11	-	376
Revaluation of property	(178)	-	-	-	-	-	(178)
At 31 December 2013/1 January 2014	16	807	149	222	261	232	1,687
Depreciation for the year	184	182	24	21	34	46	491
Revaluation of property	(183)	-	-	-	-	-	(183)
Disposals	-	-	-	-	-	(233)	(233)
At 31 December 2014	17	989	173	243	295	45	1,762
Carrying amounts							
At 31 December 2013/1 January 2014	8,360	325	35	32	17	155	8,924
At 31 December 2014	8,520	293	26	16	73	343	9,271

3. Property and equipment (continued)

3.1 Buildings were revalued as at 31 December 2014 by VPC Alliance (KL) Sdn. Bhd., a firm of independent professional valuers that has appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued. The fair values are based on open market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeable, prudently and without compulsion.

Had the buildings been carried at historical cost less accumulated depreciation, the carrying amount of the buildings that would have been included in the statement of financial position at end of the year are as follows:

	2014 RM'000	2013 RM'000
Buildings	6,015	6,147

3.2 The strata titles of the buildings with carrying amount of RM8,520,000 (2013: RM8,360,000) have yet to be registered under the name of the Company.

Fair value information

Fair value of buildings are categorised as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2014				
Buildings	-	8,520	-	8,520
2013				
Buildings	-	8,360	-	8,360

4. Investment properties

	2014 RM'000	2013 RM'000
At 1 January	38,416	32,150
Additions	-	6,000
Change in fair value – profit or loss	390	266
At 31 December	38,806	38,416

Investment properties comprise a number of commercial properties that are leased to third parties. The strata titles of the investment properties with a carrying amount of RM38,806,000 (2013: RM38,415,500) have yet to be registered under the name of the Company.

4. Investment properties (continued)

The following are recognised in the profit or loss in respect of investment properties:

	2014 RM'000	2013 RM'000
Rental income	2,311	1,908
Fair value gain and losses	390	266

Fair value information

Fair value of investment properties are categorised as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2014				
Buildings	-	38,806	-	38,806
2013				
Buildings	-	38,416	-	38,416

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

Level 2 fair values of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable units in the same investment property are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable units in the same investment property.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

5. Investments

(a) Available-for-sale ("AFS") financial assets

All the Company's investments are classified as available-for-sale ("AFS") financial assets. The carrying values of the AFS financial assets are measured at fair value and comprised as follows:

	2014 RM'000	2013 RM'000
Unquoted in Malaysia		
Malaysian Government Securities/ Government Investment Issues	50,302	32,301
Corporate debt securities	249,932	245,590
Quoted in Malaysia		
Equity securities	17,475	21,548
Unit trust	117,232	113,498
	434,941	412,937

(b) Estimation of fair values

The fair values of quoted securities and unit trusts are their quoted closing market prices at the end of the reporting period.

The fair values for Malaysian Government Securities, Government Investment Issues and corporate debt securities are their indicative mid market prices or last traded prices quoted by Bond Pricing Agency Malaysia and Bloomberg at the end of the reporting period.

(c) Carrying values of investments:

	2014 RM'000	2013 RM'000
At 1 January	412,937	410,089
Addition	223,773	114,292
Disposal/Maturity/Repayment	(198,140)	(107,835)
Fair value loss recorded in other comprehensive income	(2,689)	(2,161)
Amortisation of premium	(1,000)	(1,461)
Accretion of discounts	60	13
At 31 December	434,941	412,937

6. Reinsurance assets

	Note	2014 RM'000	2013 RM'000
Reinsurance of insurance contracts			
Claims liabilities	15(a)	412,405	230,847
Premium liabilities	15(b)	179,927	145,994
	15	592,332	376,841

7. Insurance receivables

	Note	2014 RM'000	2013 RM'000
Amount due from cedants		91,671	88,541
Amount due from affiliated companies	7.1	3,820	4,851
		95,491	93,392
Premium reserve deposits due from affiliated company		1,595	2,374
		97,086	95,766

7.1 In the prior year, the amount due from affiliated companies is unsecured, interest free and repayable on demand.

8. Others receivables

	Note	2014 RM'000	2013 RM'000
Income due and accrued		4,289	4,720
Other receivables	8.1	3,892	2,579
		8,181	7,299

8.1 Included in other receivables is an amount due from affiliated companies of RM2,774,127 (2013: RM2,145,345) which is unsecured, interest free and repayable on demand

9. Deferred acquisition costs

	2014 RM'000	2013 RM'000
Gross of reinsurance		
At 1 January	32,242	33,452
Movement during the year	3,281	(1,210)
At 31 December	35,523	32,242
Reinsurance		
At 1 January	(26,191)	(17,402)
Movement during the year	(6,313)	(8,789)
At 31 December	(32,504)	(26,191)
Net of reinsurance		
At 1 January	6,051	16,050
Movement during the year	(3,032)	(9,999)
At 31 December	3,019	6,051

10. Deferred tax assets/(liabilities)

The amounts, determined after appropriate offsetting, are as follows:

	2014 RM'000	2013 RM'000
Deferred tax assets	-	3,654
Deferred tax liabilities	(1,830)	(117)
	(1,830)	3,537

Deferred tax assets and liabilities are attributable to the following:

	2014 RM'000	2013 RM'000
Unutilised tax losses	-	6,727
	-	6,727
Offsetting against deferred tax liabilities	-	(3,073)
Net deferred tax assets	-	3,654
Deferred tax liabilities (before offsetting):		
Investment properties	(1,674)	(2,716)
Available-for-sale reserve	(22)	(357)
Revaluation reserve	(134)	(117)
	(1,830)	(3,190)
Offsetting against deferred tax asset	-	3,073
Net deferred tax liabilities	(1,830)	(117)

10. Deferred tax assets/(liabilities) (continued)

Movement in temporary differences during the financial year

	At 1.1.2013 RM'000	Recognised in profit or loss (Note 26) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2013/ 1.1.2014 RM'000	Recognised in profit or loss (Note 26) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2014 RM'000
Deferred tax assets subject to Income Tax							
Provisions	(347)	(2,369)	-	(2,716)	1,042	-	(1,674)
Available-for-sale reserve	(867)	-	510	(357)	-	335	(22)
Unutilised tax losses	19,456	(12,729)	-	6,727	(6,727)	-	-
	18,242	(15,098)	510	3,654	(5,685)	335	(1,696)
Deferred tax liabilities subject to Real Property Gains Tax							
Revaluation reserve	(105)	-	(12)	(117)	-	(17)	(134)
Total	18,137	(15,098)	498	3,537	(5,685)	318	(1,830)

11. Deposits with financial institutions

	2014 RM'000	2013 RM'000
Fixed deposits with licensed banks in Malaysia		
- Maturities of more than 3 months	12,032	98,817

12. Cash and cash equivalents

	2014 RM'000	2013 RM'000
Cash and bank balances	21,475	5,843
Fixed deposits with licensed banks in Malaysia		
- Maturities of less than 3 months	100,642	72,838
	122,117	78,681

13. Share capital and reserves

Share capital

	Amount 2014 RM'000	Number of shares 2014 '000	Amount 2013 RM'000	Number of shares 2013 '000
Authorised:				
At 1 January	500,000	1,085,000	500,000	1,085,000
- 'A' Ordinary Shares of RM1.00 each	435,000	435,000	435,000	435,000
- 'B' Ordinary Shares of RM0.10 each	65,000	650,000	65,000	650,000
At 31 December	500,000	1,085,000	500,000	1,085,000
Issued and paid-up:				
At 1 January	255,000	300,000	255,000	300,000
- 'A' Ordinary Shares of RM1.00 each	250,000	250,000	250,000	250,000
- 'B' Ordinary Shares of RM0.10 each	5,000	50,000	5,000	50,000
At 31 December	255,000	300,000	255,000	300,000

13. Share capital and reserves (continued)

Reserves

The reserves as shown in the statements of financial position and changes in equity are as follows:

	2014 RM'000	2013 RM'000
Property revaluation reserve	2,552	2,225
Available-for-sale	64	1,066
Accumulated losses	(44,637)	(48,216)
	(42,021)	(44,925)

Property revaluation reserve

The property revaluation reserve relates to the revaluation of buildings since 2010. It is not distributable as dividend until after the sale of the buildings.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

14. Loans and borrowings

The Company has obtained a non-secured convertible subordinated loan ("loan") amounting to RM60,000,000 on 24 April 2012 to restore the Company's Capital Adequacy Ratio (CAR) to above the internal target capital level. This loan has a tenure of 50 years with an option to be repayable at the end of the fifth year from the first drawdown date.

Interest of 8% per annum for 5 years and 10% per annum after the fifth year is charged and deemed repayable bi-yearly. An additional charge of 2% per annum will be imposed if the interest remained unpaid after the seventh year. However, the interest repayment can only be made when the Company meets its internal target capital level as agreed by Bank Negara Malaysia.

At any time during the term of the loan, the company has an option to convert either part or entire of the loan amount into B ordinary shares, subject to the fulfillment of the following conditions:

(i) Bank Negara Malaysia's written consent to and approval of the proposed conversion being obtained.
(ii) prior written consent to the proposed conversion being obtained from the Shareholders; and
(iii) the Company maintain, both before and after the proposed conversion, a rating of not less than an "A-" upon such terms and conditions as may be mutually agreed between the Company and its rating agency at the relevant time.

The company has made an assessment on the conversion option value by comparing against similar debt instruments without the equity conversion option. The assessment shows that the conversion option carries no value, hence the fair value of the liability component of the convertible loan at 31 December 2014 equals to the face value of the loan at RM60,000,000.

The non-secured convertible subordinated loan is to be treated as Tier-2 capital under the RBC Framework.

15. Insurance contract liabilities

	2014			2013		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
General insurance	833,636	(592,332)	241,304	651,512	(376,841)	274,671

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

	2014			2013		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Reported by Cedants						
Provision for outstanding claims	319,544	(208,591)	110,953	262,696	(115,368)	147,328
Provision for IBNR	300,385	(203,814)	96,571	198,358	(115,479)	82,879
Provision for outstanding claims (Note15(a))	619,929	(412,405)	207,524	461,054	(230,847)	230,207
Provision for unearned premiums (Note15(b))	213,707	(179,927)	33,780	190,458	(145,994)	44,464
	833,636	(592,332)	241,304	651,512	(376,841)	274,671
		Note 6			Note 6	

15. Insurance contract liabilities (continued)

(a) Provision for outstanding claims

	2014 Gross RM'000	2014 Reinsurance RM'000	2014 Net RM'000	2013 Gross RM'000	2013 Reinsurance RM'000	2013 Net RM'000
At 1 January	461,054	(230,847)	230,207	415,023	(167,469)	247,554
Claims incurred for the current accident year	183,026	(158,336)	24,690	125,177	(108,452)	16,725
Adjustments to claims incurred in prior accident year	201,284	(166,971)	34,313	66,780	(4,012)	62,768
Movement in FPRAD of claims liabilities at 75% confidence level	12,454	(14,301)	(1,847)	1,386	(3,765)	(2,379)
Movement in claims handling Expenses	801	(914)	(113)	244	(326)	(82)
Claims paid during the year	(238,690)	158,964	(79,726)	(147,556)	53,177	(94,379)
At 31 December	619,929	(412,405)	207,524	461,054	(230,847)	230,207

(b) Provision for unearned premiums

	2014 Gross RM'000	2014 Reinsurance RM'000	2014 Net RM'000	2013 Gross RM'000	2013 Reinsurance RM'000	2013 Net RM'000
At 1 January	190,458	(145,994)	44,464	199,767	(106,054)	93,713
Premium written during the year	373,606	(329,998)	43,608	334,394	(270,956)	63,438
Premium earned during the year	(350,357)	296,065	(54,292)	(343,703)	231,016	(112,687)
At 31 December	213,707	(179,927)	33,780	190,458	(145,994)	44,464

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16. Insurance payables

	2014 RM'000	2013 RM'000
Due to cedants	11,970	1,974
Due to reinsurers	59,753	54,534
Due to affiliated reinsurers	115,793	126,753
	187,516	183,261

The carrying amounts disclosed above approximate their fair values at the end of the reporting period.

17. Other payables

	2014 RM'000	2013 RM'000
Accrued liabilities	4,882	4,029
Interest on non-secured convertible subordinated loan	848	837
	5,730	4,866

18. Operating revenue

	2014 RM'000	2013 RM'000
Gross premium (Note 19)	373,606	334,394
Investment income (Note 20)	18,655	18,697
	392,261	353,091

19. Net earned premiums

	2014 RM'000	2013 RM'000
(a) Gross premiums		
Amount written	373,606	334,394
Change in unearned premiums provisions	(23,249)	9,309
	350,357	343,703
(b) Premiums ceded		
Amount ceded	(329,998)	(270,956)
Change in unearned premiums provisions	33,933	39,940
	(296,065)	(231,016)
Net earned premiums (a + b)	54,292	112,687

20. Investment income

	2014 RM'000	2013 RM'000
Rental of properties received from third parties, net of expenses	2,011	1,642
Available-for-sale financial assets		
Interest income	15,419	14,890
Dividend income - equity securities quoted in Malaysia	586	572
Cash and cash equivalents - interest income	3,706	4,435
Accretion of discounts	60	13
Amortisation of premiums	(1,000)	(1,461)
Investment expense	(775)	(1,275)
Impairment loss of available-for-sale financial assets	(1,352)	(119)
	18,655	18,697

21. Realised gains and losses

	2014 RM'000	2013 RM'000
Available-for-sale financial assets		
Realised gains:		
Equity securities - quoted in Malaysia	1,648	1,757
Corporate debt securities - unquoted in Malaysia	307	384
Realised losses:		
Equity securities - quoted in Malaysia	(1,375)	(202)
Corporate debt securities - unquoted in Malaysia	(1,665)	(276)
Total net realised (losses)/gains for available-for-sale financial assets	(1,085)	1,663

22. Fair value gains and losses

	2014 RM'000	2013 RM'000
Investment properties (Note 4)	390	266

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23. Commission expenses/(income)

	2014 RM'000	2013 RM'000
Commission expenses		
Gross acquisition costs	88,579	69,961
Movement in deferred acquisition costs	(3,281)	1,210
	85,298	71,171
Commission income		
Reinsurance income	(95,348)	(69,574)
Movement in deferred acquisition costs	6,313	8,789
	(89,035)	(60,785)

24. Management expenses

	Note	2014 RM'000	2013 RM'000
Staff salaries and related expenses	(a)	6,697	5,094
Directors' remuneration	(b)		
- Fees		427	416
- Other remuneration		991	846
Auditors' remuneration			
- Audit fees			
KPMG in Malaysia		139	125
Overseas affiliates of KPMG in Malaysia		60	57
- Other services		46	46
Depreciation of property and equipment		491	376
Management fees		811	854
Rental of office		58	-
Other expenses		2,281	1,468
Total management expenses		12,001	9,282

(a) Employee benefits expenses

	2014 RM'000	2013 RM'000
Wages and salaries	4,171	3,103
Social security contributions	57	22
Contribution to Employees' Provident Fund	782	691
Other benefits	1,687	1,278
	6,697	5,094

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24. Management expenses (continued)

(b) Director's remuneration

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors are as follows:

2014	Fees RM'000	Salary RM'000	Bonus RM'000	EPF RM'000	Other RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer							
- Wong Ah Kow	-	676	163	101	-	26	966
Non-Executive Directors							
- Raja Tan Sri Dato' Seri Arshad Bin Raja Tun Uda	132	-	-	-	17	-	149
- Tunku Ali Redhauddin Ibni Tuanku Muhriz (resigned w.e.f. 31 August 2014)	67	-	-	-	7	-	74
- Chan Wei Beng	-	-	-	-	-	-	-
- Tan Kwang Kherng	-	-	-	-	-	-	-
- Dato' Dr. R. Thillainathan A/L Ramasamy	105	-	-	-	14	-	119
- Dato' Mohd Salleh Bin Haji Harun	123	-	-	-	13	-	136
Total Directors' Remuneration (including benefits-in-kind)	427	-	-	-	51	-	478
Total Chief Executive Officer and Directors' Remuneration (including benefits-in-kind)	427	676	163	101	51	26	1,444

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24. Management expenses (continued)

(b) Director's remuneration (continued)

2013	Fees RM'000	Salary RM'000	Bonus RM'000	EPF RM'000	Other RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer							
- Wong Ah Kow	-	645	65	85	-	21	816
Non-Executive Directors							
- Raja Tan Sri Dato' Seri Arshad Bin Raja Tun Uda	119	-	-	-	17	-	136
- Tunku Ali Redhauddin Ibni Tuanku Muhriz	91	-	-	-	7	-	98
- Chan Wei Beng	-	-	-	-	-	-	-
- Tan Kwang Kherng	-	-	-	-	-	-	-
- Dato' Dr. R. Thillainathan A/L Ramasamy	95	-	-	-	14	-	109
- Dato' Mohd Salleh Bin Haji Harun	111	-	-	-	13	-	124
Total Directors' Remuneration (including benefits-in-kind)	416	-	-	-	51	-	467
Total Chief Executive Officer and Directors' Remuneration (including benefits-in-kind)	416	645	65	85	51	21	1,283

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25. Other operating expenses/(income)

	2014 RM'000	2013 RM'000
Other operating expenses		
Realised loss in foreign exchange	-	1,519
Loss on disposals	88	-
	88	1,519
Other operating income		
Realised gain in foreign exchange	(2,615)	-
Unrealised gain in foreign exchange	(4,195)	(6,517)
Net income received from outsourcing:		
- Outsourcing cost	829	612
- Gross fee income	(1,534)	(1,135)
	(7,515)	(7,040)

26. Tax expense

	2014 RM'000	2013 RM'000
Current tax expense	308	-
Deferred tax expense		
- Origination and reversal of temporary differences	6,729	14,126
- (Over)/Under provision in prior year	(1,044)	972
	5,685	15,098
	5,993	15,098
Reconciliation of tax expense		
Profit before tax	9,572	37,334
Income tax using Malaysian tax rates*	2,393	9,334
Tax effect in respect of:		
Non-deductible expenses	5,598	5,659
Income not subject to tax	(954)	(867)
(Over)/Under provision in prior year	(1,044)	972
Tax expense for the year	5,993	15,098

* The Company's Malaysian business tax rates are 25% from year assessment 2014 to 2015 and 24% in year assessment 2016. Non-Malaysian business is subjected to 5% tax rate. Consequently, deferred tax assets and liabilities are measured using these tax rates.

27. Operating leases commitments

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2014 RM'000	2013 RM'000
Less than one year	25	25
Between one and five years	51	42
	76	67

The Company leases office equipments under operating leases. The leases typically run for a period ranging from 2-5 years, with an option to renew the leases after that date.

28. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The related parties of the Company are:

(i) Ultimate holding company

The ultimate holding company is Khazanah Nasional Berhad, a corporation incorporated in Malaysia.

(ii) Affiliated company

The affiliated company is a company having an equity interest of between 20% to 50% in the Company and including other corporations related to the said affiliated company.

(iii) Key management personnel

Key management personnel include the Company's Executive and Non-executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The Executive and Non-executive Directors compensation is disclosed in Note 24.

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28. Related parties (continued)

Related party transactions have been entered into in the normal course of business under normal trade terms. Significant related party transactions, other than key management personnel compensation, are as follows:

Transactions amount for the year ended 31 December	**2014 RM'000**	**2013 RM'000**
Affiliated companies		
- Gross premium retroceded	(223,432)	(175,471)
- Commission income	67,987	48,090
- Claims recovery	136,233	46,306
- Gross premium accepted	(107)	3,969
- Commission expense	(928)	(1,074)
- Claims paid	(40,346)	(49,642)
- Resource sharing expense recoveries	529	687
- Management fees	(686)	(725)
- Rental received	410	392
- Outsourcing fee	1,578	1,193

The net balance outstanding arising from the above transactions have been disclosed in Note 7, Note 8 and Note 16 to the financial statements. There are no impairment loss recognised and bad debts written off in respect of amount due from affiliated companies.

All the amounts outstanding are unsecured and expected to be settled with cash.

29. Risk management framework

The Company is exposed to a variety of reinsurance and financial risks in the normal course of its business activities. The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is the approving authority for changes and exceptions to all risk management strategy, policies and procedures which are established to identify, analyse and monitor the risks faced by the Company. The Board also approves the Company's risk tolerance and risk limits.

The Board is supported by two Board committees:

- Audit Committee ("AC"); and
- Risk Management Committee ("RMC")

29. Risk management framework (continued)

The RMC focuses on major underwriting risks, investment risk and risk management strategies whilst the AC will deal with internal controls and compliance procedures. The AC and RMC report to the Board on the risks reviewed by the respective committees. The management also reports to the Board on overall risk assessment through the Chief Executive Officer.

The Company's management is responsible for implementing the risk management framework. This is executed through an Enterprise Risk Management Committee and the Committee with representatives from key business units, is responsible for driving the implementation of the Enterprise Risk Management framework across the Company.

30. Insurance risk management

Reinsurance and insurance risk refers to the risk of financial loss and consequent inability to meet liabilities as a result of inadequate or inappropriate underwriting, claims management, product design, pricing and reserving.

The Company underwrites treaty and facultative reinsurance business both on a proportional and non-proportional basis. Main classes of reinsurance business underwritten include aviation, credit, marine, energy, property, engineering, casualty, and motor.

(i) Underwriting risks

The various underwriting risks and processes and protections put in place in relation to these risks by the Company are as follows:

Pricing risks

Pricing is the process of determining the appropriate premium charge for the risks underwritten which involves the estimation of future claim frequency and severity, and the payment pattern associated with the ultimate claims payable.

The Company has an underwriting guidelines for use by underwriters and employs senior underwriters each with considerable industry experience to determine the appropriate price of each risk accepted. Underwriters are also supported by a team of pricing actuaries. A range of pricing tools is also made available to the underwriters which further supplement their underwriting judgement, thus failure to consider the appropriate factors affecting the risk is reduced.

The Company accepts risks across eight lines of businesses and four types of reinsurance programmes, and exchange of intra-group treaties among affiliated companies. This ensures significant diversification and reduces the risk of systemic pricing error.

30. Insurance risk management (continued)

(i) Underwriting risks (continued)

Selection risks

Selection risk emanates from persistently poor selection of risks. Estimation of future claims can never be perfect and involves professional judgement.

The Company has an underwriting guideline for use by underwriters. All risks are subject to a peer review process prior to acceptance. Large and complex risks are subject to referral to management.

Stochastic claims risks

The occurrence, size and payment timing of reinsurance claims are an inherently stochastic process and random adverse fluctuations pose a risk to the Company.

The Company's net exposure to any single risk or single catastrophe event is subject to a Board approved limit during the financial year thereby reducing the effect of any single random event.

The diversification of the Company's business across countries and lines of businesses also reduces the impact of any single claims.

Reserving risks

The estimation of liabilities is inherently uncertain. The uncertainties can arise from the following factors:

- Range and quality of data available
- Model error
- Parameter error
- Random volatility in future experience

Once a claim has occurred, the Company must set aside adequate reserve to meet the ultimate cost of those claims. This is known as a claims reserve. There are typically a number of component of the reserves:

- Case estimate – an estimate for a particular known claim of the amount of the ultimate claim cost taking into the particular circumstances of the claim.
- IBNER – known as "incurred but not enough reported" where this is a portfolio adjustment to all case estimates reflecting any overall inadequacy (if any) in those amounts.
- IBNR – known as "incurred but not reported" this is an estimate of claims costs that have been incurred but have not yet been reported to the Company.
- Claims expense costs – this is an amount that is set aside for the expected costs of administering claims settlement.

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30. Insurance risk management (continued)

(i) Underwriting risks (continued)

Reserving risks (continued)

In addition to reserving for outstanding claims, a reserve may need to be established for any inadequacies (if any) in unearned premium. Unearned premiums should reflect the amount of future exposure remaining over other period of the underlying contract. Circumstances may have arisen since accepting a particular risk that leads the Company to re-evaluate the exposure, and as a result the unearned premium might be inadequate.

(ii) Concentration/accumulation of insurance risks

Claims can accumulate from various contracts from a single systemic cause, such as a natural catastrophe or change in liability award levels. Further concentration can occur if part of the same risks are accepted from different clients. Such accumulations can put financial strain on the resources of a Company.

The Company has effected a reinsurance protection for natural catastrophes and also carries out regular analysis to monitor potential concentration of the same risk reinsured from different clients.

The following tables set out the Company's concentration of insurance risks in respect of gross written premiums based on the geographical location of the ceding insurer or reinsurer and by lines of business.

	2014 RM'000	2013 RM'000
Countries		
Malaysia	136,934	164,318
China	134,038	57,724
India	31,864	38,733
South Korea	23,714	18,535
Japan	10,524	17,644
Australia	5,533	8,613
Turkey	4,441	6,988
New Zealand	6,435	5,090
Philippines	4,765	4,498
Others	15,358	12,251
	373,606	334,394

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30. Insurance risk management (continued)

(ii) Concentration/accumulation of insurance risks (continued)

	2014 RM'000	2013 RM'000
Line of business		
Fire	307,228	237,395
Motor	3,560	19,151
Marine, aviation and transit	18,012	21,803
Miscellaneous	44,806	56,045
	373,606	334,394

(iii) Sensitivity analysis

The sensitivity analysis was performed on premium and claims liabilities based on the changes in assumptions that may affect the level of liabilities.

The assumption that has the greatest effect on the determination of premium and claims liabilities is the expected loss ratio (in percentage terms). The test was conducted based on a change level of +10% and –10% of the expected loss ratio on the premium liabilities, claims liabilities and profit before tax as shown below:

	Expected loss ratio	
	+10% RM'000	-10% RM'000
2014		
Premium liabilities	2,142	-
Claims liabilities	72,308	(47,415)
	74,450	(47,415)
2013		
Premium liabilities	2,222	-
Claims liabilities	65,539	(33,045)
	67,761	(33,045)

(iv) Claims development

The following tables shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date.

Underwriting year is defined from 1 January to 31 December of the year, except for underwriting year 2007 where contract inception begins from 1 July 2007.

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30. Insurance risk management (continued)

(iv) Claims development (continued)

(a) Analysis of claims development – gross of reinsurance

Gross incurred claims

	Underwriting years								
	2007 RM'000	**2008 RM'000**	**2009 RM'000**	**2010 RM'000**	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**	**2014 RM'000**	**Total RM'000**
At end of first financial year	8,400	26,181	40,794	91,507	117,098	75,268	125,177	183,027	183,027
One year later	31,836	73,521	107,205	266,099	253,712	118,701	311,635		311,635
Two years later	42,896	89,239	118,127	267,903	269,185	119,954			119,954
Three years later	46,485	97,552	108,715	277,780	277,947				277,947
Four years later	44,162	90,537	106,791	280,042					280,042
Five years later	40,162	90,237	108,954						108,954
Six years later	40,383	90,874							90,874
Seven years later	40,130								40,130
Current estimates of loss reserves	40,130	90,874	108,954	280,042	277,947	119,954	311,635	183,027	1,412,563
Cumulative payments	(38,635)	(84,660)	(92,111)	(234,036)	(186,815)	(51,852)	(141,567)	(11,748)	(841,424)
Best estimate of loss reserves	1,495	6,214	16,843	46,006	91,132	68,102	170,068	171,279	571,139
Claims handling expenses									3,141
PRAD at 75% confidence level									45,649
Gross general insurance contract liabilities per statement of financial position								Note 15(a)	619,929

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30. Insurance risk management (continued)

(iv) Claims development (continued)

(b) Analysis of claims development – net of reinsurance

Net incurred claims

	Underwriting years								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At end of first financial year	6,333	33,583	31,269	67,312	86,268	24,637	16,725	24,691	24,691
One year later	20,992	40,091	65,577	175,004	190,976	60,634	28,530		28,530
Two years later	34,880	59,444	75,118	177,462	205,519	64,147			64,147
Three years later	37,115	65,645	70,501	189,544	216,466				216,466
Four years later	36,582	59,827	69,351	191,556					191,556
Five years later	33,229	60,273	74,168						74,168
Six years later	34,079	61,227							61,227
Seven years later	34,343								34,343
Current estimates of loss reserves	34,343	61,227	74,168	191,556	216,466	64,147	28,530	24,691	695,128
Cumulative payments	(33,226)	(58,145)	(64,079)	(166,099)	(150,420)	(27,668)	(7,983)	3,105	(504,515)
Best estimate of loss reserves	1,117	3,082	10,089	25,457	66,046	36,479	20,547	27,796	190,613
Claims handling expenses									1,049
PRAD at 75% confidence level									15,862
Net general insurance contract liabilities per statement of financial position								Note 15(a)	207,524

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31. Financial instruments

31.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Available-for-sale financial assets ("AFS"); and,
(c) Financial liabilities measured at amortised cost ("FL")

	Carrying amount RM'000	L&R/ (FL) RM'000	AFS RM'000
2014			
Financial assets			
Investments	434,941	-	434,941
Insurance receivables	97,086	97,086	-
Other receivables (exclude prepayment)	8,056	8,056	-
Deposits with financial institution	12,032	12,032	-
Cash and cash equivalents	122,117	122,117	-
	674,232	239,291	434,941
Financial liabilities			
Loans and borrowings	60,000	60,000	-
Other payables	5,730	5,730	-
Insurance payables	187,516	187,516	-
	253,246	253,246	-
2013			
Financial assets			
Investments	412,937	-	412,937
Insurance receivables	95,766	95,766	-
Other receivables (exclude prepayment)	7,268	7,268	-
Deposits with financial institution	98,817	98,817	-
Cash and cash equivalents	78,681	78,681	-
	693,469	280,532	412,937
Financial liabilities			
Loans and borrowings	60,000	60,000	-
Other payables	4,866	4,866	-
Insurance payables	183,261	183,261	-
	248,127	248,127	-

31. Financial instruments (continued)

31.2 Net gains and losses arising from financial instruments

	2014 RM'000	2013 RM'000
Net gains/(losses) on:		
Available-for-sale financial assets		
- recognised in other comprehensive income	(2,689)	(2,161)
- recognised in statement of profit or loss	13,980	15,677
- reclassified from equity to profit or loss	(1,352)	(119)
Loans and receivables	3,706	4,435
	13,645	17,832

31.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing such risks.

31.4 Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance and investment transactions failed to meet its contractual obligations.

Receivables

Risk management objectives, policies and processes for managing the risk

The Company has established counterparty and credit management policy that governs the retrocession counterparty credit selection and review process, as well as the insurance and reinsurance receivables collection and impairment assessment processes. These processes are regularly being reviewed and monitored by the counterparty and credit committee of the Company. For reinsurance transactions, the Company will gives due consideration to external retrocessionaires with rating of A- and above, by either AM Best or Standard & Poor's ("S&P"), and associates of the Company. For external retrocessionaires with lower rating than A-, credit insurance cover may be procured to mitigate the counterparty risk. The contingent credit exposure to any single retrocessionaire is limited and dependent on a number of factors, including rating and company size.

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31. Financial instruments (continued)

31.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk is normally represented by the carrying amount of each financial asset in the statement of financial position, although in the case of reinsurance receivables, it is fairly common practice for accounts to be settled on a net basis. In such cases, the maximum exposure to credit risk is expected to be limited to the extent of the amount of financial assets that has not been fully offset by financial liabilities with the same counterparty. The maximum amount recoverable from each retrocessionaire at any time is also dependent on the claims recoverable from such retrocessionaires at that point in time.

Impairment losses

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables as at end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Collective impairment RM'000	Net RM'000
2014				
1-3 months	79,558	-	-	79,558
4-6 months	15,166	-	-	15,166
6-12 months	2,024	-	-	2,024
More than 12 months	338	-	-	338
	97,086	-	-	97,086
2013				
1-3 months	83,618	-	-	83,618
4-6 months	10,611	-	-	10,611
6-12 months	1,323	-	-	1,323
More than 12 months	214	-	-	214
	95,766	-	-	95,766

The credit period granted to insurance receivables range from 60 to 90 days. The Company deemed all insurance receivables outstanding more than 90 days as past due.

The insurance receivable are deemed past due when the counterparty has failed to make payment when the outstanding amount is contractually due.

31. Financial instruments (continued)

31.4 Credit risk (continued)

Receivables (continued)

Past due and impaired

At the end of the reporting period, based on a combination of collective and individual assessment of receivables, there are no impaired insurance receivables. For assets to be classified as "past due and impaired", there must be an occurrence of a loss event that had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Investments

Risk management objectives, policies and processes for managing the risk

The Company's investment portfolio is managed following standards of diversification and an investment philosophy. It focuses on investing in high quality investment grade fixed income securities.

Exposure to credit risk, credit quality and collateral

The Company does not have investments in collateralised debt obligations, collateralised loan obligations, non-rated securities and other complex structured notes which may expose the Company to significant credit risk. For the financial year ended 31 December 2014, the majority credit quality of the Company's investment portfolio was AAA by Rating Agency Malaysia ("RAM") or Malaysian Rating Corporation Berhad ("MARC").

The Company reviews its issuer concentration and credit quality and compliance with established credit limits on a regular basis. The Company is not exposed to any significant credit concentration risk on its investments.

Credit exposure

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

	2014 **RM'000**	**2013** **RM'000**
Investments (excluding equity investment)	417,466	391,389
Insurance receivables	97,086	95,766
Other receivables (excluding prepayment)	8,056	7,268
Deposits with financial institutions	12,032	98,817
Cash and cash equivalents	122,117	78,681
	656,757	671,921

31. Financial instruments (continued)

31.4 Credit risk (continued)

Investments (continued)

Credit exposure by credit rating

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

	Neither past-due nor impaired RM'000	Past-due but not impaired RM'000	Impaired RM'000	Total RM'000
2014				
Investments:				
Malaysian Government Incentives/ Government Investment Issues	50,302	-	-	50,302
Corporate debt securities	249,932	-	-	249,932
Unit trust in Malaysia	117,232	-	-	117,232
Insurance receivables	79,558	17,528	-	97,086
Other receivables (excluding prepayments)	8,056	-	-	8,056
Deposits with financial institutions	12,032	-	-	12,032
Cash and cash equivalents	122,117	-	-	122,117
	639,229	17,528	-	656,757
2013				
Investments:				
Malaysian Government Incentives/ Government Investment Issues	32,301	-	-	32,301
Corporate debt securities	245,590	-	-	245,590
Unit trust in Malaysia	113,498	-	-	113,498
Insurance receivables	83,618	12,148	-	95,766
Other receivables (excluding prepayments)	7,268	-	-	7,268
Deposits with financial institutions	98,817	-	-	98,817
Cash and cash equivalents	78,681	-	-	78,681
	659,773	12,148	-	671,921

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31. Financial instruments (continued)

31.4 Credit risk (continued)

Credit exposure by credit quality

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit rating issued by RAM or MARC on the counterparties, unless indicated as rated by AM Best and S&P.

	AAA RM'000	AA RM'000	A RM'000	B RM'000	Non-rated RM'000	Total RM'000
2014						
Investments						
Debt securities#	82,312	88,120	28,008	-	101,794	300,234
Unit trusts^	-	-	-	-	117,232	117,232
Insurance receivables*	-	-	5,115	-	91,971	97,086
Other receivables (excluding prepayment)	-	-	-	-	8,056	8,056
Deposits with financial institutions	12,032	-	-	-	-	12,032
Cash and cash equivalents	122,117	-	-	-	-	122,117
	216,461	88,120	33,123	-	319,053	656,757
2013						
Investments						
Debt securities#	129,039	63,445	-	-	85,407	277,891
Unit trusts^	-	-	-	-	113,498	113,498
Insurance receivables*	-	-	13,144	-	82,622	95,766
Other receivables (excluding prepayment)	-	-	-	-	7,268	7,268
Deposits with financial institutions	98,817	-	-	-	-	98,817
Cash and cash equivalents	78,681	-	-	-	-	78,681
	306,537	63,445	13,144	-	288,795	671,921

Non-rated Debt Securities are Malaysian Government Securities, Government Investment Issues and Wakala Global Sukuk issued by SPV (Special Purpose Vehicle) of Government of Malaysia.

^ The underlying investment in unit trusts scheme is deposit placement with local Islamic Financial Institution.

* Rating for insurance receivables re-rated by international rating agency either AM Best or S&P.

31. Financial instruments (continued)

31.5 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial and insurance liabilities that are settled by delivery of cash or another financial asset. The Company has to meet its liabilities as and when they fall due, notably from claims arising from its general reinsurance contracts. There is hence a risk that the cash and cash equivalents held will not be sufficient to meet its liabilities when they become due.

The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities arising from insurance claims and maturing liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

The Company’s approach to managing its liquidity risk is as follows:

- Cashflow position is being reviewed, on an ongoing basis, by monitoring its overall liquidity position and funding requirements over the short, medium and long term;
- Assets purchased by the Company are required to satisfy specified marketability requirements; and
- The Company maintains cash and liquid assets to meet daily calls on its insurance and investment needs.

Given the high level of credit quality and short duration investment portfolio, the Company is able to quickly liquidate its investments in financial assets at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In addition, the Company invests in fixed deposit placements and unit trust funds which can provide liquidity for working capital requirements and payment of liabilities when the need arises. As such, no maturity profiles are provided for financial assets.

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31. Financial instruments (continued)

31.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying value RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Up to a year RM'000	>1 – 3 years RM'000	>3 – 5 years RM'000	> 5 years RM'000
2014							
Loans and borrowings	60,000	8%	71,104	4,800	66,304	-	-
Insurance payables	187,516	-	187,900	187,900	-	-	-
Other payables	5,730	-	5,730	5,730	-	-	-
	253,246		264,734	198,430	66,304	-	-
2013							
Loans and borrowings	60,000	8%	75,904	4,800	9,600	61,504	-
Insurance payables	183,261	-	183,739	183,739	-	-	-
Other payables	4,866	-	4,866	4,866	-	-	-
	248,127		264,509	193,405	9,600	61,504	-

31. Financial instruments (continued)

31.6 Market risk

Market risk is the risk that changes in market prices that will affect the Company's income or the value of its holding of financial instruments. Market risk for the Company comprises three types of risks:

- Currency risk
- Interest rate risk
- Price risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing market risk have not changed significantly from the previous financial year.

For each of the major components of market risk the Company has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the Company at the reporting date to each major risk is addressed below.

31.6.1 Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM") for its local business and its exposure to foreign exchange risk arises principally with respect to US Dollar ("USD") through the intra-group treaties among affiliated companies and management of pool business.

Risk management objectives, policies and processes for managing the risk

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

31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.1 Currency risk (continued)

The Company's currency risk is largely mitigated by its asset and liability management framework. Under this framework, the Company established an internally managed investment portfolio with the objective of investing into United States Dollar ("USD") currency denominated fixed income securities to match its liabilities denominated in USD currencies. With the assets liabilities management process in place, the impact arising from sensitivity in foreign exchange rate is deemed minimal as the Company does not have a significant mismatch exposure. Notwithstanding this, the asset liability management framework is subject to time lag, estimates and judgments, which may affect the desired outcome.

The following table sets out the Company's main exposure at the reporting date to currency risk arising from recognised assets or liabilities denominated in USD currency, other than the functional currency of the Company.

	2014 RM'000	2013 RM'000
Assets		
Investments	45,910	57,216
Reinsurance assets	193,038	104,108
Insurance receivables	55,266	57,440
Accrued interest	569	898
Cash and cash equivalents	46,245	40,273
	341,028	259,935
Liabilities		
Insurance contract liabilities	(256,545)	(196,091)
Insurance payable	(112,163)	(100,676)
	(368,708)	(296,767)
Net exposure	(27,680)	(36,832)

31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2013: 10%) strengthening of Ringgit Malaysia against the following currency at the reporting date would increase the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Impact on profit before tax	
	2014	**2013**
	RM'000	**RM'000**
United States Dollar	2,768	3,683

A 10% (2013: 10%) weakening of Ringgit Malaysia against the above currency at the end of the reporting period would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

31.6.2 Interest risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to the impact of changes in market interest rates have on interest income from cash and cash equivalents and other fixed income investments.

The earnings of the Company are affected by changes in market interest rates due to the impact such changes have on interest income from cash and cash equivalents, including investments in fixed deposits.

Risk management objectives, policies and processes for managing the risk

The Company manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

The Company's investment portfolio has an average duration of around two years, significantly reducing any long term interest rate volatility within the portfolio.

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31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.2 Interest risk (continued)

Exposure to interest rate risk

The nature of the Company's exposure to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the previous financial year.

The following tables set out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

	Within 1 year RM'000	1 to 5 years RM'000	More than 5 years RM'000	Total RM'000
2014				
Fixed rate instruments				
Corporate debt securities	42,084	125,221	82,627	249,932
Malaysian Government Securities/ Government Investment Issues	500	4,963	44,839	50,302
Unit trust in Malaysia	117,232	-	-	117,232
Deposits with financial institutions	12,032	-	-	12,032
Cash and cash equivalents	122,117	-	-	122,117
	293,965	130,184	127,466	551,615
2013				
Fixed rate instruments				
Corporate debt securities	58,727	128,525	58,338	245,590
Malaysian Government Securities/ Government Investment Issues	6,024	10,668	15,609	32,301
Unit trust in Malaysia	113,498	-	-	113,498
Deposits with financial institutions	98,817	-	-	98,817
Cash and cash equivalents	78,681	-	-	78,681
	355,747	139,193	73,947	568,887

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.2 Interest risk (continued)

Interest rate risk sensitivity analysis (continued)

(b) Cash flow sensitivity analysis for fixed rate instruments

A change of 50 basis points ("bp") in interest rates at the reporting date would have increased/(decreased) other comprehensive income ("OCI") and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	---- Impact on OCI and equity -----			
	2014		**2013**	
	50 bp increase RM'000	**50 bp decrease RM'000**	**50 bp increase RM'000**	**50 bp decrease RM'000**
Fixed rate instruments				
Malaysia Government Securities, Government Investment Issues & corporate debt securities	(4,265)	4,265	(3,169)	3,169

31.6.3 Other price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices.

Risk management objectives, policies and processes for managing the risk

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector, market and issuer, having regard also to such limits stipulated by BNM. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.3 Other price risk (continued)

Equity price risk sensitivity analysis

The analysis below is performed for reasonably possible movements in share prices with all other variables held constant, showing the impact on other comprehensive income ("OCI") and equity in respect of the quoted equity investment portfolio held. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Changes in variable	**Impact on OCI / on Equity after tax RM'000**	**Changes in variable**	**Impact on OCI / on Equity after tax RM'000**
	2014	**2014**	**2013**	**2013**
Market indices				
Bursa Malaysia	+15%	1,966	+15%	2,424
Bursa Malaysia	-15%	(1,966)	-15%	(2,424)

The method used for deriving sensitivity information and significant variables did not change from the previous year.

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31. Financial instruments (continued)

31.7 Fair value information

The carrying amounts of cash and cash equivalents, short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments. The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
2014	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial assets										
Malaysian Government Securities/ Government Investment Issues	-	50,302	-	50,302	-	-	-	-	50,302	50,302
Corporate debt securities	-	249,932	-	249,932	-	-	-	-	249,932	249,932
Equity securities	17,475	-	-	17,475	-	-	-	-	17,475	17,475
Unit trust in Malaysia	117,232	-	-	117,232	-	-	-	-	117,232	117,232
	134,707	300,234	-	434,941	-	-	-	-	434,941	434,941
Financial liabilities										
Loans and borrowing	-	-	-	-	-	-	60,000	60,000	60,000	60,000

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31. Financial instruments (continued)

31.7 Fair value information (continued)

2013	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets										
Malaysian Government Securities/ Government Investment Issues	-	32,301	-	32,301	-	-	-	-	32,301	32,301
Corporate debt securities	-	245,590	-	245,590	-	-	-	-	245,590	245,590
Equity securities	21,548	-	-	21,548	-	-	-	-	21,548	21,548
Unit trust in Malaysia	113,498	-	-	113,498	-	-	-	-	113,498	113,498
	135,046	277,891	-	412,937	-	-	-	-	412,937	412,937
Financial liabilities										
Loans and borrowing	-	-	-	-	-	-	60,000	60,000	60,000	60,000

31. Financial instruments (continued)

31.7 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value
Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value
Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values
There has been no transfer between Level 1 and 2 fair values during the financial year. (2013: no transfer in either directions)

Level 3 fair value
Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

The following table shows the valuation techniques used in the determination of fair values within level 3, as well as the key observable inputs used in the valuation models.

(a) Financial instruments not carried at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Convertible subordinated loan	Discounted cash flows	Interest rate (2014: 8%)	There is no impact to the fair value measurement as the interest rate is fixed.

32. Capital management

The Company's capital management policy is to optimise the utilisation of its capital while at the same time providing an adequate level of security as determined by rating agencies and Bank Negara Malaysia ("BNM").

The Company's objectives when managing capital are:

- To comply with insurance capital requirements stipulated by BNM. In this respect the Company manages its capital at an amount in excess of the minimum regulatory capital;
- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders;
- To provide an adequate return to its shareholders by pricing reinsurance contracts commensurately with the level of risk;
- To align the profile of the assets and liabilities taking into account of risks inherent in the business; and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

Primary capital

The primary source of capital used by the Company is shareholders' equity. The Company also considers alternative sources of capital including retrocession, as appropriate when assessing its deployment and usage of capital.

The objective of the capital management policy is sustained and ensured through updates of forecasts as part of an annual strategic and financial planning process.

Regulatory capital

The local insurance regulator, Bank Negara Malaysia ("BNM"), specifies the minimum required capital that must be maintained at all times throughout the year. This minimum required capital is determined by the Capital Adequacy Ratio ("CAR") under the Risk-Based Capital ("RBC") Framework at 130%. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The calculation is based on factors deemed higher for those items with greater underlying risk. As at year end, the Company has a capital adequacy ratio in excess of the minimum requirement.

32. Capital management (continued)

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

	2014 RM'000	2013 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	255,000	255,000
Share premium	20,000	20,000
Retained losses	(44,637)	(48,216)
	230,363	226,784
Tier 2 Capital		
Eligible reserves	2,616	3,291
Convertible loan	60,000	60,000
	292,979	290,075
Deferred tax assets	-	(3,654)
Total capital available	292,979	286,421

Rating agency capital

The Company was assigned financial strength and issuer credit ratings by rating agencies. The assignment of such ratings are based on assessment of the Company's capital adequacy calculated using the agencies' own rating methodology. As at 31 December 2014, the Company carries an assigned rating of A- issued by A.M. Best.

There were no changes in the Company's approach to capital management during the financial year.

33. Events after reporting period

After the end of the reporting period the following dividends were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the shareholders of the Company and Bank Negara Malaysia. Such dividend, if approved, will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year ending 31 December 2015.

	Sen per share	Total amount RM'000
Final 2014 ordinary	1.15	3,450

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 10 to 85 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2014 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors:

....

Raja Tan Sri Dato' Seri Arshad Bin Raja Tun Uda

....

Wong Ah Kow

Date: 20 MAR 2015

Asia Capital Reinsurance Malaysia Sdn. Bhd.
(Company No. 762294-T)
(Incorporated in Malaysia)

Statutory Declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Teoh Kek Pin**, the officer primarily responsible for the financial management of Asia Capital Reinsurance Malaysia Sdn. Bhd., do solemnly and sincerely declare that the financial statements set out on pages 10 to 85 are, to the best of my knowledge and belief, 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.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 20 MAR 2015

....
Teoh Kek Pin

Before me:

PESURUHJAYA SUMPAH
No. W 350
SHAFIE B. DAUD
MALAYSIA

38A, JALAN TUN MOHD FUAD 1
TAMAN TUN DR. ISMAIL
60000 KUALA LUMPUR

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
Fax +60 (3) 7721 3399
Internet www.kpmg.com.my

Independent auditors' report to the members of Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Asia Capital Reinsurance Malaysia Sdn. Bhd., which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 85.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Company No. 762294-T

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2014 and of its financial performance and 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, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Mok Wan Kong
Approval Number: 2877/12/16(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 20 MAR 2015