Company No.

9827	A

ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2012

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Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2012

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Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

CORPORATE INFORMATION

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

Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITY

The principal activity of the Company is the underwriting of general insurance business.

There has been no significant change in the nature of this activity during the financial year.

RESULTS

	RM'000
Profit for the financial year	131,041

RESERVES AND PROVISIONS

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

DIVIDENDS

No dividend was paid or declared by the Company since the end of the last financial year. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2012.

DIRECTORS

The Directors who have held office since the date of the last report are as follows:

<u>Resigned on 21 June 2012</u>

Damien Francis Sullivan	(Chairman)
Mark Andrew Eggleton	
Jarrod Kevin Hill	
Ahmad Riza bin Basir	
Tam Chiew Lin	

<u>Appointed on 24 May 2012</u>

YBhg Tan Sri Leo Moggie	(Chairman)
Dato' Sri Abdul Hamidy bin Abdul Hafiz	
Song Yam Lim	
Gregory Jerome Gerald Fernandes	
Stephen Barry Crouch	
Daniel Andrew Albert Vanderkemp	

DIRECTORS (CONTINUED)

In accordance with Section 129 of the Company Act 1965, YBhg Tan Sri Leo Moggie will retire at the forthcoming Annual General Meeting and, being eligible, has offered himself for re-election.

In accordance with Article 99 of the Company's Articles of Association, Dato' Sri Abdul Hamidy bin Abdul Hafiz and Daniel Andrew Albert Vanderkemp retire at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

CORPORATE GOVERNANCE

The Board is satisfied that the Company has substantially complied with the prescriptive applications in JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers.

Audit Committee

The Audit Committee assists the Board in its oversight of the integrity of the Company's financial statements and financial reporting process, the Company's compliance with legal and regulatory requirements, the system of internal controls, the audit process, the performance of the Company's internal auditor and the performance and independence of the Company's external auditors.

The Audit Committee comprises of four non-executive Directors (three prior to 24 May 2012):

Resigned on 24 May 2012	
Tam Chiew Lin	(Chairperson)
Ahmad Riza Bin Basir	
Damien Francis Sullivan	
Appointed on 24 May 2012	
Dato' Sri Abdul Hamidy Bin Abdul Hafiz	(Chairman)
YBhg Tan Sri Leo Moggie	
Song Yam Lim	
Gregory Jerome Gerald Fernandes	

Nominating Committee

The Nominating Committee assists the Board in the ongoing processes of appointment and performance assessments of Directors, the Chief Executive Officer and key senior officers. The Committee ensures that the Board comprises a minimum of four non-executive directors with the requisite mix of skills, experience and attributes to contribute effectively to the Board.

CORPORATE GOVERNANCE (CONTINUED)

The Nominating Committee comprises of five Directors:

<u>Resigned on 24 May 2012</u>	
Ahmad Riza Bin Basir	(Chairman)
Damien Francis Sullivan	
Jarrod Kevin Hill	
Mark Andrew Eggleton	
Tam Chiew Lin	
<u>Appointed on 24 May 2012</u>	
YBhg Tan Sri Leo Moggie	(Chairman)
Dato' Sri Abdul Hamidy Bin Abdul Hafiz	
Song Yam Lim	
Stephen Barry Crouch	
Daniel Andrew Albert Vanderkemp	

<u>Remuneration Committee</u>

The Remuneration Committee oversees the Company's compensation policies, including issues relating to pay and performance of Directors, Chief Executive Officer and senior officers of the Company.

The Remuneration Committee comprises of three non-executive Directors:

<u>Resigned on 24 May 2012</u>	
Ahmad Riza Bin Basir	(Chairman)
Damien Francis Sullivan	
Jarrod Kevin Hill	
<u>Appointed on 24 May 2012</u>	
YBhg Tan Sri Leo Moggie	(Chairman)
Stephen Barry Crouch	(Resigned on 10 August 2012)
Daniel Andrew Albert Vanderkemp	
Gregory Jerome Gerald Fernandes	(Appointed on 10 August 2012)

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

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ACE JERNEH INSURANCE BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee

The Risk Management Committee oversees the Company's risk management process to ensure the adequacy and integrity of sound internal controls and risk management practices. It is recognised that such controls and practices are designed to maximise the mitigation of foreseeable risks rather than to eliminate the risk of failure.

The Risk Management Committee comprises of three non-executive directors:

Resigned on 24 May 2012	
Tam Chiew Lin	(Chairperson)
Mark Andrew Eggleton	
Jarrod Kevin Hill	
Appointed on 24 May 2012	
Song Yam Lim	(Chairman)
YBhg Tan Sri Leo Moggie	
Stephen Barry Crouch	(Resigned on 10 August 2012)
Daniel Andrew Albert Vanderkemp	

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

		Meetings of Committees			
	Board of Directors	Audit	Nominating	Remuneration	Risk Management
Number of meetings held during the financial year	6	4	2	1	4
	Number attended	Number attended	Number attended	Number attended	Number attended
Damien Francis Sullivan	1/1	1/1	1/1	*	*
Mark Andrew Eggleton	1/1	*	1/1	*	*
Jarrod Kevin Hill	1/1	*	1/1	*	*
Ahmad Riza bin Basir	1/1	1/1	1/1	*	*
Tam Chiew Lin	1/1	1/1	1/1	*	*
YBhg Tan Sri Leo Moggie	5/5	3/3	1/1	1/1	4/4
Dato' Sri Abdul Hamidy bin Abdul Hafiz	5/5	3/3	1/1	*	*
Song Yam Lim	5/5	3/3	1/1	*	4/4
Gregory Jerome Gerald Fernandes	5/5	3/3	*	*	*
Stephen Barry Crouch	5/5	*	1/1	1/1	2/2
Daniel Andrew Albert Vanderkemp	4/5	*	1/1	1/1	4/4

* Not applicable as the Director was not a member of the committees at the time when the meetings were held.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the Directors' remuneration as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

According to the register of Directors' shareholdings, none of the Directors in office at the end of the financial year held any interest in shares in, or debentures of the Company or its related corporations during the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps,

   (i) to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for insurers issued by Bank Negara Malaysia pursuant to Section 90 of the Insurance Act, 1996;

   (ii) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

   (iii) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

   (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent ; and

   (ii) the values attributed to the current assets in the financial statements of the Company misleading.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

(c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

(d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

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

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

(f) In the opinion of the Directors:

   (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due;

   (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made; and

   (iii) the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, except for the business transferred from ACE INA Berhad (formerly known as ACE Synergy Insurance Berhad) as disclosed in Notes 2 and 33 to the financial statements.

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

Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

ULTIMATE HOLDING COMPANY

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

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 March 2013.

DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ
DIRECTOR

STEPHEN BARRY CROUCH
DIRECTOR

Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, Dato' Sri Abdul Hamidy bin Abdul Hafiz and Stephen Barry Crouch, two of the Directors of ACE Jerneh Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 12 to 94 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 March 2013.

DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ
DIRECTOR

STEPHEN BARRY CROUCH
DIRECTOR

Kuala Lumpur

Company No.	
9827	A

ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY DECLARATION

I, Lim Joo Leong, being the officer primarily responsible for the financial management of ACE Jerneh Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 12 to 94 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

LIM JOO LEONG

Subscribed and solemnly declared by the named above at Kuala Lumpur before me, on 25 March 2013.

COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
No. W 633
MURALITHERAN
ART PILLAI
MALAYSIA

Tkt. 20, AmBank Building
No. 55, Jalan Raja Chulan
50200 Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ACE JERNEH INSURANCE BERHAD

(Incorporated in Malaysia)
(Company No. 9827A)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of ACE Jerneh Insurance Berhad, which comprise the statement of financial position as at 31 December 2012, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 12 to 94.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

pwc

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

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended.

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 provision of the Act.

OTHER MATTERS

As stated in Note 3(a) to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.

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

PRICEWATERHOUSECOOPERS	SRIDHARAN NAIR
(No. AF: 1146)	(No. 2656/05/14 (J))
Chartered Accountants	Chartered Accountant

Kuala Lumpur
25 March 2013

Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
ASSETS				
Property and equipment	5	43,011	19,081	19,314
Investment property	6	-	21,597	21,690
Intangible assets	7	1,567	220	393
Investments	8	914,577	697,344	377,173
Held-to-maturity financial assets ("HTM")		-	40,755	40,751
Loans and receivables ("LAR")		-	-	6,422
Available-for-sale financial assets ("AFS")		914,577	656,589	190,500
Fair value through profit or loss ("FVTPL")		-	-	139,500
Reinsurance assets	9	469,314	261,659	263,168
Insurance receivables	10	143,633	52,374	58,677
Other receivables	11	33,672	16,327	8,472
Deferred tax assets	18	5,502	2,086	-
Cash and cash equivalents		147,726	138,215	333,293
Total assets		1,759,002	1,208,903	1,082,180
EQUITY AND LIABILITIES				
Share capital	12	100,000	100,000	100,000
Retained earnings	13	425,697	294,656	250,366
Available-for-sale fair value reserves	14	6,218	6,195	3,675
Equity reserve	15	1,381	-	-
Total equity		533,296	400,851	354,041
Insurance contract liabilities	16	1,038,365	672,228	614,254
Investment contract liabilities	17	4,001	-	-
Deferred tax liabilities	18	-	-	7,729
Insurance payables	19	88,784	65,209	64,780
Current tax liabilities		20,359	13,311	4,929
Other payables	20	74,197	57,304	36,447
Total liabilities		1,225,706	808,052	728,139
Total equity and liabilities		1,759,002	1,208,903	1,082,180

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

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Gross earned premiums	21(a)	736,290	456,294
Premiums ceded to reinsurers	21(b)	(271,133)	(176,264)
Net earned premiums		465,157	280,030
Investment income	22	38,996	29,977
Realised gains (net)	23	2,012	223
Fair value losses	24	(3,436)	(1,217)
Commission income	25	60,128	34,206
Other operating income		144	-
Net income		97,844	63,189
Gross claims paid		(357,793)	(176,950)
Claims ceded to reinsurers		189,014	61,582
Gross change to contract liabilities		27,712	(29,077)
Change in contract liabilities ceded to reinsurers		(8,996)	(4,824)
Net claims incurred		(150,063)	(149,269)
Commission expense		(108,115)	(57,551)
Management expenses	26	(131,732)	(75,578)
Other expenses		(239,847)	(133,129)
Profit before taxation		173,091	60,821
Taxation	27	(42,050)	(16,531)
Profit for the financial year		131,041	44,290
Earnings per share (sen)			
Basic	28	131.04	44.29

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

ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	31.12.2012 RM'000	31.12.2011 RM'000
Profit for the financial year	131,041	44,290
Other comprehensive income:		
Available-for-sale fair value reserves		
Net gain arising during the financial year	1,757	3,372
Net realised loss transferred to income statement	(2,757)	(12)
	(1,000)	3,360
Tax effects thereon	250	(840)
	(750)	2,520
Total comprehensive income for the financial year	130,291	46,810

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

Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

		Non-distributable		Distributable	
	Share capital RM'000	Equity reserve RM'000	Fair value reserves RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2012	100,000	-	6,195	294,656	400,851
Transfer from ACE INA (Note 33)	-	1,021	773	-	1,794
Total comprehensive income for the financial year	-	-	(750)	131,041	130,291
Share-based long term incentive plan vested	-	360	-	-	360
At 31 December 2012	100,000	1,381	6,218	425,697	533,296
At 1 January 2011	100,000	-	3,675	250,366	354,041
Total comprehensive income for the financial year	-	-	2,520	44,290	46,810
At 31 December 2011	100,000	-	6,195	294,656	400,851

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

Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operating activities	29	15,814	(196,860)
Interest income received		36,958	21,532
Dividend income received		99	1,173
Rental income on investment property received		1,619	2,262
Income tax paid		(38,168)	(21,653)
Net cash flows generated from/(used in) operating activities		16,322	(193,546)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		483	229
Purchase of property and equipment	5	(5,013)	(1,713)
Purchase of intangibles assets	7	(2,281)	(48)
Net cash flows used in investing activities		(6,811)	(1,532)
Net increase/(decrease) in cash and cash equivalents		9,511	(195,078)
Cash and cash equivalents at beginning of the financial year		138,215	333,293
Cash and cash equivalents at end of the financial year		147,726	138,215
Cash and cash equivalents comprise:			
Fixed and call deposits:			
-Licensed financial institutions in Malaysia		130,592	129,576
Cash and bank balances		17,134	8,639
		147,726	138,215

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 25 March 2013.

2 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 4 January 2012, ACE INA Berhad (formerly known as ACE Synergy Insurance Berhad) ("ACE INA") transferred its general insurance business to the Company in accordance with a Scheme of Transfer made pursuant to Section 129 of the Insurance Act 1996, which was approved by Bank Negara Malaysia ("BNM") and confirmed by the High Court of Malaya. The financial impact of this significant event is disclosed in Note 33 to the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation

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

The financial statements of the Company for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1 'First-time adoption of MFRS'. The Company has consistently applied the same accounting policies in its opening MFRS statement of financial position at 1 January 2011 (transition date) and throughout all years presented, as if these policies had always been in effect. Based on the Company's assessment of the MFRS requirements, there is no significant impact of the transition to MFRS on the Company's reported financial position, financial performance and cash flows. Subsequent to the transition in the financial reporting framework to MFRS on 1 January 2012, the comparative information has not been audited under MFRS. The comparative statement of financial position 31 December 2011, comparative income statement, comprehensive income, changes in equity and cash flows for the financial year then ended have been audited under the previous financial reporting framework, Financial Reporting Standards in Malaysia.

The financial statements of the Company have also been prepared under the historical cost basis, except as disclosed in the summary significant accounting policies.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital ("RBC") Framework as at the date of the statement of financial position.

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to financial statements.

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency. Unless otherwise indicated, the amounts in these financial statements have been rounded to the nearest thousand.

<u>Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective.</u>

The Company will apply the new standards, amendments to standards and interpretations in the following period:

(i) Financial year beginning on/after 1 January 2013

- MFRS 13 "Fair Value Measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosure", but apply to all assets and liabilities measured at fair value, not just financial ones. The standard is not expected to have a material impact on the financial statements of the Company.

- Amendment to MFRS 101 "Presentation of items of other comprehensive income" (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' ("OCI") in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI. The amendment is not expected to have a material impact on the financial statements of the Company.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) Financial year beginning on/after 1 January 2013 (continued)

- Amendment to MFRS 119 "Employee benefits" (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment. The amendment is not expected to have a material impact on the financial statements of the Company.

- Amendment to MFRS 7 "Financial instruments: Disclosures" (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset. The amendment is not expected to have a material impact on the financial statements of the Company.

(ii) Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132 "Financial instruments: Presentation" (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria. The amendment is not expected to have a material impact on the financial statements of the Company.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iii) Financial year beginning on/after 1 January 2015

- MFRS 9 “Financial instruments – classification and measurement of financial assets and financial liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

  MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

  The Company is in the process of assessing the impact of adopting MFRS 9 to its accounting policies.

All other new amendments to the published standards and interpretations to existing standards issued by the MASB effective for financial periods subsequent to 1 January 2013 are not relevant to the Company.

(b) Business combinations under common control

The Company applies the predecessor method of accounting to account for business combinations under common control. Under the predecessor method of accounting, the assets and liabilities are not restated to their respective fair values but at carrying amounts as at the date of the transaction. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (as at the date of the transaction) of the acquired entity is recorded as an adjustment to retained earnings. No new goodwill is recognised. Acquisition costs are expensed as incurred.

The acquired entity’s financial results, assets and liabilities are consolidated from the date on which the business combination between entities under common control occurred. Consequently, the financial statements do not reflect the results of the acquired entity for the period before the transaction occurred. The corresponding amounts for the previous financial year are not restated.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property and equipment

(i) Measurement basis

Property and equipment are initially recorded at cost. These include expenditure that is directly attributable to the acquisition of the assets.

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

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property and equipment are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(ii) Depreciation

Freehold land is not depreciated.

Depreciation is calculated using the straight-line basis to allocate their cost to their residual values over the expected useful lives of the assets.

The expected useful lives of the property and equipment are as follows:

Buildings	50 years
Computers	3 - 10 years
Office equipment, furniture and fittings	3 - 10 years
Motor vehicles	5 years
Office renovation	5 years

The residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment property

Investment property is a property held to earn rental income or for capital appreciation or for both.

(i) Measurement basis

Investment property is initially recorded at cost, including expenditure that is directly attributable to the acquisition of the asset.

Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Investment property is derecognised upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(ii) Depreciation

Freehold land is not depreciated. Depreciation is calculated using the straight-line basis to allocate their cost to their residual values over the expected useful lives of the assets, which is 50 years.

The residual value and useful lives are reviewed and adjusted if appropriate, at each reporting date.

(e) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring in use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and appropriate portion of relevant overheads.

Computer software costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of 3 years.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

(i) Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

(ii) Operating lease

An operating lease is a lease other than a finance lease.

Operating lease income or operating lease rentals are credited or charged to the income statement on a straight line basis over the period of the lease.

(g) Financial instruments

A financial instrument is recognised in the financial statements when the Company becomes a party to the contractual provisions of the instrument.

(i) Financial instrument categories and measurements

(1) Investments

The Company classifies its investments into the following categories: fair value through profit or loss ("FVTPL"), held-to-maturity financial assets ("HTM"), available-for-sale financial assets ("AFS") and loans and receivables ("LAR").

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

<u>FVTPL</u>

Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future or they constitute part of the portfolio of identified securities which has evidence of actual pattern of short-term profit taking are classified as held-for-trading.

These investments are initially recorded at fair value. The gain or losses from the changes in fair value are recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(1) Investments (continued)

HTM

Investment with fixed or determinable payments and fixed maturities are categorised as held-to-maturity when the Company has positive intention and ability to hold until maturity.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment plus transaction costs that are directly attributable to their acquisition. After initial measurement, HTM investments are measured at amortised cost, using the effective yield method, less impairment losses.

AFS

These investments are initially recorded at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS are re-measured at fair value at reporting date. Fair value gains or losses are recognised as other comprehensive income, except for impairment losses which are recognised in the income statement.

Fair value gains and losses of monetary securities denominated in foreign currency are analysed between translations differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement; translation differences on non-monitory securities are reported as a separate component of equity until the investment is derecognised.

Unquoted investments whose fair value cannot be reliably measured are measured at cost. On de-recognition, the cumulative fair value gains and losses previously recognised in other comprehensive income is transferred to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(1) Investments (continued)

<u>LAR</u>

Financial assets with fixed or determinable payments that are not quoted in an active market are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, LAR are carried at amortised cost, using the effective yield method, less impairment losses. LAR comprises of fixed deposits with financial institutions exceeding 3 months. Interest income is recognised in the income statement.

(2) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company's insurance receivables are assessed and reviewed for evidence of impairment as described in Note 3(g) (v).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 3(g)(iv), have been met.

All financial assets are review for impairment except for investment designated as fair value through profit or loss ("FVTPL").

(3) Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Other liabilities and payable are recognised when due and measured on initial recognition at cost being the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial measurement, they are measured at amortised cost using the effective yield method.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(ii) Determination of fair value

The fair value of financial instruments that are actively traded in organised financial market is determined by reference to quoted market bid prices for assets, at the close of business on the reporting date.

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values or offer prices for liabilities, at the close of business on the reporting date.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and relying as little as possible on entity-specific inputs.

The fair value of floating rate and over-night deposits with financial institutions in their carrying value. The carrying value is the cost of the deposit/placement and accrued interest. The fair value of fixed interest/yield-bearing deposits is estimated using discounted cash flow techniques.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(iii) Recognition of financial assets

All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

(iv) Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership. On de-recognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that was recognised in other comprehensive income is reclassified to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(iv) Derecognition of financial instruments (continued)

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On de-recognition, the difference between the carrying amount of the reduced financial liability or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognised in the income statement.

(v) Impairment of financial assets

Investments

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired, with the exception of FVTPL investments and fixed and call deposits.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate yield. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the assets are included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

AFS

In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment, resulting in the recognition of an impairment loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(v) Impairment of financial assets (continued)

AFS (continued)

If an AFS is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income to the income statement. Reversals of impaired losses on debts instruments classified as AFS are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

Insurance receivables

Insurance receivables are assessed at each reporting date for objective evidence of impairment, as a result of one or multi events having an impact on the estimated future cash flow of the assets.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets.

If in a subsequent period the fair value of insurance receivables increases and the increase can be objectively related to events occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed to the extent that the carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

The Company classifies the cash flows for the purchase and disposal of investments in financial assets in its operating cash flows as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payment of insurance claims benefits.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Equity instruments

Ordinary Share Capital

The Company has issued ordinary shares that are classified as equity. Ordinary shares are recorded at nominal value. Costs incurred directly attributed to the issuance of the shares are accounted for as a deduction from share premium.

Dividends on Ordinary Share Capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

(j) Product classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract under which the Company (insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. The recognition and measurement of insurance contracts are set out in Note 3(k).

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Insurance contracts

Premium from direct insurance contract

Premium of insurance contracts is recognised in a financial year in respect of risks assumed during that particular financial year.

Acquisition costs and deferred acquisition costs ("DAC")

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

Commission costs are deferred to the extent that these costs are recoverable out of future premium. All other acquisition costs are charged to the income statement in the financial year in which they are incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. Amortisation is recognised in the income statement.

An impairment review is performed at each date of statement of financial position 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 the income statement.

DAC are also considered in the liability adequacy test for each accounting period. DAC are derecognised when the related contracts are either settled or disposed of.

For presentation purposes, DAC are netted off against premium liabilities in the financial statements.

Claims and expenses

Claims include all claims occurring during the financial year, whether reported or not, related external claims handling cost that are directly related to the processing and settlement of claim, a reduction for the value of salvage and other recoveries, and any adjustments to claim liabilities from previous financial year.

Premium liabilities

Premium liabilities refer to the higher of:

(a) the aggregate of the unearned premium reserves ("UPR"); or

(b) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall company level.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Insurance contracts (continued)

UPR represent the portion of the gross premiums of insurance policies written net of the related reinsurance premiums ceded to qualified reinsurers that relate to the unexpired periods of the policies at the end of the financial year.

UPR are computed with reference to the month of accounting for the premium on the following bases:

(i) 25% method for marine and aviation cargo, and transit business;

(ii) time apportionment method for non-annual policies;

(iii) 1/24th method for all other classes of Malaysian general policies; and

(iv) 1/8th method for all classes of overseas inward business.

At each reporting date, the Company reviews its unexpired risks reserve (“URR”) and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. The current estimate of future contractual cash flow is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer’s expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and shall allow for expected future premium refunds.

If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the income statement by setting up a provision for liability adequacy.

Claims liabilities

Claims liabilities are determined based on the estimated ultimate cost of all claims incurred but not settled at the date of statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statement of financial position.

The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions at best estimate and a PRAD calculated at the overall Company. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Investment contract

Investment contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are initially measured at fair value being the transaction price excluding transaction costs directly attributable to the issue of the contract. Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Company re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by calculating the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

(m) Reinsurance

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

Reinsurance premiums ceded are recognised in the same accounting period as the original policy to which the reinsurance relates.

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

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

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

Premiums and claims on assumed facultative reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Premiums, claims and other transactions costs on assumed treaty reinsurance are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Reinsurance (continued)

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

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

(n) Other revenue recognition

(i) Rental income

Rental income from investment property is recognised on an accrual basis straight-line basis over the term of the lease.

(ii) Investment income

Interest income from securities such government securities, bonds and loan stocks are recognised using the effective interest rate method.

The interest income from fixed deposits with financial institutes, are recognised in the financial statements on the accrual basis.

Dividend income is recognised when the right to receive payment is established.

(o) Foreign currencies

(i) Functional currency

Functional currency is the currency of the primary economic environment in which an entity operates.

(ii) Transactions and balances in foreign currencies

Transactions in currencies other than the functional currency (“foreign currencies”) are translated to the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary items denominated in foreign currencies at the reporting date are translated at foreign exchange rates ruling at that date.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Foreign currencies (continued)

(ii) Transactions and balances in foreign currencies (continued)

Non-monetary items which are measured in terms of historical costs denominated in foreign currencies are translated at foreign exchange rates ruling at the date of the transaction.

Non-monetary items which are measured at fair values denominated in foreign currencies are translated at the foreign exchange rates ruling at the date when the fair values were determined.

Exchange differences arising on the settlement of monetary items and the translation of monetary items are included in the income statement for the period.

When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any corresponding exchange gain or loss is recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in the income statement, any corresponding exchange gain or loss is recognised in the income statement.

(p) Employee benefits

(i) Short term benefits

Wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as expenses in the period in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

The Company pays fixed contributions to the Employees Provident Fund Board ("EPF") which is a defined contribution plan.

The Company's legal or constructive obligation is limited to the amount that it agrees to contribute to the EPF. The Company's contributions to the EPF are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Share-based long term incentive plan

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, ACE Limited ("ACE"). The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

Employees' services received in exchange for the share-based long term incentive plan are recognised as an expense in the Company's income statement over the vesting period of the grant with a corresponding increase in equity reserves.

The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all share grants issued in the current and prior financial years. There is no liability to the Company for the unamortised portion of the share grants issued. The amortised calculation incorporates the fair market value of ACE's common stock at grant date, in determining the expense amount.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

(iii) Share-based long term incentive plan (continued)

At each date of statement of financial position, the Company revises its estimate of the number of options that are expected to become vest. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity reserves over the remaining vesting period.

(q) Income taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the date of statement of financial position are used to determine deferred tax and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Claims liabilities

Claims liabilities for each class of business are estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development, claims payment and the direct and indirect claims-related expenses. The claims liabilities also include a provision of risk margin for adverse deviation ("PRAD"). PRAD is a component of the value of the insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. For the purpose of this valuation basis, the level of confidence is at 75% at an overall Company level. The final selected estimates are based on a judgemental consideration of results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term to settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

The best estimate outstanding claims liabilities were assessed using four standard actuarial valuation methods:

- Incurred Claim Development (ICD) method
- Paid Claim Development (PCD) method
- Bornhuetter-Ferguson method on incurred claims (IBF) and paid claims (PBF)
- Expected loss ration method (ELR)

(b) Critical judgements in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

5 PROPERTY AND EQUIPMENT

	Freehold land RM'000	Buildings RM'000	Computers RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Office renovation RM'000	Total RM'000
Cost							
At 1 January 2011	7,000	12,407	5,752	3,144	1,953	1,368	31,624
Additions	-	-	1,254	201	258	-	1,713
Disposals	-	-	(10)	(6)	(458)	-	(474)
Transfer to investment property (Note 6)	(139)	(283)	-	-	-	-	(422)
At 31 December 2011	6,861	12,124	6,996	3,339	1,753	1,368	32,441
Transfer from ACE INA (Note 33)	-	-	709	2,040	390	-	3,139
Additions	-	-	711	766	397	-	1,874
Disposals	-	-	(6)	-	(507)	-	(513)
Write-offs	-	-	(203)	(3)	-	-	(206)
Transfer from intangible assets (Note 7)	-	-	567	-	-	-	567
Transfer from investment property (Note 6)	8,345	16,989	-	-	-	-	25,334
At 31 December 2012	15,206	29,113	8,774	6,142	2,033	1,368	62,636
Accumulated depreciation							
At 1 January 2011	-	2,635	5,099	2,255	1,048	1,273	12,310
Charge for the financial year	-	242	820	244	329	47	1,682
Disposals	-	-	(10)	(5)	(441)	-	(456)
Transfer to investment property (Note 6)	-	(176)	-	-	-	-	(176)
At 31 December 2011	-	2,701	5,909	2,494	936	1,320	13,360
Charge for the financial year	-	575	906	1,132	(419)	48	2,242
Disposals	-	-	(5)	-	(70)	-	(75)
Write-offs	-	-	(203)	(3)	-	-	(206)
Transfer from intangible assets (Note 7)	-	-	567	-	-	-	567
Transfer from investment property (Note 6)	-	3,737	-	-	-	-	3,737
At 31 December 2012	-	7,013	7,174	3,623	447	1,368	19,625
Net carrying amount							
31 December 2012	15,206	22,100	1,600	2,519	1,586	-	43,011
31 December 2011	6,861	9,423	1,087	845	817	48	19,081
31 December 2010/ 1 January 2011	7,000	9,772	653	889	905	95	19,314

6 INVESTMENT PROPERTY

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Freehold land and building			
Cost			
At beginning of financial year	25,334	24,912	24,912
Transfer (to)/from property and equipment (Note 5)	(25,334)	422	-
At end of financial year	-	25,334	24,912
Accumulated depreciation			
At beginning of financial year	3,737	3,222	2,888
Charge for the financial year	-	339	334
Transfer (to)/from property and equipment (Note 5)	(3,737)	176	-
At end of financial year	-	3,737	3,222
Net carrying value	-	21,597	21,690

Investment property comprises commercial property leased to generate rental income.

During the current financial year, the Company reclassified the investment property to property and equipment following the discontinuation of leases to external tenants.

Rental income from the property for the current financial year ended 31 December 2012 was RM1,619,000 (2011:RM2,262,000).

Direct operating expenses arising in respect of the property for the current financial year ended 31 December 2012 was RM988,000 (2011:RM1,905,000).

7 INTANGIBLE ASSETS

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Cost			
At beginning of financial year	7,968	7,920	7,054
Transfer from ACE INA (Note 33)	2,149	-	-
Transfer from JAB*	-	-	8
Additions	132	48	559
Write-offs	-	-	(1)
Transfer (to)/from property and equipment (Note 5)	(567)	-	300
At end of financial year	9,682	7,968	7,920
Accumulated amortisation			
At beginning of financial year	7,748	7,527	6,906
Transfer from JAB*	-	-	3
Amortisation for the financial year	934	221	319
Write-offs	-	-	(1)
Transfer (to)/from property and equipment (Note 5)	(567)	-	300
At end of financial year	8,115	7,748	7,527
Net carrying amount	1,567	220	393

Intangible assets comprise computer software.

* Assets transferred from the former holding company, Jerneh Asia Berhad ("JAB")

8 INVESTMENTS

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Malaysian government securities and guaranteed loans	550,268	328,600	4,895
Debt securities	363,934	368,369	225,981
Equity securities	375	375	125,503
Unit and property trust funds	-	-	14,372
Deposits with financial institutions	-	-	6,422
	914,577	697,344	377,173
HTM	-	40,755	40,751
LAR	-	-	6,422
AFS	914,577	656,589	190,500
FVTPL	-	-	139,500
	914,577	697,344	377,173
Current	50,405	28,769	173,580
Non-current	864,172	668,575	203,593
	914,577	697,344	377,173

(a) HTM

	31.12.2012 Carrying value RM'000	31.12.2012 Fair value RM'000	31.12.2011 Carrying value RM'000	31.12.2011 Fair value RM'000	01.01.2011 Carrying value RM'000	01.01.2011 Fair value RM'000
Corporate debt securities: Unquoted in Malaysia	-	-	40,755	41,242	40,751	41,091

8 INVESTMENTS (CONTINUED)

(b) LAR

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Amortised cost			
Fixed and call deposits with licensed financial institutions	-	-	6,422

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

(c) AFS

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Fair value			
Unquoted equity securities	375	375	375
Unquoted debt securities	363,934	327,614	185,230
Malaysian government securities and guaranteed loans	550,268	328,600	4,895
	914,577	656,589	190,500

(d) FVTPL

Fair value

Held-for-trading

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Quoted equity securities	-	-	125,128
Quoted unit and property trust funds	-	-	14,372
	-	-	139,500

8 INVESTMENTS (CONTINUED)

(e) Carrying values of financial instruments

	HTM RM'000	AFS RM'000	FVTPL RM'000	LAR RM'000	Total RM'000
At 1 January 2010	35,704	171,390	128,203	31,402	366,699
Purchases	4,987	79,188	59,481	677	144,333
Maturities	-	(51,500)	-	(25,511)	(77,011)
Disposals	-	(12,874)	(74,661)	-	(87,535)
Fair value gains recorded in:					
Income statement	-	-	26,477	-	26,477
Other comprehensive income	-	3,109	-	-	3,109
Net change in interest receivables	60	(118)	-	(146)	(204)
Accretion of discount	-	1,305	-	-	1,305
At 31 December 2010/ 1 January 2011	40,751	190,500	139,500	6,422	377,173
Purchases	-	488,673	-	-	488,673
Maturities	-	(31,000)	-	(6,305)	(37,305)
Disposals	-	(417)	(138,283)	-	(138,700)
Fair value losses recorded in:					
Income statement	-	-	(1,217)	-	(1,217)
Other comprehensive income	-	3,372	-	-	3,372
Net change in interest receivables	1	4,576	-	(117)	4,460
Accretion of discount	3	885	-	-	888
At 31 December 2011	40,755	656,589	-	-	697,344
Transfer from ACE INA (Note 33)	-	109,239	-	-	109,239
Transfer from HTM to AFS	(40,755)	40,755	-	-	-
Purchases	-	243,810	-	-	243,810
Maturities	-	(25,000)	-	-	(25,000)
Disposals	-	(108,436)	-	-	(108,436)
Fair value losses recorded in:					
Income statement	-	(3,436)	-	-	(3,436)
Other comprehensive income	-	1,757	-	-	1,757
Reclassification to other debtors	-	(320)	-	-	(320)
Net change in interest receivables	-	1,296	-	-	1,296
Amortisation of premium	-	(1,677)	-	-	(1,677)
At 31 December 2012	-	914,577	-	-	914,577

8 INVESTMENTS (CONTINUED)

(f) Estimation of fair values

The fair values of quoted securities and unit and property trust fund are their quoted net asset values of the underlying funds as at the end of the reporting period.

The estimated fair values of corporate debts securities and Malaysian government securities are based on the average indicative mid markets prices obtained from at least three licensed financial institutions.

The fair value of the unquoted equity security in corporations was determined to approximate the carrying amount as this is immaterial in the context of the financial statements.

Fair value hierarchy

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

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

Financial instruments that are valued not based on observable market data are categorised as Level 3.

Fair value investments	31.12.2012	31.12.2011	01.01.2011
	RM'000	RM'000	RM'000
Quoted market price (Level 1)	-	-	139,500
Valuation techniques			
- market observable inputs (Level 2)	914,577	697,344	237,673
	914,577	697,344	377,173

There are no investments that are valued at Level 3.

9 REINSURANCE ASSETS

	Note	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Reinsurance of insurance contracts	16			
Claims liabilities		402,775	197,050	201,874
Premium liabilities		66,539	64,609	61,294
		469,314	261,659	263,168

10 INSURANCE RECEIVABLES

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Due premiums including agents/brokers and co-insurers balances	114,987	53,651	60,788
Due from reinsurers and cedants	37,556	11,774	7,171
	152,543	65,425	67,959
Allowance for impairment of doubtful debts	(8,910)	(13,051)	(9,282)
	143,633	52,374	58,677
Current	139,497	52,374	58,677
Non-current	4,136	-	-
	143,633	52,374	58,677

11 OTHER RECEIVABLES

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Assets held under Malaysian Motor Insurance Pool	23,045	14,467	6,594
Deposits	1,695	743	861
Other receivables	8,928	268	292
Prepayments	4	849	725
	33,672	16,327	8,472
Current	32,213	15,622	7,772
Non-current	1,459	705	700
	33,672	16,327	8,472

12 SHARE CAPITAL

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Authorised:			
150,000,000 ordinary share of RM1.00 each			
At beginning and end of financial year	150,000	150,000	150,000
Issued and paid up:			
100,000,000 ordinary share of RM1.00 each			
At beginning and end of financial year	100,000	100,000	100,000

13 RETAINED EARNINGS

Presently, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2008 in accordance with Section 39 of the Finance Act 2007. The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

The Company has sufficient Section 108 balance and balance in the tax-exempt account to frank the payment of dividends out of its entire retained profit as at 31 December 2012.

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

14 AVAILABLE-FOR-SALE FAIR VALUE RESERVES

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

15 EMPLOYEES EQUITY-SETTLED, SHARE-BASED LONG TERM INCENTIVE PLAN

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, ACE Limited ("ACE"). The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

Restricted Share Grant Plan

Under ACE's long term incentive plan, 4,271 restricted ordinary shares were awarded during the financial year ended 31 December 2012 to eligible employees of the Company with 4,457 restricted ordinary shares transferred from other ACE entities due to employee transfers during the financial year ended 31 December 2012. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by ACE to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all restricted share grants issued in the current and prior financial years, and is consistent with the treatment required by MFRS 2: Share-based payment. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of ACE's common stock at grant date, in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by ACE to the eligible employees.

Restricted Share Option Plan

Under ACE's long term incentive plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by ACE to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	31.12.2012		31.12.2011		01.01.2011	
	Average exercise price per share	Share options	Average exercise price per share	Share options	Average exercise price per share	Share options
	RM	Units	RM	Units	RM	Units
At beginning of financial year		-		-		-
Transfer from ACE INA		6,797				
Granted	224.51	3,561		-		-
Forfeited	179.26	(2,124)		-		-
Exercised	136.08	(2,089)		-		-
Transferred in	182.31	4,907		-		-
At end of financial year		11,052		-		-

15 EMPLOYEES EQUITY-SETTLED, SHARE-BASED LONG TERM INCENTIVE PLAN (CONTINUED)

Restricted Share Option Plan (continued)

Out of the 11,052 outstanding options, 4,754 options were exercisable. Options granted in 2012 resulted in 3,561 shares options being issued at exercise price of RM224.51 each. The related weighted average share price at the time of exercise was RM136.08 per share.

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

	Exercise price per share	Share options		
		31.12.2012	31.12.2011	01.01.2011
	RM	Units	Units	Units
2013	84.38	200	-	-
2015	136.14	130	-	-
2016	172.63	190	-	-
2017	171.83	110	-	-
2018	184.50	1,815	-	-
2019	117.87	856	-	-
2020	154.17	1,571	-	-
2021	191.73	3,106	-	-
2022	224.51	3,074	-	-
		11,052	-	-

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM47.07 per option. The significant inputs into the model were share price of RM224.51, at the grant date, the exercise price shown above, volatility of 30%, dividend yield of 2.67%, an expected option life of 5 years and on annual risk-free interest rate of 1.01%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee Share Purchase Plan

The Company collects monies from local eligible employees and acquires ordinary shares in ACE on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the group level by ACE and not reimbursed from the Company.

The total expenses of employees equity-settled share-based long term incentive plan for the financial year was RM360,284.

16 INSURANCE CONTRACT LIABILITIES

	31.12.2012			31.12.2011			01.01.2011		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
General insurance	1,038,365	(469,314)	569,051	672,228	(261,659)	410,569	614,254	(263,168)	351,086
Provision for claims reported by policyholders	513,882	(288,858)	225,024	384,975	(173,412)	211,563	388,182	(186,721)	201,461
Provision for incurred but not reported claims ("IBNR")	223,376	(113,917)	109,459*	77,692	(23,638)	54,054	45,408	(15,153)	30,255
Claims liabilities	737,258	(402,775)	334,483	462,667	(197,050)	265,617	433,590	(201,874)	231,716
Premium liabilities	301,107	(66,539)	234,568	209,561	(64,609)	144,952	180,664	(61,294)	119,370
	1,038,365	(469,314)	569,051	672,228	(261,659)	410,569	614,254	(263,168)	351,086

* Inclusive of RM 10,800,000 owing to Malaysian Motor Insurance Pool ("MMIP") for the portfolio withdrawal of ACE INA from the pool in 2012.

16 INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

(i) Claims liabilities

	31.12.2012			31.12.2011			01.01.2011		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
At beginning of financial year	462,667	(197,050)	265,617	433,590	(201,874)	231,716	372,388	(164,985)	207,403
Transfer from ACE INA (Note 33)	302,303	(214,721)	87,582	-	-	-	-	-	-
Increase in claims incurred/ recoveries anticipated over the financial year	388,329	(184,849)	203,480	204,582	(55,327)	149,255	229,317	(92,153)	137,164
Change in key assumptions	(58,248)	4,831	(53,417)	1,445	(1,431)	14	(5,031)	3,047	(1,984)
Claims paid during the financial year	(357,793)	189,014	(168,779)	(176,950)	61,582	(115,368)	(163,084)	52,217	(110,867)
At end of financial year	737,258	(402,775)	334,483	462,667	(197,050)	265,617	433,590	(201,874)	231,716

16 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premium liabilities

	31.12.2012			31.12.2011			01.01.2011		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
At beginning of financial year	209,561	(64,609)	144,952	180,664	(61,294)	119,370	184,213	(62,595)	121,618
Transfer from ACE INA (Note 33)	65,402	(3,451)	61,951	-	-	-	-	-	-
Premiums written in the financial year (Note 21)	762,434	(269,612)	492,822	485,191	(179,579)	305,612	434,112	(201,254)	232,858
Premiums earned during the financial year	(736,290)	271,133	(465,157)	(456,294)	176,264	(280,030)	(437,661)	202,555	(235,106)
At end of financial year	301,107	(66,539)	234,568	209,561	(64,609)	144,952	180,664	(61,294)	119,370

17 INVESTMENT CONTRACT LIABILITIES

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Investment contract liabilities	4,001	-	-
At beginning of financial year	-	-	-
Transfer from ACE INA (Note 33)	3,894	-	-
Deposits	4,956	-	-
Withdrawals	(4,849)	-	-
At end of financial year	4,001	-	-

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

18 DEFERRED TAX ASSETS/(LIABILITIES)

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
At beginning of financial year	2,086	(7,729)	(319)
Recognised in:			
Income statement (Note 27)	3,166	10,655	(6,692)
Other comprehensive income	250	(840)	(718)
At end of financial year	5,502	2,086	(7,729)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes related to the same authority. The following amounts determined after appropriate set off are shown in the statements of financial position:

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Presented after appropriate offsetting as follows:			
Deferred tax assets	5,502	2,086	-
Deferred tax liabilities	-	-	(7,729)

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

18 DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Dividend receivables RM'000	Amortisation of premium RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
31 December 2012								
Deferred tax assets (before off-setting)								
At beginning of financial year	3,263	1,872	-	-	(933)	-	356	4,558
Recognised in:								
Income statement	(1,036)	2,248	-	-	2,180	-	453	3,845
At end of financial year	2,227	4,120	-	-	1,247	-	809	8,403
Deferred tax liabilities (before off-setting)								
At beginning of financial year	-	-	(402)	(5)	-	(2,065)	-	(2,472)
Recognised in:								
Income statement	-	-	(426)	5	-	(258)	-	(679)
Other comprehensive income	-	-	-	-	-	250	-	250
At end of financial year	-	-	(828)	-	-	(2,073)	-	(2,901)
Deferred tax assets (after off-setting)								5,502

Company No.

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ACE JERNEH INSURANCE BERHAD
(formerly known as Jerneh Insurance Berhad)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

18 DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Dividend receivables RM'000	Accretion of discount RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
31 December 2011								
Deferred tax assets (before off-setting)								
At beginning of financial year	2,321	1,916	-	-	-	-	(1,740)	2,497
Recognised in:								
Income statement	942	(44)	-	-	-	-	2,096	2,994
At end of financial year	3,263	1,872	-	-	-	-	356	5,491
Deferred tax liabilities (before off-setting)								
At beginning of financial year	-	-	(299)	(5)	(1,038)	(8,884)	-	(10,226)
Recognised in:								
Income statement	-	-	(103)	-	105	7,659	-	7,661
Other comprehensive income	-	-	-	-	-	(840)	-	(840)
At end of financial year	-	-	(402)	(5)	(933)	(2,065)	-	(3,405)
Deferred tax assets (after off-setting)								2,086

18 DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Dividend receivables RM'000	Accretion of discount RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
1 January 2011								
Deferred tax assets (before off-setting)								
At beginning of financial year	2,316	1,798	-	-	-	-	-	4,114
Recognised in:								
Income statement	5	118	-	-	-	-	-	123
At end of financial year	2,321	1,916	-	-	-	-	-	4,237
Deferred tax liabilities (before off-setting)								
At beginning of financial year	-	-	(98)	(5)	(902)	(507)	(2,921)	(4,433)
Recognised in:								
Income statement	-	-	(201)	-	(136)	(7,659)	1,181	(6,815)
Other comprehensive income	-	-	-	-	-	(718)	-	(718)
At end of financial year	-	-	(299)	(5)	(1,038)	(8,884)	(1,740)	(11,966)
Deferred tax liabilities (after off-setting)								(7,729)

19 INSURANCE PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Due to agents and intermediaries*	33,629	23,697	19,996
Due to reinsurers and cedants*	55,155	41,512	44,784
	88,784	65,209	64,780

The carrying amounts disclosed above approximate fair value at the reporting date. All amounts are payable within one year.

* *Include the following balances for which the Company has not received third party statements to facilitate further reconciliation:*

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Due to brokers and co-insurers	402	2,625	2,237
Due to reinsurers and ceding companies	5,758	3,267	2,450
	6,160	5,892	4,687

20 OTHER PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Accrued liabilities	33,121	2,362	1,646
Payroll liabilities	7,044	7,483	8,632
Accrual for Insurance Guarantee Scheme Fund levy	-	1,205	1,019
Deposit held on bonds	18,621	16,077	13,016
Other payables	15,411	30,177	12,134
	74,197	57,304	36,447

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

21 NET EARNED PREMIUMS

	31.12.2012 RM'000	31.12.2011 RM'000
(a) Gross earned premiums		
General insurance contracts (Note 16(ii))	762,434	485,191
Change in premium liabilities	(26,144)	(28,897)
	736,290	456,294
(b) Premium ceded		
General insurance contracts (Note 16(ii))	(269,612)	(179,579)
Change in premium liabilities	(1,521)	3,315
	(271,133)	(176,264)
Net earned premium	465,157	280,030

22 INVESTMENT INCOME

	31.12.2012 RM'000	31.12.2011 RM'000
Rental income from investment property	1,480	2,071
Parking income from investment property	139	191
FVTPL – held for trading purposes		
Dividend income		
- equity securities quoted in Malaysia	-	836
HTM interest income	-	1,828
AFS		
Interest income	34,232	14,671
Dividend income		
- equity securities quoted in Malaysia	99	330
Loans and receivables and cash and cash equivalents		
Interest income	3,924	9,162
Accretion of discounts net of amortisation of premiums	(1,677)	888
Other investment income	799	-
	38,996	29,977

23 REALISED GAINS (NET)

	31.12.2012 RM'000	31.12.2011 RM'000
Property and equipment:		
Realised gains	44	211
AFS		
Realised gains:		
Debt securities - Unquoted in Malaysia	2,757	12
Foreign exchange:		
Realised losses	(789)	-
	2,012	223

24 FAIR VALUE LOSSES

	31.12.2012 RM'000	31.12.2011 RM'000
Financial investments - AFS	(3,436)	(1,217)

25 COMMISSION INCOME

	31.12.2012 RM'000	31.12.2011 RM'000
Commission income related to insurance contracts	60,128	34,206

26 MANAGEMENT EXPENSES

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Employee benefits expense	26(a)	56,246	35,061
Directors' remuneration	26(b)	629	240
Auditors' remuneration		358	239
Depreciation of property and equipment	5	2,242	1,682
Direct operating expenses of investment property	6		
- Depreciation of investment property		-	339
- Other income-generating		988	1,566
Rental of office		2,351	808
Amortisation of intangible assets	7	934	221
Lease rental of equipment		819	624
EDP expenses		20,213	-
(Decrease)/increase in allowance for impairment of doubtful debts		(4,927)	3,769
Bad debts written off		1,944	225
Advertising		7,173	2,674
Printing and stationery		4,071	2,521
Electricity and water		1,332	661
Postage and telephone		2,352	947
Other expenses		35,007	24,001
		131,732	75,578

	31.12.2012 RM'000	31.12.2011 RM'000
(a) Employee Benefits Expense		
Wages and salaries	37,964	20,195
Social security contributions	340	209
Contributions to defined contribution plan, Employees Provident Fund ("EPF")	6,474	4,471
Other benefits	11,468	10,186
	56,246	35,061

26 MANAGEMENT EXPENSES (CONTINUED)

	31.12.2012 RM'000	31.12.2011 RM'000
(b) Directors' Remuneration		
Executive Director:		
- Salary and bonus	368	-
- Other emoluments	133	-
- Employees equity-settled share-based plan	194	-
	695	-
Non-executive Directors:		
- Fees	629	240
Directors' remuneration	1,324	240

Total staff costs of the Company (including Executive Director) are RM56,246,000 (2011:RM35,061,000).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM1,512,000 (2011: RM1,127,000).

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

The compensation of the key management personnel including Executive Director are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Salary and bonus	4,409	945
Benefits-in-kind and other remunerations	2,290	182
	6,699	1,127

27 TAXATION

	31.12.2012 RM'000	31.12.2011 RM'000
Current income tax:		
Malaysian income tax	45,501	25,570
(Over)/under-provision in prior financial years	(285)	1,616
	45,216	27,186
Deferred tax (Note 18):		
Relating to origination and reversal of temporary differences	(1,883)	(7,972)
Over-provision in prior financial years	(1,283)	(2,683)
	(3,166)	(10,655)
	42,050	16,531

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

	31.12.2012 RM'000	31.12.2011 RM'000
Profit before tax	173,091	60,821
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	43,273	15,205
Arising from the transfer of business from ACE INA	1,071	-
Income not subject to tax	(1,317)	(2,116)
Expenses not deductible for tax purposes	591	4,509
Over-provision in prior financial years	(1,568)	(1,067)
Tax expense for the financial year	42,050	16,531

28 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	31.12.2012 RM'000	31.12.2011 RM'000
Profit attributable to ordinary equity holders	131,041	44,290
Weighted average number of shares in issue	100,000	100,000
Basic earnings per share (sen)	131.04	44.29

29 CASH FLOWS

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Profit before tax		173,091	60,821
Investment income		(38,996)	(29,977)
Realised gains recorded in income statement	23	(1,968)	(12)
Fair value loss recorded in income statement	8(e)	3,436	1,217
Depreciation of property and equipment		2,242	1,682
Depreciation of investment property		-	339
Amortisation of intangible assets		934	221
Gain on disposal of property and equipment	23	(44)	(211)
(Decrease)/increase in allowance for impairment of doubtful debts		(4,927)	3,769
Bad debts written off		1,944	225
Employees share-based long term incentive plan		360	-
Changes in working capital:			
(Increase)/decrease in reinsurance assets		(207,655)	1,509
(Increase)/decrease in insurance receivables		(88,276)	2,309
Increase in other receivables		(16,325)	(8,283)
Increase in insurance contract liabilities		366,137	57,974
Increase in insurance payables		23,575	429
Increase other payables		17,898	23,796
Decrease in FVTPL investments		-	138,283
Net increase in AFS investments		(219,613)	(457,256)
Decrease in LAR		-	6,305
Increase in investment contract liabilities		4,001	-
Cash generated from/(used in) operating activities		15,814	(196,860)

30 OPERATING LEASE COMMITMENTS

(a) The Company as lessee

The Company leases premises from various parties under non-cancellable operating leases. The leases typically run for a period of 2 to 6 years with the option to renew the leases after the expiry date.

The future minimum lease payments payable under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Within one year	1,669	249
Later than one year but not later than 6 years	977	1,057
	2,646	1,306

(b) The Company as lessor

The Company ceased to lease out its investment property under operating leases during the financial year.

The future minimum lease payments receivable under operating leases contracted for as at the reporting date but not recognised as assets are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Within one year	-	2,073

31 RELATED PARTY BALANCES AND TRANSACTIONS

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

Company	Country of incorporation	Relationship
ACE Limited	Switzerland	Ultimate holding company
ACE INA International Holdings Ltd	United States	Immediate holding company

In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with its ultimate holding company and related companies, being subsidiaries of ACE Limited ("ACE Group").

The related party balances as at the date of the statement of financial position and significant related party transactions arising from normal business transactions during the financial year are set out below.

Significant related party outstanding balances:

ACE Group

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Reinsurance assets on claim liabilities	119,905	-	-
Insurance receivables	9,800	27	113
Other receivables	519	-	-
Insurance payables	(2,774)	(121)	(65)
Other payables	(15,331)	-	-

Significant related party transactions:

	31.12.2012 RM'000	31.12.2011 RM'000
ACE Group:		
Premium income	26,471	939
Premium ceded	(85,899)	1,378
Commission income	21,922	244
Commission expenses	(1,689)	144
Claims recoveries	88,210	762
Claims incurred	(48,328)	44
Accounting and administration services	144	-
EDP system charges	(2,281)	-
Accounting services	(21)	-
Management fees	(2,038)	-
Royalty	(5,871)	-
Various technical support	(13,118)	-

32 RISK MANAGEMENT FRAMEWORK

The Company recognises that the importance of effective risk management practices and embedding risk culture within the Company and therefore it is the commitment of the Company to integrate Enterprise Risk Management ("ERM") into strategic planning and decision making.

(a) Risk Appetite

Risk appetite outlines the degree of risk the Company is willing to assume in pursuit of its strategic objectives against the capital exposed to the risk. The risk appetite is formulated by the Board and is reviewed annually. This risk appetite articulates the risks, controls and returns for material exposures. The Company in general has a conservative risk appetite with prudent Risk Management Framework ("RMF") in place.

(b) Risk Management Framework

The Company's RMF describes the role of ERM and helps the Company to achieve its business objectives, meet its corporate obligations and at the same time maintain the Company's reputation.

The RMF puts in place a structure and a process to mitigate risks as they are identified or emerged by assessing them against the Company's established appetite and tolerance levels, thus helping to protect and maintaining the capital in the interests of all key stakeholders.

(c) Risk Governance and Oversight

The responsibility and oversight of ERM rests with the Board of Directors ("Board"), with the Enterprise Risk Committee ("ERC") responsible for oversight, policy development, execution and maintaining the appropriate infrastructure. Primary ownership for the daily execution of risk management and controls rests with the business and operating units.

The Board has ultimate risk management responsibility and is also responsible for providing overall Company's direction, strategy, setting financial objectives and for monitoring compliance with regulatory requirements and ethical standards. ACE's Board has a specific charter setting out its duties and responsibilities. In discharging responsibility for overall risk management and control, the Board delegates a number of key functions to the Board Risk Management Committee ("BRMC").

The ERC is charged with the responsibility of monitoring, assessing and reporting on risk related activities and meets at least once a quarter and reports to the BRMC through the Chief Risk Officer ("CRO"). Its objective is to establish, maintain and monitor compliance within a sound risk management framework that integrates risk management into all activities of the business. Its role is to provide advice and assistance including submitting recommendations to the Board on risk management.

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(d) Capital Management and Capital Adequacy

Prudent capital management is the foundation for ensuring the Company is able to fulfil its financial obligations to its shareholders, policyholders, regulators and other key stakeholders. The Board is ultimately responsible for determining that the Company's capital is adequate after taking into account of the Company's strategic objectives, size and the complexity of its business.

The Company has separately documented its Internal Capital Adequacy Assessment Process ("ICAAP") to ensure that the capital held is adequate based on the Company's risk profile, business mix and complexity of operations. ICAAP outlines the procedures, systems, controls and personnel to identify, measure, monitor and manage the risks arising from capital related activities of the Company. Risk and Capital Management are inter-connected and closely aligned. Capital adequacy assessments and stress tests are conducted on a continual basis to ensure that sufficient capital is held to meet the minimum regulatory requirement with an additional buffer to withstand a range of adverse or extreme risk event scenarios.

(e) Major Risks

The Company considers insurance risk, financial risks, market risks and operation risks as its major risks.

1 Insurance Risk

The Company has in place underwriting guidelines which ensure that underwriting risk undertaken adhere to proper control procedures, the Company may be exposed to potential financial liabilities resulting from incurring higher claims cost than expected.

This is due to the random nature of claims and their unpredictable frequency and severity and the risk of change in legal or economic conditions affecting insurance pricing and conditions of insurance or reinsurance cover.

The underwriting and claims monitoring programme incorporates standards for underwriting procedures, policy retention limits, use of reinsurance and the setting of claims reserves. Underwriting standards are established to manage the initial insurability of customers. Renewal underwriting standards are in place for business that renews on a periodic basis.

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.1 Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other reinsurers/insurers. Reinsurance does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. In order to minimise losses from reinsurance insolvencies, the Company's reinsurance arrangement is in line with BNM's JPI/GPI 22 on "Guidelines on General Reinsurance Arrangement".

1.2 Concentration risk

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

	31.12.2012			31.12.2011		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
Fire	149,912	(72,061)	77,851	104,644	(53,849)	50,795
Motor	183,152	(11,876)	171,276	152,183	(9,764)	142,419
Marine, aviation and transit	131,184	(78,343)	52,841	109,774	(79,161)	30,613
Miscellaneous	298,186	(107,332)	190,854	118,590	(36,805)	81,785
	762,434	(269,612)	492,822	485,191	(179,579)	305,612

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

	31.12.2012			31.12.2011		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
Fire	188,672	(153,843)	34,829	106,114	(76,145)	29,969
Motor	188,041	(5,302)	182,739	164,748	(5,894)	158,854
Marine, aviation and transit	175,647	(141,195)	34,452	73,964	(49,722)	24,242
Miscellaneous	184,898	(102,435)	82,463	117,841	(65,289)	52,552
	737,258	(402,775)	334,483	462,667	(197,050)	265,617

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.3 Basis of estimates

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

Allowance were made for "pure IBNR" (late reported claims) and Incurred But Not Enough Reported ("IBNER") (development of known claims) and reopened claims as well as expected future claims inflations.

The Company has based its risk margin for adverse deviation for the provision for unexpired risks and insurance contract liabilities at a minimum 75% of sufficiency, according to the requirement set by BNM under the RBC Framework.

1.4 Key assumptions

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

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

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

1.5 Sensitivity analysis

The analysis below is performance for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

There are no significant changes to the key assumptions used except that the Company has not applied discounting to the general insurance claims liabilities for the current financial year. The effect of this change in assumption is disclosed in Note 16(i) to the financial statements.

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.5 Sensitivity analysis (continued)

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity # RM'000
31 December 2012					
Ultimate loss ratio for the latest accident year	+10%	42,165	25,226	25,226	18,920
Average claims handling expenses	+10%	2,147	1,326	1,326	994
PRAD*	+10%	6,390	2,887	2,887	2,165
31 December 2011					
Ultimate loss ratio for the latest accident year	+10%	52,451	33,599	30,239	22,679
Average claim settlement term	-10%	1,816	1,202	1,082	811
Average claims handling expenses	+10%	1,158	1,158	1,042	782
PRAD*	+10%	4,482	2,300	2,070	1,553

Impact on equity reflects adjustments for tax, when applicable.
* Provision for Risk of Adverse Deviation

1.6 Claims development table

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

The table provides a historical perspective on the adequacy of the unpaid claims estimates established in previous years. The Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserve when there is considerable uncertainty. Generally, the uncertainty associated with ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence of adequacy of provision is relatively at its highest.

The Company believes that the estimate of the total claims outstanding as at 31 December 2012 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Gross estimated general insurance contract liabilities for 2012

Accident year	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000
At end of accident year	208,797	255,328	214,218	244,368	254,245	341,434	517,686	398,457
One year later	189,503	238,814	214,103	243,807	238,182	337,476	576,361	
Two years later	171,372	235,206	209,606	241,423	228,998	302,276		
Three years later	165,486	226,604	207,680	225,877	208,091			
Four years later	164,290	221,758	198,532	198,235				
Five years later	162,418	217,038	188,392					
Six years later	156,292	205,090						
Seven years later	154,177							
Current estimate of cumulative claims incurred	154,177	205,090	188,392	198,235	208,091	302,276	576,361	398,457
At end of accident year	(55,900)	(103,600)	(65,479)	(75,407)	(81,064)	(84,613)	(150,885)	(71,742)
One year later	(113,304)	(169,874)	(135,121)	(151,454)	(156,464)	(188,536)	(370,422)	
Two years later	(131,582)	(185,936)	(152,506)	(174,802)	(178,256)	(233,135)		
Three years later	(138,021)	(193,326)	(165,071)	(188,310)	(191,357)			
Four years later	(144,748)	(198,488)	(170,476)	(189,794)				
Five years later	(147,243)	(201,340)	(172,381)					
Six years later	(148,268)	(202,395)						
Seven years later	(150,039)							
Cumulative payments to-date	(150,039)	(202,395)	(172,381)	(189,794)	(191,357)	(233,135)	(370,422)	(71,742)

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Gross estimated general insurance contract liabilities for 2012 (continued)

Accident year	Prior years	2005	2006	2007	2008	2009	2010	2011	2012	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Outstanding claims	3,950	4,138	2,695	16,011	8,441	16,734	69,141	205,939	326,715	653,764
Claims handling expenses										19,596
Total gross central estimate										673,360
Risk margin										63,898
Gross insurance contract liabilities per statement of financial position (Note 16(i))										737,258

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Gross estimated general insurance contract liabilities for 2011

Accident year	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000
At end of accident year	169,339	203,265	152,295	189,506	197,992	248,869	230,014
One year later	157,857	192,271	145,831	192,053	182,702	254,927	
Two years later	141,981	189,583	145,529	189,892	174,537		
Three years later	135,408	183,098	141,966	175,643			
Four years later	132,915	178,251	133,130				
Five years later	131,273	172,987					
Six years later	125,532						
Current estimate of ultimate claims	125,532	172,987	133,130	175,643	174,537	254,927	230,014
At end of accident year	(46,745)	(85,015)	(47,871)	(56,808)	(61,076)	(61,703)	(60,683)
One year later	(94,131)	(137,114)	(94,489)	(115,195)	(120,944)	(140,221)	
Two years later	(110,516)	(147,436)	(105,841)	(130,553)	(137,713)		
Three years later	(113,934)	(152,686)	(115,619)	(141,264)			
Four years later	(118,754)	(157,009)	(119,609)				
Five years later	(120,460)	(158,592)					
Six years later	(120,723)						
Cumulative payments to-date	(120,723)	(158,592)	(119,609)	(141,264)	(137,713)	(140,221)	(60,683)

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Gross estimated general insurance contract liabilities for 2011 (continued)

Accident year	Prior years RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
Best estimate of outstanding claims	11,411	4,809	14,395	13,521	34,379	36,824	114,706	169,331	399,376
Discounting	(495)	(208)	(624)	(586)	(1,491)	(1,597)	(4,973)	(7,122)	(17,096)
Claims handling expenses	319	135	403	378	962	1,030	3,208	4,594	11,029
Treaty inwards business									24,533
PRAD									44,825
Gross estimated general insurance contract liabilities (Note 16(i))									462,667

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.8 Net estimated general insurance contract liabilities for 2012

Accident year	Prior years	2005	2006	2007	2008	2009	2010	2011	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		120,112	152,292	145,066	153,697	170,462	196,025	208,442	244,587
One year later		112,454	143,398	139,502	154,073	167,583	191,010	197,134	
Two years later		108,075	139,190	136,854	152,329	165,593	176,458		
Three years later		104,427	135,066	137,437	143,456	147,629			
Four years later		105,349	133,745	131,883	135,874				
Five years later		104,532	130,984	126,178					
Six years later		100,648	124,255						
Seven years later		100,049							
Current estimate of cumulative claims incurred		100,049	124,255	126,178	135,874	147,629	176,458	197,134	244,587
At end of accident year		(42,367)	(56,604)	(52,767)	(60,193)	(63,430)	(66,631)	(64,932)	(62,070)
One year later		(80,197)	(101,477)	(100,071)	(109,081)	(113,093)	(123,660)	(138,241)	
Two years later;		(86,809)	(110,988)	(109,507)	(122,045)	(130,067)	(144,316)		
Three years later		(90,256)	(116,169)	(117,841)	(129,401)	(139,245)			
Four years later		(94,990)	(120,448)	(121,762)	(131,283)				
Five years later		(96,894)	(122,512)	(123,127)					
Six years later		(97,729)	(122,929)						
Seven years later		(99,169)							
Cumulative payments to-date		(99,169)	(122,929)	(123,127)	(131,283)	(139,245)	(144,316)	(138,241)	(62,070)

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.8 Net estimated general insurance contract liabilities for 2012 (continued)

Accident year	Prior years	2005	2006	2007	2008	2009	2010	2011	2012	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Outstanding claims	1,711	880	1,326	3,051	4,591	8,384	32,142	58,893	182,517	293,495
Claims handling expenses										12,120
Total net central estimate										305,615
Risk margin										28,868
Net insurance contract liabilities per statement of financial position (Note 16(i))										334,483

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.8 Net estimated general insurance contract liabilities for 2011

Accident year	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year	98,555	116,779	106,601	116,359	128,707	138,471	153,395	
One year later	94,486	110,864	102,225	117,222	126,123	135,884		
Two years later	91,006	106,493	101,041	116,013	122,617			
Three years later	86,927	103,478	101,068	107,677				
Four years later	86,850	101,908	95,873					
Five years later	86,237	98,803						
Six years later	82,394							
Current estimate of ultimate claims	82,394	98,803	95,873	107,677	122,617	135,884	153,395	
At end of accident year	(35,756)	(41,898)	(38,473)	(45,671)	(46,351)	(46,347)	(79,767)	
One year later	(66,160)	(75,938)	(71,279)	(82,121)	(84,892)	(90,892)		
Two years later;	(71,936)	(82,563)	(78,551)	(91,218)	(87,901)			
Three years later	(74,025)	(86,163)	(85,174)	(96,169)				
Four years later	(78,070)	(89,948)	(97,477)					
Five years later	(79,468)	(88,736)						
Six years later	(47,443)							
Cumulative payments to-date	(47,443)	(88,736)	(97,477)	(96,169)	(87,901)	(90,892)	(79,767)	

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.8 Net estimated general insurance contract liabilities for 2011 (continued)

Accident year	Before 2005 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
Best estimate of outstanding claims	5,008	34,951	10,067	(1,604)	11,866	34,788	45,801	77,441	218,318
Discounting	(269)	(1,876)	(540)	86	(618)	(1,863)	(2,415)	(3,952)	(11,447)
Claims handling expenses	259	1,808	521	(83)	595	1,795	2,327	3,808	11,030
Treaty inwards business									24,715
PRAD									23,001
Net estimated general insurance liabilities (Note 16(i))									265,617

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk

The Board recognises the Company's exposure to business, economic and financial risks and the need to develop and implement measures to mitigate the risks identified as having potentially adverse impact on the Company's operations and impairment of its financial strength. The Board has assumed the primary responsibility of developing and implementing the Company's risk management program by evaluating, managing and monitoring the principal risks.

2.1 Credit risk

Credit risk is the risk of financial loss resulting from a failure of a debtor to honour its obligations to the Company.

The Company manages its credit risk in respect of receivables by establishing defined tolerance on credit period, putting in place collection procedures and rigorously monitoring its credit portfolio.

In terms of exposures to debt securities, the Company maintains a diversified portfolio of investments in government guaranteed and minimum A-rated financial instruments issued by companies with strong credit ratings.

The table below summarise the maximum credit risk exposure for the financial assets of the Company at the date of statement of financial position.

Credit exposure

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

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
HTM	-	40,755	40,751
LAR	-	-	6,422
AFS	914,577	656,589	190,500
FVTPL	-	-	139,500
Reinsurance assets	469,314	261,659	263,168
Insurance receivables	143,633	52,374	58,677
Other receivables	10,623	1,011	1,153
Cash and cash equivalents	147,726	138,215	333,293
	1,685,873	1,150,603	1,033,464

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

Credit exposure by credit rating

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

	Neither past-due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
31 December 2012			
AFS	914,577	-	914,577
Reinsurance assets	469,314	-	469,314
Insurance receivables	6,994	136,639	143,633
Other receivables	10,623	-	10,623
Cash and bank balances	147,726	-	147,726
	1,549,234	136,639	1,685,873
31 December 2011			
HTM	40,755	-	40,755
AFS	656,589	-	656,589
Reinsurance assets	261,659	-	261,659
Insurance receivables	6,754	45,620	52,374
Other receivables	1,011	-	1,011
Cash and bank balances	138,215	-	138,215
	1,104,983	45,620	1,150,603

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
1 January 2011			
HTM	40,751	-	40,751
LAR	6,422	-	6,422
AFS	190,500	-	190,500
FVTPL	139,500	-	139,500
Reinsurance assets	263,168	-	263,168
Insurance receivables	12,674	46,003	58,677
Other receivables	1,153	-	1,153
Cash and bank balances	333,293	-	333,293
	987,461	46,003	1,033,464

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

Age analysis of financial assets past due but not impaired:

31 December 2012	<60 days	61-180 days	>180 days	Total
Insurance receivables	82,113	37,878	16,648	136,639
31 December 2011				
Insurance receivables	25,236	19,851	533	45,620
1 January 2011				
Insurance receivables	23,807	21,810	386	46,003

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Standard & Poor's Financial Services LLC ("S&P"), Rating Agency of Malaysia's (RAM) or Malaysian Rating Corporation Berhad's (MARC) credit rating of counterparties. AAA is the highest possible rating.

	Government Guaranteed RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
31 December 2012							
AFS	550,268	151,411	200,734	11,789	-	-	914,202
Reinsurance assets - Claims reinsurance	-	-	129,186	69,446	-	204,143	402,775
Insurance receivables	-	-	6,867	1,521	-	135,245	143,633
Other receivables	-	-	-	-	-	10,623	10,623
Cash and bank balances	-	57,079	10,270	80,338	-	39	147,726
	550,268	208,490	347,057	163,094	-	350,050	1,618,959

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

	Government Guaranteed RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
31 December 2011							
HTM	-	30,334	10,101	-	-	320	40,755
AFS	490,336	48,356	113,360	4,162	-	-	656,214
Reinsurance assets - Claims reinsurance	-	-	35,064	106,673	-	55,313	197,050
Insurance receivables	-	-	10	219	-	52,145	52,374
Other receivables	-	-	-	-	-	1,011	1,011
Cash and bank balances	-	51,557	31,745	54,211	-	702	138,215
	490,336	130,247	190,280	165,265	-	109,491	1,085,619
1 January 2011							
HTM	-	30,333	10,098	-	-	320	40,751
LAR	-	683	1,935	3,804	-	-	6,422
AFS	18,469	53,370	108,406	9,488	392	-	190,125
Reinsurance assets - Claims reinsurance	-	-	33,433	106,045	1	62,396	201,875
Insurance receivables	-	-	1	149	-	58,527	58,677
Other receivables	-	-	-	-	-	1,153	1,153
Cash and bank balances	-	108,876	73,989	148,017	-	2,411	333,293
	18,469	193,262	227,862	267,503	393	124,807	832,296

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

Impaired financial assets

As at 31 December 2012, insurance receivables of RM8,910,000 (2011: RM13,051,000) were impaired based on individual and collective assessment. An insurance receivable is considered as individually impaired if the counterparty is in the process of liquidation, legal actions has been taken to recover the outstanding balance dispute, default or delinquency in payment. Insurance receivables with insignificant balances are grouped together and assessed collectively based on past payment trends.

The Company records impairment allowance for insurance receivables in a separate allowance account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	Note	31.12.2012	31.12.2011	01.01.2011
		RM'000	RM'000	RM'000
At 1 January		13,051	9,282	9,886
Transfer from ACE INA	33	786	-	-
(Reversal)/charge for the financial year	26	(4,927)	3,769	-
Recoveries	26	-	-	(604)
At 31 December		8,910	13,051	9,282

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

In addition, the Company has impaired RM3,436,000 (2011: Nil) from its investment in debts securities in accordance to the Company's accounting policy as disclosed in Note 3(g)(iv) and 3(g)(v).

2.2 Liquidity risk

Liquidity risk arises when the Company does not have the availability of funds to honour all cash outflow commitments as they fall due.

The Company's principal liquidity objective is to ensure that funds are available to meet its insurance and reinsurance obligations. Management utilises monthly cash flow reporting and forecasting to identify known, expected and potential cash outflows to determine an appropriate operating liquidity to cover expected and potential payments.

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles

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

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

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

Premium liabilities and the reinsurers' share of premium liabilities have been excluded from the analysis as they do not have any contractual obligations.

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2012								
Financial instruments:								
AFS	914,577	57,539	503,808	256,085	226,619	14,030	375	1,058,456
Reinsurance assets								
– claims liabilities	402,775	214,424	134,726	41,363	12,262	-	-	402,775
Insurance receivables	143,633	143,633	-	-	-	-	-	143,633
Other receivables	33,672	33,672	-	-	-	-	-	33,672
Cash and bank balances	147,726	147,726	-	-	-	-	-	147,726
Total assets	1,642,383	596,994	638,534	297,448	238,881	14,030	375	1,786,262

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

31 December 2012	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
Insurance contract liabilities								
– claims liabilities	737,258	401,038	240,023	74,860	21,337	-	-	737,258
Insurance payables	88,017	88,017	-	-	-	-	-	88,017
Other payables	74,965	74,965	-	-	-	-	-	74,965
Total liabilities	900,240	564,020	240,023	74,860	21,337	-	-	900,240

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2011								
Financial instruments:								
HTM	40,755	5,178	16,386	-	29,136	-	-	50,700
AFS	656,589	30,752	428,314	192,690	118,911	14,030	375	785,072
Reinsurance assets	197,050	136,842	51,640	11,489	2,729	-	-	202,700
Insurance receivables	52,374	52,374	-	-	-	-	-	52,374
Other receivables	16,327	16,327	-	-	-	-	-	16,327
Cash and bank balances	138,215	138,215	-	-	-	-	-	138,215
Total assets	1,101,310	379,688	496,340	204,179	150,776	14,030	375	1,245,388

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

31 December 2011	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
Claims liabilities	462,667	277,199	128,264	46,925	22,323	-	-	474,711
Insurance payables	64,875	64,875	-	-	-	-	-	64,875
Other payables	57,638	57,638	-	-	-	-	-	57,638
Total liabilities	585,180	399,712	128,264	46,925	22,323	-	-	597,224

Company No.

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ACE JERNEH INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
1 January 2011								
Financial instruments:								
HTM	40,751	-	16,364	6,039	30,124	-	-	52,527
LAR	6,422	6,305	-	-	-	-	-	6,305
AFS	190,500	33,000	54,450	85,986	89,996	14,030	-	277,462
FVTPL	139,500	-	-	-	-	-	139,500	139,500
Reinsurance assets	201,874	101,980	87,027	16,182	4,123	-	-	209,312
Insurance receivables	58,677	58,677	-	-	-	-	-	58,677
Other receivables	8,472	8,472	-	-	-	-	-	8,472
Cash and bank balances	333,293	333,293	-	-	-	-	-	333,293
Total assets	979,489	541,727	157,841	108,207	124,243	14,030	139,500	1,085,548

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
1 January 2011								
Claims liabilities	443,590	195,189	176,494	52,649	30,940	-	-	455,272
Insurance payables	64,127	64,127	-	-	-	-	-	64,127
Other payables	37,100	30,573	5,215	1,312	-	-	-	37,100
Total liabilities	544,817	289,889	181,709	53,961	30,940	-	-	556,499

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

3 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk, namely foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

3.1 Foreign currency risk

Foreign exchange risk is the exposure of a company's financial strength to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a reduction in measures of financial strength.

The Company transacts in minimal selected currencies and monitors corresponding assets and liabilities created at transaction level to ensure optimal currency positions.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). Its exposure to foreign exchange risk is minimum and mainly arises principally with respect to United State Dollar ("USD"), Australian Dollar ("AUD"), New Zealand Dollar ("NZD") and Singapore Dollar ("SGD").

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Insurance Act, 1996, and hence, primarily denominated in the local currency as its insurance contract liabilities.

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

As the Company's main foreign exchange risk from recognised assets and liabilities arises from reinsurance inward and outward transactions for which the balances are expected to be settled and realised in less than a year, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

3 Market Risk (continued)

3.2 Interest rate risk

Interest rate risk refers to the effect of interest rate changes on the market value of a fixed income portfolio. In the event of rising interest rates, prices of fixed income securities will decrease and vice versa. Fixed income securities with longer maturity and lower coupon rate rates are usually more sensitive to interest rate changes.

The Company is exposed to interest rate risk through investment in fixed income securities and money market placements with the financial institutions. Investment of fixed income securities are managed internally, aided by an appointed investment advisor which is a licensed fund manager. Interest rate risk is managed via management and monitoring of the portfolio duration positioning is done by the investment advisor.

Sensitivity analysis below illustrates impact of 100bps increase/decrease in Interest rate to investment value based on portfolio holdings as of 31 December 2012, holding other variables constant. Note that the sensitivity analysis assumes the following:

1) Money market rates are adjusted to the same quantum of any change in interest rate movement. This refers to money market placements with financial institutions.

2) Parallel shift in yields in the same quantum of any change in interest rate movement. This refers to investment in fixed income securities.

		31.12.2012		31.12.2011	
	Variable charges	Impact on income statement RM'000	Impact on equity* after tax adjustment RM'000	Impact on income statement RM'000	Impact on equity* after tax adjustment RM'000
Interest rate	+100 basis points	-	(19,481)	-	(15,401)
Interest rate	-100 basis points	-	19,481	-	15,401

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

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

3 Market Risk (continued)

3.3 Price risk

Equity price risk refers to risk of a decline in the value of a security. Securities may decline in value due to factors affecting equity market generally, the particular industries of the securities or factors directly related to the specific securities, such as management performance and financial positions. Price risk specific to a stock can be mitigated through diversification in general.

The Company is exposed to equity price risk arising from investment held by the Company and classified in the statement of financial position as available-for-sale financial assets that mainly consists of quoted equities in Bursa Malaysia amounting to RM375,000 (2011:RM375,000).

As the Company's portfolio of investments in quoted equities is insignificant, the impact arising from sensitivity in equity price risk is deemed minimal.

4 Operational Risk

Operational risk is the risk of loss arising from system failure, human errors, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access control, authorisation and reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit.

Business risks, such as, changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

Capital structure

The capital structure of the Company as at 31 December 2012, as prescribed under the RBC Framework is provided below:

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Eligible Tier 1 Capital:			
Share capital	100,000	100,000	100,000
Retained earnings	425,697	294,656	250,366
	525,697	394,656	350,366
Tier 2 Capital:			
Available-for-sale fair value reserves	6,218	6,195	3,675
Equity reserve	1,381	-	-
Amount deducted from capital	(7,069)	(2,306)	-
Total capital available	526,227	398,545	354,041

33 BUSINESS COMBINATION

On 4 January 2012, ACE INA transferred its general insurance business to the Company in accordance with a Scheme of Transfer made pursuant to Section 129 of the Insurance Act 1996, which was approved by Bank Negara Malaysia and confirmed by the High Court of Malaya. The net liabilities of ACE INA that were transferred at book value are as follows:

	Book value
	RM'000
Plant and equipment (Note 5)	3,139
Intangible assets (Note 7)	2,149
Investments (Note 8(e))	109,239
Reinsurance assets (Note 16(i), (ii))	218,172
Insurance receivables (net of allowance for impairment on doubtful debts of RM786,000)	34,922
Other receivables	15,871
Cash and bank balances	3,602
Insurance contract liabilities (Note 16(i), (ii))	(367,705)
Investment contract liabilities (Note 17)	(3,894)
Insurance payables	(16,234)
Other payables	(4,588)
Equity reserve	(1,021)
Available-for-sale reserve	(773)
Net liabilities transferred to ACE Jerneh	(7,121)*

* Outstanding balance that will be settled via intercompany balances.

34 AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 25 March 2013 by the Board of Directors.