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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)

**REPORTS AND STATUTORY FINANCIAL STATEMENTS**

31 DECEMBER 2012

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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:

Resigned on 21 June 2012

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

Appointed on 24 May 2012

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

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

**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.

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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)

The Nominating Committee comprises of five Directors:

Resigned on 24 May 2012

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

Appointed on 24 May 2012

YBhg Tan Sri Leo Moggie (Chairman)  
Dato' Sri Abdul Hamidy Bin Abdul Hafiz  
Song Yam Lim  
Stephen Barry Crouch  
Daniel Andrew Albert Vanderkemp

Remuneration Committee

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:

Resigned on 24 May 2012

Ahmad Riza Bin Basir (Chairman)  
Damien Francis Sullivan  
Jarrod Kevin Hill

Appointed on 24 May 2012

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.

|   | Board of Directors     | <u>Meetings of Committees</u> |                        |                        |                        |
|---|------------------------|-------------------------------|------------------------|------------------------|------------------------|
|   |                        | Audit                         | Nominating             | Remuneration           | Risk Management        |
| Number of meetings held during the financial year | 6                      | 4                             | 2                      | 1                      | 4                      |
|   | <u>Number attended</u> | <u>Number attended</u>        | <u>Number attended</u> | <u>Number attended</u> | <u>Number attended</u> |
| 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.

**ACE JERNEH INSURANCE BERHAD**  
(Incorporated in Malaysia)

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

**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.



ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

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

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.

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

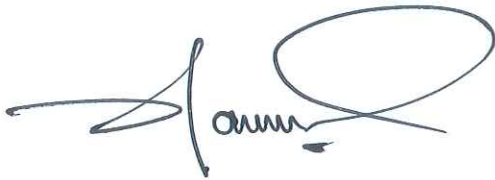
ULTIMATE HOLDING COMPANY

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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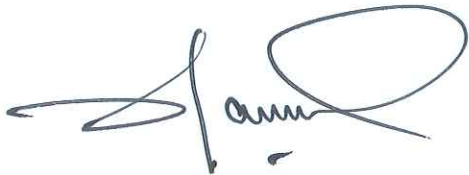
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**ACE JERNEH INSURANCE BERHAD**  
(Incorporated in Malaysia)

**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.

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**ACE JERNEH INSURANCE BERHAD**  
(Incorporated in Malaysia)

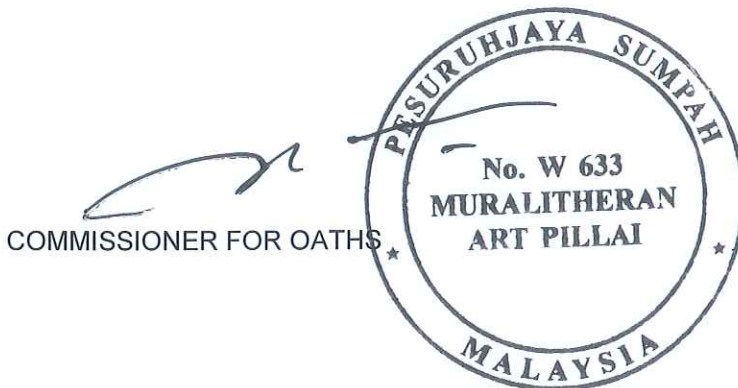
**STATUTORY DECLARATION**

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.



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.



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  
(No. AF: 1146)  
Chartered Accountants

SRIDHARAN NAIR  
(No. 2656/05/14 (J))  
Chartered Accountant

Kuala Lumpur  
25 March 2013



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**ACE JERNEH INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

|   | <u>Note</u> | <u>31.12.2012</u>       | <u>31.12.2011</u>       | <u>01.01.2011</u>       |
|---|-------------|-------------------------|-------------------------|-------------------------|
|   |             | RM'000                  | RM'000                  | RM'000                  |
| <b>ASSETS</b>                               |             |                         |                         |                         |
| 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                 |
| <b>Total assets</b>                         |             | <u><u>1,759,002</u></u> | <u><u>1,208,903</u></u> | <u><u>1,082,180</u></u> |
| <b>EQUITY AND LIABILITIES</b>               |             |                         |                         |                         |
| 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                   | -                       | -                       |
| <b>Total equity</b>                         |             | <u><u>533,296</u></u>   | <u><u>400,851</u></u>   | <u><u>354,041</u></u>   |
| 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                  |
| <b>Total liabilities</b>                    |             | <u><u>1,225,706</u></u> | <u><u>808,052</u></u>   | <u><u>728,139</u></u>   |
| <b>Total equity and liabilities</b>         |             | <u><u>1,759,002</u></u> | <u><u>1,208,903</u></u> | <u><u>1,082,180</u></u> |

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

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ACE JERNEH INSURANCE BERHAD  
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INCOME STATEMENT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

|  | <u>Note</u> | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|--|-------------|-----------------------------|-----------------------------|
| Gross earned premiums                              | 21(a)       | 736,290                     | 456,294                     |
| Premiums ceded to reinsurers                       | 21(b)       | (271,133)                   | (176,264)                   |
| Net earned premiums                                |             | <u>465,157</u>              | <u>280,030</u>              |
| 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   |             | <u>97,844</u>               | <u>63,189</u>               |
| 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                                |             | <u>(150,063)</u>            | <u>(149,269)</u>            |
| Commission expense                                 |             | (108,115)                   | (57,551)                    |
| Management expenses                                | 26          | (131,732)                   | (75,578)                    |
| Other expenses                                     |             | <u>(239,847)</u>            | <u>(133,129)</u>            |
| Profit before taxation                             |             | 173,091                     | 60,821                      |
| Taxation   | 27          | (42,050)                    | (16,531)                    |
| Profit for the financial year                      |             | <u>131,041</u>              | <u>44,290</u>               |
| Earnings per share (sen)                           |             |                             |                             |
| Basic  | 28          | <u>131.04</u>               | <u>44.29</u>                |

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



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ACE JERNEH INSURANCE BERHAD  
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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

|   | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>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)                        |
|   | <u>(1,000)</u>              | <u>3,360</u>                |
| Tax effects thereon                               | 250                         | (840)                       |
|   | <u>(750)</u>                | <u>2,520</u>                |
| Total comprehensive income for the financial year | <u><u>130,291</u></u>       | <u><u>46,810</u></u>        |

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

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ACE JERNEH INSURANCE BERHAD  
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STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

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

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

Company No.

|      |   |
|------|---|
| 9827 | A |
|------|---|

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

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

|  | <u>Note</u> | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|--|-------------|-----------------------------|-----------------------------|
| <b>OPERATING ACTIVITIES</b>                                  |             |                             |                             |
| 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)                    |
|  |             | <hr/>                       | <hr/>                       |
| Net cash flows generated from/(used in) operating activities |             | 16,322                      | (193,546)                   |
|  |             | <hr/>                       | <hr/>                       |
| <b>INVESTING ACTIVITIES</b>                                  |             |                             |                             |
| 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)                        |
|  |             | <hr/>                       | <hr/>                       |
| Net cash flows used in investing activities                  |             | (6,811)                     | (1,532)                     |
|  |             | <hr/>                       | <hr/>                       |
| 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                     |
|  |             | <hr/>                       | <hr/>                       |
| Cash and cash equivalents at end of the financial year       |             | 147,726                     | 138,215                     |
|  |             | <hr/> <hr/>                 | <hr/> <hr/>                 |
| 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                       |
|  |             | <hr/>                       | <hr/>                       |
|  |             | 147,726                     | 138,215                     |
|  |             | <hr/> <hr/>                 | <hr/> <hr/>                 |

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

**ACE JERNEH INSURANCE BERHAD**

(Incorporated in Malaysia)

**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.

ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

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.

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

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.

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

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

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.

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

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

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.

ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

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.



ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

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.

## ACE JERNEH INSURANCE BERHAD

(Incorporated in Malaysia)

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

## 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.

FVTPL

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.

ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

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.

ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(1) Investments (continued)

LAR

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.

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

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

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 derecognition 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.

## ACE JERNEH INSURANCE BERHAD

(Incorporated in Malaysia)

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

## 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.

ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

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.

ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

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 position similar to investment contracts.



ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

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.

## ACE JERNEH INSURANCE BERHAD

(Incorporated in Malaysia)

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

#### 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.

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

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.

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

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.

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

## 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.

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

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.

**ACE JERNEH INSURANCE BERHAD**

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

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

5 **PROPERTY AND EQUIPMENT**

|   | Freehold<br>land | Buildings | Computers | Office<br>equipment,<br>furniture<br>and<br>fittings | Motor<br>vehicles | Office<br>renovation | Total  |
|---|------------------|-----------|-----------|--|-------------------|----------------------|--------|
|   | RM'000           | RM'000    | RM'000    | RM'000   | RM'000            | RM'000               | RM'000 |
| <u>Cost</u>                                   |                  |           |           |  |                   |                      |        |
| 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<br>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<br>(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<br>assets (Note 7)   | -                | -         | 567       | -  | -                 | -                    | 567    |
| Transfer from investment<br>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 |
| <u>Accumulated depreciation</u>               |                  |           |           |  |                   |                      |        |
| At 1 January 2011                             | -                | 2,635     | 5,099     | 2,255  | 1,048             | 1,273                | 12,310 |
| Charge for the financial<br>year              | -                | 242       | 820       | 244  | 329               | 47                   | 1,682  |
| Disposals                                     | -                | -         | (10)      | (5)  | (441)             | -                    | (456)  |
| Transfer to investment<br>property (Note 6)   | -                | (176)     | -         | -  | -                 | -                    | (176)  |
| At 31 December 2011                           | -                | 2,701     | 5,909     | 2,494  | 936               | 1,320                | 13,360 |
| Charge for the financial<br>year              | -                | 575       | 906       | 1,132  | (419)             | 48                   | 2,242  |
| Disposals                                     | -                | -         | (5)       | -  | (70)              | -                    | (75)   |
| Write-offs                                    | -                | -         | (203)     | (3)  | -                 | -                    | (206)  |
| Transfer from intangible<br>assets (Note 7)   | -                | -         | 567       | -  | -                 | -                    | 567    |
| Transfer from investment<br>property (Note 6) | -                | 3,737     | -         | -  | -                 | -                    | 3,737  |
| At 31 December 2012                           | -                | 7,013     | 7,174     | 3,623  | 447               | 1,368                | 19,625 |
| <u>Net carrying amount</u>                    |                  |           |           |  |                   |                      |        |
| 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/<br>1 January 2011           | 7,000            | 9,772     | 653       | 889  | 905               | 95                   | 19,314 |



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

6 INVESTMENT PROPERTY

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

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).

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ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

7 INTANGIBLE ASSETS

|  | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|--|-----------------------------|-----------------------------|-----------------------------|
| <u>Cost</u>  |                             |                             |                             |
| 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                           | <u>9,682</u>                | <u>7,968</u>                | <u>7,920</u>                |
| <u>Accumulated amortisation</u>                    |                             |                             |                             |
| 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                           | <u>8,115</u>                | <u>7,748</u>                | <u>7,527</u>                |
| Net carrying amount                                | <u>1,567</u>                | <u>220</u>                  | <u>393</u>                  |

Intangible assets comprise computer software.

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

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

|   |   |                   |                   |                   |
|---|---|-------------------|-------------------|-------------------|
| 8 | INVESTMENTS   | <u>31.12.2012</u> | <u>31.12.2011</u> | <u>01.01.2011</u> |
|   |   | RM'000            | RM'000            | RM'000            |
|   | Malaysian government securities and<br>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             |
|   |   | <u>914,577</u>    | <u>697,344</u>    | <u>377,173</u>    |
|   | HTM   | -                 | 40,755            | 40,751            |
|   | LAR   | -                 | -                 | 6,422             |
|   | AFS   | 914,577           | 656,589           | 190,500           |
|   | FVTPL   | -                 | -                 | 139,500           |
|   |   | <u>914,577</u>    | <u>697,344</u>    | <u>377,173</u>    |
|   | Current   | 50,405            | 28,769            | 173,580           |
|   | Non-current   | 864,172           | 668,575           | 203,593           |
|   |   | <u>914,577</u>    | <u>697,344</u>    | <u>377,173</u>    |

|     |                            |                   |          |                   |               |                   |               |
|-----|----------------------------|-------------------|----------|-------------------|---------------|-------------------|---------------|
| (a) | HTM                        | <u>31.12.2012</u> |          | <u>31.12.2011</u> |               | <u>01.01.2011</u> |               |
|     |                            | Carrying          | Fair     | Carrying          | Fair          | Carrying          | Fair          |
|     |                            | value             | value    | value             | value         | value             | value         |
|     |                            | RM'000            | RM'000   | RM'000            | RM'000        | RM'000            | RM'000        |
|     | Corporate debt securities: |                   |          |                   |               |                   |               |
|     | Unquoted                   |                   |          |                   |               |                   |               |
|     | in Malaysia                | -                 | -        | 40,755            | 41,242        | 40,751            | 41,091        |
|     |                            | <u>-</u>          | <u>-</u> | <u>40,755</u>     | <u>41,242</u> | <u>40,751</u>     | <u>41,091</u> |

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

8 INVESTMENTS (CONTINUED)

(b) LAR

|  | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|--|-----------------------------|-----------------------------|-----------------------------|
| <u>Amortised cost</u>  |                             |                             |                             |
| Fixed and call deposits with licensed financial institutions | -                           | -                           | 6,422                       |
|  | <u>          </u>           | <u>          </u>           | <u>          </u>           |

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

(c) AFS

|  | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|--|-----------------------------|-----------------------------|-----------------------------|
| <u>Fair value</u>                                    |                             |                             |                             |
| 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                       |
|  | <u>914,577</u>              | <u>656,589</u>              | <u>190,500</u>              |

(d) FVTPL

|                                      |                   |                   |                   |
|--------------------------------------|-------------------|-------------------|-------------------|
| <u>Fair value</u>                    |                   |                   |                   |
| <u>Held-for-trading</u>              |                   |                   |                   |
| Quoted equity securities             | -                 | -                 | 125,128           |
| Quoted unit and property trust funds | -                 | -                 | 14,372            |
|                                      | <u>          </u> | <u>          </u> | <u>          </u> |
|                                      | <u>          </u> | <u>          </u> | <u>139,500</u>    |

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

8 INVESTMENTS (CONTINUED)

(e) Carrying values of financial instruments

|  | <u>HTM</u><br>RM'000 | <u>AFS</u><br>RM'000 | <u>FVTPL</u><br>RM'000 | <u>LAR</u><br>RM'000 | <u>Total</u><br>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/<br>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<br>(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                |

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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.

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

There are no investments that are valued at Level 3.

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| 9  | REINSURANCE ASSETS  | <u>Note</u> | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|----|---|-------------|-----------------------------|-----------------------------|-----------------------------|
|    | Reinsurance of insurance contracts                                | 16          |                             |                             |                             |
|    | Claims liabilities  |             | 402,775                     | 197,050                     | 201,874                     |
|    | Premium liabilities   |             | 66,539                      | 64,609                      | 61,294                      |
|    |   |             | <u>469,314</u>              | <u>261,659</u>              | <u>263,168</u>              |
| 10 | INSURANCE RECEIVABLES   |             | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|    | Due premiums including agents/brokers and<br>co-insurers balances |             | 114,987                     | 53,651                      | 60,788                      |
|    | Due from reinsurers and cedants                                   |             | 37,556                      | 11,774                      | 7,171                       |
|    |   |             | <u>152,543</u>              | <u>65,425</u>               | <u>67,959</u>               |
|    | Allowance for impairment of doubtful debts                        |             | (8,910)                     | (13,051)                    | (9,282)                     |
|    |   |             | <u>143,633</u>              | <u>52,374</u>               | <u>58,677</u>               |
|    | Current   |             | 139,497                     | 52,374                      | 58,677                      |
|    | Non-current   |             | 4,136                       | -                           | -                           |
|    |   |             | <u>143,633</u>              | <u>52,374</u>               | <u>58,677</u>               |
| 11 | OTHER RECEIVABLES   |             | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|    | Assets held under Malaysian Motor<br>Insurance Pool               |             | 23,045                      | 14,467                      | 6,594                       |
|    | Deposits  |             | 1,695                       | 743                         | 861                         |
|    | Other receivables   |             | 8,928                       | 268                         | 292                         |
|    | Prepayments   |             | 4                           | 849                         | 725                         |
|    |   |             | <u>33,672</u>               | <u>16,327</u>               | <u>8,472</u>                |
|    | Current   |             | 32,213                      | 15,622                      | 7,772                       |
|    | Non-current   |             | 1,459                       | 705                         | 700                         |
|    |   |             | <u>33,672</u>               | <u>16,327</u>               | <u>8,472</u>                |

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12 SHARE CAPITAL

|   | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|---|-----------------------------|-----------------------------|-----------------------------|
| Authorised:                               |                             |                             |                             |
| 150,000,000 ordinary share of RM1.00 each |                             |                             |                             |
| At beginning and end of financial year    | <u>150,000</u>              | <u>150,000</u>              | <u>150,000</u>              |
| Issued and paid up:                       |                             |                             |                             |
| 100,000,000 ordinary share of RM1.00 each |                             |                             |                             |
| At beginning and end of financial year    | <u>100,000</u>              | <u>100,000</u>              | <u>100,000</u>              |

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.



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## 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:

|                                | <u>31.12.2012</u>                               |                           | <u>31.12.2011</u>                               |                           | <u>01.01.2011</u>                               |                           |
|--------------------------------|---|---------------------------|---|---------------------------|---|---------------------------|
|                                | Average<br>exercise<br>price<br>per share<br>RM | Share<br>options<br>Units | Average<br>exercise<br>price<br>per share<br>RM | Share<br>options<br>Units | Average<br>exercise<br>price<br>per share<br>RM | Share<br>options<br>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       |   | <u>11,052</u>             |   | <u>-</u>                  |   | <u>-</u>                  |

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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<br>per share<br>RM | Share options       |                     |                     |
|------|-----------------------------------|---------------------|---------------------|---------------------|
|      |                                   | 31.12.2012<br>Units | 31.12.2011<br>Units | 01.01.2011<br>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               | -                   | -                   |
|      |                                   | <u>11,052</u>       | <u>-</u>            | <u>-</u>            |

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.

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16 INSURANCE CONTRACT LIABILITIES

|  | 31.12.2012      |                            |               | 31.12.2011      |                            |               | 01.01.2011      |                            |               |
|--|-----------------|----------------------------|---------------|-----------------|----------------------------|---------------|-----------------|----------------------------|---------------|
|  | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>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<br>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<br>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.

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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<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>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<br>(Note 33)  | 302,303         | (214,721)                  | 87,582         | -               | -                          | -              | -               | -                          | -              |
| Increase in claims incurred/<br>recoveries anticipated<br>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<br>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  | <u>737,258</u>  | <u>(402,775)</u>           | <u>334,483</u> | <u>462,667</u>  | <u>(197,050)</u>           | <u>265,617</u> | <u>433,590</u>  | <u>(201,874)</u>           | <u>231,716</u> |

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16 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premium liabilities

|  | 31.12.2012     |                 |                | 31.12.2011     |                 |                | 01.01.2011     |                 |                |
|--|----------------|-----------------|----------------|----------------|-----------------|----------------|----------------|-----------------|----------------|
|  | <u>Gross</u>   | <u>Re-</u>      | <u>Net</u>     | <u>Gross</u>   | <u>Re-</u>      | <u>Net</u>     | <u>Gross</u>   | <u>Re-</u>      | <u>Net</u>     |
|  | RM'000         | insurance       | RM'000         | RM'000         | insurance       | RM'000         | RM'000         | insurance       | RM'000         |
|  |                | RM'000          |                |                | RM'000          |                |                | 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<br>(Note 33)                     | 65,402         | (3,451)         | 61,951         | -              | -               | -              | -              | -               | -              |
| Premiums written in<br>the financial year<br>(Note 21) | 762,434        | (269,612)       | 492,822        | 485,191        | (179,579)       | 305,612        | 434,112        | (201,254)       | 232,858        |
| Premiums earned<br>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                               | <u>301,107</u> | <u>(66,539)</u> | <u>234,568</u> | <u>209,561</u> | <u>(64,609)</u> | <u>144,952</u> | <u>180,664</u> | <u>(61,294)</u> | <u>119,370</u> |

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17 INVESTMENT CONTRACT LIABILITIES

|                                 | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>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)

|                                | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>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:

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

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18 DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

|  | <u>Allowance for<br/>doubtful debts</u><br>RM'000 | <u>Provisions</u><br>RM'000 | <u>Accelerated<br/>depreciation</u><br>RM'000 | <u>Dividend<br/>receivables</u><br>RM'000 | <u>Amortisation<br/>of premium</u><br>RM'000 | <u>Fair value<br/>of securities</u><br>RM'000 | <u>Others</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--|---|-----------------------------|---|---|--|---|-------------------------|------------------------|
| <u>31 December 2012</u>                              |   |                             |   |   |  |   |                         |                        |
| <u>Deferred tax assets (before off-setting)</u>      |   |                             |   |   |  |   |                         |                        |
| 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                             | <u>2,227</u>                                      | <u>4,120</u>                | <u>-</u>                                      | <u>-</u>                                  | <u>1,247</u>                                 | <u>-</u>                                      | <u>809</u>              | <u>8,403</u>           |
| <u>Deferred tax liabilities (before off-setting)</u> |   |                             |   |   |  |   |                         |                        |
| 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                             | <u>-</u>  | <u>-</u>                    | <u>(828)</u>                                  | <u>-</u>                                  | <u>-</u>                                     | <u>(2,073)</u>                                | <u>-</u>                | <u>(2,901)</u>         |
| Deferred tax assets (after off-setting)              |   |                             |   |   |  |   |                         | <u>5,502</u>           |

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

18 DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

|  | <u>Allowance for<br/>doubtful debts</u><br>RM'000 | <u>Provisions</u><br>RM'000 | <u>Accelerated<br/>depreciation</u><br>RM'000 | <u>Dividend<br/>receivables</u><br>RM'000 | <u>Accretion<br/>of discount</u><br>RM'000 | <u>Fair value<br/>of securities</u><br>RM'000 | <u>Others</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--|---|-----------------------------|---|---|--|---|-------------------------|------------------------|
| <u>31 December 2011</u>                              |   |                             |   |   |  |   |                         |                        |
| <u>Deferred tax assets (before off-setting)</u>      |   |                             |   |   |  |   |                         |                        |
| 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                             | <u>3,263</u>                                      | <u>1,872</u>                | <u>-</u>                                      | <u>-</u>                                  | <u>-</u>                                   | <u>-</u>                                      | <u>356</u>              | <u>5,491</u>           |
| <u>Deferred tax liabilities (before off-setting)</u> |   |                             |   |   |  |   |                         |                        |
| 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                             | <u>-</u>  | <u>-</u>                    | <u>(402)</u>                                  | <u>(5)</u>                                | <u>(933)</u>                               | <u>(2,065)</u>                                | <u>-</u>                | <u>(3,405)</u>         |
| Deferred tax assets (after off-setting)              |   |                             |   |   |  |   |                         | <u>2,086</u>           |



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ACE JERNEH INSURANCE BERHAD  
(formerly known as Jerneh Insurance Berhad)  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

18 DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

|  | <u>Allowance for<br/>doubtful debts</u><br>RM'000 | <u>Provisions</u><br>RM'000 | <u>Accelerated<br/>depreciation</u><br>RM'000 | <u>Dividend<br/>receivables</u><br>RM'000 | <u>Accretion<br/>of discount</u><br>RM'000 | <u>Fair value<br/>of securities</u><br>RM'000 | <u>Others</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--|---|-----------------------------|---|---|--|---|-------------------------|------------------------|
| <u>1 January 2011</u>                                |   |                             |   |   |  |   |                         |                        |
| <u>Deferred tax assets (before off-setting)</u>      |   |                             |   |   |  |   |                         |                        |
| At beginning of financial year                       | 2,316   | 1,798                       | -   | -   | -  | -   | -                       | 4,114                  |
| Recognised in:                                       |   |                             |   |   |  |   |                         |                        |
| Income statement                                     | 5   | 118                         | -   | -   | -  | -   | -                       | 123                    |
| At end of financial year                             | <u>2,321</u>                                      | <u>1,916</u>                | <u>-</u>                                      | <u>-</u>                                  | <u>-</u>                                   | <u>-</u>                                      | <u>-</u>                | <u>4,237</u>           |
| <u>Deferred tax liabilities (before off-setting)</u> |   |                             |   |   |  |   |                         |                        |
| 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                             | <u>-</u>  | <u>-</u>                    | <u>(299)</u>                                  | <u>(5)</u>                                | <u>(1,038)</u>                             | <u>(8,884)</u>                                | <u>(1,740)</u>          | <u>(11,966)</u>        |
| Deferred tax liabilities (after off-setting)         |   |                             |   |   |  |   |                         | <u>(7,729)</u>         |

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

19 INSURANCE PAYABLES

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

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:

|  | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>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                       |
|  | <u>6,160</u>                | <u>5,892</u>                | <u>4,687</u>                |

20 OTHER PAYABLES

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

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

ACE JERNEH INSURANCE BERHAD  
(Incorporated in Malaysia)

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

|    |  |                             |                             |
|----|--|-----------------------------|-----------------------------|
| 21 | NET EARNED PREMIUMS                                    | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|    | (a) Gross earned premiums                              |                             |                             |
|    | General insurance contracts (Note 16(ii))              | 762,434                     | 485,191                     |
|    | Change in premium liabilities                          | (26,144)                    | (28,897)                    |
|    |  | <u>736,290</u>              | <u>456,294</u>              |
|    | (b) Premium ceded                                      |                             |                             |
|    | General insurance contracts (Note 16(ii))              | (269,612)                   | (179,579)                   |
|    | Change in premium liabilities                          | (1,521)                     | 3,315                       |
|    |  | <u>(271,133)</u>            | <u>(176,264)</u>            |
|    | Net earned premium                                     | <u>465,157</u>              | <u>280,030</u>              |
| 22 | INVESTMENT INCOME                                      | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>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                         | -                           |
|    |  | <u>38,996</u>               | <u>29,977</u>               |

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

|    |  |                             |                             |
|----|--|-----------------------------|-----------------------------|
| 23 | REALISED GAINS (NET)                             | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|    | Property and equipment:                          |                             |                             |
|    | Realised gains                                   | 44                          | 211                         |
|    | <u>AFS</u>                                       |                             |                             |
|    | Realised gains:                                  |                             |                             |
|    | Debt securities - Unquoted in Malaysia           | 2,757                       | 12                          |
|    | <u>Foreign exchange:</u>                         |                             |                             |
|    | Realised losses                                  | (789)                       | -                           |
|    |  | <u>2,012</u>                | <u>223</u>                  |
| 24 | FAIR VALUE LOSSES                                | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|    | Financial investments - AFS                      | <u>(3,436)</u>              | <u>(1,217)</u>              |
| 25 | COMMISSION INCOME                                | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|    | Commission income related to insurance contracts | <u>60,128</u>               | <u>34,206</u>               |

ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

26 MANAGEMENT EXPENSES

|  | <u>Note</u> | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>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<br>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                      |
|  |             | <u>131,732</u>              | <u>75,578</u>               |

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

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

26 MANAGEMENT EXPENSES (CONTINUED)

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

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:

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

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ACE JERNEH INSURANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

|    |   |                             |                             |
|----|---|-----------------------------|-----------------------------|
| 27 | TAXATION  | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|    | Current income tax:   |                             |                             |
|    | Malaysian income tax  | 45,501                      | 25,570                      |
|    | (Over)/under-provision in prior financial years               | (285)                       | 1,616                       |
|    |   | <u>45,216</u>               | <u>27,186</u>               |
|    | 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)                     |
|    |   | <u>(3,166)</u>              | <u>(10,655)</u>             |
|    |   | <u>42,050</u>               | <u>16,531</u>               |

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:

|   |                             |                             |
|---|-----------------------------|-----------------------------|
|   | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
| Profit before tax   | <u>173,091</u>              | <u>60,821</u>               |
| 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                          | <u>42,050</u>               | <u>16,531</u>               |

**ACE JERNEH INSURANCE BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

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.

|  | <u>31.12.2012</u> | <u>31.12.2011</u> |
|--|-------------------|-------------------|
|  | RM'000            | 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)                 | <u>131.04</u>     | <u>44.29</u>      |

29 CASH FLOWS

|   | <u>Note</u> | <u>31.12.2012</u> | <u>31.12.2011</u> |
|---|-------------|-------------------|-------------------|
|   |             | RM'000            | 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                |             | <u>15,814</u>     | <u>(196,860)</u>  |



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

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:

|  | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|--|-----------------------------|-----------------------------|
| Within one year                                | 1,669                       | 249                         |
| Later than one year but not later than 6 years | 977                         | 1,057                       |
|  | <u>2,646</u>                | <u>1,306</u>                |

(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:

|                 | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 |
|-----------------|-----------------------------|-----------------------------|
| Within one year | -                           | 2,073                       |
|                 | <u>-</u>                    | <u>2,073</u>                |

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

31 RELATED PARTY BALANCES AND TRANSACTIONS

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

| <u>Company</u>                     | <u>Country of incorporation</u> | <u>Relationship</u>       |
|------------------------------------|---------------------------------|---------------------------|
| 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

|   | <u>31.12.2012</u>           | <u>31.12.2011</u>           | <u>01.01.2011</u>           |
|---|-----------------------------|-----------------------------|-----------------------------|
|   | RM'000                      | RM'000                      | 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)                    | -                           | -                           |
|   | <u>                    </u> | <u>                    </u> | <u>                    </u> |

Significant related party transactions:

|  | <u>31.12.2012</u>           | <u>31.12.2011</u>           |
|--|-----------------------------|-----------------------------|
|  | RM'000                      | RM'000                      |
| <u>ACE Group:</u>                      |                             |                             |
| 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)                    | -                           |
|  | <u>                    </u> | <u>                    </u> |

## ACE JERNEH INSURANCE BERHAD

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

## 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.

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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.

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## 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             |                                    |                      |
|---------------------------------|------------------------|------------------------------------|----------------------|------------------------|------------------------------------|----------------------|
|                                 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>RM'000 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>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<br>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               |
|                                 | <u>762,434</u>         | <u>(269,612)</u>                   | <u>492,822</u>       | <u>485,191</u>         | <u>(179,579)</u>                   | <u>305,612</u>       |

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             |                                    |                      |
|---------------------------------|------------------------|------------------------------------|----------------------|------------------------|------------------------------------|----------------------|
|                                 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>RM'000 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>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<br>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               |
|                                 | <u>737,258</u>         | <u>(402,775)</u>                   | <u>334,483</u>       | <u>462,667</u>         | <u>(197,050)</u>                   | <u>265,617</u>       |

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NOTES TO THE FINANCIAL STATEMENTS  
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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.

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NOTES TO THE FINANCIAL STATEMENTS  
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## 32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)1 Insurance Risk (continued)1.5 Sensitivity analysis (continued)

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

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Gross estimated general insurance contract liabilities for 2012

| <u>Accident year</u>                           | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | 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)    |



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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

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

| <u>Accident year</u>   | <u>Prior<br/>years</u><br>RM'000 | <u>2005</u><br>RM'000 | <u>2006</u><br>RM'000 | <u>2007</u><br>RM'000 | <u>2008</u><br>RM'000 | <u>2009</u><br>RM'000 | <u>2010</u><br>RM'000 | <u>2011</u><br>RM'000 | <u>2012</u><br>RM'000 | <u>Total</u><br>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<br>per statement of financial position (Note 16(i)) |                                  |                       |                       |                       |                       |                       |                       |                       |                       | <u>737,258</u>         |

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Gross estimated general insurance contract liabilities for 2011

| <u>Accident year</u>                | <u>2005</u>      | <u>2006</u>      | <u>2007</u>      | <u>2008</u>      | <u>2009</u>      | <u>2010</u>      | <u>2011</u>     |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|
|                                     | RM'000           | RM'000           | RM'000           | RM'000           | RM'000           | RM'000           | 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 | <u>125,532</u>   | <u>172,987</u>   | <u>133,130</u>   | <u>175,643</u>   | <u>174,537</u>   | <u>254,927</u>   | <u>230,014</u>  |
| 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         | <u>(120,723)</u> | <u>(158,592)</u> | <u>(119,609)</u> | <u>(141,264)</u> | <u>(137,713)</u> | <u>(140,221)</u> | <u>(60,683)</u> |

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

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

| <u>Accident year</u>  | <u>Prior years</u><br>RM'000 | <u>2005</u><br>RM'000 | <u>2006</u><br>RM'000 | <u>2007</u><br>RM'000 | <u>2008</u><br>RM'000 | <u>2009</u><br>RM'000 | <u>2010</u><br>RM'000 | <u>2011</u><br>RM'000 | <u>Total</u><br>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                |

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.8 Net estimated general insurance contract liabilities for 2012

| <u>Accident year</u>                              | <u>Prior<br/>years</u><br>RM'000 | <u>2005</u><br>RM'000 | <u>2006</u><br>RM'000 | <u>2007</u><br>RM'000 | <u>2008</u><br>RM'000 | <u>2009</u><br>RM'000 | <u>2010</u><br>RM'000 | <u>2011</u><br>RM'000 | <u>2012</u><br>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<br>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)              |

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

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

| <u>Accident year</u>   | <u>Prior years</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>Total</u> |
|--|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
|  | 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<br>per statement of financial position (Note 16(i)) |                    |             |             |             |             |             |             |             |             | 334,483      |

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.8 Net estimated general insurance contract liabilities for 2011

| <u>Accident year</u>                | <u>2005</u>     | <u>2006</u>     | <u>2007</u>     | <u>2008</u>     | <u>2009</u>     | <u>2010</u>     | <u>2011</u>     | <u>Total</u> |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
|                                     | RM'000          | RM'000          | RM'000          | RM'000          | RM'000          | RM'000          | RM'000          | 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 | <u>82,394</u>   | <u>98,803</u>   | <u>95,873</u>   | <u>107,677</u>  | <u>122,617</u>  | <u>135,884</u>  | <u>153,395</u>  |              |
| 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         | <u>(47,443)</u> | <u>(88,736)</u> | <u>(97,477)</u> | <u>(96,169)</u> | <u>(87,901)</u> | <u>(90,892)</u> | <u>(79,767)</u> |              |

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ACE JERNEH INSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS  
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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

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

| <u>Accident year</u>                                     | <u>Before</u><br><u>2005</u><br>RM'000 | <u>2005</u><br>RM'000 | <u>2006</u><br>RM'000 | <u>2007</u><br>RM'000 | <u>2008</u><br>RM'000 | <u>2009</u><br>RM'000 | <u>2010</u><br>RM'000 | <u>2011</u><br>RM'000 | <u>Total</u><br>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                |

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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.

|                           | <u>31.12.2012</u> | <u>31.12.2011</u> | <u>01.01.2011</u> |
|---------------------------|-------------------|-------------------|-------------------|
|                           | RM'000            | RM'000            | 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           |
|                           | <u>1,685,873</u>  | <u>1,150,603</u>  | <u>1,033,464</u>  |



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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-<br>due nor<br><u>impaired</u><br>RM'000 | Past due<br>but not<br><u>impaired</u><br>RM'000 | <u>Total</u><br>RM'000 |
|-------------------------|---|--|------------------------|
| <u>31 December 2012</u> |   |  |                        |
| 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                |
|                         | <u>1,549,234</u>                                      | <u>136,639</u>                                   | <u>1,685,873</u>       |
| <u>31 December 2011</u> |   |  |                        |
| 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                |
|                         | <u>1,104,983</u>                                      | <u>45,620</u>                                    | <u>1,150,603</u>       |

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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-<br>due nor<br><u>impaired</u><br>RM'000 | Past due<br>but not<br><u>impaired</u><br>RM'000 | <u>Total</u><br>RM'000 |
|------------------------|---|--|------------------------|
| <u>1 January 2011</u>  |   |  |                        |
| 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                |
|                        | <u>987,461</u>  | <u>46,003</u>                                    | <u>1,033,464</u>       |

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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:

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

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<br><u>Guaranteed</u><br>RM'000 | AAA<br>RM'000     | AA<br>RM'000      | A<br>RM'000       | BBB<br>RM'000     | Not rated<br>RM'000 | Total<br>RM'000   |
|---------------------------|---|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| <u>31 December 2012</u>   |   |                   |                   |                   |                   |                     |                   |
| 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<br>balances | -   | 57,079            | 10,270            | 80,338            | -                 | 39                  | 147,726           |
|                           | <u>          </u>                         | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u>   | <u>          </u> |
|                           | 550,268                                   | 208,490           | 347,057           | 163,094           | -                 | 350,050             | 1,618,959         |
|                           | <u>          </u>                         | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u>   | <u>          </u> |

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

|                         | Government<br><u>Guaranteed</u> | AAA            | AA             | A              | BBB        | Not rated      | Total            |
|-------------------------|---------------------------------|----------------|----------------|----------------|------------|----------------|------------------|
|                         | RM'000                          | RM'000         | RM'000         | RM'000         | RM'000     | RM'000         | RM'000           |
| <u>31 December 2011</u> |                                 |                |                |                |            |                |                  |
| 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          |
|                         | <u>490,336</u>                  | <u>130,247</u> | <u>190,280</u> | <u>165,265</u> | <u>-</u>   | <u>109,491</u> | <u>1,085,619</u> |
| <u>1 January 2011</u>   |                                 |                |                |                |            |                |                  |
| 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          |
|                         | <u>18,469</u>                   | <u>193,262</u> | <u>227,862</u> | <u>267,503</u> | <u>393</u> | <u>124,807</u> | <u>832,296</u>   |

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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:

|  | <u>Note</u> | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>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                           |             | <u>8,910</u>                | <u>13,051</u>               | <u>9,282</u>                |

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.

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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.

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NOTES TO THE FINANCIAL STATEMENTS  
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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<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000  |
|-------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|------------------|
| <u>31 December 2012</u> |                             |                            |                          |                          |                           |                            |                               |                  |
| 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            | <u>1,642,383</u>            | <u>596,994</u>             | <u>638,534</u>           | <u>297,448</u>           | <u>238,881</u>            | <u>14,030</u>              | <u>375</u>                    | <u>1,786,262</u> |

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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

|                                | Carrying<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000 |
|--------------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|-----------------|
| <u>31 December 2012</u>        |                             |                            |                          |                          |                           |                            |                               |                 |
| 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              | <u>900,240</u>              | <u>564,020</u>             | <u>240,023</u>           | <u>74,860</u>            | <u>21,337</u>             | <u>-</u>                   | <u>-</u>                      | <u>900,240</u>  |



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32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

|                         | Carrying<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000  |
|-------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|------------------|
| <u>31 December 2011</u> |                             |                            |                          |                          |                           |                            |                               |                  |
| 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            | <u>1,101,310</u>            | <u>379,688</u>             | <u>496,340</u>           | <u>204,179</u>           | <u>150,776</u>            | <u>14,030</u>              | <u>375</u>                    | <u>1,245,388</u> |

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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<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000 |
|-------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|-----------------|
| <u>31 December 2011</u> |                             |                            |                          |                          |                           |                            |                               |                 |
| 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       | <u>585,180</u>              | <u>399,712</u>             | <u>128,264</u>           | <u>46,925</u>            | <u>22,323</u>             | <u>-</u>                   | <u>-</u>                      | <u>597,224</u>  |

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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<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000  |
|------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|------------------|
| <u>1 January 2011</u>  |                             |                            |                          |                          |                           |                            |                               |                  |
| 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           | <u>979,489</u>              | <u>541,727</u>             | <u>157,841</u>           | <u>108,207</u>           | <u>124,243</u>            | <u>14,030</u>              | <u>139,500</u>                | <u>1,085,548</u> |

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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<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000 |
|-----------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|-----------------|
| <u>1 January 2011</u> |                             |                            |                          |                          |                           |                            |                               |                 |
| 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     | <u>544,817</u>              | <u>289,889</u>             | <u>181,709</u>           | <u>53,961</u>            | <u>30,940</u>             | <u>-</u>                   | <u>-</u>                      | <u>556,499</u>  |

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

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.

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

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.

| Variable charges |                   | 31.12.2012                           |  | 31.12.2011                           |  |
|------------------|-------------------|--------------------------------------|--|--------------------------------------|--|
|                  |                   | Impact on income statement<br>RM'000 | Impact on equity* after tax adjustment<br>RM'000 | Impact on income statement<br>RM'000 | Impact on equity* after tax adjustment<br>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.

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

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.

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

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:

|  | <u>31.12.2012</u><br>RM'000 | <u>31.12.2011</u><br>RM'000 | <u>01.01.2011</u><br>RM'000 |
|--|-----------------------------|-----------------------------|-----------------------------|
| Eligible Tier 1 Capital:               |                             |                             |                             |
| Share capital                          | 100,000                     | 100,000                     | 100,000                     |
| Retained earnings                      | 425,697                     | 294,656                     | 250,366                     |
|  | <u>525,697</u>              | <u>394,656</u>              | <u>350,366</u>              |
| 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                | <u><u>526,227</u></u>       | <u><u>398,545</u></u>       | <u><u>354,041</u></u>       |



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

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:

|  | <u>Book value</u><br>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)                       |
|  | <hr/>                       |
| Net liabilities transferred to ACE Jerneh  | <u>(7,121)*</u>             |

\* 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.