

**LIBERTY INSURANCE BERHAD**  
**(16688-K)**  
**(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements**  
**31 December 2016**

**16688-K**

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

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**LIBERTY INSURANCE BERHAD**  
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**DIRECTORS' REPORT**

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2016.

**PRINCIPAL ACTIVITIES**

The Company is principally engaged in the underwriting of all classes of general insurance business.

**RESULTS**

	<b>RM'000</b>
Net profit for the financial year	<u>70,494</u>

**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**

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2016.

**SHARE CAPITAL**

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

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS**

The Directors who have held office during the year since the beginning of the financial year to the date of this report are as follows:

YBhg. Dato' Haji Kamil Khalid Ariff	Chairman
YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar	
Mdm Karen Kar Lun Lee	
Mr Keong Choon Keat	
Mr William Michael Finn	
YBhg. Dato' Lim Heen Peok	(Appointed on 7 March 2016)
Mr Bhaskaran Natarajan	(Appointed on 1 November 2016 and resigned on 19 January 2017)
Mr Luciano Suzuki	(Resigned on 31 July 2016)
Mr Edmund Campion Kenealy	(Resigned on 23 September 2016)

In accordance with Article 63 of the Company's Articles of Association, YBhg. Dato' Haji Kamil Khalid Ariff and Mr Keong Choon Keat shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

**PROVISION FOR INSURANCE LIABILITIES**

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") issued by Bank Negara Malaysia ("BNM") for insurers.

**BAD AND DOUBTFUL DEBTS**

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and making of provision for doubtful debts, and are satisfied that all known bad debts had been written off and adequate provision had been made for doubtful debts.

As at the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts or the amount of provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

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**DIRECTORS' REPORT (CONTINUED)**

**CURRENT ASSETS**

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that any current assets which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstance which would render the values attributed to the current assets in the financial statements of the Company misleading.

**VALUATION METHOD**

At the date of this report, the Directors are not aware of any circumstance which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

**CONTINGENT AND OTHER LIABILITIES**

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year and which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year

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

For the purpose of the paragraphs above, contingent or 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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**DIRECTORS' REPORT (CONTINUED)**

**CHANGE OF CIRCUMSTANCES**

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

**ITEMS OF AN UNUSUAL NATURE**

In the opinion of the Directors, 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.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

**DIRECTORS' INTEREST**

None of the Directors in office held any interests in the shares of the Company or in its related corporations at the end of the financial year.

**DIRECTORS' BENEFITS**

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

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than Directors' remuneration and benefits provided to Directors disclosed in Notes 25 and 29 to the financial statements) by reason of a contract made by the Company or a related corporation with any 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.

**LIBERTY INSURANCE BERHAD**  
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**CORPORATE GOVERNANCE**

**CORPORATE GOVERNANCE FOR LICENSED INSTITUTIONS**

The Company is prescribing to the requirements of, and adopts management practices that are consistent with the principles of BNM's Guidelines on Minimum Standards for Prudential Management of Insurers (Consolidated) (BNM/RH/GL003-1) and Guidelines on Prudential Framework of Corporate Governance for Insurers (BNM/RH/GL003-2).

**BOARD RESPONSIBILITIES AND OVERSIGHT**

The Board of Directors ("Board") is committed in ensuring that the highest standards of governance are being maintained. This is achieved through compliance with the Financial Services Act, 2013 and other directives issued by Bank Negara Malaysia. The Company strives to adopt other best practices on corporate governance.

The Board has delegated specific responsibilities to five Board Committees as follows:

- (i) Audit Committee
- (ii) Nomination Committee
- (iii) Remuneration Committee
- (iv) Risk Management Committee
- (v) Investment Committee

The above committees have the authority to examine pertinent issues and report back to the Board with their recommendations. Ultimate responsibility for final decisions on all matters lie with the Board.

(a) Composition of the Board

There is a balanced mix in the Board membership with wide ranging skills and experience that comprises seven directors i.e. one Non-Independent Executive Director, four Independent Non-Executive Directors and two Non-Independent Non-Executive Directors. No individual or group of individuals is able to dominate the Board's decision-making process. In addition, the Directors do not hold directorships in excess of the prescribed maximum limit.

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

(b) Board Meetings

During the financial year, the Board met seven times and all Directors in office during the period complied with the 75% minimum attendance requirement at such meetings except for Mr William Michael Finn. Details of attendance of each Board member at meetings held during the financial year ended 31 December 2016 are as follows:

<u>Members</u>	<u>Status of directorship</u>	<u>Number of board meetings</u>	
		<u>Held during tenure</u>	<u>Attended</u>
YBhg. Dato' Haji Kamil Khalid Ariff (Chairman of the Board)	Independent Non-Executive Director & Chairman	7	7 of 7
YBhg Dato' Dr. Mohd Shahari bin Ahmad Jabar	Independent Non-Executive Director	7	7 of 7
Mr Luciano Suzuki **	Non-Independent Executive Director	4	3 of 4
Mr Edmund Campion Kenealy ***	Non-Independent Non-Executive Director	5	4 of 5
Mdm Karen Kar Lun Lee	Non-Independent Non-Executive Director	7	7 of 7
Mr Keong Choon Keat	Independent Non-Executive Director	7	7 of 7
Mr William Michael Finn	Non-Independent Non-Executive Director	7	5 of 7
YBhg. Dato' Lim Heen Peek *	Independent Non-Executive Director	6	5 of 6
Mr Bhaskaran Natarajan ****	Non-Independent Executive Director	2	2 of 2

\* Appointed as Director on 7 Mar 2016

\*\* Resigned as Director on 31 July 2016

\*\*\* Resigned as Director on 23 September 2016

\*\*\*\* Appointed as Director on 1 November 2016 and resigned on 19 January 2017



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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

(c) Directors' training

Directors are encouraged to attend continuous education programmes and seminars to keep abreast with developments in the industry. The Company has established a written policy for induction and education programmes for Directors in line with the corporate governance standard requirements.

(d) Board of directors' policy

The Company has prepared and updated the Board of Directors' Policy to provide the Directors with overview information of the insurance industry in general and the Company specifically together with a comprehensive list of other information. It will be the main reference material on the Malaysian insurance industry and the Company's operations as a whole for the newly appointed directors.

(e) Annual General Meeting ("AGM")

At each AGM, the Board presents the progress and performance of the business and encourages shareholders to participate in a question and answer session. The Chief Executive Officer ("CEO") and, where appropriate, the Chairmen of the Audit, Nomination, Remuneration, Risk Management and Investment Committees are available to respond to shareholders' questions during the meeting.

Board Committees

There were five Board Committees namely Audit, Nomination, Remuneration, Risk Management and Investment. Details of each Board Committee during the financial year are as follows:

**A The Audit Committee**

The primary objective of the Committee is to assist the Board in fulfilling its oversight responsibilities in ensuring the integrity and transparency of the financial reporting process, the effectiveness of internal control, the audit process and the monitoring of compliance with relevant laws and regulations.

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Board Committees (continued)

**A The Audit Committee (continued)**

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2016 are as follows:

<u>Members</u>	<u>Status of directorship</u>	<u>Number of board meetings</u>	
		<u>Held during tenure</u>	<u>Attended</u>
Mr Keong Choon Keat (Chairman)	Independent Non-Executive Director & Chairman	6	6 of 6
YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar	Independent Non-Executive Director	6	6 of 6
YBhg. Dato' Haji Kamil Khalid Ariff	Independent Non-Executive Director	6	6 of 6
Mr William Michael Finn	Non-Independent Non-Executive Director	6	4 of 6
YBhg. Dato' Lim Heen Peok *	Independent Non-Executive Director	4	3 of 4
Mdm Karen Kar Lun Lee **	Non-Independent Non-Executive Director	1	1 of 1

\* Appointed to the Committee on 25 March 2016

\*\* Appointed to the Committee on 22 September 2016

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Board Committees (continued)

**B The Nomination Committee**

The primary objective of the Committee is to establish a documented, formal and transparent procedure for the appointment of new Directors, the CEO and key Senior Officers. It is also responsible for reviewing the balance of Directors and assessing the effectiveness each of the individual Director, the Board as a whole and the various Committees of the Board, the CEO and the key Senior Officers.

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2016 are as follows:

<u>Members</u>	<u>Status of directorship</u>	<u>Number of board meetings</u>	
		<u>Held during tenure</u>	<u>Attended</u>
YBhg. Dato' Lim Heen Peok *	Independent Non-Executive Director & Chairman	1	1 of 1
YBhg. Dato' Haji Kamil Khalid Ariff **	Independent Non-Executive Director	3	3 of 3
Mr Edmund Campion Kenealy ***	Non-Independent Non-Executive Director	2	2 of 2
YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar	Independent Non-Executive Director	3	3 of 3
Mdm Karen Kar Lun Lee	Non-Independent Non-Executive Director	3	3 of 3
Mr William Michael Finn ****	Non-Independent Non-Executive Director	2	1 of 2

\* Appointed to the Committee on 22 September 2016 as Chairman

\*\* Relinquished as Chairman and continue as member to the Committee on 22 September 2016

\*\*\* Resigned as Committee member on 23 September 2016

\*\*\*\* Resigned as Committee member on 22 September 2016

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Board Committees (continued)

**C The Remuneration Committee**

The primary objective of the Remuneration Committee is to establish a documented, formal and transparent procedure for developing a remuneration policy for Directors, the CEO and key Senior Officers and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2016 are as follows:

<u>Members</u>	<u>Status of directorship</u>	<u>Number of board meetings</u>	
		<u>Held during tenure</u>	<u>Attended</u>
YBhg. Dato' Lim Heen Peok *	Independent Non-Executive Director & Chairman	1	1 of 1
YBhg. Dato' Haji Kamil Khalid Ariff **	Independent Non-Executive Director	4	4 of 4
Mdm Karen Kar Lun Lee	Non-Independent Non-Executive Director	4	4 of 4
Mr Edmund Campion Kenealy ***	Non-Independent Non-Executive Director	3	3 of 3
Mr William Michael Finn ****	Non-Independent Non-Executive Director	1	1 of 1
Mr Keong Choon Keat ****	Independent Non-Executive Director	1	1 of 1

\* Appointed to the Committee on 22 September 2016 as Chairman

\*\* Relinquished as Chairman and continue as member to the Committee on 22 September 2016

\*\*\* Resigned as Committee member on 23 September 2016

\*\*\*\* Appointed to the Committee on 22 September 2016

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Board Committees (continued)

**D The Risk Management Committee**

The primary objective of the Committee is to establish a documented, formal and transparent procedure to provide opportunities for improving the quality of governance and risk management in the Company.

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2016 are as follows:

<u>Members</u>	<u>Status of directorship</u>	<u>Number of board meetings</u>	
		<u>Held during tenure</u>	<u>Attended</u>
YBhg. Dato' Dr.Mohd Shahari bin Ahmad Jabar (Chairman)	Independent Non-Executive Director & Chairman	6	6 of 6
Mdm Karen Kar Lun Lee	Non-Independent Non-Executive Director	6	6 of 6
YBhg. Dato' Haji Kamil Khalid Ariff	Independent Non-Executive Director	6	6 of 6
Mr William Michael Finn	Non-Independent Non-Executive Director	6	4 of 6
YBhg. Dato' Lim Heen Peok *	Independent Non-Executive Director	2	1 of 2

\* Appointed to the Committee on 27 July 2016

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Board Committees (continued)

**E The Investment Committee**

The Committee is empowered by the Board to assist the Board and Management in the effective discharge of its strategic responsibilities and accountabilities in the areas of investment of the Company. The Committee reports to the Board the results, observations and recommendations for deliberation and formalisation by the Board pertaining to the investment activities of the Company.

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2016 are as follows:

<u>Members</u>	<u>Status of directorship</u>	<u>Number of board meetings</u>	
		<u>Held during tenure</u>	<u>Attended</u>
Mr Luciano Suzuki (Chairman) *	Non-Independent Executive Director	2	2 of 2
Mr Bhaskaran Natarajan ** (Chairman)	Non-Independent Executive Director	1	1 of 1
Mr Peter Sullivan	-	4	4 of 4
Mr Mark Pare	-	4	4 of 4

\* Resigned as Committee Chairman on 31 July 2016

\*\* Appointed to the Committee on 1 November 2016 as Chairman and resigned on 19 January 2017

Management Accountability

Material Contracts

No material contracts (not being contracts entered into, in the ordinary course of business) have been entered into by the Company involving Directors' and substantial shareholders' interests, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Corporate Independence

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL 003-3) in respect of all its related party transactions.

Internal Controls and Enterprise Risk Management

The Board affirms its overall responsibility for the system of internal control within the Company. The objective of the system of internal control is to enable the Company to achieve its objectives whilst safeguarding its assets and maintaining integrity of its financial system. The system is designed to ensure effective and efficient operations, financial reporting and compliance with the relevant laws and regulations.

It is the Board's responsibility to determine the strategies and policies for a sound risk management and control environment, whilst Senior Management should ensure that the Company's business activities are consistent with the risk strategies and policies approved by the Board.

The process for the identification and evaluation of significant risks is through the adoption of the Enterprise Risk Management ("ERM") framework and policy. The process is undertaken throughout the year. The Risk Management Committee of the Board ("RMC-B") will oversee Senior Management's activities in managing the key risk areas, including emerging risks and ensuring that the risk management framework and processes are in place and functioning effectively.

The implementation of the ERM is delegated to the CEO who is supported by the Enterprise-wide, Opportunity and Risk Management Committee of the Management ("EORMC-M"). The EORMC-M will assist the CEO in formulating appropriate procedures (including assessment methodologies, tools and techniques) and review the application of risk management practices. The Head of ERM & Compliance Assurance Department will regularly report to the RMC-B on the effectiveness of risk management and control measures.

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Internal Controls and Enterprise Risk Management (continued)

The Internal Audit Department (“IAD”) is also actively involved in the audit of ERM based on the auditees’ risk profile. Through a risk based audit approach, it provides the Board with an independent assurance on the adequacy and effectiveness of the risk management framework and internal control system. The IAD also incorporates as part of its audit work, the detection of fraud risk and anti-money laundering risk.

Identifying, evaluating and managing of risks faced by the Company are an on-going process that encompasses the following areas:

(a) Underwriting

The Company exercises control over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed as and when necessary.

(b) Financial control procedures

Detailed controls are laid down in the procedural manuals of each operating unit.

(c) Financial position

Yearly business plans are submitted to the Board for their approval. As part of regular performance monitoring, the financial reports are submitted to the Board for their review at every Board Meeting. These reports cover all key operational areas and provide a sound basis for the Board to assess the Company’s financial performance and to identify potential problems faced by the Company.

(d) Investment

The terms of reference of the Investment Committee and the Head of Investment Department, the investment policies and guidelines and the investment decision making structure and process are clearly defined in the Investment Department’s manual. Performance of investment funds and equity exposure reports are amongst the reports submitted to the Investment Committee for review at their regular meetings. Investment limits are monitored continuously to ensure compliance with the regulatory limits as per the Risk Based Capital framework.



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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Internal Controls and Enterprise Risk Management (continued)

(e) Information system

The IT Steering Committee, whose members are represented by the Senior Management of the Company and the Head of IT, is responsible for identifying IT needs of the Company in line with the requirements of BNM's Guidelines on Management of IT Environment ("GPIS 1").

(f) Claims

The Company exercises control over the processing and payments of claims. The allocations of provisions are updated and reviewed on a timely basis.

(g) Internal Audit

The functions and responsibilities of the Board with respect to internal audit and the functions and responsibilities of the Internal Audit Department are in accordance with the BNM's Guidelines on Internal Audit Function of Licensed Institutions (BNM/RH/GL 013-4), Corporate Governance (BNM/RH/PD 029-9), Risk Governance (BNM/RH/GL 013-5) and Financial Services Act (FSA) 2013 Section 62 and Section 143.

Internal Audit Department's function is to assist the Board and Senior Management by providing independent assurance on the effectiveness of internal controls and adherence to the institution's organisational and procedural controls. Internal Audit Department reports directly to the Board through the Audit Committee ("AC"). The AC reviews and approves the annual audit plan, audit reports, audit charter and budget of the Internal Audit Department. The Chairman of the AC provides written reports to the board on the deliberations of the AC on a regular basis. In addition, the AC Chairman also presents a summary of all significant matters and resolutions made by the AC at the Board meetings.

Public Accountability

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

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**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

Internal Controls and Enterprise Risk Management (continued)

Financial Reporting

In presenting the annual financial statements, the Directors aim to present a balanced and understandable assessment of the Company's position and prospects.

(a) Directors' responsibility statement

The Directors are required by the Companies Act, 1965 to prepare financial statements in accordance with applicable approved accounting standards on the state of affairs of the Company, the results and the cash flows of the Company for the financial year.

In preparing the financial statements, the Directors have:

- (i) Selected suitable accounting policies and applied them consistently;
- (ii) Made judgements and estimates that are reasonable and prudent;
- (iii) Ensured that all applicable accounting standards have been followed; and
- (iv) Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made inquiries that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors have the responsibility for ensuring that the Company keeps accounting records that disclose with reasonable accuracy, the financial position of the Company and which enables them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have the overall responsibility for taking reasonable steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities.

**TRAININGS ATTENDED**

The following are the trainings attended by the Directors :

- (i) FIDE Core Programme (Module A - Insurance)
- (ii) FIDE Core Programme (Module B - Insurance)

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**CORPORATE GOVERNANCE (CONTINUED)**

**REMUNERATION POLICY**

The Company's remuneration policy is based on the Liberty Mutual Insurance Group ("LMIG") compensation philosophy outlined below.

- Be competitive to market
- Pay for performance
  - Pay above market for people who perform well
  - Pay significantly above market for exceptional performance
- Provide pay growth through promotional opportunities

The Company's remuneration policy describe the various components of fixed and variable pay delivered to its employees and serves to demonstrate good corporate governance, compliances with all relevant local legislation and minimising risky behavior.

The Company is committed to attracting, developing and retaining the best talent and motivating its employees to succeed. Through robust remuneration program design and assessment and performance management practices, the Company commits to this aim by ensuring that:

- Employees are paid fairly and competitively against the local market in respect to total compensation, with the potential for increased total compensation in return for exceeding performance expectations.
- Base salaries offer a significant proportion of the compensation to ensure that employees live well.
- Incentive schemes are designed in a way that reward short and long term performance and ensure that employees are not incentivised to engage in inappropriate risk taking.

Recognising its independent responsibility in ensuring the above commitments are kept, the Company aims to ensure that:

- Performance goals are clearly designed and communicated to the employees of the organisation through a robust, but transparent, performance management process.
- Performance goals are aligned with the long term strategy of the business and the requirements of each individual employee.
- Customers and the insurance markets are protected from any negative impact associated with mismanagement of remuneration at any level of the organisation.

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**CORPORATE GOVERNANCE (CONTINUED)**

**REMUNERATION POLICY (CONTINUED)**

The policy is overseen by the Board of Directors of the Company. The policy has been approved by the Board of Directors of the Company, and will be reviewed periodically. Any change in this policy requires the prior approval of the Board before it can be considered final.

The Board of Directors reviews the elements of remuneration set out in this policy to ensure that strong risk management practices are in place. It does this to ensure:

- Impartiality in executive pay.
- That final decisions regarding remuneration protect the long-term interests of the Company's stakeholders.

The Board may consult with external consultant and key LMIG or Liberty International Consumer Markets ("LICM") corporate functions (Human Resources, Compensation & Benefits, Risk Management, Global Compliance & Ethics, Internal Audit, Finance, Strategic Planning etc.) to ensure that incentive schemes do not expose the Company to undue risk taking or endanger its capital or liquidity.

**REMUNERATION COMPONENTS**

The remuneration elements of the Company typically consist of the following categories:

- (a) Fixed Remuneration (base salary and any allowances)
- (b) Variable Pay (short-term and long-term)
- (c) Retirement Benefits (Pension)
- (d) Benefits
- (e) Perquisites

(a) Fixed Remuneration

Fixed remuneration is predominantly base salary, although it may also include fixed allowances which are typical market practice. Fixed remuneration is aligned to the local market and is reviewed for all employees on an annual basis during the Salary Review process. It may also be assessed due to a promotion, transfer or other change of role throughout the year.

In keeping with the Company's compensation philosophy, the Company aims to pay at market median.

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**CORPORATE GOVERNANCE (CONTINUED)**

**REMUNERATION COMPONENTS (CONTINUED)**

**(b) Variable Pay**

Variable pay aims to reward high performance based on achievement of individual and business objectives which are aligned to the growth of the Company over the short and long term.

Employees are eligible for a Short-Term Incentive Scheme with a performance period of one year. Senior employees, whose performance can be measured once the impact of their strategic decisions has been assessed, may also be eligible to participate in Long-Term Incentive schemes.

Variable pay plans offered to employees are designed to reward both short and long term performance. Rewards are calculated by reference to individual targets, usually a percentage of salary, which differ depending on level of seniority and market norms. However, awards from variable pay schemes are discretionary. Based on the plan rules, payments can be restricted or not paid at all.

Short term performance is measured by achievement of individual (personal) objectives and business objectives measured over a one year time frame.

Individual performance is measured against targets that are established every year and can be financial or non-financial. In addition, employees' behavior can also increase or decrease their performance rating. In each calendar year, both the 'what' and the 'how' of individual performance achievement are measured and rated.

Employees with superior individual performance and in an operation that significantly exceeds profit and growth targets can earn a maximum two times their target bonus.

Employees that only "Partially met Expectations" may receive a reduced bonus regardless of the business performance. If an employee is deemed to have been performing below expectations and in an operation that fails to meet threshold profit and growth targets, that employee will not receive a bonus.

Business unit and overall business performance is measured against annually established targets which take account of the prior year performance, business plans and the operating environment. Typical measures of performance include, but are not limited to, Return on Equity ("ROE"), Pre-Tax Operating Income ("PTOI"), Gross Written Premium ("GWP") and Net Written Premium ("NWP").

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**CORPORATE GOVERNANCE (CONTINUED)**

**REMUNERATION COMPONENTS (CONTINUED)**

(b) Variable Pay (continued)

These targets are reviewed by the head of each division/department and the Chief Executive Officer of the Company and the Executive Director. They are also reviewed by the Remuneration Committee to the Company Board of Directors.

Long term performance is generally measured by reference to profit against the business plan and growth against a defined peer group over a two year period with a one year waiting period prior to payment (total cycle is three years). Long term performance for eligible employees is paid at the beginning of the fourth year following the cycle.

Typical measures include Pre-Tax Operating Income ("PTOI"), Accumulated Other Comprehensive Income ("AOCI") and Return on Equity ("ROE").

(c) Pension

Pension plans should provide security to employees in their retirement. Pensions are designed to be appropriate for the Company's operations, legally compliant, and also sustainable for the business. It aims to be generous enough to provide long-term stability to employees without acting as a barrier for exit.

(d) Benefits

Benefits are designed to offer a competitive package to employees. All benefits provisions shall be reviewed regularly to ensure that a legally compliant, as well as competitive position is maintained at all times.

(e) Perquisites

Perquisites are part of a competitive package to some employees. All perquisites shall be reviewed regularly to ensure that a legally compliant, as well as competitive position is maintained at all times.

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**CORPORATE GOVERNANCE (CONTINUED)**

**ROLE OF REMUNERATION COMMITTEE**

The Remuneration Committee shall recommend the following to the Board of Directors for approval:

- Remuneration package for the Chief Executive Officer and key Senior Officers (i.e. General Manager Rank & above);
- All employee benefits;
- Variable pay (short-term & long-term incentive);
- Annual salary increments;
- Salary adjustments.

**MATERIAL RISK TAKERS**

Material Risk Takers are also the key management personnel and the remuneration structure is as disclosed in Note 29 to the financial statements.

**BOARD OF DIRECTORS' PROFILE**

The following are the profile of the Directors of the Company:

**YBHG. DATO' HAJI KAMIL KHALID ARIFF**  
**INDEPENDENT NON-EXECUTIVE DIRECTOR & CHAIRMAN**

YBhg. Dato' Haji Kamil Khalid Ariff, aged 62, is a Malaysian citizen and is an Independent Non-Executive Director of the Company. He was appointed to the Board on 24 October 2011. He has been the Chairman of the Company since 19 January 2012. He is also a member of the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee.

He obtained his Bachelor of Science Management from Syracuse University, New York, USA and Master of Business Administration from Central Michigan University, Michigan, USA.

His directorships in other companies are as Director of Bank Muamalat Malaysia Berhad, Gibraltar BSN Life Berhad, Awan Inspirasi Sdn. Bhd., Mudah Sdn. Bhd. and Pramerica BSN Holding Sdn. Bhd.

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended all (7 times meetings) Board of Directors' meetings held during the financial year ended 31 December 2016.

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD OF DIRECTORS' PROFILE (CONTINUED)**

YBHG. DATO' DR. MOHD SHAHARI BIN AHMAD JABAR  
INDEPENDENT NON-EXECUTIVE DIRECTOR

YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar, aged 80, is a Malaysian citizen and is an Independent Non-Executive Director of the Company. He was appointed to the Board on 11 July 2006. He is also the Chairman of the Risk Management Committee and a member of the Audit Committee and Nomination Committee.

He obtained his Bachelor of Arts from University of Malaya, Malaysia, Master in Social Science from Internal Institute of Social Studies, Hague, Netherlands and PH.D (Political Science) from University of Hawaii, USA.

His directorships in other companies are as Director of Redpyne Holdings Berhad and Lembaga Zakat Selangor.

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended all (7 times meetings) Board of Directors' meetings held during the financial year ended 31 December 2016.

KAREN KAR LUN LEE  
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Karen Kar Lun Lee, aged 47, is a Canadian citizen and is a Non-Independent Non-Executive Director of the Company. She was appointed to the Board on 16 July 2014. She is also a member of the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee.

She obtained her Bachelor of Science from University of Toronto, Canada, Bachelor of Law from University of London, United Kingdom and Postgraduate Certificate in Laws from University of Hong Kong, Hong Kong.

She has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. She has no conviction for offences within the past 10 years and has attended all (7 times meetings) Board of Directors' meetings held during the financial year ended 31 December 2016.



**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD OF DIRECTORS' PROFILE (CONTINUED)**

KEONG CHOON KEAT  
INDEPENDENT NON-EXECUTIVE DIRECTOR

Keong Choon Keat, aged 72, is a Malaysian citizen and is an Independent Non-Executive Director of the Company. He was appointed to the Board on 10 February 2015. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee.

He obtained his ACA from Institute of Chartered Accountants, England & Wales, United Kingdom, CA from Malaysian Institute of Accountants, Malaysia, MICPA from Malaysian Institute of CPA, Malaysia and FCA from Institute of Chartered Accountants, England & Wales, United Kingdom.

His directorships in other companies are as Director of Chin Teck Plantations Berhad, Crest Builder Holdings Berhad and Negri Sembilan Oil Palms Berhad.

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended all (7 times meetings) Board of Directors' meetings held during the financial year ended 31 December 2016.

WILLIAM MICHAEL FINN  
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

William Michael Finn, aged 52, is an American citizen and is a Non-Independent Non-Executive Director of the Company. He was appointed to the Board on 15 June 2015. He is also a member of the Audit Committee, Remuneration Committee and Risk Management Committee.

He obtained his Bachelor of Arts (Mathematics) from State University of New York @ Buffalo, USA, Bachelor of Arts (Philosophy) from State University of New York @ Buffalo, USA and Fellowship Casualty Actuarial Society from Casualty Actuarial Society, USA. He is also a member of American Academy of Actuaries.

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended 5 out of 7 Board of Directors' meetings held during the financial year ended 31 December 2016.

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD OF DIRECTORS' PROFILE (CONTINUED)**

YBHG. DATO' LIM HEEN PEOK  
INDEPENDENT NON-EXECUTIVE DIRECTOR

YBhg. Dato' Lim Heen Peok, aged 68, is a Malaysian citizen and is an Independent Non-Executive Director of the Company. He was appointed to the Board on 7 March 2016. He is also the Chairman of the Nomination Committee, Remuneration Committee, a member of the Audit Committee and Risk Management Committee.

He obtained his BSc. Mech Engineering from University of Strathclyde, United Kingdom.

His directorships in other companies are as Director of PRG Holdings Berhad and Unitedstar Corporation Sdn. Bhd.

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended 5 Board of Directors' Meetings, out of the 6 held during his tenure for the financial year ended 31 December 2016.

BHASKARAN NATARAJAN  
NON-INDEPENDENT EXECUTIVE DIRECTOR

Bhaskaran Natarajan, aged 49, is an American citizen and was a Non-Independent Executive Director of the Company. He was appointed to the Board on 1 November 2016. He was also the Chairman of the Investment Committee.

He obtained his B.Tech (Chemical Engineering) from Indian Institute of Technology, India, M.S. (Chemical Engineering) from Northeastern University, United States and MBA (Finance/Strategy) from University of Pennsylvania The Wharton School, United States.

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended all (2 times meetings upon his appointment) Board of Directors' meetings held during his tenure for the financial year ended 31 December 2016.

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**SUBSEQUENT EVENTS**

The subsequent events after the financial year are disclosed in Note 35 to the financial statements.

**AUDITORS**

The auditors, Ernst and Young, have expressed their willingness to continue in office. Auditors' remuneration are disclosed in Note 25 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 23 March 2017.

DATO' HAJI KAMIL KHALID ARIFF  
DIRECTOR

WILLIAM MICHAEL FINN  
DIRECTOR

Kuala Lumpur,  
23 March 2017

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**Statement by directors pursuant to**  
**Section 251(2) of the Companies Act, 2016**

We, Dato' Haji Kamil Khalid Ariff and William Michael Finn, being two of the Directors of Liberty Insurance Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 31 to 142 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of the financial performance and cash flows of the Company for the financial year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 23 March 2017.

DATO' HAJI KAMIL KHALID ARIFF  
DIRECTOR

WILLIAM MICHAEL FINN  
DIRECTOR

Kuala Lumpur

**Statutory declaration pursuant to**  
**Section 251(1)(b) of the Companies Act, 2016**

I, Tan See Dip, the Officer primarily responsible for the financial management of Liberty Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 31 to 142 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 in Malaysia.

Subscribed and solemnly declared  
by the abovenamed Tan See Dip  
at Kuala Lumpur in Malaysia  
on 23 March 2017

TAN SEE DIP

Before me,

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**Independent auditors' report to the members of  
Liberty Insurance Berhad  
(Incorporated in Malaysia)**

**Report on the audit of the financial statements**

*Opinion*

We have audited the financial statements of Liberty Insurance Berhad, which comprise the statement of financial position as at 31 December 2016, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on page 31 to 142.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

*Basis for opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence and other ethical responsibilities*

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

*Information other than the financial statements and auditors' report thereon*

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

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

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**Independent auditors' report to the members of  
Liberty Insurance Berhad (continued)  
(Incorporated in Malaysia)**

*Information other than the financial statements and auditors' report thereon (continued)*

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

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

*Responsibilities of the directors for the financial statements*

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

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

*Auditors' responsibilities for the audit of the financial statements*

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

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**Independent auditors' report to the members of  
Liberty Insurance Berhad (continued)  
(Incorporated in Malaysia)**

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

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

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

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

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**Independent auditors' report to the members of  
Liberty Insurance Berhad (continued)  
(Incorporated in Malaysia)**

**Other matters**

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

Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
23 March 2017

Brandon Bruce Sta Maria  
No. 2937/09/17(J)  
Chartered Accountant



**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
<b>ASSETS</b>			
Property and equipment	4(a)	60,160	62,253
Intangible assets - software	4(b)	5,572	4,490
Non-current assets held for sale	5	-	461
Investment properties	6	54,028	53,628
Available-for-sale financial assets	7	344,650	161,164
Loans and receivables	8	711,295	880,551
Reinsurance assets	10	165,320	172,268
Insurance receivables	11	28,023	33,281
Deferred tax assets	9	500	-
Deferred acquisition costs	12	29,760	27,943
Cash and short term deposits	13	88,929	8,429
Total assets		<u>1,488,237</u>	<u>1,404,468</u>
<b>EQUITY AND LIABILITIES</b>			
Share capital	14	100,000	100,000
Other reserves	15	16,444	17,873
Retained earnings	16	416,266	345,455
Total equity		<u>532,710</u>	<u>463,328</u>
<b>LIABILITIES</b>			
Insurance contract liabilities	17	844,342	793,253
Deferred tax liabilities	9	-	2,400
Deferred acquisition costs - reinsurance	12	5,143	5,016
Insurance payables	18	40,448	73,958
Other payables	19	56,345	57,409
Tax liabilities		9,249	9,104
Total liabilities		<u>955,527</u>	<u>941,140</u>
Total equity and liabilities		<u>1,488,237</u>	<u>1,404,468</u>

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

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
Gross written premiums		623,419	585,518
Change in premium liabilities		(11,993)	(18,998)
Gross earned premiums (a)		611,426	566,520
Reinsurance premiums ceded		(127,388)	(130,112)
Change in premium liabilities		(1,047)	(6,267)
Premiums ceded to reinsurers (b)		(128,435)	(136,379)
Net earned premiums (a) - (b)		482,991	430,141
Investment income	20	39,981	36,108
Realised gains and losses	21	346	13
Net fair value (losses)/gains	22	(30)	3,674
Commission income	23	36,276	32,241
Other operating income	24	8,441	4,994
Other revenue		85,014	77,030
Gross claims paid		(302,950)	(281,729)
Claims ceded to reinsurers		60,042	65,546
Gross change to claims liabilities		(39,096)	(20,269)
Change in claims liabilities ceded to reinsurers		(5,901)	(27,700)
Net claims incurred		(287,905)	(264,152)
Commission expense	23	(65,991)	(61,585)
Management expenses	25	(120,735)	(107,649)
Other expenses		(186,726)	(169,234)
Profit before taxation		93,374	73,785
Tax expense	26	(22,880)	(19,759)
Net profit for the financial year		70,494	54,026
Basic and diluted earnings per share (sen)	27	70.49	54.03

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

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
Net profit for the financial year		<u>70,494</u>	<u>54,026</u>
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
<u>Asset revaluation reserve</u>			
Revaluation surplus on self-occupied properties	4(a)	276	2,430
Tax effect on revaluation surplus		<u>(61)</u>	<u>(264)</u>
		<u>215</u>	<u>2,166</u>
Item that may be subsequently reclassified to profit or loss:			
<u>Available-for-sale ("AFS") reserve</u>			
Fair value loss of AFS financial assets	7	(1,846)	(1,296)
Tax effect on fair value loss of AFS financial assets	9	443	290
		<u>(1,403)</u>	<u>(1,006)</u>
Total comprehensive income for the financial year		<u>69,306</u>	<u>55,186</u>

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

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**LIBERTY INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Issued and fully paid ordinary shares of RM1 each		Non-distributable		Distributable	Total RM'000
	Number of shares 000	Nominal value RM'000	Asset revaluation reserve RM'000	AFS reserve RM'000	Retained earnings RM'000	
At 1 January 2015	100,000	100,000	18,329	(1,616)	291,429	408,142
Total comprehensive income for the financial year	-	-	2,166	(1,006)	54,026	55,186
At 31 December 2015	100,000	100,000	20,495	(2,622)	345,455	463,328
At 1 January 2016	100,000	100,000	20,495	(2,622)	345,455	463,328
Total comprehensive income for the financial year	-	-	215	(1,403)	70,494	69,306
Transfer from asset revaluation reserve to retained earnings upon disposal of property	-	-	(241)	-	241	-
Tax effect of the transfer of asset revaluation reserve to retained earnings upon disposal of property	-	-	-	-	76	76
At 31 December 2016	100,000	100,000	20,469	(4,025)	416,266	532,710

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

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the financial year		70,494	54,026
<u>Adjustment for non-cash items:</u>			
Property and equipment			
- depreciation	4(a)	4,770	3,708
- (gain)/loss on disposal	21	(387)	41
- written off	4(a)	39	100
Amortisation of intangible assets	4(b)	214	164
Net fair value losses/(gains) on investment properties	6	30	(3,674)
Interest income	20	(40,469)	(36,207)
Net rental expenses	20	659	185
Net accretion of discounts	20	(171)	(86)
(Write back of)/provision for impairment allowance on insurance receivables	25	(1,773)	1,626
Recoveries of bad debts written off	25	(98)	(50)
Provision for post-employment benefit obligations		-	5
Tax expense	26	22,880	19,759
		<u>56,188</u>	<u>39,597</u>
Purchase of available-for-sale financial assets	7(b)	(191,422)	(69,495)
Proceeds from maturity of available-for-sale financial assets	7(b)	8,155	40,131
Interest income received		35,063	28,304
Net rental expenses	20	(659)	(185)
Payment of post-employment benefit obligations		-	(792)
Decrease in reinsurance assets	10	6,948	33,967
Decrease in insurance receivables		7,129	6,848
Increase in deferred acquisition costs	12	(1,817)	(1,629)
Decrease in insurance payables	18	(33,510)	(12,073)
Increase in insurance contract liabilities	17	51,089	39,267
Decrease/(Increase) in loans and receivables		172,768	(91,164)
Decrease/(Increase) in other payables	19	(1,064)	363
Increase/(Decrease) in deferred acquisition costs - reinsurance	12	127	(888)
Cash generated from operating activities		108,995	12,251
Income tax paid		(25,177)	(15,820)
Tax refund		-	2,428
Net cash inflows/(outflows) from operating activities		<u>83,818</u>	<u>(1,141)</u>

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	4(a)	(2,682)	(3,980)
Purchase of intangible assets - software	4(b)	(1,296)	(1,050)
Purchase of investment property	6	(430)	(1,290)
Proceeds from disposal of property and equipment	4(a) & 5	1,090	62
Net cash outflows from investing activities		<u>(3,318)</u>	<u>(6,258)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		80,500	(7,399)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>			
		<u>8,429</u>	<u>15,828</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>			
	13	<u>88,929</u>	<u>8,429</u>

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

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION**

The Company is principally engaged in the underwriting of all classes of general insurance business. The registered office of the Company is located at 9th Floor, Menara Liberty, 1008 Jalan Sultan Ismail, 50250 Kuala Lumpur.

There have been no significant changes in the nature of the principal activities during the financial year.

The immediate holding company is Liberty Seguros, Compania de Seguros y Reaserguros, S.A. ("Liberty Seguros"), a company incorporated in Spain. The ultimate holding company is Liberty Mutual Group Inc., a company incorporated in the United States of America.

The financial statements were authorised for issuance by the Board of Directors in accordance with a resolution of the Directors on 23 March 2017.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies, unless otherwise stated below, 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 under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the provisions of the Companies Act, 1965 in Malaysia.

The preparation of financial statements in conformity with MFRS requires the use of critical accounting estimates and assumptions that affect the reported amount 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 the financial year. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of preparation (continued)**

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

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

The financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency.

As at the reporting date, the Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework issued by Bank Negara Malaysia ("BNM").

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

The Company has adopted the new, improved and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2016 during the financial year ended 31 December 2016.

The adoption of the new, improved and amended MFRSs disclosed in Note 2(b)(i) during the year has not resulted in any material financial impact to the financial statements.



**LIBERTY INSURANCE BERHAD**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Amendments to Malaysian Financial Reporting Standards**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

**(i) Standards effective in current financial year**

On 1 January 2016, the Company adopted the following new, improved and amended MFRSs, which are mandatory for annual financial periods beginning on or after 1 January 2016.

Description	Effective for annual financial periods beginning on or after
Annual Improvements to MFRSs 2012 -2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Changes to Malaysian Financial Reporting Standards**

**(i) Standards issued but not yet effective**

The following are standards, amendments to Standards and Interpretation issued by the Malaysian Accounting Standard Board ("MASB"), but not yet effective, up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards, amendments to standards and interpretation, if applicable, when they become effective:

Description	Effective for annual financial periods beginning on or after
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The Directors expect that the adoption of the above standards, amendments to standards and interpretation will have no material impact on the financial statements in the period of initial application except as discussed below:

**LIBERTY INSURANCE BERHAD**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Changes to Malaysian Financial Reporting Standards (continued)**

**(i) Standards issued but not yet effective (continued)**

**MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)**

The amendments to MFRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the Company

**MFRS 9 Financial Instruments**

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The adoption of MFRS 9 will have an impact on the classification and measurement of the Company's financial assets, but with no impact on the classification and measurement on the Company's financial liabilities. The Company is currently assessing the impact of MFRS 9 and is considering the options available as allowed under Amendments to MFRS 4.

**MFRS 16 Leases**

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Changes to Malaysian Financial Reporting Standards (continued)**

**(i) Standards issued but not yet effective (continued)**

**MFRS 16 Leases (continued)**

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Company is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

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

In December 2016, the MASB issued amendments to MFRS 4 to address issues arising from the different effective dates of MFRS 9 and the upcoming new insurance contracts standard (MFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of MFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if:

- (i) it has not previously applied any version of MFRS 9 before; and
- (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Changes to Malaysian Financial Reporting Standards (continued)**

**(i) Standards issued but not yet effective (continued)**

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

The overlay approach allows an entity applying MFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied MFRS139 to these designated financial assets. An entity can apply the temporary exemption from MFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies MFRS 9 for the first time. The Company meets the exemption requirement under the Amendment and is considering the options available.

**(d) Property and equipment and depreciation**

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

All items of property and equipment are initially recorded at cost. Subsequent cost is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the period in which they are incurred.

Land and buildings, which are substantially occupied by the Company for its operations, are classified under property and equipment.

Land and buildings are initially stated at cost and are subsequently revalued by independent registered valuers base on the highest and best use of the properties to reflect the fair value of the properties. These properties are revalued at regular intervals of at least once in every three years and with additional valuation in the intervening years to ensure that the carrying amount does not differ materially from the fair value of the properties at the financial year end reporting date.

When the land and buildings are revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated as the revalued amount of the asset.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Property and equipment and depreciation (continued)**

The surplus arising from revaluation of these properties is credited to an asset revaluation reserve account except that a surplus, to the extent that such surplus is related to and not greater than a deficit arising on revaluation previously recorded as an expense, is credited to the statement of income. A deficit arising from revaluation of these properties is recognised as an expense except that, a deficit, to the extent that such a deficit is related to a surplus which was previously recorded as a credit to the asset revaluation reserve account and which has not been subsequently reversed or utilised, it is charged directly to that account.

Freehold land is not depreciated as it has infinite life. No depreciation is provided for work-in-progress as it is not ready for active use. Other property and equipment are depreciated on the straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives, summarised as follows:

Leasehold land	Over the remaining period of the lease
Freehold buildings	50 years
Leasehold buildings	50 years
Motor vehicles	5 years
Furniture and fittings	10 years
Office equipment	10 years
Office renovation	10 years
Computer equipment	5 years

The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 2(i) for the accounting policy on impairment of non-financial assets).

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its used or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the statement of income. On disposal of revalued assets, the amounts in the asset revaluation reserve relating to the assets are transferred to retained earnings.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Intangible assets – software**

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised internal-use software costs include external direct costs of materials and services consumed in developing or obtaining the software, payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the project is substantially completed and ready for its intended purpose. These costs are amortised over their expected useful life of 5 years on a straight-line basis, with the useful lives being reviewed annually.

**(f) Non-current assets held for sale**

Non-current asset is classified as asset held for sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

**(g) Investment properties**

Investment properties, comprising principally of land and buildings, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Company.

Investment properties are initially stated at cost including related and incidental expenditure incurred, and are subsequently carried at fair value, representing open-market value determined by independent accredited valuer. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are revalued at regular intervals of at least once in every three years and with additional valuation in the intervening years to ensure that the carrying amount does not differ materially from the fair value of the properties at the financial year end reporting date. Changes in fair values are recorded in the statement of income in the year in which they arise.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised. The difference between the net disposal proceeds and the carrying amount is recognised in the statement of income in the year of the retirement or disposal.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Leases**

Assets leased by the Company where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating lease by the Company (less of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

**(i) Financial assets and financial liabilities**

The Company classifies its financial assets into the following categories: loans and receivables and available-for-sale financial assets. Classification of the financial asset is determined at initial recognition and relates to the purpose for which the financial asset was acquired.

**(i) Loans and receivables ("LAR")**

LAR is non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial assets. After initial measurement, LAR is measured at amortised cost, using effective yield method, less allowance for impairment. Gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

**(ii) Available-for-sale ("AFS") financial assets**

AFS financial assets are non-derivative financial assets that are not classified as fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") or LAR. AFS financial assets are initially recognised at fair value. After initial measurement, AFS financial assets are re-measured at fair value. Fair value gains and losses of those financial assets are reported in the statement of other comprehensive income until the investment is derecognised or investment is determined to be impaired. When these AFS financial assets are sold or impaired, the cumulative fair value gains and losses previously recognised in the other comprehensive income are transferred to the statement of income as net realised gains or losses on AFS financial assets.

Investment in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.



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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Financial assets and financial liabilities (continued)**

**(iii) Financial liabilities**

Financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual obligations of the financial instruments.

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Gains and losses are recognised in the statement of income.

**(iv) Derecognition of financial assets and liabilities**

A financial asset is derecognised when:

- The contractual right to receive cash flows from the financial asset has expired;
- The Company retains the contractual right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party; or
- The Company has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Financial assets and financial liabilities (continued)**

**(iv) Derecognition of financial assets and liabilities (continued)**

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the statement of income. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

**(j) Impairment**

**(i) Financial assets, excluding insurance receivables**

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

**(a) Financial assets carried at amortised cost**

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the 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 been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Impairment (continued)**

**(i) Financial assets, excluding insurance receivables (continued)**

**(a) Financial assets carried at amortised cost (continued)**

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 asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the group of the financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each date of the statement of financial position.

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 by adjusting the allowance account. The amount of the reversal is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**(b) Financial assets carried at cost**

If there is objective evidence that an impairment loss on financial assets carried at cost (e.g. unquoted equity instruments or which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed in subsequent periods.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Impairment (continued)**

**(i) Financial assets, excluding insurance receivables (continued)**

**(c) Financial assets carried at fair value**

In the case of AFS financial asset, a significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the statement of income is transferred from other comprehensive income to the statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income. Impairment losses previously recognised in the statement of income on equity instruments are not reversed through the statement of income.

**(ii) Insurance receivables**

Insurance receivables at each reporting date are assessed for any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

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. These processes are described in Note 2(j)(i)(a).

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Impairment (continued)**

**(iii) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is charged to the statement of income immediately. A subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the statement of income immediately.

**(k) Insurance receivables**

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

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

**(l) Cash and short term deposits**

Cash and short term deposits consist of cash on hand, bank balances and short term deposit which have original remaining tenure of less than three months that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash and short term deposits exclude fixed and call deposits which are held for investment purpose.

**LIBERTY INSURANCE BERHAD**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Insurance payables and other payables**

Insurance payables and other payables are recognised when due and measured on initial recognition at the fair value less directly attributable transaction costs. Subsequent to the initial recognition, they are measured at amortised cost using the effective yield method.

Insurance payables and other payables are derecognised when the obligation under the liability is settled, cancelled or expired.

**(n) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

**(o) Share capital**

**(i) Classification**

Ordinary shares are classified as equity.

**(ii) Dividends to shareholders of the Company**

Dividends are recognised as liabilities and deducted from equity when the obligation to pay is established in which the dividends are declared and approved by the Company's shareholders. No provision is made for a proposed dividend.

**LIBERTY INSURANCE BERHAD**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(p) Product classification**

**The Company issues contracts that transfer insurance risk**

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the 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.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

**(q) General insurance underwriting results**

The general insurance underwriting results are determined for each class of business after taking into account reinsurance, commissions, premium liabilities and claims liabilities.

**(i) Premium income**

Premium income is recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year upon the issuance of insurance policies. Premiums in respect of risks incepted for which policies have not been issued as of the date of the statement of financial position are accrued at that date.

Inwards facultative reinsurance premiums are recognised in the financial period in respect of the facultative risk assumed during the particular financial year, as in the case of direct policies, following the individual risks' inception dates.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

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

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) General insurance underwriting results (continued)**

**(ii) Claims liabilities**

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

Provision for claims liabilities is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the balance sheet date. Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the date of statement of financial position, based on an actuarial valuation.

**(iii) Acquisition costs**

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

**(iv) Deferred acquisition cost ("DAC")**

DAC is calculated based on the methodology prescribed by BNM on the computation of unearned premium reserves ("UPR").

The gross DAC at the date of the statement of financial position is computed as follows:

- (i) 25% method for marine cargo, aviation cargo and transit;
- (ii) gross premiums under 1/24th method for all other classes of Malaysian general policies multiplied by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM;
- (iii) gross premiums under 1/8th method for all classes of overseas inward business multiplied by 20% for acquisition costs; and
- (iv) gross premiums under time apportionment method for policies with insurance periods other than 12 months multiplied by the corresponding percentage of gross commission.



**LIBERTY INSURANCE BERHAD**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) General insurance underwriting results (continued)**

**(iv) Deferred acquisition cost (“DAC”) (continued)**

The reinsurance DAC at the date of the statement of financial position is computed as follows:

- (i) reinsurance premiums ceded which are allowed under 25% method for marine cargo, aviation cargo and transit;
- (ii) reinsurance premiums ceded which are allowed under 1/24th method for all other classes of Malaysian general policies multiplied by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM;
- (iii) reinsurance premiums ceded which are allowed under 1/8th method for all classes of overseas inward business multiplied by 20% for acquisition costs;
- (iv) reinsurance premiums ceded which are allowed under time apportionment method for policies with insurance periods other than 12 months multiplied by the corresponding percentage of gross commission.

**(v) Reinsurance**

The Company cedes insurance risk in the normal course of business for all of its business. Reinsurance assets represent balances due from reinsurance companies for insurance contract liabilities which have yet to be settled as at the reporting date. Reinsurance assets are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

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

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

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

**LIBERTY INSURANCE BERHAD**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) General insurance underwriting results (continued)**

**(v) Reinsurance (continued)**

The Company also assumes reinsurance risk in the normal course of business when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

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

**(vi) Insurance contract liabilities**

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged. The valuation of general insurance contract liabilities is in accordance with the Risk-Based Capital Framework for Insurers issued by BNM.

These liabilities comprise premium liabilities and claims liabilities.

**Premium liabilities**

Premium liabilities are 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. The best estimate value 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 allows for expected future premium refunds.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) General insurance underwriting results (continued)**

**(vi) Insurance contract liabilities (continued)**

**Premium liabilities (continued)**

UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year. Generally, the UPR is released over the term of the contract and is recognised as premium income.

In determining the UPR at the date of the statement of financial position, the method that most accurately reflects the actual unearned premium is used, as follows:

- (i) 25% method for marine cargo, aviation cargo and transit;
- (ii) 1/24th method for all other classes of Malaysian general policies reduced by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM;
- (iii) 1/8th method for all other classes of overseas inward business with a deduction of 20% for acquisition costs; and
- (iv) time apportionment method for policies with insurance periods other than 12 months.

**Claims liabilities**

Claims liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the date of the 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 the 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 that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserve is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) General insurance underwriting results (continued)**

**(vii) Liability adequacy test on insurance contract liabilities**

PRAD is calculated at overall Company level and is an additional component of liability value aimed at ensuring the value of insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the liability will ultimately be sufficient. For the purpose of insurance contract liabilities valuation, the level of confidence is set at 75% at an overall Company level.

At each date of the statement of financial position, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and DAC over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking into account the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the statement of income initially by writing off DAC and by subsequently establishing a provision for liability adequacy.

**(r) Other revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

Other interest income, including the amortisation of premiums and accretion of discounts, is recognised on a time proportion basis that takes into account the effective yield of the asset.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(r) Other revenue recognition (continued)**

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

Rental income is recognised on a time proportion basis except where default in payment of rent has already occurred and rent due remains outstanding, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

Gains or losses arising on disposal of financial assets are credited or charged to the statement of income.

**(s) Employee benefits**

**(i) Short term employee benefits**

Wages, salaries, paid annual leave and sick leave, bonuses, social security contributions and non-monetary benefits are recognised as an expense in the period in which the associated services are rendered by employees of the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined contribution plan**

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). The Company's contributions to the defined contribution plan are charged to the statement of income in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligation.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(s) Employee benefits (continued)**

**(iii) Defined benefit plan**

A defined benefit plan is a pension plan that is not a defined contribution plan.

Defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the statement of income.

**(iv) Termination benefits**

Termination benefits are payable to an entitled employee whenever the employment has to be terminated before the normal retirement date or when the employee accepts voluntary separation in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

**(t) Income taxes**

Income tax on the statement of income comprises current tax and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profits for the financial year and is measured using the tax rates that have been enacted at the date of the statement of financial position. Current tax is recognised in the statement of income.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(t) Income taxes (continued)**

Deferred tax is provided for using the liability method, on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax is recognised in the statement of income, except when it arises from a transaction which is recognised in other comprehensive income, in which case the deferred tax is also charged or credited to other comprehensive income.

**(u) Foreign currencies**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is also the functional and presentation currency of the Company.

Foreign currency transactions are translated into Ringgit Malaysia at the rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities at the date of the statement of financial position are translated at the rates of exchange prevailing at reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in the statement of income.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(u) Foreign currencies (continued)**

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the statement of income for the year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

**(v) Contingent liabilities and contingent assets**

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

**(w) Fair value estimation for disclosure purpose**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transactions to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the assets or liability, assuming that market participants act in their economic best interest.



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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(w) Fair value estimation for disclosure purpose (continued)**

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. An annual valuation is performed to reflect the fair value of the Company's self-occupied and investment properties. At the end of each financial year, management appoints independent accredited property valuers to perform the annual valuation.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The basis of estimation of fair values for financial instruments is as follows:

- (i) The fair values of unquoted corporate debt securities are based on the indicative market prices obtained from Bond Pricing Agency Malaysia ("BPAM").
- (ii) The fair values of fixed rate loans are estimated by discounting future expected cash flows, taking into consideration market conditions and contractual terms of these loans.
- (iii) The carrying amounts for other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.
- (iv) Fair value information has not been disclosed for the Company's investment in equity instruments that are carried at cost because fair value cannot be measured reliably. These equity instruments represent ordinary and preference shares in companies that are not quoted on any market and do not have any comparable industry peer that is listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant.

Fair value measurements are classified using a fair value hierarchy based on the observability of the inputs used in the fair value measurement.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole at the end of each reporting period.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed in accordance with the adopted accounting policies.

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)****2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(x) Goods and Service Tax ("GST")**

GST is a multistage consumption tax on domestic consumption. For the Company, revenues, expenses and assets are recognised net of the amount of GST except where GST incurred on the purchase of assets or services is not recoverable from the tax authority, in which case GST is recognised as part of the expense item as applicable. Receivable and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the tax authority is included as part of the net receivables and payables in the statement of financial position.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

**3.1 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

**(i) Valuation of general insurance contract liabilities**

The principal uncertainty in the Company's general insurance business arises from the technical provisions which include premium and claim liabilities. Premium liabilities are recorded as the higher of UPR or URR while claim liabilities are mainly comprise of estimates for both the expected ultimate cost of claims reported at the date of the statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR").

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of liabilities in the statement of financial position. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projections techniques, such as the Chain Ladder and the Bornhuetter-Ferguson methods.

The main assumptions underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs.

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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**3.1 Critical accounting estimates and assumptions (continued)**

**(i) Valuation of general insurance contract liabilities (continued)**

As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines and claims types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development date on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitude to claiming, economic conditions, level of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all the uncertainties involved.

At each reporting date, the estimates of premium and claim liabilities are re-assessed for adequacy by an appointed actuary and changes will be reflected as adjustments to these liabilities. The appointment of the appointed actuary is approved by BNM.

**(ii) Pipeline Premium**

The estimation of pipeline premiums made by management is based on average actual pipeline premium booked in during the year. As estimations are inherently uncertain, actual premium may differ from the estimated premiums. Management revises its estimates of pipeline premium based on average monthly trends for policy issuance turnaround time.

**3.2 Critical judgement in applying the entity's accounting policies**

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Company. The Directors are of the view that currently there are no accounting policies which require significant judgement to be exercised, other than those disclosed in the following notes:

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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**3.2 Critical judgement in applying the entity's accounting policies (continued)**

**(i) Income and deferred taxes**

Significant judgement is required determining the income and deferred taxes applicable to the Company's business. The Company recognises tax liabilities on anticipated issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**(ii) Impairment of AFS financial assets**

Significant judgement is required to assess impairment for AFS financial assets. The Company evaluates the duration and extent to which the fair value of an investment is less than cost, the financial health and near term business outlook for the investee, including but not limited to factors such as industry and sector performance, changes in technology and operational and financial cash flow.

These factors are inherently subjective and management is required to exercise judgement to determine if an AFS financial asset is impaired as well as the estimation of the recoverable value of AFS financial assets against which the carrying value is compared to determine the impairment loss to be recognised in the financial statements.

**(iii) Impairment of receivables**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company complies with BNM's Guidelines on Financial Reporting for Insurers (BNM/RH/STD032-5). In line with the requirements of the Guidelines, where receivables that are individually assessed for impairment is past due for more than 90 days or 3 months, objective evidence of impairment is deemed to exist. Accordingly, management will assess such receivables to determine if an impairment event has occurred. Other factors considered by the Company are probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where evidence exists that a receivable is impaired, the Company will recognise the impairment loss in the statement of income.

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**4(a) PROPERTY AND EQUIPMENT**

	Freehold land RM'000	Long term leasehold land RM'000	Freehold buildings RM'000	Long term leasehold building RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Office renovation RM'000	Computer equipment RM'000	Work in progress RM'000	Total RM'000
Net book value											
at 1 January 2016	2,526	14,147	2,724	34,894	410	2,714	952	2,611	1,238	37	62,253
Additions at cost	-	-	-	-	52	134	89	980	1,427	-	2,682
Disposal at net book value	-	-	-	(242)	-	-	-	-	-	-	(242)
Write-offs at net book value (Note 24)	-	-	-	-	-	(12)	(22)	(5)	-	-	(39)
Reclassification of assets	-	-	-	-	-	-	-	37	-	(37)	-
Depreciation charge for the financial year	-	(204)	(115)	(1,036)	(39)	(946)	(154)	(435)	(1,841)	-	(4,770)
Revaluation surplus /(deficit) recognised in other comprehensive income	-	464	185	(373)	-	-	-	-	-	-	276
Net book value at 31 December 2016	<u>2,526</u>	<u>14,407</u>	<u>2,794</u>	<u>33,243</u>	<u>423</u>	<u>1,890</u>	<u>865</u>	<u>3,188</u>	<u>824</u>	<u>-</u>	<u>60,160</u>
<u>At 31 December 2016</u>											
Cost	-	-	-	-	726	5,088	3,828	12,261	11,502	-	33,405
Valuation	2,526	14,407	2,794	33,243	-	-	-	-	-	-	52,970
Accumulated depreciation	-	-	-	-	(303)	(3,198)	(2,963)	(9,073)	(10,678)	-	(26,215)
Net book value	<u>2,526</u>	<u>14,407</u>	<u>2,794</u>	<u>33,243</u>	<u>423</u>	<u>1,890</u>	<u>865</u>	<u>3,188</u>	<u>824</u>	<u>-</u>	<u>60,160</u>

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**LIBERTY INSURANCE BERHAD**  
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**4(a) PROPERTY AND EQUIPMENT (CONTINUED)**

	Freehold land RM'000	Long term leasehold land RM'000	Freehold buildings RM'000	Long term leasehold building RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Office renovation RM'000	Computer equipment RM'000	Work in progress RM'000	Total RM'000
Net book value											
at 1 January 2015	2,506	14,160	2,652	34,342	280	1,677	1,018	2,102	1,478	1,586	61,801
Additions at cost	-	-	-	-	320	1,325	102	806	1,390	37	3,980
Disposal at net book value	-	-	-	-	(103)	-	-	-	-	-	(103)
Write-offs at net book value (Note 24)	-	-	-	-	-	(96)	(3)	-	(1)	-	(100)
Reclassification of assets	-	-	-	-	-	-	(3)	-	3	-	-
Depreciation charge for the financial year	-	(203)	(110)	(1,025)	(87)	(192)	(162)	(297)	(1,632)	-	(3,708)
Revaluation surplus recognised in other comprehensive income	20	409	182	1,819	-	-	-	-	-	-	2,430
Transferred to non-current assets held for sale (Note 5)	-	(219)	-	(242)	-	-	-	-	-	-	(461)
Transferred to investment properties (Note 6)	-	-	-	-	-	-	-	-	-	(1,586)	(1,586)
Net book value at 31 December 2015	<u>2,526</u>	<u>14,147</u>	<u>2,724</u>	<u>34,894</u>	<u>410</u>	<u>2,714</u>	<u>952</u>	<u>2,611</u>	<u>1,238</u>	<u>37</u>	<u>62,253</u>
<u>At 31 December 2015</u>											
Cost	-	-	-	-	674	5,164	3,859	11,255	10,166	37	31,155
Valuation	2,526	14,147	2,724	34,894	-	-	-	-	-	-	54,291
Accumulated depreciation	-	-	-	-	(264)	(2,450)	(2,907)	(8,644)	(8,928)	-	(23,193)
Net book value	<u>2,526</u>	<u>14,147</u>	<u>2,724</u>	<u>34,894</u>	<u>410</u>	<u>2,714</u>	<u>952</u>	<u>2,611</u>	<u>1,238</u>	<u>37</u>	<u>62,253</u>

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**4(a) PROPERTY AND EQUIPMENT (CONTINUED)**

During the year, the Company changed the useful life of furniture and fittings from 20 years to 10 years. The effect of this change was RM649,379 and is treated as a change in accounting estimate.

During the current financial year, the Company revalued its self-occupied freehold and long term leasehold land and buildings based on independent valuation performed by Rahim & Co. Chartered Surveyors Sdn. Bhd., an accredited independent valuer.

Recurring fair value measurements

All freehold and long term leasehold properties of the Company are classified within Level 3 of the fair value hierarchy. The fair values for all the properties have been derived using the sales comparison approach as allowed under MFRS 13: Fair Value Measurement. Sales prices of comparable land and buildings, rentals and yields of similar properties in close proximity are adjusted for differences in key attributes such as property size, location and quality of the building. The most significant input used in the sales comparison approach is price per square foot of comparable properties while the most significant inputs into investment approach is yields and rental rates per square foot of comparable properties.

Had the freehold and long-term leasehold land and buildings been carried at historical cost less accumulated depreciation, the carrying amounts that would have been included in the financial statements at the end of the year are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Freehold land and buildings	1,766	1,843
Long-term leasehold land and buildings	24,513	25,556
	<u>26,279</u>	<u>27,399</u>

The long-term leasehold land and buildings have unexpired lease periods ranging from 62 years to 878 years (2015: 63 years to 879 years).

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**4(a) PROPERTY AND EQUIPMENT (CONTINUED)**

**(a) Fair value hierarchy of Properties**

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3):

<b>2016 Description</b>	<b>Fair Value RM'000</b>	<b>Valuation techniques</b>	<b>Unobservable inputs</b>	<b>Range</b>
Freehold land and buildings	5,320	Comparison approach	Estimated Value p.s.f	RM124 - RM460
Long term leasehold land and buildings	47,650	Comparison approach	Estimated Value p.s.f	RM59 - RM696
<b>2015 Description</b>				
Freehold land and buildings	5,250	Comparison approach	Estimated Value p.s.f	RM126 - RM477
Long term leasehold land and buildings	49,041	Comparison approach	Estimated Value p.s.f	RM48 - RM881

An increase or decrease in the unobservable inputs used in the valuation might result in a correspondingly higher or lower fair value measurement.



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**4(a) PROPERTY AND EQUIPMENT (CONTINUED)**

**(b) Movements in properties measured at fair value:**

The following table presents the reconciliation for all self-occupied properties measured at fair value based on significant unobservable inputs (Level 3), as disclosed in Note 4(a):

	<b>Self-occupied properties Fair value measurements using significant unobservable inputs (Level 3)</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Opening balance	54,291	53,660
Depreciation for the financial year	(1,355)	(1,338)
Transferred to non current assets held for sale	-	(461)
Disposal	(242)	-
Revaluation surplus recognised in other comprehensive income	276	2,430
Closing balance	<u>52,970</u>	<u>54,291</u>

During the current financial year, the Company completed the disposal of certain leasehold land and building to a third party for a total cash consideration of RM250,000.

	<b>Self-occupied properties Fair value measurements using significant unobservable inputs (Level 3)</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>Total gain for the year included in:</b>		
Statement of Comprehensive Income		
- Revaluation surplus on self-occupied properties	<u>276</u>	<u>2,430</u>

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**4(b) INTANGIBLE ASSETS - SOFTWARE**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Cost	11,804	10,148
Accumulated amortisation	(6,232)	(6,018)
Work in progress	-	360
Net book value	<u>5,572</u>	<u>4,490</u>
<u>Net book value</u>		
At beginning of the financial year	4,490	3,604
Additions at cost	1,296	690
Amortisation for the financial year	(214)	(164)
Work in progress	-	360
At end of the financial year	<u>5,572</u>	<u>4,490</u>

**5. NON-CURRENT ASSETS HELD FOR SALE**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Non-current assets held for sale:		
Long term leasehold land (Note 4(a))	-	219
Long term leasehold building (Note 4(a))	-	242
	<u>-</u>	<u>461</u>

During the current financial year, the Company completed the disposals of certain leasehold land and building to a third party for a total cash consideration of RM840,000.

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**6. INVESTMENT PROPERTIES**

	<b>Freehold land and building RM'000</b>	<b>Leasehold land and building RM'000</b>	<b>Total RM'000</b>
At fair value:			
At 1 January 2015	11,950	35,128	47,078
Transferred from work in progress (Note 4(a))	-	1,586	1,586
Additions at cost	-	1,290	1,290
Net fair value gains (Note 22)	3,350	324	3,674
At 31 December 2015/1 January 2016	<u>15,300</u>	<u>38,328</u>	<u>53,628</u>
 Additions at cost	 -	 430	 430
Net fair value losses (Note 22)	-	(30)	(30)
At 31 December 2016	<u>15,300</u>	<u>38,728</u>	<u>54,028</u>

During the current financial year, the Company revalued its freehold and long term leasehold properties which are held as investment properties based on independent valuation performed by Rahim & Co. Chartered Surveyors Sdn. Bhd., an independent accredited valuer.

The above table presents the reconciliation for all investment properties measured at fair value from opening balance to closing balance based on significant unobservable inputs (Level 3).

Recurring fair value measurements

All freehold and long term leasehold properties of the Company are classified within Level 3 of the fair value hierarchy. The fair values for all the properties have been derived using either the sales comparison approach or the investment approach as allowed under MFRS 13: Fair Value Measurement. Sales prices of comparable land and buildings, rentals and yields of similar properties in close proximity are adjusted for differences in key attributes such as property size, location and quality of the building. The most significant input used in the sales comparison approach is price per square foot of comparable properties while the most significant inputs into investment approach are yields and rental rates per square foot of comparable properties.

The titles to the freehold land and buildings included in investment properties of the Company with carrying value of RM15,300,000 (2015: RM15,300,000) are in the process of being transferred to the Company. Risks, rewards and effective titles to these properties have been passed to the Company upon unconditional completion of the acquisition of those properties. The Company has submitted the relevant documents to the land authorities for transfer of legal titles to the Company and is awaiting the process and finalisation of this transfer to be completed.

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**6. INVESTMENT PROPERTIES (CONTINUED)**

**(a) Fair value hierarchy of Investment Properties**

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3):

<b>2016 Description</b>	<b>Fair Value RM'000</b>	<b>Valuation techniques</b>	<b>Unobservable inputs</b>	<b>Range</b>
Commercial properties	8,800	Comparison approach	Estimated Value p.s.f	RM390 - RM569
Commercial properties	38,728	Comparison approach	Estimated Value p.s.f	RM515 - RM1300
Commercial land	6,500	Comparison approach	Estimated Value p.s.f	RM66 - RM101
<b>2015 Description</b>				
Commercial properties	8,800	Income approach	Rental per square foot ("p.s.f") per month Long -term vacancy rate Discount rate	RM3.15 - RM3.50 5% 5.5% - 6.0%
Commercial properties	38,328	Comparison approach	Estimated Value p.s.f	RM466 - RM1,061
Commercial land	6,500	Comparison approach	Estimated Value p.s.f	RM63 - RM92

An increase or decrease in the unobservable inputs used in the valuation might result in a correspondingly higher or lower fair value measurement.

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**6. INVESTMENT PROPERTIES (CONTINUED)**

**(a) Fair value hierarchy of Investment Properties (continued)**

	Investment Properties Fair value measurements using significant unobservable inputs (Level 3)	
	2016 RM'000	2015 RM'000
<b>Total (loss)/gain for the year included in:</b>		
Statement of Income		
- Net fair value (losses)/gains on investment properties	(30)	3,674

**7. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

**(a) Available-for-sale ("AFS") financial assets comprise the following investments:**

	2016 RM'000	2015 RM'000
<u>AFS financial assets</u>		
Malaysian government papers	170,653	30,711
Unquoted equity securities in Malaysia	36	39
Unquoted corporate debt securities in Malaysia	173,961	130,414
	<u>344,650</u>	<u>161,164</u>

**(b) Carrying value of AFS financial assets**

	AFS RM'000	Total RM'000
At 1 January 2015	132,562	132,562
Purchases	69,495	69,495
Maturity/Disposal	(40,131)	(40,131)
Accretion of discounts, net of amortisation of premium	86	86
Movement in accrued interest	371	371
Fair value loss recorded in:		
- Other comprehensive income	(1,258)	(1,258)
At 31 December 2015/1 January 2016	<u>161,125</u>	<u>161,125</u>

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**7. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)**

**(b) Carrying value of AFS financial assets (continued)**

	<b>AFS RM'000</b>	<b>Total RM'000</b>
Purchases	191,422	191,422
Maturity/Disposal	(8,155)	(8,155)
Accretion of discounts, net of amortisation of premium	171	171
Movement in accrued interest	1,894	1,894
Fair value loss recorded in:		
- Other comprehensive income	(1,843)	(1,843)
At 31 December 2016	<u>344,614</u>	<u>344,614</u>

**(c) Carrying value of AFS financial assets - Unquoted equity**

	<b>AFS RM'000</b>	<b>Total RM'000</b>
At 1 January 2015	77	77
Fair value loss recorded in:		
- Other comprehensive income	(38)	(38)
At 31 December 2015/1 January 2016	<u>39</u>	<u>39</u>
Fair value loss recorded in:		
- Other comprehensive income	(3)	(3)
At 31 December 2016	<u>36</u>	<u>36</u>

The maturity structure of AFS financial assets (excluding unquoted equity securities) is as follows:

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Investments maturing within 12 months	10,066	8,115
Investments maturing after 12 months	334,548	153,010
	<u>344,614</u>	<u>161,125</u>

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**7. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)**

**(d) Fair value hierarchy of AFS financial assets**

Recurring fair value measurements

The Company categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Company's valuation techniques for determining the fair value of the financial instruments.

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

- Level 1 - Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the liability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.
- Level 2 - Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Those include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc) and inputs that are derived from or corroborated by observable market data.
- Level 3 - Fair value measurements using significant non market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk. There are no readily available prices for unquoted stocks. Net Tangible Assets (NTA) method was used to value the stocks whereby net assets are divided by the share capital.

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**7. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)**

**(d) Fair value hierarchy of AFS financial assets (continued)**

The following tables show financial assets recorded at fair value analysed by the different basis of fair values as follows:

	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total RM'000</b>
<b>31 December 2016</b>				
Malaysian government papers	-	170,653	-	170,653
Unquoted equity securities in Malaysia	-	-	36	36
Unquoted corporate debt securities in Malaysia	-	173,961	-	173,961
	<u>-</u>	<u>344,614</u>	<u>36</u>	<u>344,650</u>
<b>31 December 2015</b>				
Malaysian government papers	-	30,711	-	30,711
Unquoted equity securities in Malaysia	-	-	39	39
Unquoted corporate debt securities in Malaysia	-	130,414	-	130,414
	<u>-</u>	<u>161,125</u>	<u>39</u>	<u>161,164</u>

The reconciliation for unquoted equity measured at fair value based on significant unobservable inputs (Level 3) is as shown in Note 7(c).

**8. LOANS AND RECEIVABLES**

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Staff loans:		
Staff housing loans (secured)	<u>92</u>	<u>98</u>
Fixed and call deposits with licensed banks with original remaining tenure of more than 1 month	622,742	779,567
Accrued interest	<u>18,608</u>	<u>15,096</u>
	<u>641,350</u>	<u>794,663</u>



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**8. LOANS AND RECEIVABLES (CONTINUED)**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Other receivables:		
Malaysian Motor Insurance Pool ("MMIP" or "the Pool") balances*		
- Cash calls paid to MMIP	25,359	34,359
- Share of net assets held under MMIP	38,415	38,462
	63,774	72,821
MMIP commission receivable	1,665	7,496
Deposits	1,007	853
Prepayments	877	984
Other receivables	2,530	3,636
	<u>69,853</u>	<u>85,790</u>
Total loans and receivables	<u>711,295</u>	<u>880,551</u>

The maturity of loans and receivables (excluding other receivables) are as follows :

Maturing within 12 months	548,908	667,591
Maturing after 12 months	<u>92,534</u>	<u>127,170</u>

The carrying amounts of the financial assets disclosed above approximate fair values at the date of the statement of financial position due to their short-term maturity.

- \* As a participating member of MMIP, the Company shares a proportion of the Pool's net assets/liabilities. At each reporting date, the Company accounts for its share of the assets, liabilities and performance of the Pool. The net assets held under MMIP represent the Company's share of the Pool's net assets, before insurance contract liabilities. The Company's share of the Pool's insurance contract liabilities is disclosed in Note 17. The net assets held under MMIP of the Company include cash contribution of RM25,359,477 (2015: RM34,359,477) made to MMIP. The accumulated cash contributions were made in respect of the Company's share of MMIP's accumulated losses up to 31 December 2015 (2015: accumulated losses up to 31 December 2014). The decrease in the accumulated cash contribution in the current year is due to a surplus refunded by the Pool of RM9,000,0000 (2015: cash call payment made to the Pool of RM7,011,576) during the current financial year.

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**9. DEFERRED TAX ASSETS / (LIABILITIES)**

Deferred 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 relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Deferred tax assets/(liabilities)	<u>500</u>	<u>(2,400)</u>
At beginning of the financial year	(2,400)	(2,955)
(Charged)/credited to income statement (Note 26)		
- property and equipment	(805)	820
- investment properties	(124)	(757)
- AFS financial assets	(42)	(289)
- retirement benefits	26	(172)
- insurance receivables	52	(140)
- other receivables	1	-
- other payables	3,427	1,480
- premium liabilities	(93)	111
- claims liabilities	-	(524)
	2,442	529
Credited/(charged) to equity		
<u>Asset revaluation reserve</u>		
Property and equipment	15	(264)
<u>AFS reserve</u>		
AFS financial assets	443	290
At end of the financial year	<u>500</u>	<u>(2,400)</u>
<u>Deferred tax assets (before offsetting)</u>		
AFS financial assets	63	-
Other receivables	6	5
Insurance receivables	381	329
Retirement benefits	211	185
Other payables	10,517	7,090
Premium liabilities	2	95
	<u>11,180</u>	<u>7,704</u>
Offsetting	<u>(10,680)</u>	<u>(7,704)</u>
Deferred tax assets (after offsetting)	<u>500</u>	<u>-</u>

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**9. DEFERRED TAX ASSETS / (LIABILITIES) (CONTINUED)**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<u>Deferred tax liabilities (before offsetting)</u>		
Property and equipment	6,614	5,824
Investment properties	4,066	3,942
AFS financial assets	-	338
	<u>10,680</u>	<u>10,104</u>
Offsetting	(10,680)	(7,704)
Deferred tax liabilities (after offsetting)	<u>-</u>	<u>2,400</u>

**10. REINSURANCE ASSETS**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Reinsurance of insurance contracts:		
Claims liabilities (Note 17)	112,364	118,265
Premium liabilities (Note 17)	52,956	54,003
	<u>165,320</u>	<u>172,268</u>

**11. INSURANCE RECEIVABLES**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Due premium including agents, brokers and co-insurers balance	20,051	27,313
Due from reinsurers and cedants	11,822	12,458
	<u>31,873</u>	<u>39,771</u>
Accumulated impairment losses	(5,858)	(7,937)
	<u>26,015</u>	<u>31,834</u>
Knock-for-knock claims recoveries due from other insurers	2,155	1,572
Accumulated impairment losses	(147)	(125)
	<u>2,008</u>	<u>1,447</u>
	<u>28,023</u>	<u>33,281</u>

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**11. INSURANCE RECEIVABLES (CONTINUED)**

The carrying amounts disclosed above approximate fair values at the date of the statement of financial position due to their short-term maturity.

The insurance receivables of the Company that have been offset as at the statement of financial position date are as follows:

	<b>Gross carrying amount RM'000</b>	<b>Gross amounts offset in the statement of financial position RM'000</b>	<b>Net amounts in the statement of financial position RM'000</b>
31 December 2016			
Premiums	32,550	(5,193)	27,357
Commissions	1,135	(2,002)	(867)
Claims	7,538	-	7,538
	<u>41,223</u>	<u>(7,195)</u>	<u>34,028</u>
31 December 2015			
Premiums	40,148	(2,901)	37,247
Commissions	2,032	(5,055)	(3,023)
Claims	7,212	(93)	7,119
	<u>49,392</u>	<u>(8,049)</u>	<u>41,343</u>

**12. DEFERRED ACQUISITION COSTS**

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Deferred acquisition costs:		
At beginning of the financial year	27,943	26,314
Movement during the financial year (Note 23)	<u>1,817</u>	<u>1,629</u>
At end of the financial year	<u>29,760</u>	<u>27,943</u>
Deferred acquisition costs - reinsurance:		
At beginning of the financial year	(5,016)	(5,904)
Movement during the financial year (Note 23)	<u>(127)</u>	<u>888</u>
At end of the financial year	<u>(5,143)</u>	<u>(5,016)</u>

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**13. CASH AND SHORT TERM DEPOSITS**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Cash and bank balances	5,941	2,461
Call deposits with licensed banks	82,988	5,968
	<u>88,929</u>	<u>8,429</u>

The carrying amounts disclosed above approximate fair values at the date of the statement of financial position due to their short-term maturity.

**14. SHARE CAPITAL**

	<b>2016</b> <b>Amount</b> <b>RM'000</b>	<b>Number of</b> <b>shares</b> <b>'000</b>	<b>2015</b> <b>Amount</b> <b>RM'000</b>	<b>Number of</b> <b>shares</b> <b>'000</b>
Ordinary shares of RM1 each				
Authorised	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Issued and fully paid	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

**15. OTHER RESERVES**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<u>Non-distributable</u>		
Asset revaluation reserve	20,469	20,495
AFS reserve	(4,025)	(2,622)
	<u>16,444</u>	<u>17,873</u>

Asset revaluation reserve represents surplus arising from revaluation of self-occupied properties. Fair value losses arising from AFS financial assets are accumulated as AFS reserve until they are realised.

**16. RETAINED EARNINGS**

The Company can distribute all of its retained earnings as at 31 December 2016 as single-tier dividends.

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**17. INSURANCE CONTRACT LIABILITIES**

	<b>Gross RM'000</b>	<b>2016 Re-insurance RM'000</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>2015 Re-insurance RM'000</b>	<b>Net RM'000</b>
General insurance	844,342	(165,320)	679,022	793,253	(172,268)	620,985

The general insurance contract liabilities and the movement during the year are further analysed as follows:

	<b>Gross RM'000</b>	<b>2016 Re-insurance RM'000</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>2015 Re-insurance RM'000</b>	<b>Net RM'000</b>
Provision for claims	370,568	(90,656)	279,912	336,189	(100,417)	235,772
Provision for incurred but not reported ("IBNR") claims	169,996	(21,708)	148,288	165,279	(17,848)	147,431
Claims liabilities (i)	540,564	(112,364)	428,200	501,468	(118,265)	383,203
Premium liabilities (iii)	303,778	(52,956)	250,822	291,785	(54,003)	237,782
	844,342	(165,320)	679,022	793,253	(172,268)	620,985

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**17. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(i) Claims liabilities**

	<b>Gross RM'000</b>	<b>2016 Re-insurance RM'000</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>2015 Re-insurance RM'000</b>	<b>Net RM'000</b>
At beginning of the financial year	501,468	(118,265)	383,203	481,199	(145,965)	335,234
Claims incurred for the current accident year (direct and facultative)	358,150	(54,931)	303,219	332,344	(64,034)	268,310
Adjustment to claims incurred in prior accident years (direct and facultative)	(12,259)	645	(11,614)	(42,378)	23,292	(19,086)
Claims incurred during the financial year (treaty inwards claims)	(8,581)	-	(8,581)	11,535	(457)	11,078
Movement in PRAD of claims liabilities at 75% confidence level	4,874	145	5,019	4,500	(842)	3,658
Movement in claims handling expenses	(138)	-	(138)	(4,003)	4,195	192
Claims paid during the financial year	(302,950)	60,042	(242,908)	(281,729)	65,546	(216,183)
At end of the financial year	<u>540,564</u>	<u>(112,364)</u>	<u>428,200</u>	<u>501,468</u>	<u>(118,265)</u>	<u>383,203</u>

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**17. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(ii) Claims liabilities by class of business**

	<b>Motor</b>	<b>2016</b>	<b>Total</b>	<b>Motor</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>Non-motor</b>	<b>RM'000</b>	<b>RM'000</b>	<b>Non-motor</b>	<b>RM'000</b>
		<b>RM'000</b>			<b>RM'000</b>	
Gross claims liabilities	460,236	80,328	540,564	413,054	88,414	501,468
Reinsurance	(62,553)	(49,811)	(112,364)	(60,532)	(57,733)	(118,265)
Net claims liabilities	<u>397,683</u>	<u>30,517</u>	<u>428,200</u>	<u>352,522</u>	<u>30,681</u>	<u>383,203</u>

**(iii) Premium liabilities**

	<b>Gross</b>	<b>2016</b>	<b>Net</b>	<b>Gross</b>	<b>2015</b>	<b>Net</b>
	<b>RM'000</b>	<b>Re-insurance</b>	<b>RM'000</b>	<b>RM'000</b>	<b>Re-insurance</b>	<b>RM'000</b>
		<b>RM'000</b>			<b>RM'000</b>	
At beginning of the financial year	291,785	(54,003)	237,782	272,787	(60,270)	212,517
Premiums written during the financial year	623,419	(127,388)	496,031	585,518	(130,112)	455,406
Premiums earned during the financial year	(611,426)	128,435	(482,991)	(566,520)	136,379	(430,141)
At end of the financial year	<u>303,778</u>	<u>(52,956)</u>	<u>250,822</u>	<u>291,785</u>	<u>(54,003)</u>	<u>237,782</u>

As at 31 December 2016, the insurance contract liabilities above include the Company's share of MMIP's claims and premium liabilities amounting to RM53,107,586 (2015:RM69,978,819) and RM4,953,797 (2015: RM8,442,677) respectively. The Company's net assets arising from its participation in the Pool is detailed in Note 8.



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**18. INSURANCE PAYABLES**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Due to insurers, agents, brokers and co-insurers	17,432	15,492
Due to reinsurers and cedants	23,016	58,466
	<u>40,448</u>	<u>73,958</u>

The carrying amounts disclosed above approximate fair values at the date of the statement of financial position due to their short-term maturity.

All amounts are payable within one year.

The insurance payables of the Company that have been offset as at the statement of financial position date are as follows:

	<b>Gross carrying amount RM'000</b>	<b>Gross amounts offset in the statement of financial position RM'000</b>	<b>Net amounts in the statement of financial position RM'000</b>
31 December 2016			
Premiums	76,864	(2,708)	74,156
Commissions	1,163	(17,501)	(16,338)
Claims	827	(18,197)	(17,370)
	<u>78,854</u>	<u>(38,406)</u>	<u>40,448</u>
31 December 2015			
Premiums	94,632	(7,316)	87,316
Commissions	1,128	(12,880)	(11,752)
Claims	305	(1,911)	(1,606)
	<u>96,065</u>	<u>(22,107)</u>	<u>73,958</u>

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**19. OTHER PAYABLES**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Payroll liabilities	13,233	12,926
Defined contribution plan *	876	769
Unclaimed monies	1,632	1,565
Cash collaterals held on bond business	657	657
Stamp duty payable	1,043	863
MMIP collection payable	5,451	19,326
Profit commission payable	3,700	3,600
Interest on premium reserve	2,985	2,729
Tenant deposits	448	46
Accrued expenses	19,607	11,397
Other payables	6,713	3,531
	<u>56,345</u>	<u>57,409</u>

\* The Company contributes to the Employees' Provident Fund, the national defined contribution scheme. Additionally, the Company makes an accrual for services provided by eligible employees after 31 December 2001 until the 5th year of service, after which time the accrual is paid into the individual employees' EPF accounts.

The carrying amounts of the financial liabilities disclosed above approximate fair values at the date of the statement of financial position.

**20. INVESTMENT INCOME**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
AFS financial assets:		
Interest income from Malaysia government papers	2,606	358
Interest income from corporate debt securities	6,140	6,524
Net accretion of discounts	171	86
Loans and receivables:		
Interest income from loans and receivables and cash and short term deposits	31,723	29,325
Rental income	762	1,166
Less: Rates and maintenance expenses	(1,421)	(1,351)
	<u>39,981</u>	<u>36,108</u>

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**21. REALISED GAINS AND LOSSES**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Realised gains/(losses) for:		
- Property and equipment	387	(41)
- Foreign currency translation	(41)	54
	<u>346</u>	<u>13</u>

**22. NET FAIR VALUE (LOSSES)/GAINS**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Fair value gains/(losses) on investment properties		
Commercial properties	400	(503)
Commercial land	-	3,350
Reversal of fair value (gains)/losses on investment properties	(430)	827
	<u>(30)</u>	<u>3,674</u>

**23. COMMISSION INCOME/(EXPENSE)**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<u>Commission income:</u>		
Commission income	36,403	31,353
Movement in deferred acquisition costs (Note 12)	(127)	888
	<u>36,276</u>	<u>32,241</u>
<u>Commission expense:</u>		
Commission expense	(67,808)	(63,214)
Movement in deferred acquisition costs (Note 12)	1,817	1,629
	<u>(65,991)</u>	<u>(61,585)</u>

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**24. OTHER OPERATING INCOME**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Gross servicing fees from MMIP	12,448	15,280
Less: Related management expenses including depreciation charge of RM112,142 (31.12.2015: RM159,420) (Note 25)	(8,045)	(10,543)
	<u>4,403</u>	<u>4,737</u>
Interest on deposits retained	(419)	(988)
Property and equipment written off (Note 4(a))	(39)	(100)
Others	4,496	1,345
	<u>8,441</u>	<u>4,994</u>

**25. MANAGEMENT EXPENSES**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Staff costs:		
Salaries, bonus and allowance	47,950	43,885
Employees' Provident Fund	7,390	6,378
Defined Contribution Plan	356	287
Termination benefits	6,144	-
Others	5,486	3,923
	<u>67,326</u>	<u>54,473</u>
Advertising	16,571	14,923
Directors' fees	386	288
Directors' allowances	90	74
Auditors' remuneration:		
- Statutory audit fees	319	255
- Regulated-related fees	26	25
- Other services	42	-
Tax agent fees:		
- Tax compliance fees	18	-
- Other services	-	91
Depreciation of property and equipment (Note 4(a))	4,770	3,708
Amortisation of intangible assets - software (Note 4(b))	214	164
EDP expenses	4,539	3,405
Postage and telephone	2,181	2,332
Printing and stationery	4,292	4,099
Rental of properties	1,270	1,084
Training expenses	3,685	3,131

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**25. MANAGEMENT EXPENSES (CONTINUED)**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Reimbursement of depreciation charge from MMIP (Note 24)	(112)	(159)
(Write back of)/provision for impairment allowance for insurance receivables	(1,773)	1,626
Recoveries of bad debts written off	(98)	(50)
Fund management and professional fees	685	1,568
Entertainment	2,532	2,006
Credit card charges	7,023	6,425
Others	6,749	8,181
	<u>53,409</u>	<u>53,176</u>
Total management expenses	<u>120,735</u>	<u>107,649</u>

Emoluments received by Directors of the Company during the financial year are further detailed below:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Non-Executive Directors:		
- Fees	386	288
- Other emoluments	90	74
Total Directors' remuneration	<u>476</u>	<u>362</u>

	<b>Fees</b> <b>RM'000</b>	<b>2016</b> <b>Allowance</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
Non-Executive Directors			
- YBhg. Dato' Haji Kamil Khalid Ariff	122	32	154
- YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar	100	27	127
- Mr Keong Choon Keat	89	18	107
- YBhg. Dato' Lim Heen Peek	75	13	88
Total Directors' remuneration	<u>386</u>	<u>90</u>	<u>476</u>

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**25. MANAGEMENT EXPENSES (CONTINUED)**

	<b>Fees RM'000</b>	<b>2015 Allowance RM'000</b>	<b>Total RM'000</b>
Non-Executive Directors			
- YBhg. Dato' Haji Kamil Khalid Ariff	117	31	148
- YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar	96	29	125
- Mr Keong Choon Keat	75	14	89
Total Directors' remuneration	<u>288</u>	<u>74</u>	<u>362</u>

Existing Non-Independent Directors are not entitled to any remuneration for their services.

The number of Non-Executive Directors whose total remuneration received during the financial year falls within the following bands is:

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<i>Non-Executive Directors:</i>		
RM50,001 - RM100,000	1	1
More than RM 100,000	<u>3</u>	<u>2</u>

The remuneration attributable to the Chief Executive Officer of the Company which is included in staff costs are; Salary RM1,141,251 (2015: RM1,100,004), Bonus RM1,370,622 (2015: RM916,470), Employees' Provident Fund Contribution RM401,913 (2015: RM307,983) and Benefits-In-Kind RM31,150 (2015: RM28,810).

**26. TAX EXPENSE**

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Current tax:		
Current financial year	26,416	20,288
Real property gains tax	18	-
Over-provision in prior financial years	<u>(1,112)</u>	<u>-</u>
	25,322	20,288
Deferred tax (Note 9)	<u>(2,442)</u>	<u>(529)</u>
Tax expense	<u>22,880</u>	<u>19,759</u>

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**26. TAX EXPENSE (CONTINUED)**

The explanation of the relationship between taxation and profit before taxation is as follows:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Profit before taxation	<u>93,374</u>	<u>73,785</u>
Tax calculated at the statutory rate of 24% (2015: 25%)	22,410	18,446
Tax effect of:		
- expenses not deductible for tax purposes	1,564	2,934
- effect of changes in tax rate (on deferred tax)	-	132
- expenses entitled for double deduction	-	(1,753)
Over-provision of tax in prior financial year	(1,112)	-
Real property gains tax	<u>18</u>	<u>-</u>
	<u>22,880</u>	<u>19,759</u>

**27. EARNINGS PER SHARE**

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

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Profit attributable to ordinary equity holders	70,494	54,026
Number of shares in issue	100,000	100,000
Basic earnings per share (sen)	<u>70.49</u>	<u>54.03</u>

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of the statement of financial position.

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

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**28. COMMITMENTS**

(a) Capital expenditure not provided in the financial statements are as follows:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Authorised by the Directors and contracted for:		
- Property and equipment	<u>901</u>	<u>1,523</u>

(b) Operating lease commitments

(i) The Company as lessee

The Company has non-cancellable operating lease agreements entered into in respect of rental and EDP expenses. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Not later than 1 year	3,704	2,611
Later than 1 year and no later than 5 years	<u>3,628</u>	<u>1,600</u>
	<u>7,332</u>	<u>4,211</u>

(ii) The Company as lessor

The Company has entered into lease agreements on its properties. The leases have remaining lease terms of between 1 to 3 years. The future aggregate minimum lease receivables under the operating leases contracted for as at the reporting date but not recognised as assets, are as follows:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Not later than 1 year	1,524	432
Later than 1 year and no later than 3 years	<u>1,970</u>	<u>502</u>
	<u>3,494</u>	<u>934</u>



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**29. SIGNIFICANT RELATED PARTY DISCLOSURES**

RELATED PARTY DISCLOSURES - KOREAN REINSURANCE COMPANY, SINGAPORE  
 BRANCH, SINGAPORE

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Transaction with non-controlling shareholders		
Reinsurance ceded premium	2,175	1,531
Reinsurance commission received	(634)	(485)
Reinsurance claims recovery	<u>(746)</u>	<u>(641)</u>
Reinsurance receivables	20	21
Reinsurance payables	<u>(112)</u>	<u>(253)</u>

RELATED PARTY DISCLOSURES - LIBERTY GROUP

Transactions with Group Companies:

Reinsurance ceded premium		
- Liberty Mutual Insurance Europe Ltd (Labuan Branch)	85	148
- Liberty Insurance Pte. Ltd, Singapore	2,732	2
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	200	-
- Liberty Mutual Insurance Co Boston	5,697	1,750
- Liberty (Lloyd's Syndicate 4472)	<u>1,049</u>	<u>-</u>
	<u>9,763</u>	<u>1,900</u>

Reinsurance commission received		
- Liberty Mutual Insurance Europe Ltd (Labuan Branch)	(15)	(23)
- Liberty Insurance Pte. Ltd, Singapore	(257)	-
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(17)	-
- Liberty Mutual Insurance Co Boston	(1,462)	(241)
- Liberty (Lloyd's Syndicate 4472)	<u>(302)</u>	<u>-</u>
	<u>(2,053)</u>	<u>(264)</u>

Reinsurance claims recovery		
- Liberty Mutual Insurance Europe Ltd (Labuan Branch)	-	(233)
- Liberty Insurance Pte. Ltd, Singapore	(48)	(1)
- Liberty Mutual Insurance Co Boston	<u>(623)</u>	<u>-</u>
	<u>(671)</u>	<u>(234)</u>

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**29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

RELATED PARTY DISCLOSURES - LIBERTY GROUP (CONTINUED)

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
EDP expenses		
- Liberty Mutual Insurance Company	547	-
	<u>547</u>	<u>-</u>
Staff salaries		
- Liberty Mutual Insurance Company	345	-
	<u>345</u>	<u>-</u>
Reinsurance receivables		
- Liberty Mutual Insurance Europe Ltd (Labuan Branch)	-	24
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	-	1
- Liberty Insurance Pte. Ltd, Singapore	3,568	-
- Liberty Mutual Insurance Co Boston	1	-
	<u>3,569</u>	<u>25</u>
Reinsurance payables		
- Liberty Insurance Pte. Ltd, Singapore	(236)	(1,842)
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(2)	-
- Liberty Mutual Insurance Co Boston	(517)	(69)
	<u>(755)</u>	<u>(1,911)</u>

The year end balances with the related parties above are unsecured, interest free, repayable in accordance with the terms of the relevant contracts and are included in insurance receivables (Note 11) and insurance payable (Note 18).

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Other receivables		
- Liberty Mutual Insurance Company	-	56
	<u>-</u>	<u>56</u>
Other payables		
- Liberty Mutual Insurance Company	(48)	-
	<u>(48)</u>	<u>-</u>

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**29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

RELATED PARTY DISCLOSURES - KEY MANAGEMENT PERSONNEL

The remuneration of key management personnel during the year was as follows:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Salaries, bonus and allowance	7,430	5,892
Employees' Provident Fund	1,165	884
Benefits-in-kind	31	96
	<u>8,626</u>	<u>6,872</u>
Non Executive Directors' remuneration (Note 25)	476	362
	<u>9,102</u>	<u>7,234</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel of the Company includes the Non Executive Directors, Chief Executive Officer and Senior Management Team.

**30. FINANCIAL INSTRUMENTS BY CATEGORY**

	<b>AFS</b> <b>RM'000</b>	<b>LAR</b> <b>RM'000</b>	<b>Assets not in scope of MFRS 139 RM'000</b>	<b>Total</b> <b>RM'000</b>
<b>2016</b>				
<b>Assets</b>				
Property and equipment	-	-	60,160	60,160
Intangible assets - software	-	-	5,572	5,572
Investment properties	-	-	54,028	54,028
AFS financial assets	344,650	-	-	344,650
Loans and receivables	-	711,295	-	711,295
Reinsurance assets	-	-	165,320	165,320
Insurance receivables	-	28,023	-	28,023
Deferred tax assets	-	-	500	500
Deferred acquisition costs	-	-	29,760	29,760
Cash and short term deposits	-	88,929	-	88,929
<b>Total assets</b>	<u>344,650</u>	<u>828,247</u>	<u>315,340</u>	<u>1,488,237</u>

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**30. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)**

	Other financial liabilities RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000	
2016 (continued)				
Liabilities				
Insurance contract liabilities	-	844,342	844,342	
Deferred acquisition costs - reinsurances	-	5,143	5,143	
Insurance payables	40,448	-	40,448	
Other payables	56,345	-	56,345	
Tax liabilities	-	9,249	9,249	
Total liabilities	96,793	858,734	955,527	
Assets not in scope of MFRS 139				
	AFS RM'000	LAR RM'000	Total RM'000	
2015				
Assets				
Property and equipment	-	-	62,253	62,253
Intangible assets - software	-	-	4,490	4,490
Non-current assets held for sale	-	-	461	461
Investment properties	-	-	53,628	53,628
AFS financial assets	161,164	-	-	161,164
Loans and receivables	-	880,551	-	880,551
Reinsurance assets	-	-	172,268	172,268
Insurance receivables	-	33,281	-	33,281
Deferred acquisition costs	-	-	27,943	27,943
Cash and short term deposits	-	8,429	-	8,429
Total assets	161,164	922,261	321,043	1,404,468

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**30. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)**

	Other financial liabilities RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000
<b>2015 (continued)</b>			
<b>Liabilities</b>			
Insurance contract liabilities	-	793,253	793,253
Deferred tax liabilities	-	2,400	2,400
Deferred acquisition costs - reinsurances	-	5,016	5,016
Insurance payables	73,958	-	73,958
Other payables	57,409	-	57,409
Tax liabilities	-	9,104	9,104
<b>Total liabilities</b>	<b>131,367</b>	<b>809,773</b>	<b>941,140</b>

**31. RISK MANAGEMENT FRAMEWORK**

The Board has established a structure with clear lines of responsibility, authority limits and accountability aligned to business and operations requirements which supports a good control environment. The Board has delegated the responsibility of reviewing the effectiveness of risk management to the Risk Management Committee of the Board ("RMC-B").

The Board is assisted by the the Management in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced and in the design and monitoring of suitable preventive and detective controls to mitigate these risks.

The Company is committed to achieving its objectives, and will face risks that could derail the achievement of objectives. The effective management of enterprise risks can create, protect and enhance shareholder value in the long term.

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**31. RISK MANAGEMENT FRAMEWORK (CONTINUED)**

The Enterprise Risk Management (ERM) Framework is in place to support the overall business objectives by:

- Defining risk management roles and responsibilities
- Defining a reporting framework to ensure the communication of necessary risk management information to the Management and personnel engaged in risk management activities
- Detailing the approved methods for risk assessment
- Providing a system to accommodate the central accumulation of the risks data

The ERM framework is updated regularly to ensure relevance and compliance with all applicable laws and regulations issued by the authorities, such as Financial Services Act, 2013, Guidelines on Internal Capital Adequacy Assessment Process (“ICAAP”) for Insurers, Policy Document on Risk Governance, Policy Document on Compliance and Policy Document on Operational Risk.

Responsibilities

The Risk Management Committee of the Board (“RMC-B”) was established by the Board to oversee the overall risk management processes by identifying key business risks and ensuring appropriate implementation of the system to manage these risks. The RMC-B is tasked with overseeing the Management’s activities in managing key risk areas and ensuring risk management process is in place and functioning effectively.

The Management, headed by the CEO, is supported in its role by the Enterprise-Wide Opportunity and Risk Management Committee of the Management (“EORMC-M”), comprising the CEO and Heads of Divisions. The EORMC-M assists the the Management in formulating appropriate procedures (including assessment methodologies, tools and techniques) and reviewing the application of risk management practices across the Company.

The Divisions/Departments/Regional Offices are accountable to the CEO and will actively participate in risk analysis, review and controls monitoring of their respective areas.

The ERM & Compliance Assurance Department is established with one of the responsibilities to communicate to the RMC-B on critical risks including emerging risks (present and potential) in terms of likelihood exposures and impacts to the Company’s business and the management action plans to manage these risks on a continuing basis.

**LIBERTY INSURANCE BERHAD**  
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The Company established the three lines of Defence concept: operational management (the 1st line of defence), risk management function (the 2nd line of defence) and internal audit function (the 3rd line of defence). The risk taking units are the operational management responsible for the day-to-day management of risks inherent in their business activities, whereas the risk management unit is responsible for setting the risk management framework and monitoring all risks identified by the risk owners. Complementing this is the internal audit, which provides independent assurance of the effectiveness of the risk management approach and controls.

The effectiveness of risk management will be regularly reported to and acted upon by the Board through the RMC-B.

**32. INSURANCE RISK**

The Company underwrites various general insurance contracts, which are mostly on an annual coverage and annual premium basis, the exception being short term policies such as Travellers' Personal Accident and Marine Cargo which covers the duration in which the cargo is being transported. The Company also underwrites some non-annual policies with coverage period of more than one year such as Contractor's All Risks and Workmen's Compensation. The majority of the insurance business underwritten by the Company is Motor, Fire and Personal Accident. Other lines of business underwritten include Engineering, Workmen's Compensation, Marine Cargo/Hull, Liability, Health and Other Miscellaneous classes.

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. Insurance contracts transfer risk to the Company by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments may differ significantly from expectations. The factors that contribute to the risks include fluctuations in timing, frequency and severity of claims, as well as the adequacy of premiums and reserves.

The Company may also be exposed to risks arising from climate changes, natural disasters and terrorism activities. For longer tail claims that take some years to settle, there is also inflation risk.

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**32. INSURANCE RISK (CONTINUED)**

The Company's primary objective of managing insurance risk is to enhance the long-term financial viability of the business. This includes sustainable growth in profitability, strong asset quality and optimisation of shareholders' value. The Company seeks to underwrite risks that it understands and that provide an opportunity to earn an acceptable profit.

The Company's underwriting strategy is intended to ensure that the risks underwritten are well diversified across a large portfolio of insurance contracts and geographical areas. Strategic underwriting guidelines are designed and implemented to ensure that the risks accepted are managed in line with the Company's philosophy of prudent underwriting.

The Company adopts the following measures to manage insurance risks:

- An underwriting policy that aims to take advantage of its competitive strengths while avoiding volatile risks to ensure underwriting profitability. Acceptance of risk is guided by a set of underwriting guidelines with limits on underwriting capacity and retention.
- Authority limits to individual underwriters are based on their specific areas of expertise.
- The Company has in place a claims management and control system to pay claims and control claims leakages and fraud. The Company has a claim review policy to access all new and ongoing claims as well as claims handling procedures. Investigations of suspected fraudulent claims are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.
- The Company purchases reinsurance protection as part of its risks mitigation programme. The objectives are to provide sufficient capacity in underwriting business while protecting the Company's financial position and optimising its capital efficiency. Reinsurance is ceded on proportional and non-proportional basis. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. The selection of reinsurers on its treaty and facultative programmes are based on their security ratings and local regulatory requirements.



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**32. INSURANCE RISK (CONTINUED)**

The table below sets out the concentration of general insurance business by class of business.

	<b>2016</b>			<b>2015</b>		
	<b>Gross</b>	<b>Re-insurance</b>	<b>Net</b>	<b>Gross</b>	<b>Re-insurance</b>	<b>Net</b>
	<b>premiums</b>	<b>premiums</b>	<b>premiums</b>	<b>premiums</b>	<b>premiums</b>	<b>premiums</b>
	<b>RM'000</b>	<b>ceded</b>	<b>RM'000</b>	<b>RM'000</b>	<b>ceded</b>	<b>RM'000</b>
Motor	513,660	(73,818)	439,842	469,510	(67,378)	402,132
Fire	58,524	(34,007)	24,517	58,780	(37,282)	21,498
Marine, Aviation and Transit	6,980	(4,592)	2,388	10,476	(7,779)	2,697
Miscellaneous	44,255	(14,971)	29,284	46,752	(17,673)	29,079
	<u>623,419</u>	<u>(127,388)</u>	<u>496,031</u>	<u>585,518</u>	<u>(130,112)</u>	<u>455,406</u>

The table below sets out the concentration of general insurance contract liabilities by class of business:

	<b>2016</b>			<b>2015</b>		
	<b>Gross</b>	<b>Re-insurance</b>	<b>Net</b>	<b>Gross</b>	<b>Re-insurance</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Motor	716,634	(96,415)	620,219	649,536	(89,340)	560,196
Fire	57,185	(38,369)	18,816	59,564	(41,030)	18,534
Marine, Aviation and Transit	8,347	(3,936)	4,411	10,183	(6,019)	4,164
Miscellaneous	62,175	(26,599)	35,576	73,970	(35,879)	38,091
	<u>844,341</u>	<u>(165,319)</u>	<u>679,022</u>	<u>793,253</u>	<u>(172,268)</u>	<u>620,985</u>

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**32. INSURANCE RISK (CONTINUED)**

Key assumptions

The principal assumptions underlying the estimate 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 initial expected loss ratios, average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgements 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. Judgement 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.

Sensitivity analysis

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

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

Change in assumptions		Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		← Increase/(decrease) →			
2016					
Average claim cost	+10%	46,882	37,480	(37,480)	(28,485)
Average number of claims	+10%	36,999	30,347	(30,347)	(23,064)
Average claim settlement period	Increased by 6 months	18,392	14,704	(14,704)	(11,175)
Initial expected loss ratios	+10%	8,950	8,767	(8,767)	(6,663)

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Sensitivities (continued)

Change in assumptions		Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		← Increase/(decrease) →			
2015					
Average claim cost	+10%	41,106	31,260	(31,260)	(23,445)
Average number of claims	+10%	35,108	28,288	(28,288)	(21,216)
Average claim settlement period	Increased by 6 months	16,126	12,251	(12,251)	(9,188)
Initial expected loss ratios	+10%	11,482	9,580	(9,580)	(7,185)

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

Claims development tables

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the end of each date of statement of financial position, together with cumulative payment to date.

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

The management believes that the estimate of total claims outstanding as of the reporting date 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. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016:

Motor

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	186,124	183,356	169,686	182,101	197,354	195,867	219,795	247,814	
One year later	218,809	213,260	199,134	216,464	232,502	243,644	270,095		
Two years later	223,867	218,726	208,116	225,629	242,663	258,282			
Three years later	221,791	215,326	207,815	225,395	241,903				
Four years later	219,546	209,108	201,898	223,180					
Five years later	218,952	207,505	202,263						
Six years later	216,356	205,480							
Seven years later	216,174								
Current estimate of cumulative claims incurred	<u>216,174</u>	<u>205,480</u>	<u>202,263</u>	<u>223,180</u>	<u>241,903</u>	<u>258,282</u>	<u>270,095</u>	<u>247,814</u>	<u>1,865,191</u>

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016: (continued)

Motor (continued)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	86,788	86,394	82,738	89,848	92,568	92,202	105,674	113,178	
One year later	168,519	159,758	157,070	170,560	187,118	187,320	199,911		
Two years later	197,537	189,215	184,615	199,282	213,401	224,259			
Three years later	210,438	199,184	193,002	210,676	223,120				
Four years later	214,229	202,674	195,116	214,715					
Five years later	214,850	203,766	197,185						
Six years later	215,298	204,566							
Seven years later	215,636								
Cumulative payment to-date	<u>215,636</u>	<u>204,566</u>	<u>197,185</u>	<u>214,715</u>	<u>223,120</u>	<u>224,259</u>	<u>199,911</u>	<u>113,178</u>	<u>1,592,570</u>

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016 (continued):

Motor (continued)

Accident year	Before 2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
Gross Motor insurance outstanding liabilities (direct and facultative)	<u>1,387</u>	<u>538</u>	<u>914</u>	<u>5,078</u>	<u>8,465</u>	<u>18,783</u>	<u>34,023</u>	<u>70,184</u>	<u>134,636</u>	274,008
Gross IBNR	-	-	-	-	111	250	1,699	22,357	77,067	101,484
Gross Motor insurance outstanding liabilities(treaty inwards)										<u>44,101</u>
Best estimates of claims liabilities										419,593
Claims handling expenses										9,128
PRAD at 75% confidence level										<u>31,515</u>
Gross Motor insurance contract claims liabilities per statement of financial position										<u>460,236</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016 (continued):

Non-motor

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	46,345	42,136	34,669	34,161	23,634	28,115	33,493	29,644	
One year later	50,938	44,653	35,768	30,912	26,035	36,450	34,755		
Two years later	43,691	44,857	32,372	32,181	25,059	33,906			
Three years later	40,771	42,496	31,973	31,498	24,299				
Four years later	41,152	43,578	31,089	28,406					
Five years later	37,225	43,276	30,871						
Six years later	33,419	41,025							
Seven years later	32,588								
Current estimate of cumulative claims incurred	<u>32,588</u>	<u>41,025</u>	<u>30,871</u>	<u>28,406</u>	<u>24,299</u>	<u>33,906</u>	<u>34,755</u>	<u>29,644</u>	<u>255,494</u>

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016 (continued):

Non-motor (continued)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	11,128	12,570	11,705	7,282	6,953	10,834	9,991	12,158	
One year later	25,447	30,707	19,870	16,320	14,906	22,023	21,730		
Two years later	28,431	33,220	24,777	18,528	18,217	25,267			
Three years later	31,001	36,444	25,245	20,665	18,948				
Four years later	32,067	38,084	26,123	22,281					
Five years later	32,657	38,484	26,359						
Six years later	32,457	39,064							
Seven years later	32,498								
Cumulative payment to-date	<u>32,498</u>	<u>39,064</u>	<u>26,359</u>	<u>22,281</u>	<u>18,948</u>	<u>25,267</u>	<u>21,730</u>	<u>12,158</u>	<u>198,305</u>



**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016 (continued):

Non-motor (continued)

Accident year	Before 2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
Gross Non-Motor insurance outstanding liabilities (direct and facultative)	9,042	90	1,961	4,512	6,125	5,351	8,639	13,025	17,486	66,231
Gross IBNR	-	-	-	-	-	-	-	275	3,770	4,045
Gross Non-Motor insurance outstanding liabilities (treaty inwards)										2,084
Best estimates of claims liabilities										72,360
Claims handling expenses										597
PRAD at 75% confidence level										7,371
Gross Non-Motor insurance contract claims liabilities per statement of financial position										80,328

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2016

Motor

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	180,999	157,454	95,829	129,285	154,209	154,497	184,381	216,218	
One year later	209,266	175,052	110,928	150,294	179,753	190,464	225,552		
Two years later	214,022	179,340	115,579	157,150	185,140	200,808			
Three years later	212,429	176,627	115,782	156,785	184,713				
Four years later	210,274	171,383	112,911	155,248					
Five years later	209,698	170,104	112,538						
Six years later	207,207	168,290							
Seven years later	207,037								
Current estimate of cumulative claims incurred	<u>207,037</u>	<u>168,290</u>	<u>112,538</u>	<u>155,248</u>	<u>184,713</u>	<u>200,808</u>	<u>225,552</u>	<u>216,218</u>	<u>1,470,404</u>

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2016: (continued)

Motor (continued)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	83,327	76,490	44,803	61,303	71,664	72,210	88,167	98,982	
One year later	161,789	131,653	87,450	119,054	144,030	146,559	167,549		
Two years later	189,523	156,049	102,749	139,059	164,001	174,592			
Three years later	201,530	163,467	107,479	146,708	171,280				
Four years later	205,170	166,062	108,625	149,214					
Five years later	205,766	166,934	108,004						
Six years later	206,196	167,412							
Seven years later	206,520								
Cumulative payment to-date	<u>206,520</u>	<u>167,412</u>	<u>108,004</u>	<u>149,214</u>	<u>171,280</u>	<u>174,592</u>	<u>167,549</u>	<u>98,982</u>	<u>1,243,553</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2016: (continued)

Motor (continued)

	<b>Before 2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net Motor insurance outstanding liabilities (direct and facultative)	<u>1,100</u>	<u>517</u>	<u>878</u>	<u>4,534</u>	<u>6,034</u>	<u>13,433</u>	<u>26,216</u>	<u>58,003</u>	<u>117,236</u>	227,951
Net IBNR	-	-	-	-	97	218	1,483	19,517	67,277	88,592
Net Motor insurance outstanding liabilities (treaty inward)										<u>44,101</u>
Best estimates of claims liabilities										360,644
Claims handling expenses										9,128
PRAD at 75% confidence level										<u>27,911</u>
Net Motor insurance contract claims liabilities per statement of financial position										<u>397,683</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2016:

Non-motor

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	23,577	18,938	15,128	15,400	12,431	14,351	16,383	16,282	
One year later	23,610	19,209	14,589	13,819	13,980	16,417	16,772		
Two years later	22,587	17,741	13,469	13,976	13,665	16,411			
Three years later	21,478	17,105	13,156	13,848	13,397				
Four years later	21,236	18,163	12,834	13,300					
Five years later	20,599	17,979	12,808						
Six years later	20,426	17,793							
Seven years later	19,996								
Current estimate of cumulative claims incurred	<u>19,996</u>	<u>17,793</u>	<u>12,808</u>	<u>13,300</u>	<u>13,397</u>	<u>16,411</u>	<u>16,772</u>	<u>16,282</u>	<u>126,759</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2016: (continued)

Non-motor (continued)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	9,212	6,412	5,414	6,163	5,489	6,810	7,910	8,950	
One year later	16,716	14,107	10,211	10,053	9,693	12,043	12,717		
Two years later	18,211	15,220	11,438	10,979	11,113	12,815			
Three years later	19,603	15,896	11,632	11,667	11,678				
Four years later	19,741	16,149	11,770	11,641					
Five years later	19,818	16,302	11,822						
Six years later	19,909	16,396							
Seven years later	19,940								
Cumulative payment to-date	<u>19,940</u>	<u>16,396</u>	<u>11,822</u>	<u>11,641</u>	<u>11,678</u>	<u>12,815</u>	<u>12,717</u>	<u>8,950</u>	<u>105,959</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2016: (continued)

Non-motor (continued)

Accident year	Before 2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
Net Non-Motor insurance outstanding liabilities (direct and facultative)	833	56	1,397	986	1,659	1,719	3,596	4,055	7,332	21,633
Net IBNR	-	-	-	-	-	-	-	238	3,262	3,500
Net Non-Motor insurance outstanding liabilities (treaty inwards)										2,084
Best estimates of claims liabilities										27,217
Claims handling expenses										596
PRAD at 75% confidence level										2,704
Net Non-Motor insurance contract claims liabilities per statement of financial position										30,517

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2015:

Motor

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	161,646	186,124	183,356	169,686	182,101	197,354	195,867	219,795	
One year later	200,417	218,809	213,260	199,134	216,464	232,502	243,644		
Two years later	208,143	223,867	218,726	208,116	225,629	242,663			
Three years later	210,498	221,791	215,326	207,815	225,395				
Four years later	209,500	219,546	209,108	201,898					
Five years later	208,474	218,952	207,505						
Six years later	206,973	216,356							
Seven years later	206,436								
Current estimate of cumulative claims incurred	<u>206,436</u>	<u>216,356</u>	<u>207,505</u>	<u>201,898</u>	<u>225,395</u>	<u>242,663</u>	<u>243,644</u>	<u>219,795</u>	<u>1,763,692</u>



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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2015: (continued)

Motor (continued)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	85,224	86,788	86,394	82,738	89,848	92,568	92,202	105,674	
One year later	160,709	168,519	159,758	157,070	170,560	187,118	187,320		
Two years later	182,619	197,537	189,215	184,615	199,282	213,401			
Three years later	199,111	210,438	199,184	193,002	210,676				
Four years later	204,805	214,229	202,674	195,116					
Five years later	205,440	214,850	203,766						
Six years later	205,692	215,298							
Seven years later	206,229								
Cumulative payment to-date	<u>206,229</u>	<u>215,298</u>	<u>203,766</u>	<u>195,116</u>	<u>210,676</u>	<u>213,401</u>	<u>187,320</u>	<u>105,674</u>	<u>1,537,480</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2015 (continued):

Motor (continued)

Accident year	Before 2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
Gross Motor insurance outstanding liabilities (direct and facultative)	<u>1,382</u>	<u>207</u>	<u>1,058</u>	<u>3,739</u>	<u>6,782</u>	<u>14,719</u>	<u>29,262</u>	<u>56,324</u>	<u>114,121</u>	227,594
Gross IBNR	-	-	-	-	-	(209)	(728)	11,620	75,707	86,390
Gross Motor insurance outstanding liabilities(treaty inwards)										<u>63,298</u>
Best estimates of claims liabilities										377,282
Claims handling expenses										9,140
PRAD at 75% confidence level										<u>26,632</u>
Gross Motor insurance contract claims liabilities per statement of financial position										<u>413,054</u>

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2015 (continued):

Non-motor

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	44,910	46,345	42,136	34,669	34,161	23,634	28,115	33,493	
One year later	51,045	50,938	44,653	35,768	30,912	26,035	36,450		
Two years later	51,181	43,691	44,857	32,372	32,181	25,059			
Three years later	50,508	40,771	42,496	31,973	31,498				
Four years later	50,229	41,152	43,578	31,089					
Five years later	49,964	37,225	43,276						
Six years later	47,643	33,419							
Seven years later	42,410								
Current estimate of cumulative claims incurred	<u>42,410</u>	<u>33,419</u>	<u>43,276</u>	<u>31,089</u>	<u>31,498</u>	<u>25,059</u>	<u>36,450</u>	<u>33,493</u>	<u>276,694</u>

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2015 (continued):

Non-motor (continued)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	10,071	11,128	12,570	11,705	7,282	6,953	10,834	9,991	
One year later	33,850	25,447	30,707	19,870	16,320	14,906	22,023		
Two years later	39,594	28,431	33,220	24,777	18,528	18,217			
Three years later	40,314	31,001	36,444	25,245	20,665				
Four years later	41,175	32,067	38,084	26,123					
Five years later	42,068	32,657	38,484						
Six years later	42,013	32,457							
Seven years later	42,064								
Cumulative payment to-date	<u>42,064</u>	<u>32,457</u>	<u>38,484</u>	<u>26,123</u>	<u>20,665</u>	<u>18,217</u>	<u>22,023</u>	<u>9,991</u>	<u>210,024</u>

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2015 (continued):

Non-motor (continued)

Accident year	Before 2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
Gross Non-Motor insurance outstanding liabilities (direct and facultative)	8,940	346	962	4,792	4,966	10,833	6,842	14,427	23,502	75,610
Gross IBNR	-	-	-	-	-	-	(78)	(671)	3,350	2,601
Gross Non-Motor insurance outstanding liabilities (treaty inwards)										2,101
Best estimates of claims liabilities										80,312
Claims handling expenses										722
PRAD at 75% confidence level										7,380
Gross Non-Motor insurance contract claims liabilities per statement of financial position										88,414

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2015

Motor

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	156,449	180,999	157,454	95,829	129,285	154,209	154,497	184,381	
One year later	192,055	209,266	175,052	110,928	150,294	179,753	190,464		
Two years later	198,949	214,022	179,340	115,579	157,150	185,140			
Three years later	199,663	212,429	176,627	115,782	156,785				
Four years later	198,450	210,274	171,383	112,911					
Five years later	197,504	209,698	170,104						
Six years later	195,939	207,207							
Seven years later	195,643								
Current estimate of cumulative claims incurred	<u>195,643</u>	<u>207,207</u>	<u>170,104</u>	<u>112,911</u>	<u>156,785</u>	<u>185,140</u>	<u>190,464</u>	<u>184,381</u>	<u>1,402,635</u>

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**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2015: (continued)

Motor (continued)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	81,851	83,327	76,490	44,803	61,303	71,664	72,210	88,167	
One year later	154,000	161,789	131,653	87,450	119,054	144,030	146,559		
Two years later	174,714	189,523	156,049	102,749	139,059	164,005			
Three years later	189,059	201,530	163,467	107,479	146,740				
Four years later	194,118	205,170	166,062	108,639					
Five years later	194,724	205,766	166,935						
Six years later	194,929	206,196							
Seven years later	195,445								
Cumulative payment to-date	<u>195,445</u>	<u>206,196</u>	<u>166,935</u>	<u>108,639</u>	<u>146,740</u>	<u>164,005</u>	<u>146,559</u>	<u>88,167</u>	<u>1,222,686</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2015: (continued)

Motor (continued)

	<b>Before 2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Accident year	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net Motor insurance outstanding liabilities (direct and facultative)	970	198	1,011	3,169	4,272	10,045	21,135	43,905	96,214	180,919
Net IBNR	-	-	-	-	-	72	1,192	10,327	64,663	76,254
Net Motor insurance outstanding liabilities (treaty inward)										63,298
Best estimates of claims liabilities										320,471
Claims handling expenses										9,140
PRAD at 75% confidence level										22,911
Net Motor insurance contract claims liabilities per statement of financial position										352,522



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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2015:

Non-motor

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Accident year	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	20,843	23,577	18,938	15,128	15,400	12,431	14,351	16,383	
One year later	21,527	23,610	19,209	14,589	13,819	13,980	16,417		
Two years later	22,062	22,587	17,741	13,469	13,976	13,665			
Three years later	21,556	21,478	17,105	13,156	13,848				
Four years later	20,981	21,236	18,163	12,834					
Five years later	20,865	20,599	17,979						
Six years later	21,067	20,426							
Seven years later	20,321								
Current estimate of cumulative claims incurred	<u>20,321</u>	<u>20,426</u>	<u>17,979</u>	<u>12,834</u>	<u>13,848</u>	<u>13,665</u>	<u>16,417</u>	<u>16,383</u>	<u>131,873</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2015: (continued)

Non-motor (continued)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	6,817	9,212	6,412	5,414	6,163	5,489	6,810	7,910	
One year later	16,729	16,716	14,107	10,211	10,053	9,693	12,043		
Two years later	19,393	18,211	15,220	11,438	10,979	11,113			
Three years later	19,479	19,603	15,896	11,632	11,667				
Four years later	19,832	19,741	16,149	11,770					
Five years later	20,167	19,818	16,302						
Six years later	20,016	19,909							
Seven years later	20,027								
Cumulative payment to-date	<u>20,027</u>	<u>19,909</u>	<u>16,302</u>	<u>11,770</u>	<u>11,667</u>	<u>11,113</u>	<u>12,043</u>	<u>7,910</u>	<u>110,741</u>

**LIBERTY INSURANCE BERHAD**  
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**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2015: (continued)

Non-motor (continued)

Accident year	Before 2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
Net Non-Motor insurance outstanding liabilities (direct and facultative)	736	294	517	1,677	1,064	2,181	2,552	4,374	8,473	21,868
Net IBNR	-	-	-	-	-	-	6	419	2,881	3,306
Net Non-Motor insurance outstanding liabilities (treaty inwards)										2,099
Best estimates of claims liabilities										27,273
Claims handling expenses										723
PRAD at 75% confidence level										2,685
Net Non-Motor insurance contract claims liabilities per statement of financial position										30,681

**LIBERTY INSURANCE BERHAD**  
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**33. FINANCIAL RISK**

**Financial risk management objectives and policies**

The Company is exposed to a variety of financial risks, including credit risk, liquidity risk, market risk, and operational risk. The Company focuses on the uncertainty of financial markets and seek to minimise potential adverse effects on the financial performance of the Company. Financial risk management is carried out through risk reviews and internal control systems.

The Company is guided by the ERM Framework which sets out the overall risk management philosophy. The Company has established internal processes to monitor the risks on an ongoing basis.

The policies and measures taken by the Company to manage these risks are set out below.

**Credit risk**

Credit risk is the potential financial loss resulting from a counter party's inability or unwillingness to fully to honour its obligations to the Company as and when they fall due.

The Company's primary exposure to credit risks arises through its investment in fixed income securities, obligations of reinsurers through reinsurance contracts and receivables arising from sales of insurance policies.

Cash and deposits are generally placed with local licensed banks and financial institutions.

The Company monitors the credit quality and financial conditions of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Company typically cedes business to regulated reinsurers that have a good credit rating and concentration risk is avoided by adhering to policy guidelines in respect of counterparties' limit that have been set. When selecting its reinsurers, the Company consider their relative financial security. The securities of the reinsurers are assessed mainly based on rating agency reports.

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**33. FINANCIAL RISK (CONTINUED)**

**Credit risk (continued)**

The Company's credit risk exposure to insurance receivables is from its appointed agents, brokers and other intermediaries. The risk arises where these parties collect premiums from customers to be paid to the Company. The Company has policies to monitor credit risk from these receivables through meetings of the Credit Control Committee, Credit Control Department and Business Units to facilitate monitoring of the outstanding position. The Company also has guidelines to evaluate intermediaries before their appointment as well as setting credit limits to these appointees.

**(i) Credit exposure**

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

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Available-for-sale financial assets :		
Malaysian government papers	170,653	30,711
Unquoted debt securities	173,961	130,414
Reinsurance assets - excluding premium liabilities	112,364	118,265
Loans and receivables - excluding prepayments	710,418	879,567
Insurance receivables - excluding deferred reinsurance premium, net	21,127	29,916
Cash and short term deposits	88,929	8,429
	<u>1,277,452</u>	<u>1,197,302</u>

**(ii) Credit exposure by credit quality**

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.

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**33. FINANCIAL RISK (CONTINUED)**

	Neither past due nor impaired/ investment grade RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Total RM'000
<b>2016</b>				
Available-for-sale financial assets :				
Malaysian government papers	170,653	-	-	170,653
Unquoted debt securities	173,961	-	-	173,961
Reinsurance assets, excluding premium liabilities	112,364	-	-	112,364
Loans and receivables, excluding prepayments	710,418	-	-	710,418
Insurance receivables, excluding deferred reinsurance premium	5,654	15,473	6,005	27,132
Cash and short term deposits	88,929	-	-	88,929
	<u>1,261,979</u>	<u>15,473</u>	<u>6,005</u>	<u>1,283,457</u>
Allowance for impairment	-	-	(6,005)	(6,005)
	<u>1,261,979</u>	<u>15,473</u>	<u>-</u>	<u>1,277,452</u>
<b>2015</b>				
Available-for-sale financial assets:				
Malaysian government papers	30,711	-	-	30,711
Unquoted debt securities	130,414	-	-	130,414
Reinsurance assets, excluding premium liabilities	118,265	-	-	118,265
Loans and receivables, excluding prepayments	879,567	-	-	879,567
Insurance receivables, excluding deferred reinsurance premium	7,975	21,941	8,062	37,978
Cash and short term deposits	8,429	-	-	8,429
	<u>1,175,361</u>	<u>21,941</u>	<u>8,062</u>	<u>1,205,364</u>
Allowance for impairment	-	-	(8,062)	(8,062)
	<u>1,175,361</u>	<u>21,941</u>	<u>-</u>	<u>1,197,302</u>

**LIBERTY INSURANCE BERHAD**  
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**33. FINANCIAL RISK (CONTINUED)**

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia ("RAM") or Malaysian Rating Corporation Berhad's ("MARC") credit ratings of counterparties. AAA is the highest possible rating.

	<b>Government Guaranteed</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>B</b>	<b>Unrated</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>								
Available-for-sale financial assets:								
Malaysian government papers	170,653	-	-	-	-	-	-	170,653
Unquoted debt securities	7,174	106,123	55,097	-	-	-	5,567	173,961
Reinsurance assets, excluding premium liabilities	-	-	34,327	66,040	-	74	11,923	112,364
Loans and receivables, excluding prepayments	-	409,660	151,569	45,602	-	-	103,587	710,418
Insurance receivables, excluding deferred reinsurance premium, net	-	1,549	71	1,496	1	-	18,010	21,127
Cash and short term deposits	-	4,962	705	4,166	-	-	79,096	88,929
	<u>177,827</u>	<u>522,294</u>	<u>241,769</u>	<u>117,304</u>	<u>1</u>	<u>74</u>	<u>218,183</u>	<u>1,277,452</u>

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**LIBERTY INSURANCE BERHAD**  
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**33. FINANCIAL RISK (CONTINUED)**

	<b>Government Guaranteed</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>B</b>	<b>Unrated</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>								
Available-for-sale financial assets:								
Malaysian government papers	30,711	-	-	-	-	-	-	30,711
Unquoted debt securities	6,688	65,226	44,840	-	-	-	13,660	130,414
Reinsurance assets, excluding premium liabilities	-	-	5,737	83,491	-	169	28,868	118,265
Loans and receivables, excluding prepayments	-	553,067	147,245	61,022	-	-	118,233	879,567
Insurance receivables, excluding deferred reinsurance premium, net	-	968	47	5,090	-	2	23,809	29,916
Cash and short term deposits	-	-	2,396	3,967	-	-	2,066	8,429
	<u>37,399</u>	<u>619,261</u>	<u>200,265</u>	<u>153,570</u>	<u>-</u>	<u>171</u>	<u>186,636</u>	<u>1,197,302</u>



**LIBERTY INSURANCE BERHAD**  
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**33. FINANCIAL RISK (CONTINUED)**

Age analysis of financial assets past due but not impaired

A financial asset is deemed past due when the counterparty has failed to make payment when the outstanding amounts are contractually due.

	<b>&lt; 30 days RM'000</b>	<b>31 to 60 days RM'000</b>	<b>61 to 90 days RM'000</b>	<b>&gt; 91 days RM'000</b>	<b>Total RM'000</b>
<b>2016</b>					
Insurance receivables	<u>6,516</u>	<u>2,149</u>	<u>2,094</u>	<u>4,714</u>	<u>15,473</u>

**2015**

Insurance receivables	<u>8,147</u>	<u>2,879</u>	<u>2,020</u>	<u>8,895</u>	<u>21,941</u>
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Age analysis of financial assets past due and impaired

At 31 December 2016, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM6,005,000 (2015: RM8,062,000). For assets to be classified as "past due and impaired", contractual payment must be in arrears for more than 60 days. No collateral is held as security for any past due or impaired assets. The Company records impairment for insurance receivables in separate "allowance for impairment" accounts. A reconciliation of the impairment losses for insurance receivables is as follows:

	<b>RM'000</b>
At 1 January 2015	7,889
Movement during the financial year	
- Individual impairment	1,554
- Collective impairment	1,372
- Provision recovered	(1,300)
- Bad debts written off	<u>(1,453)</u>
At 31 December 2015/1 January 2016	8,062
Movement during the financial year	
- Individual impairment	(423)
- Collective impairment	(480)
- Provision recovered	(870)
- Bad debts written off	<u>(284)</u>
At 31 December 2016	<u>6,005</u>

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**33. FINANCIAL RISK (CONTINUED)**

**Liquidity risk**

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet their obligations when they fall due, or would have to incur excessive cost to do so. In respect of catastrophic events, there is also liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Company's policy is to maintain adequate liquidity to meet the liquidity needs under both normal and stressed conditions.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- The Company's Finance & Accounts Department takes charge of the operational management of liquidity risks arising from financial operations. The Company aims to maintain sufficient level of cash and cash equivalents to meet all expected and unexpected outflows resulting from the day-to-day company operations.
- There are guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance and investment contract obligations. As part of liquidity management, the Company maintains sufficient level of cash and cash equivalents to meet expected and to a lesser extent unexpected outflows.
- Setting up capital management plan which specify the methods used to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's treaty reinsurance contract contains a "cash call" clause permitting the Company to make cash call on claim and receive immediate payment for a large loss without waiting for usual periodic payment procedures to occur.

**Maturity profiles**

The table below summarises the maturity profile of the assets and liabilities of the Company based on remaining undiscounted contractual obligations.

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities. Premium liabilities and the reinsurers' share of premium liabilities have been excluded from the analysis as these are not contractual obligations.

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**33. FINANCIAL RISK (CONTINUED)**

**Maturity profiles (continued)**

	<b>Carrying value RM'000</b>	<b>Up to a year* RM'000</b>	<b>1 to 3 years RM'000</b>	<b>3 to 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No maturity date RM'000</b>	<b>Total RM'000</b>
<b>2016</b>							
Available-for-sale financial assets:							
Malaysian government papers	170,653	7,842	32,134	88,854	73,703	-	202,533
Unquoted equity security in Malaysia	36	-	-	-	-	36	36
Unquoted debt securities	173,961	19,192	77,098	32,749	84,479	-	213,518
Reinsurance assets, excluding premium liabilities	112,364	57,720	45,744	8,191	709	-	112,364
Loans and receivables, excluding prepayments	710,418	553,181	93,463	-	63,774	-	710,418
Insurance receivables - excluding deferred reinsurance premium, net	21,127	21,127	-	-	-	-	21,127
Cash and cash equivalents	88,929	88,929	-	-	-	-	88,929
<b>Total financial assets</b>	<b>1,277,488</b>	<b>747,991</b>	<b>248,439</b>	<b>129,794</b>	<b>222,665</b>	<b>36</b>	<b>1,348,925</b>
Claims liabilities	540,564	306,767	199,856	29,738	4,203	-	540,564
Insurance payables	40,448	40,448	-	-	-	-	40,448
Other payables	56,345	55,715	574	56	-	-	56,345
<b>Total financial liabilities</b>	<b>637,357</b>	<b>402,930</b>	<b>200,430</b>	<b>29,794</b>	<b>4,203</b>	<b>-</b>	<b>637,357</b>

**LIBERTY INSURANCE BERHAD**  
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**33. FINANCIAL RISK (CONTINUED)**

**Maturity profiles (continued)**

	<b>Carrying value RM'000</b>	<b>Up to a year* RM'000</b>	<b>1 to 3 years RM'000</b>	<b>3 to 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No maturity date RM'000</b>	<b>Total RM'000</b>
<b>2015</b>							
Available-for-sale financial assets:							
Malaysian government papers	30,711	1,422	2,224	12,224	22,988	-	38,858
Unquoted equity security in Malaysia	39	-	-	-	-	39	39
Unquoted debt securities	130,414	15,030	45,026	22,159	88,394	-	170,609
Reinsurance assets, excluding premium liabilities	118,265	78,852	32,172	6,112	1,129	-	118,265
Loans and receivables, excluding prepayments	879,567	679,045	127,701	-	72,821	-	879,567
Insurance receivables - excluding deferred reinsurance premium, net	29,916	29,916	-	-	-	-	29,916
Cash and cash equivalents	8,429	8,429	-	-	-	-	8,429
<b>Total financial assets</b>	<b>1,197,341</b>	<b>812,694</b>	<b>207,123</b>	<b>40,495</b>	<b>185,332</b>	<b>39</b>	<b>1,245,683</b>
Claims liabilities	501,468	360,599	119,702	18,681	2,486	-	501,468
Insurance payables	73,958	73,958	-	-	-	-	73,958
Other payables	57,409	56,907	444	58	-	-	57,409
<b>Total financial liabilities</b>	<b>632,835</b>	<b>491,464</b>	<b>120,146</b>	<b>18,739</b>	<b>2,486</b>	<b>-</b>	<b>632,835</b>

\* Expected utilisation or settlement is within 12 months from the reporting date

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**33. FINANCIAL RISK (CONTINUED)**

**Market risk**

Market risk is the risk of financial losses as a result of the reduction in the market value of assets. Market risk comprised three types of exposures: foreign exchange rates (currency risk), market interest rates (interest rates/profit yield risk) and market prices (price risk).

The Company has policies and limits to manage market risk. The market risk is managed through portfolio diversification and changes in assets allocation. The Company's policies on assets allocation, portfolio limit structure and diversification benchmark is aligned with the Company's risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

**(i) Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in foreign exchange rates. The Company has minimal exposure to currency risk.

**(ii) Interest rate/Profit yield rate**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market interest rates/profit yield.

The Company is exposed to interest rate risk primarily through investments in fixed income securities, such as Malaysian Government Papers and Corporate Debt Securities.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact to statements of income and changes in equity (due to changes in fair value of available-for-sale financial assets).

Change in Variable	2016		2015	
	Impact on <u>PBT</u> RM'000	Impact on <u>Equity*</u> RM'000	Impact on <u>PBT</u> RM'000	Impact on <u>Equity*</u> RM'000
	← (Decrease)/Increase →			
Interest Rate +50bps	-	(5,348)	-	(2,546)
Interest Rate -50bps	-	5,505	-	2,631

\* Impact on Equity reflects adjustments for tax, when applicable.

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Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), regardless whether those changes are caused by factors specific to the individual financial statements or its issuer or factors affecting similar financial instruments traded in the market. Currently the Company has no significant exposure to price risk.

**Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from 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 mitigates them by establishing a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access controls, authorisation, reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit. Business risk, such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

The Company's risk taking units are primarily responsible for managing the day-to-day operational risk inherent in their respective business and functional areas. They are responsible for putting in place and maintaining their respective operational manuals, and ensuring that activities undertaken by them comply with the Company's ERM framework and oversight by the Risk Management Committee and the Board.

**34. REGULATORY CAPITAL REQUIREMENTS**

The Company's capital management policy is to optimise the efficient and effective use of resources to maximise the return on equity and provide an appropriate level of capital to protect policyholders and meet regulatory requirements.

The Company is required to comply with the regulatory capital requirement prescribed in the RBC Framework. Under the RBC Framework guidelines issued by BNM, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. As at 31 December 2016 and 2015, the Company has a capital adequacy ratio in excess of the minimum requirement.

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**34. REGULATORY CAPITAL REQUIREMENTS (CONTINUED)**

The capital structure of the Company as at 31 December 2016, and the comparative, as prescribed under the RBC Framework is provided below:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Eligible Tier 1 Capital:		
Share capital (paid up)	100,000	100,000
Retained earnings	416,266	345,455
	<u>516,266</u>	<u>445,455</u>
Tier 2 Capital:		
Asset revaluation reserve	20,469	20,495
AFS reserve	(4,025)	(2,622)
	<u>16,444</u>	<u>17,873</u>
Amounts deducted from capital	(16,752)	(12,194)
Total capital available	<u>515,958</u>	<u>451,134</u>

**35. SUBSEQUENT EVENTS**

(a) Companies Act, 2016

The Companies Act, 2016 ("New Act") was enacted to replace the Companies Act, 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representatives) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Company upon the commencement of the New Act on 31 January 2017 are:

- (a) Removal of the authorised share capital; and
- (b) Shares of the Company will cease to have par or nominal value

The adoption of the New Act is not expected to have any financial impact of the Company for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual financial statements of the Company for the financial year ending 31 December 2017.

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**35. SUBSEQUENT EVENTS (CONTINUED)**

(b) Malaysian Competition Commission ("Mycc")

In August 2016, the Company received a notice from the Malaysian Competition Commission ("Mycc") stating that Mycc has commenced an investigation under section 15 (1) of the Competition Act 2010 ("CA") where Mycc has reason to suspect that 22 insurers (Insurers) have infringed or is infringing section 4(2)(a) of the Competition Act in relation to an agreement with the Federation of Automobile Workshop Owners' Association of Malaysia (FAWOAM) to impose a trade discount rate on certain vehicle makes and to fix the labour hourly rate for certain repair shops ("Alleged anti-competitive practices") in the period between or around July 2011 up until the date of the Notice.

Pursuant to the notice, the Company was requested to submit various documents to Mycc and was given a timeline until 6 January 2017 to file in written submissions to defend or admit the Alleged anti-competitive practice(s). The Company, in its written submissions, defended its position that there were no Alleged anticompetitive practices committed by the Company.

On 22 February 2017, Mycc gave written notice of its Proposed decision under S36(1) CA finding that the Company along with the other 21 Insurers and PIAM had infringed Section 4(2)(a) of the CA and has indicated a proposed financial penalty of RM213.45 million on all the 22 Insurers. The Company maintains that the Proposed decision is not final and would defend its position that it has not infringed Section 4(2)(a) of the CA. Subsequent to Mycc's Proposed decision, Bank Negara Malaysia ("BNM") as the Regulator for the Insurers, has issued a Press Release on 1 March 2017 affirming that the Alleged anti-competitive practices came about after it had issued a directive to the Insurers to resolve consumer complaints.

The Company intends to file written representations and will also request for oral representations on or before the deadline of 5 April 2017 as given by Mycc.