

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

**Directors' Report and Audited Financial Statements**  
**31 December 2017**

**16688-K**

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

<b>CONTENTS</b>	<b>PAGE</b>
Directors' Report	1 - 24
Statement By Directors	25
Statutory Declaration	25
Independent Auditors' Report	26 - 29
Statement of Financial Position	30
Statement of Income	31
Statement of Comprehensive Income	32
Statement of Changes In Equity	33
Statement of Cash Flows	34 - 35
Notes to the Financial Statements	36 - 149

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

**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 2017.

**PRINCIPAL ACTIVITIES**

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

**HOLDING COMPANY**

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 Holding Company Inc., a company incorporated in the United States of America.

**RESULTS**

	<b>RM'000</b>
Net profit for the financial year	<u>52,512</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 Company paid an interim single tier dividend of RM0.05 per ordinary share on 100,000,000 ordinary shares amounting to RM5,000,000 on 16 October 2017 in respect of the financial year ended 31 December 2017. The dividend has been accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ended 31 December 2017.

**SHARE CAPITAL**

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

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

**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
Mdm Karen Kar Lun Lee	
Mr Keong Choon Keat	
Mr William Michael Finn	
YBhg. Dato' Lim Heen Peok	
Mdm Elsie Kok Yin Mei	(Appointed on 28 July 2017)
Mr Bhaskaran Natarajan	(Resigned on 19 January 2017)
YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar	(Resigned on 10 July 2017)

In accordance with Article 63 of the Company's Articles of Association, YBhg. Dato' Lim Heen Peok and Mdm Karen Kar Lun Lee shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 68 of the Company's Articles of Association, Mdm Elsie Kok Yin Mei shall retire and, being eligible, offers herself for re-election at the forthcoming Annual General Meeting.

**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.

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

**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.

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

**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 24 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**  
**(Incorporated in Malaysia)**

**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 prescribed under the Policy Document BNM/RH/PD 029-9 on Corporate Governance issued by Bank Negara Malaysia.

**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 four Board Committees as follows:

- (i) Audit Committee
- (ii) Nomination Committee
- (iii) Remuneration Committee
- (iv) Risk Management 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 six directors i.e. four Independent Non-Executive Directors, one Non-Independent Non-Executive Director and one Executive Director. 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.

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

**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

(b) Board Meetings

During the financial year, the Board met ten 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 2017 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	10	10 of 10
YBhg Dato' Dr. Mohd Shahari bin Ahmad Jabar *	Independent Non-Executive Director	4	4 of 4
Mdm Karen Kar Lun Lee	Executive Director	10	10 of 10
Mr Keong Choon Keat	Independent Non-Executive Director	10	10 of 10
Mr William Michael Finn	Non-Independent Non-Executive Director	10	7 of 10
YBhg. Dato' Lim Heen Peok	Independent Non-Executive Director	10	10 of 10
Mr Bhaskaran Natarajan **	Non-Independent Executive Director	1	1 of 1
Mdm Elsie Kok Yin Mei ***	Independent Non-Executive Director	5	5 of 5

\* Resigned as Director on 10 July 2017

\*\* Resigned as Director on 19 January 2017

\*\*\* Appointed as Director on 28 July 2017



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

**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 and Risk Management Committees are available to respond to shareholders' questions during the meeting.

Board Committees

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

**A The Audit Committee**

The primary objective of the Audit Committee ("AC") 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.

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

**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 2017 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	7	7 of 7
YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar *	Independent Non-Executive Director	3	3 of 3
YBhg. Dato' Haji Kamil Khalid Ariff	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 Peok	Independent Non-Executive Director	7	7 of 7
Mdm Karen Kar Lun Lee **	Executive Director	3	3 of 3
Mdm Elsie Kok Yin Mei ***	Independent Non-Executive Director	3	3 of 3

\* Resigned from the Committee member on 10 July 2017

\*\* Relinquished as the member to the Committee on 15 July 2017

\*\*\* Appointed to the Committee member on 28 July 2017

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

**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 2017 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 (Chairman)	Independent Non-Executive Director & Chairman	5	5 of 5
YBhg. Dato' Haji Kamil Khalid Ariff	Independent Non-Executive Director	5	5 of 5
YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar *	Independent Non-Executive Director	4	3 of 4
Mdm Karen Kar Lun Lee	Executive Director	5	5 of 5
Mdm Elsie Kok Yin Mei **	Independent Non-Executive Director	1	1 of 1

\* Resigned as Committee member on 10 July 2017

\*\* Appointed as Committee member on 28 July 2017

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

**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 2017 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 (Chairman)	Independent Non-Executive Director & Chairman	5	5 of 5
YBhg. Dato' Haji Kamil Khalid Ariff	Independent Non-Executive Director	5	5 of 5
Mdm Karen Kar Lun Lee *	Executive Director	4	4 of 4
Mr William Michael Finn	Non-Independent Non-Executive Director	5	4 of 5
Mr Keong Choon Keat	Independent Non-Executive Director	5	5 of 5

\* Relinquished as Committee member on 15 July 2017

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

**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 2017 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>
Mdm Elsie Kok Yin Mei * (Chairman)	Independent Non-Executive Director & Chairman	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 ***	Executive Director	3	3 of 3
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 Peek	Independent Non-Executive Director	6	6 of 6

\* Appointed as Chairman of the Committee on 28 July 2017

\*\* Resigned as Chairman of the Committee on 10 July 2017

\*\*\* Relinquished as Committee member on 15 July 2017

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

**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)**

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.

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.

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

**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 report is amongst the report 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.

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

**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 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.



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

**CORPORATE GOVERNANCE (CONTINUED)**

**BOARD RESPONSIBILITIES AND OVERSIGHT (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, 2016 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, 2016.

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) Distinguished Board Leadership Series: Efficient Inefficiency: Making Boards Effective in a Changing World
- (ii) Risk and Reward: What Must Boards Know About a Sustainable FI Remuneration System for Senior Management and Material Risk Takers
- (iii) MFRS 9: Financial Instruments, MFRS15: Revenue and MFRS 16: Leases
- (iv) FIDE Forum Dialogue : Leveraging Technology for Growth

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

**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 in attracting, developing and retaining the best talent and motivates 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.

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

**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 Liberty Mutual Insurance Group ("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.

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

**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").

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

**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. As at 31 December 2017, the Company has a total of 11 Material Risk Takers (2016: 11)

**INDEMNITY AND INSURANCE COST**

The following disclosure on particulars of indemnity given, to, or insurance effected for, any Director or officer of the Company is made pursuant to Section 289(7) of the Companies Act 2016:

	<b>Sum insured USD'000</b>
Directors and Officers Liability Insurance	<u>25,000</u>

The liability insurance coverage for the Directors and Officers of the Company is under a global policy secured by the ultimate holding company with a sum insured amounting to United States Dollar ("USD") 25 million, being the aggregate limit of the coverage.

There were no indemnity given to, or insurance effected for auditors of the Company during the financial year.

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

**CORPORATE GOVERNANCE (CONTINUED)**

**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 63, 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 (10 times meetings) Board of Directors' meetings held during the financial year ended 31 December 2017.

KAREN KAR LUN LEE  
EXECUTIVE DIRECTOR

Karen Kar Lun Lee, aged 48, is a Canadian citizen and is a Executive Director of the Company. She was appointed to the Board on 16 July 2014. She is also a member of the Nomination 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 (10 times meetings) Board of Directors' meetings held during the financial year ended 31 December 2017.

**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 73, 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 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 (10 times meetings) Board of Directors' meetings held during the financial year ended 31 December 2017.

WILLIAM MICHAEL FINN  
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

William Michael Finn, aged 53, 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 7 out of 10 Board of Directors' meetings held during the financial year ended 31 December 2017.



**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 69, 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 directorship in other companies are as Director of Unitedstar Corporation Sdn. Bhd. and Furniweb Holdings Limited.

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 (10 times meetings) Board of Directors' Meetings held during financial year ended 31 December 2017.

ELSIE KOK YIN MEI  
INDEPENDENT NON-EXECUTIVE DIRECTOR

Elsie Kok Yin Mei, aged 57, is a Malaysia citizen and is an Independent Non-Executive Director of the Company. She was appointed to the Board on 28 July 2017. She is also the Chairman of the Risk Management Committee, a member of the Audit Committee and Nomination Committee.

She obtained her Bachelor of Jurisprudence/LLB from Monash University, Australia.

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 (5 times meetings upon her appointment) Board of Directors' meetings held during her tenure for the financial year ended 31 December 2017.

**16688-K**

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

**SIGNIFICANT AND SUBSEQUENT EVENT**

The significant and subsequent event during and after the financial year is 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 24 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 23 March 2018.

DATO' HAJI KAMIL KHALID ARIFF  
DIRECTOR

KAREN KAR LUN LEE  
DIRECTOR

Kuala Lumpur, Malaysia  
23 March 2018

**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 Karen Kar Lun Lee, 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 30 to 149 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2017 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 ("IFRS") and comply with the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors dated 23 March 2018.

DATO' HAJI KAMIL KHALID ARIFF  
DIRECTOR

KAREN KAR LUN LEE  
DIRECTOR

Kuala Lumpur, Malaysia  
23 March 2018

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

I, Saime Defne Turkes, 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 30 to 149 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 Saime Defne Turkes  
at Kuala Lumpur in Malaysia  
on 23 March 2018

SAIME DEFNE TURKES

Before me,

16688-K

**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 2017, 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 30 to 149.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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, 2016 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.

16688-K

**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, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the 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

*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.

16688-K

**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.

16688-K

**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 2018

Brandon Bruce Sta Maria  
No. 02937/09/2019 J  
Chartered Accountant

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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

	Note	2017 RM'000	2016 RM'000
<b>ASSETS</b>			
Property and equipment	4(a)	61,099	60,160
Intangible assets - software	4(b)	2,478	5,572
Investment properties	5	54,528	54,028
Available-for-sale financial assets	6	387,206	344,650
Loans and receivables	7	816,195	711,295
Reinsurance assets	9	263,990	165,320
Insurance receivables	10	35,204	28,023
Tax assets		1,740	-
Deferred tax assets	8	-	500
Deferred acquisition costs	11	30,834	29,760
Cash and short term deposits	12	30,465	88,929
Total assets		<u>1,683,739</u>	<u>1,488,237</u>
<b>EQUITY</b>			
Share capital	13	100,000	100,000
Other reserves	14	19,715	16,444
Retained earnings	15	463,778	416,266
Total equity		<u>583,493</u>	<u>532,710</u>
<b>LIABILITIES</b>			
Insurance contract liabilities	16	1,031,252	844,342
Deferred tax liabilities	8	1,885	-
Deferred acquisition costs - reinsurance	11	2,684	5,143
Insurance payables	17	21,430	40,448
Other payables	18	42,995	56,345
Tax liabilities		-	9,249
Total liabilities		<u>1,100,246</u>	<u>955,527</u>
Total equity and liabilities		<u>1,683,739</u>	<u>1,488,237</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 2017**

	Note	2017 RM'000	2016 RM'000
Gross written premiums		651,826	623,419
Change in premium liabilities		(13,488)	(11,993)
Gross earned premiums (a)		638,338	611,426
Reinsurance premiums ceded		(95,672)	(127,388)
Change in premium liabilities		(28,282)	(1,047)
Premiums ceded to reinsurers (b)		(123,954)	(128,435)
Net earned premiums (a) - (b)		514,384	482,991
Investment income	19	45,116	39,981
Realised losses and gains	20	(34)	346
Net fair value gains/(losses)	21	500	(30)
Commission income	22	26,931	36,276
Other operating income	23	9,722	8,441
Other revenue		82,235	85,014
Gross claims paid		(361,231)	(302,950)
Claims ceded to reinsurers		62,291	60,042
Gross change to claims liabilities		(173,422)	(39,096)
Change in claims liabilities ceded to reinsurers		126,952	(5,901)
Net claims incurred		(345,410)	(287,905)
Commission expense	22	(68,810)	(65,991)
Management expenses	24	(115,643)	(120,735)
Other expenses		(184,453)	(186,726)
Profit before taxation		66,756	93,374
Tax expense	25	(14,244)	(22,880)
Net profit for the financial year		52,512	70,494
Basic and diluted earnings per share (sen)	26	52.51	70.49

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 2017**

	Note	2017 RM'000	2016 RM'000
Net profit for the financial year		<u>52,512</u>	<u>70,494</u>
Other comprehensive income:			
Item that will not be subsequently reclassified to profit or loss:			
<u>Asset revaluation reserve</u>			
Revaluation surplus on self-occupied properties	4(a)	526	276
Tax effect on revaluation surplus		<u>(193)</u>	<u>(61)</u>
		<u>333</u>	<u>215</u>
Item that may be subsequently reclassified to profit or loss:			
<u>Available-for-sale ("AFS") reserve</u>			
Fair value gain/(loss) of AFS financial assets	6	3,866	(1,846)
Tax effect on fair value (gain)/loss of AFS financial assets	8	<u>(928)</u>	<u>443</u>
		<u>2,938</u>	<u>(1,403)</u>
Total comprehensive income for the financial year		<u>55,783</u>	<u>69,306</u>

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

16688-K

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

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	Issued and fully paid ordinary shares RM'000	Non-distributable		Distributable	Total RM'000
			Asset revaluation reserve RM'000	AFS reserve RM'000	Retained earnings RM'000	
At 1 January 2016		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		<u>100,000</u>	<u>20,469</u>	<u>(4,025)</u>	<u>416,266</u>	<u>532,710</u>
At 1 January 2017		100,000	20,469	(4,025)	416,266	532,710
Total comprehensive income for the financial year		-	333	2,938	52,512	55,783
Dividends paid during the year	27	-	-	-	(5,000)	(5,000)
At 31 December 2017		<u>100,000</u>	<u>20,802</u>	<u>(1,087)</u>	<u>463,778</u>	<u>583,493</u>

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 2017**

	<b>Note</b>	<b>2017 RM'000</b>	<b>2016 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the financial year		52,512	70,494
<u>Adjustment for non-cash items:</u>			
Property and equipment			
- depreciation	4(a)	3,242	4,770
- gain on disposal	20	-	(387)
- written off	4(a)	130	39
Amortisation of intangible assets	4(b)	1,174	214
Net fair value (gains)/losses on investment properties	5	(500)	30
Interest income	19	(44,442)	(40,469)
Net rental (income)/expenses	19	(331)	659
Net accretion of discounts	19	(343)	(171)
Impairment allowance on insurance receivables	24	(10)	(1,773)
Recoveries of bad debts written off	24	(299)	(98)
Tax expense	25	14,244	22,880
		<u>25,377</u>	<u>56,188</u>
Purchase of available-for-sale financial assets	6(b)	(54,809)	(191,422)
Proceeds from maturity of available-for-sale financial assets	6(b)	16,733	8,155
Interest income received		44,955	35,063
Net rental income/(expenses)	19	331	(659)
(Increase)/Decrease in reinsurance assets	9	(98,670)	6,948
(Increase)/Decrease in insurance receivables		(6,872)	7,129
Increase in deferred acquisition costs	11	(1,074)	(1,817)
Decrease in insurance payables	17	(19,018)	(33,510)
Increase in insurance contract liabilities	16	186,910	51,089
(Increase)/Decrease in loans and receivables		(105,682)	172,768
Decrease in other payables	18	(13,350)	(1,064)
(Decrease)/Increase in deferred acquisition costs - reinsurance	11	(2,459)	127
Cash (used in)/generated from operating activities		<u>(27,628)</u>	<u>108,995</u>
Income tax paid		<u>(23,971)</u>	<u>(25,177)</u>
Net cash (outflows)/inflows from operating activities		<u>(51,599)</u>	<u>83,818</u>

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

**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Note</b>	<b>2017 RM'000</b>	<b>2016 RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	4(a)	(1,422)	(2,682)
Purchase of intangible assets - software	4(b)	(443)	(1,296)
Purchase of investment property	5	-	(430)
Proceeds from disposal of property and equipment		-	1,090
Net cash outflows from investing activities		<u>(1,865)</u>	<u>(3,318)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid	27	<u>(5,000)</u>	-
Net cash outflows from financing activities		<u>(5,000)</u>	-
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		(58,464)	80,500
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		<u>88,929</u>	<u>8,429</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	12	<u>30,465</u>	<u>88,929</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 2017**

**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 Holding Company 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 2018.

**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, 2016 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 amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2017 during the financial year ended 31 December 2017.

The adoption of the 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**  
**(Incorporated in Malaysia)**

**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 2017, the Company adopted the following amended MFRSs, which are mandatory for annual financial periods beginning on or after 1 January 2017.

Description	Effective for annual financial periods beginning on or after
MFRS 107 Disclosure Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Annual Improvements to MFRS Standards 2014-2016 Cycle - Amendments to MFRS 12 Disclosure of Interest in Other Entities: Clarification of the scope of disclosure requirements in MFRS 12	1 January 2017

**MFRS 107 Disclosure Initiative (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 these amendments, entities are not required to provide comparative information for preceding periods. Apart from the additional disclosures in Note 27, the application of these amendments has had no impact on the Company.



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

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

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

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

**MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses  
(Amendments to MFRS 112)**

The amendments clarify that an entity needs to consider whether tax laws restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstance in which taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The application of these amendments has had no impact on the Company as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

**Annual Improvements to MFRS Standards 2014-2016 Cycle**

**Amendments to MFRS 12 Disclosure of Interest in Other Entities: Clarification  
of the scope of disclosure requirements in MFRS 12**

The amendments clarify that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal company that is classified) as held for sale. The application of these amendments has had no effect on the Company as none of the Company's interest in these entities are classified, or included in a disposal company that is classified, as held for sale.

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

**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 Interpretations issued by the Malaysian Accounting Standards 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 interpretations, if applicable, when they become effective:

Description	Effective for annual financial periods beginning on or after
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfer of Investment Property (Amendments to MFRS 140)	1 January 2018
Annual Improvements to MFRS Standards 2014 - 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interest in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 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

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

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

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

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

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

**MFRS 9 Financial Instruments**

In July 2014, the MASB issued the final version of MFRS 9 Financial Instruments that replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 brings together all three aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

MFRS 9 is issued by the MASB in respect of its application in Malaysia. It is equivalent to IFRS 9 as issued by IASB, including the effective and issuance dates. The Company has decided to adopt MFRS 9 on the required effective date although the Company has met the predominance criteria and is allowed to defer the adoption, under Amendments to MFRS 4, to annual periods beginning before 1 January 2021 at the latest.

During 2017, the Company has performed a detailed impact assessment of all three aspects of MFRS 9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company adopts MFRS 9. The areas with expected impact from application of MFRS 9 are summarized below:

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

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

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

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

**MFRS 9 Financial Instruments (continued)**

**(a) Classification and measurement**

The Company expects to have mixed business models based on the solely payments of principal and interest ("SPPI") and Business Model ("BM") assessment performed by the Company on its in-scope financial assets. The Company intends to hold its loans and receivables to collect contractual cash flows, and accordingly measure these at amortised cost when it applies MFRS 9.

In respect to the Company's investment in debt securities, as these are held within a business model with the objective to achieve both collecting contractual cash flows and selling of the debt securities and the contractual cash flows represent solely payments of principal and interests, the Company's investment in debt securities (including investments in Malaysian Government Securities ("MGS")) are expected to be measured at fair value through other comprehensive income ("FVOCI").

The Company does not expect to make an election to measure its investment in debt securities at fair value through profit or loss ("FVTPL") upon adoption of MFRS 9. However, this will be revisited upon adoption of MFRS 17 Insurance Contracts ("MFRS 17") by 1 January 2021.

**(b) Impairment**

MFRS 9 introduces expected credit losses ("ECL") model on impairment that replaces the incurred loss impairment model used in MFRS 139. The ECL model requires impairment to be recognised on initial recognition including expected future credit losses whilst the incurred loss impairment model only requires recognition of credit losses incurred as at reporting date. The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments as well as financial guarantee contracts, which include loans, advances and financing and investment securities.

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

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

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

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

**MFRS 9 Financial Instruments (continued)**

**(b) Impairment (continued)**

MFRS 9 requires allowance for impairment to be made based on the following three-stage approach, under the General Approach, which reflects the change in credit quality of the financial instrument since initial recognition:

**i) Stage 1: 12-month ECL**

For exposure where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within next 12 months will be recognised.

**ii) Stage 2: Lifetime ECL - Non-credit impaired**

For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired, a lifetime ECL will be recognised.

**iii) Stage 3: Lifetime ECL - credit impaired**

Financial assets are assessed as credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit impaired, a lifetime ECL will be recognised.

The assessment of credit risk as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

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

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

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

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

**MFRS 9 Financial Instruments (continued)**

**(b) Impairment (continued)**

The Company expects that ECL for its investment in debt securities' (including investment in MGS) will be derived using the General Approach, leveraging on publicly available information. The Company considers macro-economic data which is available externally and that is relevant to the Company for forward looking assessments and calibration. The requirement on "significant increase in credit risk" for the Company's investment in debt securities has been drafted for credit risk staging purposes.

For other in-scope financial assets, including insurance receivables, the Company expects to use the simplified approach, which is allowed under MFRS 9, in deriving the estimated ECL. The enhanced methodology, which leverages on the existing MFRS 139 collective impairment model applied by the Company, is expected to comply with the ECL requirements under MFRS 9.

**(c) Hedge accounting**

The Company does not undertake any hedging activities and therefore the Company does not expect any financial impact arising from hedge accounting requirements under MFRS 9.

**(d) Transition**

The financial impact arising from the adoption of MFRS 9 is not expected to have a significant impact to the financial position, performance and solvency of the Company. With the adoption of this standard on the required effective date, prior year's information will not be restated and any differences between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application will be recognised in the opening retained earnings as of 1 January 2018.

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

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

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

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

**MFRS 9 Financial Instruments (continued)**

**(e) Transition (continued)**

In summary, the impact of MFRS 9 adoption based on currently concluded assessments performed by the Company, is expected to be as follows:

	Note	Original classification under MFRS 139	New classification under MFRS 9	Original carrying amount under MFRS 139 RM'000	Impact arising from classification and measurement under MFRS 9 RM'000	Impact arising from ECL under MFRS 9 RM'000	New carrying amount under MFRS 9 RM'000
<b>Financial assets</b>							
Malaysian government papers	6(a)	Available for sale	FVOCI	172,496	-	-	172,496
Unquoted equity securities in Malaysia	6(a)	Available for sale	FVOCI	25	-	-	25
Unquoted corporate debt securities in Malaysia	6(a)	Available for sale	FVOCI	214,685	-	-	214,685
Insurance receivables	10	Loans and receivables	Amortised cost	35,204	-	277	35,481
<b>Total Financial assets</b>				<b>422,410</b>	<b>-</b>	<b>277</b>	<b>422,687</b>
<b>EQUITY</b>							
AFS reserves	14	Available for sale reserves	-	(1,087)	1,087	-	-
FVOCI reserves		Not applicable	FVOCI reserve	-	(1,087)	(27)	(1,114)
<b>Total Equity</b>				<b>(1,087)</b>	<b>-</b>	<b>(27)</b>	<b>(1,114)</b>

Management expects that there is no financial impact arising from classification and measurement requirements under MFRS 9.

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

**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**

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). Amendments to MFRS 4 is issued by the MASB in respect of its application in Malaysia. It is equivalent to the Amendments to IFRS 4 as issued by the IASB.

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; and
- (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

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 MFRS 139 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 has decided to adopt MFRS 9 on its effective date and will not elect to apply the options allowed under the Amendments to MFRS 4.



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

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

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

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

**MFRS 15 Revenue from Contracts with Customers**

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied i.e, when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. Given insurance contracts are scoped out of MFRS 15, the Company expects that only its MMIP servicing fee is expected to be in scope for MFRS 15. However, the impact is expected to be insignificant, if any.

**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.

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.

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

**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)**

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

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 also requires lessees and lessors to make extensive disclosures than under MFRS 117.

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 standard will affect primarily the accounting for the Company's operating leases. As at 31 December 2017, the Company has non-cancellable operating lease commitments of RM5,081,647 (Note 28(b)(i)). However, the Company has not assessed if there are any adjustments which are necessary because of the different treatment of variable lease payments, extension or termination options. It is therefore not practicable at this juncture to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of MFRS 16 and how this may affect the Company's profit or loss and classification of cash flows going forward.

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

**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)**

It is not practicable to provide a reasonable estimate of the financial effect until the Company completes a review of the impacts of MFRS 16 in the upcoming year.

**MFRS 17 Insurance Contracts**

In August 2017, the MASB issued MFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which will replace MFRS 4 Insurance Contracts.

In contrast to the requirements in MFRS 4, which was an interim standard and are largely based on alterations of previous local accounting policies for measurement purposes, MFRS 17 provides a comprehensive model (the general measurement model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts which are expected to typically apply to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured at every reporting period (the fulfilment cash flows).
- A Contractual Service Margin ("CSM") that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period).
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.

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

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

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

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

**MFRS 17 Insurance Contracts (continued)**

- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the statement of financial position.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

MFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies MFRS 9 and MFRS 15 on or before the date it first applies MFRS 17. Retrospective application is required. However, if full retrospective application for a Company's insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Company plans to adopt the new standard on the required effective date. The Company started a gap analysis project for the evaluation of the key gaps arising from MFRS 17. The Company expects that the new standard will result in changes to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on its financial position, results and equity, together with significant changes to presentation and disclosure.

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

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

**(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.

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.

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

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

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

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)(iii) 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.

**(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.

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

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

**(f) 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.

**(g) 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.

**(h) 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.

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

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

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

**(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.

**(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.



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

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

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

**(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.

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.

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

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

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

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

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.

**(i) 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.

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.

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

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

**(i) Impairment (continued)**

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

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

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.

**(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.

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

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

**(i) Impairment (continued)**

**(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 financial assets. These processes are described in Note 2(i)(i)(a).

**(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.

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

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

**(j) 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(h)(iv), have been met.

**(k) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, bank balances and short term deposits 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 cash equivalents exclude fixed and call deposits which are held for investment purposes.

**(l) 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.

**(m) 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.

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

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

**(n) 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.

**(o) 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.

**(p) 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.

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

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

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

**(i) Premium income (continued)**

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.

**(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 statement of financial position 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 costs ("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;

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

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

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

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

- (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.

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; and
- (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.



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

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

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

**(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.

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.

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

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

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

**(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.

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;

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

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

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

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

**Premium liabilities (continued)**

- (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.

**(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.

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

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

**(q) 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.

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.

**(r) 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.

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

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

**(r) Employee benefits (continued)**

**(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.

**(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.

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

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

**(r) Employee benefits (continued)**

**(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.

**(s) 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.

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.

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

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

**(t) 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.

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.

**(u) 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.

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

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

**(v) Fair value estimation for disclosure purposes**

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.

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.



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

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

**(v) Fair value estimation for disclosure purposes (continued)**

- (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.

**(w) 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.

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)****3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****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 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 types 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.

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.

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

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

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

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

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 the 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 judgements 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 policies 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:

##### **(i) Income and deferred taxes**

Significant judgement is required in 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.

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

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

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

**(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/PD032-13). 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.

16688-K

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

**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 2017	2,526	14,407	2,794	33,243	423	1,890	865	3,188	824	-	60,160
Additions at cost	-	-	-	-	-	52	222	326	822	-	1,422
Write-offs at net book value (Note 23)	-	-	-	-	-	(23)	(52)	(42)	(13)	-	(130)
Transfer from Intangible assets at net book value (Note 4b)	-	-	-	-	-	-	-	-	2,363	-	2,363
Depreciation charge for the financial year (Note 24)	-	(209)	(125)	(1,017)	(85)	(259)	(160)	(463)	(924)	-	(3,242)
Revaluation surplus /(deficit) recognised in other comprehensive income	160	369	460	(463)	-	-	-	-	-	-	526
Net book value at 31 December 2017	<u>2,686</u>	<u>14,567</u>	<u>3,129</u>	<u>31,763</u>	<u>338</u>	<u>1,660</u>	<u>875</u>	<u>3,009</u>	<u>3,072</u>	<u>-</u>	<u>61,099</u>
<u>At 31 December 2017</u>											
Cost	-	-	-	-	726	3,624	2,910	11,627	8,496	-	27,383
Valuation	2,686	14,567	3,129	31,763	-	-	-	-	-	-	52,145
Accumulated depreciation	-	-	-	-	(388)	(1,964)	(2,035)	(8,618)	(5,424)	-	(18,429)
Net book value	<u>2,686</u>	<u>14,567</u>	<u>3,129</u>	<u>31,763</u>	<u>338</u>	<u>1,660</u>	<u>875</u>	<u>3,009</u>	<u>3,072</u>	<u>-</u>	<u>61,099</u>

16688-K

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

**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 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 23)	-	-	-	-	-	(12)	(22)	(5)	-	-	(39)
Reclassification of assets	-	-	-	-	-	-	-	37	-	(37)	-
Depreciation charge for the financial year (Note 24)	-	(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>

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

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

During the current financial year, the Company revalued its self-occupied freehold and long term leasehold land and buildings based on independent valuations 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.

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>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Freehold land and buildings	1,690	1,766
Long-term leasehold land and buildings	23,741	24,513
	<u>25,431</u>	<u>26,279</u>

The long-term leasehold land and buildings have unexpired lease periods ranging from 61 years to 877 years (2016: 62 years to 878 years).

16688-K

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

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

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

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

<b>2017</b> <b>Description</b>	<b>Fair Value</b> <b>RM'000</b>	<b>Valuation</b> <b>technique</b>	<b>Unobservable</b> <b>input</b>	<b>Range of values</b>
Freehold land and buildings	5,815	Comparison approach	Estimated Value p.s.f	RM125 - RM575
Long term leasehold land and buildings	46,330	Comparison approach	Estimated Value p.s.f	RM64 - RM696
<b>2016</b> <b>Description</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

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



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

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

**(ii) 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)(i) and the corresponding revaluation surplus recognised in other comprehensive income.

	<b>Self-occupied properties Fair value measurements using significant unobservable inputs (Level 3)</b>	
	<b>2017 RM'000</b>	<b>2016 RM'000</b>
Opening balance	52,970	54,291
Depreciation for the financial year	(1,351)	(1,355)
Disposal	-	(242)
Revaluation surplus recognised in other comprehensive income	526	276
Closing balance	<u>52,145</u>	<u>52,970</u>

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

	<b>2017 RM'000</b>	<b>2016 RM'000</b>
Cost	10,542	11,804
Accumulated amortisation	<u>(8,064)</u>	<u>(6,232)</u>
Net book value	<u>2,478</u>	<u>5,572</u>
<u>Net book value</u>		
At beginning of the financial year	5,572	4,490
Additions at cost	443	1,296
Transferred to Property and equipment (Note 4(a))	(2,363)	-
Amortisation for the financial year (Note 24)	<u>(1,174)</u>	<u>(214)</u>
At end of the financial year	<u>2,478</u>	<u>5,572</u>

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

**5. 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 2016	15,300	38,328	53,628
Additions at cost	-	430	430
Net fair value losses (Note 21)	-	(30)	(30)
At 31 December 2016/1 January 2017	15,300	38,728	54,028
Net fair value gains/(losses) (Note 21)	1,500	(1,000)	500
At 31 December 2017	16,800	37,728	54,528

During the current financial year, the Company revalued its freehold and long term leasehold properties which are held as investment properties based on independent valuations performed by Rahim & Co. Chartered Surveyors Sdn. Bhd., an independent accredited valuer. Net fair value gain on investment properties for the financial year is RM500,000 (2016: Net fair value loss of RM30,000)

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 income 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 used in the income 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 RM16,800,000 (2016: 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.

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

**5. 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>2017 Description</b>	<b>Fair Value RM'000</b>	<b>Valuation technique</b>	<b>Unobservable input</b>	<b>Range of values</b>
Freehold land and building	8,800	Income approach	Rental per square foot ("p.s.f") per month Discount rate	RM3.50 5.50%
Leasehold land and buiding	37,728	Income approach	Rental per square foot ("p.s.f") per month Discount rate	RM3.30 - RM9.00 4.5% - 6.5%
Freehold land	8,000	Comparison approach	Estimated Value p.s.f	RM89 - RM112
<b>2016 Description</b>				
Freehold land and building	8,800	Comparison approach	Estimated Value p.s.f	RM390 - RM569
Leasehold land and buiding	38,728	Comparison approach	Estimated Value p.s.f	RM515 - RM1,300
Freehold land	6,500	Comparison approach	Estimated Value p.s.f	RM66 - RM101

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

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

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

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
<u>AFS financial assets</u>		
Malaysian government papers	172,496	170,653
Unquoted equity securities in Malaysia	25	36
Unquoted corporate debt securities in Malaysia	214,685	173,961
	<u>387,206</u>	<u>344,650</u>

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

	<b>AFS</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
At 1 January 2016	161,125	161,125
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 2016/1 January 2017	<u>344,614</u>	<u>344,614</u>
Purchases	54,809	54,809
Maturity/Disposal	(16,733)	(16,733)
Accretion of discounts, net of amortisation of premium	343	343
Movement in accrued interest	271	271
Fair value gain recorded in:		
- Other comprehensive income	3,877	3,877
At 31 December 2017	<u>387,181</u>	<u>387,181</u>

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

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

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

	AFS RM'000	Total RM'000
At 1 January 2016	39	39
Fair value loss recorded in:		
- Other comprehensive income	(3)	(3)
At 31 December 2016/1 January 2017	36	36
Fair value loss recorded in:		
- Other comprehensive income	(11)	(11)
At 31 December 2017	25	25

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

	2017 RM'000	2016 RM'000
Investments maturing within 12 months	35,457	10,066
Investments maturing after 12 months	351,724	334,548
	387,181	344,614

**(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.

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

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

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

Recurring fair value measurements (continued)

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.

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>31 December 2017</b>				
Malaysian government papers	-	172,496	-	172,496
Unquoted equity securities in Malaysia	-	-	25	25
Unquoted corporate debt securities in Malaysia	-	214,685	-	214,685
	<u>-</u>	<u>387,181</u>	<u>25</u>	<u>387,206</u>
<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>

The reconciliation for unquoted equity measured at fair value based on significant unobservable inputs (Level 3) is as shown in Note 6(c).

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

**7. LOANS AND RECEIVABLES**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Staff loans:		
Staff housing loans (secured)	-	92
Fixed and call deposits with licensed banks held for investment purposes	733,300	622,742
Accrued interest	17,824	18,608
	<u>751,124</u>	<u>641,350</u>
Other receivables:		
Malaysian Motor Insurance Pool ("MMIP" or "the Pool") balances*		
- Cash calls paid to MMIP	25,359	25,359
- Share of net assets held under MMIP	35,539	38,415
	60,898	63,774
MMIP commission receivable	754	1,665
Deposits	973	1,007
Prepayments	828	877
Other receivables	1,618	2,530
	<u>65,071</u>	<u>69,853</u>
Total loans and receivables	<u>816,195</u>	<u>711,295</u>

The maturity profile of staff loans and fixed and call deposits with licensed financial institutions are as follows :

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Maturing within 12 months	714,915	548,908
Maturing after 12 months	<u>36,209</u>	<u>92,534</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 16. The net assets held under MMIP of the Company include cash contribution of RM25,359,477 (2016: RM25,359,477) 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 2014.

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

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

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>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Deferred tax (liabilities)/assets	<u>(1,885)</u>	<u>500</u>
At beginning of the financial year	500	(2,400)
(Charged)/Credited to income statement (Note 25)		
- property and equipment	449	(805)
- investment properties	(120)	(124)
- AFS financial assets	963	(42)
- retirement benefits	65	26
- insurance receivables	(78)	52
- other receivables	(6)	1
- other payables	(2,487)	3,427
- premium liabilities	(50)	(93)
	(1,264)	2,442
(Charged)/credited to equity		
<u>Asset revaluation reserve</u>		
Property and equipment	(193)	15
<u>AFS reserve</u>		
AFS financial assets	(928)	443
At end of the financial year	<u>(1,885)</u>	<u>500</u>
<u>Deferred tax assets (before offsetting)</u>		
AFS financial assets	98	63
Other receivables	-	6
Insurance receivables	303	381
Retirement benefits	276	211
Other payables	8,030	10,517
Premium liabilities	-	2
	<u>8,707</u>	<u>11,180</u>
Offsetting	<u>(8,707)</u>	<u>(10,680)</u>
Deferred tax assets (after offsetting)	<u>-</u>	<u>500</u>



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

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
<u>Deferred tax liabilities (before offsetting)</u>		
Property and equipment	6,358	6,614
Investment properties	4,186	4,066
Premium liabilities	48	-
	<u>10,592</u>	<u>10,680</u>
Offsetting	(8,707)	(10,680)
Deferred tax liabilities (after offsetting)	<u>1,885</u>	<u>-</u>

**9. REINSURANCE ASSETS**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Reinsurance of insurance contracts:		
Claims liabilities (Note 16)	239,316	112,364
Premium liabilities (Note 16)	24,674	52,956
	<u>263,990</u>	<u>165,320</u>

**10. INSURANCE RECEIVABLES**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Due premium including agents, brokers and co-insurers balance	19,121	20,051
Due from reinsurers and cedants	20,060	11,822
	<u>39,181</u>	<u>31,873</u>
Accumulated impairment losses	(5,927)	(5,858)
	<u>33,254</u>	<u>26,015</u>
Knock-for-knock claims recoveries due from other insurers	2,018	2,155
Accumulated impairment losses	(68)	(147)
	<u>1,950</u>	<u>2,008</u>
	<u>35,204</u>	<u>28,023</u>

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

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

**10. INSURANCE RECEIVABLES (CONTINUED)**

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 2017			
Premiums	35,529	(10,497)	25,032
Commissions	1,120	(2,552)	(1,432)
Claims	17,599	-	17,599
	<u>54,248</u>	<u>(13,049)</u>	<u>41,199</u>
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>

**11. DEFERRED ACQUISITION COSTS**

	<b>2017 RM'000</b>	<b>2016 RM'000</b>
Deferred acquisition costs:		
At beginning of the financial year	29,760	27,943
Movement during the financial year (Note 22)	1,074	1,817
At end of the financial year	<u>30,834</u>	<u>29,760</u>
Deferred acquisition costs - reinsurance:		
At beginning of the financial year	(5,143)	(5,016)
Movement during the financial year (Note 22)	2,459	(127)
At end of the financial year	<u>(2,684)</u>	<u>(5,143)</u>

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

**12. CASH AND SHORT TERM DEPOSITS**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Cash and bank balances	11,704	5,941
Short term deposits with licensed banks with original maturities of 3 months or less	18,761	82,988
	<u>30,465</u>	<u>88,929</u>

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

**13. SHARE CAPITAL**

	2017		2016	
	Amount	Number of	Amount	Number of
	RM'000	shares	RM'000	shares
		'000		'000
Ordinary shares:				
Issued and fully paid	100,000	100,000	100,000	100,000

**14. OTHER RESERVES**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
<u>Non-distributable</u>		
Asset revaluation reserve	20,802	20,469
AFS reserve	(1,087)	(4,025)
	<u>19,715</u>	<u>16,444</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.

**15. RETAINED EARNINGS**

The Company can distribute all of its retained earnings as at 31 December 2017 as single-tier dividends.

16688-K

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

**16. INSURANCE CONTRACT LIABILITIES**

	<b>Gross RM'000</b>	<b>2017 Re-insurance RM'000</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>2016 Re-insurance RM'000</b>	<b>Net RM'000</b>
General insurance	<u>1,031,252</u>	<u>(263,990)</u>	<u>767,262</u>	<u>844,342</u>	<u>(165,320)</u>	<u>679,022</u>

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

	<b>Gross RM'000</b>	<b>2017 Re-insurance RM'000</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>2016 Re-insurance RM'000</b>	<b>Net RM'000</b>
Provision for claims	491,890	(184,990)	306,900	370,568	(90,656)	279,912
Provision for incurred but not reported ("IBNR") claims	<u>222,096</u>	<u>(54,326)</u>	<u>167,770</u>	<u>169,996</u>	<u>(21,708)</u>	<u>148,288</u>
Claims liabilities (i)	<u>713,986</u>	<u>(239,316)</u>	<u>474,670</u>	<u>540,564</u>	<u>(112,364)</u>	<u>428,200</u>
Premium liabilities (iii)	<u>317,266</u>	<u>(24,674)</u>	<u>292,592</u>	<u>303,778</u>	<u>(52,956)</u>	<u>250,822</u>
	<u>1,031,252</u>	<u>(263,990)</u>	<u>767,262</u>	<u>844,342</u>	<u>(165,320)</u>	<u>679,022</u>

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

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

**(i) Claims liabilities**

	<b>Gross RM'000</b>	<b>2017 Re-insurance RM'000</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>2016 Re-insurance RM'000</b>	<b>Net RM'000</b>
At beginning of the financial year	540,564	(112,364)	428,200	501,468	(118,265)	383,203
Claims incurred for the current accident year (direct and facultative)	523,245	(171,284)	351,961	358,150	(54,931)	303,219
Adjustment to claims incurred in prior accident years (direct and facultative)	(11,160)	(1,506)	(12,666)	(12,259)	645	(11,614)
Claims incurred during the financial year (treaty inwards claims)	2,477	-	2,477	(8,581)	-	(8,581)
Movement in PRAD of claims liabilities at 75% confidence level	22,347	(16,453)	5,894	4,874	145	5,019
Movement in claims handling expenses	(2,256)	-	(2,256)	(138)	-	(138)
Claims paid during the financial year	<u>(361,231)</u>	<u>62,291</u>	<u>(298,940)</u>	<u>(302,950)</u>	<u>60,042</u>	<u>(242,908)</u>
At end of the financial year	<u>713,986</u>	<u>(239,316)</u>	<u>474,670</u>	<u>540,564</u>	<u>(112,364)</u>	<u>428,200</u>

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

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

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

	<b>Motor</b>	<b>2017</b>	<b>Total</b>	<b>Motor</b>	<b>2016</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	520,744	193,242	713,986	460,236	80,328	540,564
Reinsurance	(74,610)	(164,706)	(239,316)	(62,553)	(49,811)	(112,364)
Net claims liabilities	<u>446,134</u>	<u>28,536</u>	<u>474,670</u>	<u>397,683</u>	<u>30,517</u>	<u>428,200</u>

**(iii) Premium liabilities**

	<b>Gross</b>	<b>2017</b>	<b>Net</b>	<b>Gross</b>	<b>2016</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	303,778	(52,956)	250,822	291,785	(54,003)	237,782
Premiums written during the financial year	651,826	(95,672)	556,154	623,419	(127,388)	496,031
Premiums earned during the financial year	<u>(638,338)</u>	<u>123,954</u>	<u>(514,384)</u>	<u>(611,426)</u>	<u>128,435</u>	<u>(482,991)</u>
At end of the financial year	<u>317,266</u>	<u>(24,674)</u>	<u>292,592</u>	<u>303,778</u>	<u>(52,956)</u>	<u>250,822</u>

As at 31 December 2017, the insurance contract liabilities above include the Company's share of MMIP's claims and premium liabilities amounting to RM43,201,104 (2016: RM53,107,586) and RM3,719,105 (2016: RM4,953,797) respectively. The Company's net exposure arising from its participation in the Pool is detailed in Note 33.

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

**17. INSURANCE PAYABLES**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Due to insurers, agents, brokers and co-insurers	11,993	17,432
Due to reinsurers and cedants	9,437	23,016
	<u>21,430</u>	<u>40,448</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 2017			
Premiums	29,140	(1,425)	27,715
Commissions	388	(3,775)	(3,387)
Claims	284	(3,182)	(2,898)
	<u>29,812</u>	<u>(8,382)</u>	<u>21,430</u>
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>

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

**18. OTHER PAYABLES**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Payroll liabilities	13,511	13,233
Defined contribution plan *	1,149	876
Unclaimed monies	1,054	1,632
Cash collaterals held on bond business	657	657
Stamp duty payable	855	1,043
MMIP collection payable	3,569	5,451
Profit commission payable	4,233	3,700
Interest on premium reserve	62	2,985
Tenant deposits	394	448
Accrued expenses	12,517	19,607
Other payables	4,994	6,713
	<u>42,995</u>	<u>56,345</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 due to their short term maturities.

**19. INVESTMENT INCOME**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
AFS financial assets:		
Interest income from Malaysian government papers	6,238	2,606
Interest income from corporate debt securities	10,050	6,140
Net accretion of discounts	343	171
Loans and receivables:		
Interest income from loans and receivables and cash and short term deposits	28,154	31,723
Rental income	1,674	762
Less: Rates and maintenance expenses	(1,343)	(1,421)
	<u>45,116</u>	<u>39,981</u>



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

**20. REALISED LOSSES AND GAINS**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Realised (losses)/gains for:		
- Property and equipment	-	387
- Foreign currency translation	(34)	(41)
	<u>(34)</u>	<u>346</u>

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Fair value (losses)/gains on investment properties		
Leasehold land and building	(1,000)	400
Freehold land and building	1,500	-
Reversal of fair value losses on investment properties	-	(430)
	<u>500</u>	<u>(30)</u>

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
<u>Commission income:</u>		
Commission income	24,472	36,403
Movement in deferred acquisition costs (Note 11)	2,459	(127)
	<u>26,931</u>	<u>36,276</u>
 <u>Commission expense:</u>		
Commission expense	(69,884)	(67,808)
Movement in deferred acquisition costs (Note 11)	1,074	1,817
	<u>(68,810)</u>	<u>(65,991)</u>

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

**23. OTHER OPERATING INCOME**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Gross servicing fees from MMIP	7,316	12,448
Less: Related management expenses including depreciation charge of RM102,155 (31.12.2016: RM112,142) (Note 24)	<u>(4,857)</u>	<u>(8,045)</u>
	2,459	4,403
Interest on deposits retained	689	(419)
Property and equipment written off (Note 4(a))	(130)	(39)
Others	<u>6,704</u>	<u>4,496</u>
	<u><b>9,722</b></u>	<u><b>8,441</b></u>

**24. MANAGEMENT EXPENSES**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Staff costs:		
Salaries, bonus and allowance	50,620	47,950
Employees' Provident Fund	7,787	7,390
Defined Contribution Plan	498	356
Termination benefits	-	6,144
Others	<u>6,013</u>	<u>5,486</u>
	<u><b>64,918</b></u>	<u><b>67,326</b></u>
Advertising	11,688	16,571
Directors' fees	434	386
Directors' allowances	134	90
Auditors' remuneration:		
- Statutory audit fees	493	361
- Regulated-related fees	96	26
- Other services	68	18
Depreciation of property and equipment (Note 4(a))	3,242	4,770
Amortisation of intangible assets - software (Note 4(b))	1,174	214
EDP expenses	5,023	4,539
Postage and telephone	2,050	2,181

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

**24. MANAGEMENT EXPENSES (CONTINUED)**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Printing and stationery	4,363	4,292
Rental of properties	1,138	1,270
Training expenses	2,626	3,685
Reimbursement of depreciation charge from MMIP (Note 23)	(102)	(112)
Write-back of impairment allowance for insurance receivables	(10)	(1,773)
Recoveries of bad debts written off	(299)	(98)
Fund management and professional fees	1,113	685
Entertainment	3,082	2,532
Credit card charges	7,168	7,023
Others	7,244	6,749
	<u>50,725</u>	<u>53,409</u>
Total management expenses	<u>115,643</u>	<u>120,735</u>

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Non-Executive Directors:		
- Fees	434	386
- Other emoluments	134	90
Total Directors' remuneration	<u>568</u>	<u>476</u>

	<b>Fees</b> <b>RM'000</b>	<b>2017</b> <b>Allowance</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
Non-Executive Directors			
- YBhg. Dato' Haji Kamil Khalid Ariff	126	39	165
- YBhg. Dato' Dr. Mohd Shahari bin Ahmad Jabar	55	15	70
- Mr Keong Choon Keat	97	27	124
- YBhg. Dato' Lim Heen Peek	111	40	151
- Mdm Elsie Kok Yin Mei	45	13	58
Total Directors' remuneration	<u>434</u>	<u>134</u>	<u>568</u>

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

**24. MANAGEMENT EXPENSES (CONTINUED)**

	<b>Fees RM'000</b>	<b>2016 Allowance RM'000</b>	<b>Total 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>

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>2017 RM'000</b>	<b>2016 RM'000</b>
<i>Non-Executive Directors:</i>		
RM50,001 - RM100,000	2	1
More than RM 100,000	<u>3</u>	<u>3</u>

The remuneration attributable to the Chief Executive Officer of the Company which is included in staff costs are; Salary RM1,332,420 (2016: RM1,141,251), Bonus RM1,664,347 (2016: RM1,370,622), Employees' Provident Fund Contribution RM479,494 (2016: RM401,913), Benefits-In-Kind RM31,150 (2016: RM31,150) and Executive Partnership Program RM121,180 (2016: Nil).

**25. TAX EXPENSE**

	<b>2017 RM'000</b>	<b>2016 RM'000</b>
Current tax:		
Current financial year	14,804	26,416
Real property gains tax	-	18
Over-provision in prior financial years	(880)	(1,112)
Tax refund arising from prior year of assessment	<u>(944)</u>	<u>-</u>
	12,980	25,322
Deferred tax (Note 8)	<u>1,264</u>	<u>(2,442)</u>
Tax expense	<u>14,244</u>	<u>22,880</u>

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

**25. TAX EXPENSE (CONTINUED)**

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Profit before taxation	<u>66,756</u>	<u>93,374</u>
Tax calculated at the statutory rate of 24%	16,021	22,410
Tax effect of:		
- expenses not deductible for tax purposes	47	1,564
Over-provision of tax in prior financial year	(880)	(1,112)
Tax refund arising from prior year of assessment	(944)	-
Real property gains tax	-	18
	<u>14,244</u>	<u>22,880</u>

**26. 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>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Profit attributable to ordinary equity holders	52,512	70,494
Number of shares in issue	100,000	100,000
Basic earnings per share (sen)	<u>52.51</u>	<u>70.49</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.

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

**27. DIVIDENDS**

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Recognised during the financial year:		
Dividend on ordinary shares:		
- Interim dividend for the financial year ended		
31 December 2017: Single-tier dividend of RM0.05 per		
ordinary share on 100,000,000 ordinary shares	<u>5,000</u>	<u>-</u>

**28. COMMITMENTS**

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Authorised by the Directors and contracted for:		
- Property and equipment	<u>415</u>	<u>901</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>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Not later than 1 year	3,094	3,704
Later than 1 year and no later than 5 years	1,988	3,628
	<u>5,082</u>	<u>7,332</u>

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

**28. COMMITMENTS (CONTINUED)**

(b) Operating lease commitments (continued)

(i) The Company as lessee (continued)

(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>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Not later than 1 year	1,641	1,524
Later than 1 year and no later than 3 years	986	1,970
	<u>2,627</u>	<u>3,494</u>

**29. SIGNIFICANT RELATED PARTY DISCLOSURES**

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

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Transactions with non-controlling shareholder:		
Reinsurance ceded premium	1,921	2,175
Reinsurance commission received	(568)	(634)
Reinsurance claims recovery	(619)	(746)
	<u></u>	<u></u>
Balance with non-controlling shareholder:		
Reinsurance receivables	126	20
Reinsurance payables	-	(112)
	<u></u>	<u></u>

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

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

RELATED PARTY DISCLOSURES - LIBERTY GROUP

	2017 RM'000	2016 RM'000
Transactions with Liberty Group Companies:		
Reinsurance ceded premium		
- Liberty Mutual Insurance Europe Ltd (Labuan Branch)	-	85
- Liberty Insurance Pte. Ltd, Singapore	5,549	2,732
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	509	200
- Liberty Mutual Insurance Co Boston	3,396	5,697
- Liberty (Lloyd's Syndicate 4472)	811	1,049
	<u>10,265</u>	<u>9,763</u>
Reinsurance commission received		
- Liberty Mutual Insurance Europe Ltd (Labuan Branch)	-	(15)
- Liberty Insurance Pte. Ltd, Singapore	(487)	(257)
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(46)	(17)
- Liberty Mutual Insurance Co Boston	(859)	(1,462)
- Liberty (Lloyd's Syndicate 4472)	(243)	(302)
	<u>(1,635)</u>	<u>(2,053)</u>
Reinsurance claims recovery		
- Liberty Insurance Pte. Ltd, Singapore	(587)	(48)
- Liberty Mutual Insurance Co Boston	(2,207)	(623)
	<u>(2,794)</u>	<u>(671)</u>
EDP expenses		
- Liberty Mutual Insurance Company	749	547
	<u>749</u>	<u>547</u>
Staff salaries		
- Liberty Mutual Insurance Company	30	345
	<u>30</u>	<u>345</u>
Staff salaries and others		
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(138)	-
	<u>(138)</u>	<u>-</u>



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

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

RELATED PARTY DISCLOSURES - LIBERTY GROUP (CONTINUED)

	2017 RM'000	2016 RM'000
Balances with Liberty Group comprises:		
Reinsurance receivables		
- Liberty Insurance Pte. Ltd, Singapore	5,527	3,568
- Liberty Mutual Insurance Co Boston	331	1
	<u>5,858</u>	<u>3,569</u>
Reinsurance payables		
- Liberty Insurance Pte. Ltd, Singapore	(442)	(236)
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(354)	(2)
- Liberty Mutual Insurance Co Boston	-	(517)
	<u>(796)</u>	<u>(755)</u>
Other receivables		
- Liberty Mutual Insurance Company	212	-
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	138	-
	<u>350</u>	<u>-</u>
Other payables		
- Liberty Mutual Insurance Company	-	(48)

The year end balances with the related parties above are unsecured, interest free, repayable in accordance with the terms of the relevant contracts or on demand and are included in insurance receivables (Note 10), insurance payable (Note 17), other receivables (Note 7) and other payables (Note 18).

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

**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>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Fixed Remuneration:</u>		
- Salaries	3,613	3,122
- Other allowance	218	209
- Employees' Provident Fund	658	517
	<u>4,489</u>	<u>3,848</u>
<u>Variable Remuneration:</u>		
- Bonus	1,361	1,587
- Employees' Provident Fund	216	246
Key management personnel (a)	<u>6,066</u>	<u>5,681</u>
<u>Fixed Remuneration:</u>		
- Fees	434	386
<u>Variable Remuneration:</u>		
- Allowance	134	90
Non Executive Directors' remuneration (Note 24) (b)	<u>568</u>	<u>476</u>
<u>Fixed Remuneration:</u>		
- Salaries	1,332	1,141
- Benefits-In-Kind	31	31
- Employees' Provident Fund	213	183
	<u>1,576</u>	<u>1,355</u>
<u>Variable Remuneration:</u>		
- Bonus	1,664	1,371
- Executive Partnership Program	121	-
- Employees' Provident Fund	266	219
Chief Executive Officer (Note 24) (c)	<u>3,627</u>	<u>2,945</u>
Total key management personnel (a) + (b) + (c)	<u>10,261</u>	<u>9,102</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.

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

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

RELATED PARTY DISCLOSURES - KEY MANAGEMENT PERSONNEL (CONTINUED)

All Senior Management Team members are entitled to variable bonus awarded by the Company. There was no guaranteed bonus or service payments being awarded to the Senior Management team during the financial year. A total of RM56,732 (2016: Nil) sign-on bonus had been awarded to a member of the Senior Management team during the current financial year.

**30. FINANCIAL INSTRUMENTS BY CATEGORY**

	<b>AFS</b>	<b>LAR</b>	<b>Assets not in scope of MFRS 139</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2017</b>				
<b>Assets</b>				
Property and equipment	-	-	61,099	61,099
Intangible assets - software	-	-	2,478	2,478
Investment properties	-	-	54,528	54,528
AFS financial assets	387,206	-	-	387,206
Loans and receivables	-	815,367	828	816,195
Reinsurance assets	-	-	263,990	263,990
Insurance receivables	-	35,204	-	35,204
Tax assets	-	-	1,740	1,740
Deferred acquisition costs	-	-	30,834	30,834
Cash and short term deposits	-	30,465	-	30,465
<b>Total assets</b>	<b>387,206</b>	<b>881,036</b>	<b>415,497</b>	<b>1,683,739</b>
			<b>Liabilities not in scope of MFRS 139</b>	<b>Total</b>
	<b>Other financial liabilities</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>				
Insurance contract liabilities	-	-	1,031,252	1,031,252
Deferred tax liabilities	-	-	1,885	1,885
Deferred acquisition costs - reinsurances	-	-	2,684	2,684
Insurance payables	21,430	-	-	21,430
Other payables	41,452	-	1,543	42,995
<b>Total liabilities</b>	<b>62,882</b>	<b>62,882</b>	<b>1,037,364</b>	<b>1,100,246</b>

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

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

	<b>AFS</b>	<b>LAR</b>	<b>Assets not in scope of MFRS 139</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</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	-	710,418	877	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>	<b>344,650</b>	<b>827,370</b>	<b>316,217</b>	<b>1,488,237</b>
		<b>Other financial liabilities</b>	<b>Liabilities not in scope of MFRS 139</b>	<b>Total</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>				
Insurance contract liabilities	-	-	844,342	844,342
Deferred acquisition costs - reinsurances	-	-	5,143	5,143
Insurance payables	40,448	-	-	40,448
Other payables	55,021	-	1,324	56,345
Tax liabilities	-	-	9,249	9,249
<b>Total liabilities</b>		<b>95,469</b>	<b>860,058</b>	<b>955,527</b>

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

### **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 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.

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.

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

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

Responsibilities (continued)

The EORMC-M assists 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.

The Company adopts 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.

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

**32. INSURANCE RISK (CONTINUED)**

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.

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.

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

**32. INSURANCE RISK (CONTINUED)**

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

	<b>2017</b>			<b>2016</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>ceded</b>	<b>ceded</b>	<b>ceded</b>	<b>ceded</b>	<b>ceded</b>	<b>ceded</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	549,385	(35,602)	513,783	513,660	(73,818)	439,842
Fire	59,640	(36,298)	23,342	58,524	(34,007)	24,517
Marine, Aviation and Transit	4,368	(2,515)	1,853	6,980	(4,592)	2,388
Miscellaneous	38,433	(21,257)	17,176	44,255	(14,971)	29,284
	<u>651,826</u>	<u>(95,672)</u>	<u>556,154</u>	<u>623,419</u>	<u>(127,388)</u>	<u>496,031</u>

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

	<b>2017</b>			<b>2016</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	793,556	(83,516)	710,040	716,635	(96,416)	620,219
Fire	175,123	(152,507)	22,616	57,185	(38,369)	18,816
Marine, Aviation and Transit	7,163	(3,957)	3,206	8,347	(3,936)	4,411
Miscellaneous	55,410	(24,010)	31,400	62,175	(26,599)	35,576
	<u>1,031,252</u>	<u>(263,990)</u>	<u>767,262</u>	<u>844,342</u>	<u>(165,320)</u>	<u>679,022</u>



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

For the 2017 sensitivity analysis, the sensitivities of the loss ratios in the most recent Accident Year and Claims Handling Expenses have been included in the analysis to replace the analysis in 2016 on average claims settlement period and initial expected loss ratios. The change was warranted as the Company primarily uses the Chain Ladder method for most Accident Years, making changes in the initial expected loss ratios less relevant for purposes of the sensitivity analysis. The claims handling expense percentage had been reduced in the 2017 valuation, making it a relevant matter to be included in the sensitivity analysis.

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.

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

**32. INSURANCE RISK (CONTINUED)**

Sensitivities (continued)

	Change in assumptions	Impact on gross liabilities RM'000 ←	Impact on net liabilities RM'000 Increase/(decrease)	Impact on profit before tax RM'000	Impact on equity* RM'000 →
<b>2017</b>					
Average claim cost	+10%	46,540	40,191	(40,191)	(30,545)
Average number of claims	+10%	33,095	28,425	(28,425)	(21,603)
Increase in Loss Ratio for AY 2017	Increased by 10% on Motor Act 1% on Motor Non-Act 10% on Non Motor	30,162	21,859	(21,859)	(16,613)
Claims Handling Expenses	+1%	2,678	2,673	(2,673)	(2,031)
	Change in assumptions	Impact on gross liabilities RM'000 ←	Impact on net liabilities RM'000 Increase/(decrease)	Impact on profit before tax RM'000	Impact on equity* RM'000 →
<b>2016</b>					
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)

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

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

**32. INSURANCE RISK (CONTINUED)**

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.

Gross claims liabilities for 31 December 2017:

Motor

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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>
Accident year									
At end of accident year	183,356	169,686	182,101	197,354	195,867	219,795	247,814	280,641	
One year later	213,260	199,134	216,464	232,502	243,644	270,095	314,906		
Two years later	218,726	208,116	225,629	242,663	258,282	287,570			
Three years later	215,326	207,815	225,395	241,903	258,113				
Four years later	209,108	201,898	223,180	236,830					
Five years later	207,505	202,263	221,571						
Six years later	205,480	200,133							
Seven years later	205,120								
Current estimate of cumulative claims incurred	<u>205,120</u>	<u>200,133</u>	<u>221,571</u>	<u>236,830</u>	<u>258,113</u>	<u>287,570</u>	<u>314,906</u>	<u>280,641</u>	<u>2,004,884</u>

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2017: (continued)

Motor (continued)

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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	86,394	82,738	89,848	92,568	92,202	105,674	113,178	131,286	
One year later	159,758	157,070	170,560	187,118	187,320	199,911	232,889		
Two years later	189,215	184,615	199,282	213,401	224,259	250,057			
Three years later	199,184	193,002	210,676	223,120	238,710				
Four years later	202,674	195,116	214,715	227,920					
Five years later	203,766	197,185	216,621						
Six years later	204,566	199,111							
Seven years later	205,055								
Cumulative payments to-date	<u>205,055</u>	<u>199,111</u>	<u>216,621</u>	<u>227,920</u>	<u>238,710</u>	<u>250,057</u>	<u>232,889</u>	<u>131,286</u>	<u>1,701,649</u>

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

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2017 (continued):

Motor (continued)

Accident year	Before 2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Gross Motor insurance outstanding liabilities (direct and facultative)	963	65	1,022	4,950	8,910	19,403	37,513	82,017	149,355	304,198
Gross IBNR	-	-	-	-	-	258	1,428	25,877	106,302	133,865
Gross Motor insurance outstanding liabilities(treaty inwards)										36,605
Best estimates of claims liabilities										474,668
Claims handling expenses										7,080
PRAD at 75% confidence level										38,996
Gross Motor insurance contract claims liabilities per statement of financial position										520,744

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2017 (continued):

Non-motor

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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	42,136	34,669	34,161	23,634	28,115	33,493	29,644	135,376	
One year later	44,653	35,768	30,912	26,035	36,450	34,755	26,665		
Two years later	44,857	32,372	32,181	25,059	33,906	32,555			
Three years later	42,496	31,973	31,498	24,299	31,350				
Four years later	43,578	31,089	28,406	23,800					
Five years later	43,276	30,871	27,060						
Six years later	41,025	29,046							
Seven years later	40,270								
Current estimate of cumulative claims incurred	<u>40,270</u>	<u>29,046</u>	<u>27,060</u>	<u>23,800</u>	<u>31,350</u>	<u>32,555</u>	<u>26,665</u>	<u>135,376</u>	<u>346,122</u>

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2017 (continued):

Non-motor (continued)

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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	12,570	11,705	7,282	6,953	10,834	9,991	12,158	11,697	
One year later	30,707	19,870	16,320	14,906	22,023	21,730	19,267		
Two years later	33,220	24,777	18,528	18,217	25,267	24,464			
Three years later	36,444	25,245	20,665	18,948	27,249				
Four years later	38,084	26,123	22,281	19,259					
Five years later	38,484	26,359	23,080						
Six years later	39,064	26,527							
Seven years later	39,314								
Cumulative payments to-date	<u>39,314</u>	<u>26,527</u>	<u>23,080</u>	<u>19,259</u>	<u>27,249</u>	<u>24,464</u>	<u>19,267</u>	<u>11,697</u>	<u>190,857</u>

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

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2017 (continued):

Non-motor (continued)

Accident year	Before 2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Gross Non-Motor insurance outstanding liabilities (direct and facultative)	8,015	956	2,519	3,980	4,541	4,101	8,091	7,398	123,679	163,280
Gross IBNR	-	-	-	-	-	-	-	132	5,635	5,767
Gross Non-Motor insurance outstanding liabilities (treaty inwards)										1,569
Best estimates of claims liabilities										170,616
Claims handling expenses										389
PRAD at 75% confidence level										22,237
Gross Non-Motor insurance contract claims liabilities per statement of financial position										193,242



16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2017

Motor

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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	157,454	95,829	129,285	154,209	154,497	184,381	216,218	247,941	
One year later	175,052	110,928	150,294	179,753	190,464	225,552	270,119		
Two years later	179,340	115,579	157,150	185,140	200,808	239,787			
Three years later	176,627	115,782	156,785	184,713	200,589				
Four years later	171,383	112,911	155,248	180,516					
Five years later	170,104	112,538	153,798						
Six years later	168,290	111,710							
Seven years later	168,143								
Current estimate of cumulative claims incurred	<u>168,143</u>	<u>111,710</u>	<u>153,798</u>	<u>180,516</u>	<u>200,589</u>	<u>239,787</u>	<u>270,119</u>	<u>247,941</u>	<u>1,572,603</u>

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2017: (continued)

Motor (continued)

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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	76,490	44,803	61,303	71,664	72,210	88,167	98,982	115,369	
One year later	131,653	87,450	119,054	144,030	146,559	167,549	200,045		
Two years later	156,049	102,749	139,059	164,001	174,592	208,242			
Three years later	163,467	107,479	146,708	171,280	185,448				
Four years later	166,062	108,625	149,214	174,572					
Five years later	166,934	108,004	149,374						
Six years later	167,412	110,720							
Seven years later	168,080								
Cumulative payments to-date	<u>168,080</u>	<u>110,720</u>	<u>149,374</u>	<u>174,572</u>	<u>185,448</u>	<u>208,242</u>	<u>200,045</u>	<u>115,369</u>	<u>1,311,850</u>

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

**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2017: (continued)

Motor (continued)

	<b>Before 2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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)	941	63	990	4,424	5,944	15,141	31,545	70,074	132,572	261,694
Net IBNR	-	-	-	-	-	189	686	19,436	87,107	107,418
Net Motor insurance outstanding liabilities (treaty inward)										36,604
Best estimates of claims liabilities										405,716
Claims handling expenses										7,080
PRAD at 75% confidence level										33,338
Net Motor insurance contract claims liabilities per statement of financial position										446,134

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2017:

Non-motor

Accident year	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
At end of accident year	18,938	15,128	15,400	12,431	14,351	16,383	16,282	17,382	
One year later	19,209	14,589	13,819	13,980	16,417	16,772	16,346		
Two years later	17,741	13,469	13,976	13,665	16,411	15,913			
Three years later	17,105	13,156	13,848	13,397	14,843				
Four years later	18,163	12,834	13,300	13,109					
Five years later	17,979	12,808	12,793						
Six years later	17,793	12,245							
Seven years later	17,431								
Current estimate of cumulative claims incurred	<u>17,431</u>	<u>12,245</u>	<u>12,793</u>	<u>13,109</u>	<u>14,843</u>	<u>15,913</u>	<u>16,346</u>	<u>17,382</u>	<u>120,062</u>

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2017: (continued)

Non-motor (continued)

	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
At end of accident year	6,412	5,414	6,163	5,489	6,810	7,910	8,950	8,731	
One year later	14,107	10,211	10,053	9,693	12,043	12,717	12,775		
Two years later	15,220	11,438	10,979	11,113	12,815	13,750			
Three years later	15,896	11,632	11,667	11,678	12,878				
Four years later	16,149	11,770	11,641	11,874					
Five years later	16,302	11,822	11,699						
Six years later	16,396	11,846							
Seven years later	16,481								
Cumulative payments to-date	16,481	11,846	11,699	11,874	12,878	13,750	12,775	8,731	100,034

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Net claims liabilities for 31 December 2017: (continued)

Non-motor (continued)

Accident year	Before 2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Net Non-Motor insurance outstanding liabilities (direct and facultative)	769	950	399	1,094	1,235	1,965	2,163	3,571	8,651	20,797
Net IBNR	-	-	-	-	-	-	-	102	2,510	2,612
Net Non-Motor insurance outstanding liabilities (treaty inwards)										1,568
Best estimates of claims liabilities										24,977
Claims handling expenses										388
PRAD at 75% confidence level										3,171
Net Non-Motor insurance contract claims liabilities per statement of financial position										28,536

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016:

Motor

Accident year	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
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>

16688-K

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

**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 payments 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>



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

**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)	1,387	538	914	5,078	8,465	18,783	34,023	70,184	134,636	274,008
Gross IBNR	-	-	-	-	111	250	1,699	22,357	77,067	101,484
Gross Motor insurance outstanding liabilities(treaty inwards)										44,101
Best estimates of claims liabilities										419,593
Claims handling expenses										9,128
PRAD at 75% confidence level										31,515
Gross Motor insurance contract claims liabilities per statement of financial position										460,236

16688-K

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

**32. INSURANCE RISK (CONTINUED)**

Gross claims liabilities for 31 December 2016 (continued):

Non-motor

Accident year	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
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	32,588	41,025	30,871	28,406	24,299	33,906	34,755	29,644	255,494

16688-K

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

**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 payments 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**  
**(Incorporated in Malaysia)**

**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

16688-K

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

**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>

16688-K

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

**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 payments 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**  
**(Incorporated in Malaysia)**

**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>

16688-K

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

**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>



16688-K

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

**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 payments 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**  
**(Incorporated in Malaysia)**

**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

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

**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 aims 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 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.

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

**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 for components on the statement of financial position which are subject to credit risk:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Available-for-sale financial assets :		
Malaysian government papers	172,496	170,653
Unquoted debt securities	214,685	173,961
Reinsurance assets - excluding premium liabilities	239,316	112,364
Loans and receivables - excluding prepayments	815,367	710,418
Insurance receivables - excluding deferred reinsurance premium, net	30,036	21,127
Cash and short term deposits	30,465	88,929
	<u>1,502,365</u>	<u>1,277,452</u>

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

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

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

**33. FINANCIAL RISK (CONTINUED)**

	Neither past due nor impaired/ investment <u>grade</u> RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	<u>Total</u> RM'000
<b>2017</b>				
Available-for-sale financial assets :				
Malaysian government papers	172,496	-	-	172,496
Unquoted debt securities	214,685	-	-	214,685
Reinsurance assets, excluding premium liabilities	239,316	-	-	239,316
Loans and receivables, excluding prepayments	815,367	-	-	815,367
Insurance receivables, excluding deferred reinsurance premium	5,443	24,593	5,995	36,031
Cash and short term deposits	30,465	-	-	30,465
	<u>1,477,772</u>	<u>24,593</u>	<u>5,995</u>	<u>1,508,360</u>
Allowance for impairment	-	-	(5,995)	(5,995)
	<u>1,477,772</u>	<u>24,593</u>	<u>-</u>	<u>1,502,365</u>
<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>

16688-K

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

**33. FINANCIAL RISK (CONTINUED)**

The table below provides information regarding the credit risk exposure of the Company by classifying financial and insurance 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>2017</b>								
Available-for-sale financial assets:								
Malaysian government papers	172,496	-	-	-	-	-	-	172,496
Unquoted debt securities	32,521	126,691	55,473	-	-	-	-	214,685
Reinsurance assets, excluding premium liabilities	-	-	13,535	212,685	-	25	13,071	239,316
Loans and receivables, excluding prepayments	-	551,978	133,499	65,647	-	-	65,983	817,107
Insurance receivables, excluding deferred reinsurance premium, net	-	1,991	6,448	4,283	16	-	17,298	30,036
Cash and short term deposits	-	11,365	-	4,205	-	-	14,895	30,465
	<u>205,017</u>	<u>692,025</u>	<u>208,955</u>	<u>286,820</u>	<u>16</u>	<u>25</u>	<u>111,247</u>	<u>1,504,105</u>

16688-K

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

**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>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>

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

**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>2017</b>					
Insurance receivables	<u>9,710</u>	<u>5,172</u>	<u>4,905</u>	<u>4,806</u>	<u>24,593</u>
<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>

Age analysis of financial assets past due and impaired

At 31 December 2017, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM5,995,000 (2016: RM6,005,000). 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 2016	8,062
Movement during the financial year	
- Individual impairment	(423)
- Collective impairment	(480)
- Provision recovered	(870)
- Bad debts written off	(284)
At 31 December 2016/1 January 2017	<u>6,005</u>
Movement during the financial year	
- Individual impairment	(171)
- Collective impairment	161
At 31 December 2017	<u>5,995</u>



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

**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 financial and insurance 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.

16688-K

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

**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>2017</b>							
Available-for-sale financial assets:							
Malaysian government papers	172,496	16,246	71,061	66,275	41,108	-	194,690
Unquoted equity security in Malaysia	25	-	-	-	-	25	25
Unquoted debt securities	214,685	33,337	67,183	87,803	63,744	-	252,067
Reinsurance assets, excluding premium liabilities	239,316	152,076	62,680	10,817	13,743	-	239,316
Loans and receivables, excluding prepayments	815,367	717,539	36,930	-	60,898	-	815,367
Insurance receivables - excluding deferred reinsurance premium, net	30,036	30,036	-	-	-	-	30,036
Cash and cash equivalents	30,465	30,465	-	-	-	-	30,465
<b>Total financial assets</b>	<b>1,502,390</b>	<b>979,699</b>	<b>237,854</b>	<b>164,895</b>	<b>179,493</b>	<b>25</b>	<b>1,561,966</b>
Claims liabilities	713,986	392,592	231,940	60,620	28,834	-	713,986
Insurance payables	21,430	21,430	-	-	-	-	21,430
Other payables	42,995	42,041	712	242	-	-	42,995
<b>Total financial liabilities</b>	<b>778,411</b>	<b>456,063</b>	<b>232,652</b>	<b>60,862</b>	<b>28,834</b>	<b>-</b>	<b>778,411</b>

16688-K

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

**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>

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

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

**33. FINANCIAL RISK (CONTINUED)**

Included in other receivables and other payables is the Company's share in the assets and liabilities held under MMIP as disclosed in Note 7 and Note 18. The Company's share of insurance contract liabilities from MMIP are disclosed in Note 16 of the financial statements. These balances have not been offset in the financial statements of the Company as it is the view of the Directors and Management that no legal right of set-off exists. The assets have been contributed in line with the Company's obligation under the Collective Agreement signed on 9 August 1993 and the insurance contract liabilities represent the Company's share of the Pool's insurance contract liabilities arising from insurance contracts underwritten in respect of third party policyholders collectively, under the name of MMIP. Presented below is the Company's net position of its share in the net assets held under the MMIP as at 31 December 2017:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Assets/(Liabilities):</b>		
<u>Assets:</u>		
- Accumulated cash contributions to MMIP	25,359	25,359
- Other assets	35,539	38,415
<b>Total Assets (Note 7)</b>	<u>60,898</u>	<u>63,774</u>
<u>Liabilities</u>		
- Other payables	(3,569)	(5,451)
<b>Total Liabilities (Note 18)</b>	<u>(3,569)</u>	<u>(5,451)</u>
<b>Net assets held under MMIP</b>	<u>57,329</u>	<u>58,323</u>
<b>Insurance contract liabilities (Note 16)</b>		
- Claim liabilities	(43,201)	(53,108)
- Premium liabilities	(3,719)	(4,954)
	<u>(46,920)</u>	<u>(58,062)</u>
<b>Net assets after insurance contract liabilities</b>	<u>10,409</u>	<u>261</u>
<b>Market risk</b>		

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).

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

**33. FINANCIAL RISK (CONTINUED)**

**Market risk (continued)**

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 risk**

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.

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	2017		2016	
	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	-	(5,030)	-	(5,348)
Interest Rate -50bps	-	5,157	-	5,505

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

**LIBERTY INSURANCE BERHAD**  
**(Incorporated in Malaysia)****33. FINANCIAL RISK (CONTINUED)****Price risk**

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 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 lead to damage to reputation, legal or regulatory implications or financial loss.

The Company mitigates the operational risks by establishing a control framework and by monitoring and responding to potential risk. Controls include effective segregation of duties, access controls, authorisation, reconciliation procedures, staff training and evaluation procedures, and 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.

**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 issued by BNM, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. As at 31 December 2017 and 2016, the Company has a capital adequacy ratio in excess of the minimum requirement.

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

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

The capital structure of the Company as at 31 December 2017, and the comparative, as prescribed under the RBC Framework is provided below:

	<b>2017</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>
Eligible Tier 1 Capital:		
Share capital (paid up)	100,000	100,000
Retained earnings	463,778	416,266
	<u>563,778</u>	<u>516,266</u>
Tier 2 Capital:		
Asset revaluation reserve	20,802	20,469
AFS reserve	(1,087)	(4,025)
	<u>19,715</u>	<u>16,444</u>
Amounts deducted from capital	(11,185)	(16,752)
Total capital available	<u>572,308</u>	<u>515,958</u>

**35. SIGNIFICANT AND SUBSEQUENT EVENT**

Malaysian Competition Commission ("MyCC")

On 22 February 2017, Malaysian Competition Commission ("MyCC") issued its Proposed Decision (PD) under S36(1) of the Competition Act 2010 ("CA") finding that the Company along with PIAM and the other 21 Insurers have infringed the prohibition under S4(2)(a) of the CA and has indicated a financial penalty of RM213 million on all the 22 insurers. PIAM and its 22 insurers deny the Alleged infringement and maintain that they were following Bank Negara Malaysia's ("BNM") directive to PIAM to engage with the Federation of Automobile Workshop Owner's Association of Malaysia ("FAWOAM") in order to resolve issues related to parts trade discounts and labour hourly rates.

The Company filed its written representation in 2017 and on 29 January 2018, argued its case through its oral representation before the MyCC's Members of Commission ("MOC"). BNM supports the stand taken by PIAM and its 22 Insurers and had its own argument heard in a closed session before the MOC on 27 February 2018. The final decision by the MyCC's MOC has yet to be announced.

Save as disclosed above, the Company does not have any other significant or subsequent event during and after the financial year end.