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

Directors' Report and Audited Financial Statements
31 December 2018

16688-K

LIBERTY INSURANCE BERHAD
(Incorporated in Malaysia)

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LIBERTY INSURANCE BERHAD
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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

HOLDING AND ULTIMATE HOLDING COMPANIES

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

	RM'000
Net profit for the financial year	18,565

In the opinion of the Directors, the results during the financial year were not affected by any item, transaction or event of a material and unusual nature.

RESERVES AND PROVISIONS

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

DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2018.

SHARE CAPITAL

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

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

YBhg. Dato' Haji Kamil Khalid Ariff	Chairman
YBhg. Dato' Lim Heen Peok	
Mr. Keong Choon Keat	
Mdm. Elsie Kok Yin Mei	
Mr. Matthew David Nickerson	(Appointed on 30 July 2018)
Mr. William Michael Finn	(Resigned on 01 May 2018)
Mdm. Karen Kar Lun Lee	(Resigned on 28 July 2018)

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

In accordance with Article 68 of the Company's Articles of Association, Mr. Matthew David Nickerson shall retire and, being eligible, offers himself 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.

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DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

For the purpose of the paragraphs above, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

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DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

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

DIRECTORS' INTEREST

None of the Directors in office at the end of the financial year held any interests in the shares of the Company or in its related corporations during 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 in 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 as 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
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CORPORATE GOVERNANCE

CORPORATE GOVERNANCE FOR LICENSED INSTITUTIONS

The Company adheres 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 five directors i.e. four Independent Non-Executive Directors 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.

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CORPORATE GOVERNANCE (CONTINUED)

BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

(b) Board Meetings

During the financial year, the Board met seven times and all Directors in office during the period complied with the 75% minimum attendance requirement at such meetings. Details of attendance of each Board member at meetings held during the financial year ended 31 December 2018 are as follows:

Members	Status of directorship	Number of board meetings	
		Held during tenure	Attended
YBhg. Dato' Haji Kamil Khalid Ariff (Chairman of the Board)	Independent Non-Executive Director & Chairman	7	7 of 7
YBhg. Dato' Lim Heen Peok	Independent Non-Executive Director	7	7 of 7
Mr. Keong Choon Keat	Independent Non-Executive Director	7	6 of 7
Mdm. Elsie Kok Yin Mei	Independent Non-Executive Director	7	7 of 7
Mr. Matthew David Nickerson*	Executive Director	2	2 of 2
Mr William Michael Finn**	Independent Non-Executive Director	2	2 of 2
Mdm. Karen Kar Lun Lee***	Executive Director	5	5 of 5

* Appointed as Director on 30 July 2018

** Resigned as Director on 01 May 2018

*** Resigned as Director on 28 July 2018

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.

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CORPORATE GOVERNANCE (CONTINUED)

BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Board Committees (continued)

A The Audit Committee (continued)

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2018 are as follows:

Members	Status of directorship	Number of board meetings	
		Held during tenure	Attended
Mr. Keong Choon Keat (Chairman)	Independent Non-Executive Director & Chairman	7	7 of 7
YBhg. Dato' Haji Kamil Khalid Ariff	Independent Non-Executive Director	7	7 of 7
YBhg Dato' Lim Heen Peok	Independent Non-Executive Director	7	7 of 7
Mdm. Elsie Kok Yin Mei	Independent Non-Executive Director	7	7 of 7
Mr. William Michael Finn*	Independent Non-Executive Director	2	2 of 2

* Resigned as Director on 01 May 2018

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CORPORATE GOVERNANCE (CONTINUED)

BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Board Committees (continued)

B The Nomination Committee

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

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2018 are as follows:

Members	Status of directorship	Number of board meetings	
		Held during tenure	Attended
YBhg. Dato' Lim Heen Peok (Chairman)	Independent Non-Executive Director & Chairman	6	6 of 6
YBhg. Dato' Haji Kamil Khalid Ariff	Independent Non-Executive Director	6	6 of 6
Mdm. Elsie Kok Yin Mei	Independent Non-Executive Director	6	6 of 6
Mdm. Karen Kar Lun Lee*	Executive Director	3	3 of 3
Mr. Matthew David Nickerson**	Executive Director	3	3 of 3

* Resigned as Director on 28 July 2018

** Appointed as Director on 30 July 2018

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 2018 are as follows:

Members	Status of directorship	Number of board meetings	
		Held during tenure	Attended
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
Mr. Keong Choon Keat	Independent Non-Executive Director	5	5 of 5

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CORPORATE GOVERNANCE (CONTINUED)

BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Board Committees (continued)

D The Risk Management Committee

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

This Committee comprises the following members and details of attendance of each member at meetings held during the financial year ended 31 December 2018 are as follows:

Members	Status of directorship	Number of board meetings	
		Held during tenure	Attended
Mdm. Elsie Kok Yin Mei (Chairman)	Independent Non-Executive Director & Chairman	6	6 of 6
YBhg. Dato' Haji Kamil Khalid Ariff	Independent Non-Executive Director	6	6 of 6
YBhg Dato' Lim Heen Peok	Independent Non-Executive Director	6	6 of 6
Mr. William Michael Finn*	Independent Non-Executive Director	2	2 of 2

* Resigned as Director on 01 May 2018

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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.

CORPORATE GOVERNANCE (CONTINUED)

BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Internal Controls and Enterprise Risk Management (continued)

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

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

(a) Underwriting

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

(b) Financial control procedures

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

(c) Financial position

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

(d) Investment

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

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.

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

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

Public Accountability

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

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) Financial Institutions Directors' Education" (FIDE) Programme – Module A
(ii) Financial Institutions Directors' Education" (FIDE) Programme – Module B
(iii) MFRS 17 Training
(iv) FIDE FORUM Dinner Talk - The Director as Coach: An exclusive dialogue with Dr. Marshall Goldsmith and Launch of FIDE FORUM's DNA of a Board Leader
(v) Cyber Threat Awareness: What Boards Need to Know

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CORPORATE GOVERNANCE (CONTINUED)

REMUNERATION POLICY

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

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

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

The Company is committed 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.

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.

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CORPORATE GOVERNANCE (CONTINUED)

REMUNERATION COMPONENTS (CONTINUED)

(b) Variable Pay

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

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

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

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

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

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

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

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

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CORPORATE GOVERNANCE (CONTINUED)

REMUNERATION COMPONENTS (CONTINUED)

(b) Variable Pay (continued)

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

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

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

(c) Pension

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

(d) Benefits

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

(e) Perquisites

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

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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 the key management personnel and the remuneration structure is as disclosed in Note 29 to the financial statements. As at 31 December 2018, the Company has a total of 11 Material Risk Takers (2017: 11)

INDEMNITY AND INSURANCE COST

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

	Sum insured USD'000
Directors and Officers Liability Insurance	25,000

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

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 64, 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 and Awan Inspirasi Sdn. Bhd.

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended all (7 meetings) Board of Directors' meetings held during the financial year ended 31 December 2018.

MATTHEW DAVID NICKERSON
EXECUTIVE DIRECTOR

Matthew David Nickerson, aged 55, is an American citizen and is an Executive Director of the Company. He was appointed to the Board on 30 July 2018. He is also a member of the Nomination Committee.

He obtained his Insurance Executive Development Program from Wharton School of the University of Pennsylvania, Bachelor of Arts Mathematics and Business Administration from Colby College, Waterville, Maine and Master of Business Administration from University of Southern New Hampshire.

His directorships in other companies are as Director of Liberty International Holdings Inc. (Delaware), Liberty International Europe Inc. (Delaware), Liberty International Holdings LLC (Delaware), Liberty International Insurance Limited (Hong Kong), Liberty Insurance (JSC) (Russia), Kritaya Tun Company Limited (Thailand), Tun Kaoklai Co., Ltd. (Thailand), Liberty Insurance Pte. Ltd. (Singapore) and Liberty Insurance Limited (Vietnam).

CORPORATE GOVERNANCE (CONTINUED)

BOARD OF DIRECTORS' PROFILE (CONTINUED)

He has no family relationship with any other directors/major shareholders of the Company and has no conflict of interest with the Company. He has no conviction for offences within the past 10 years and has attended all (2 meetings upon his appointment) Board of Directors' meetings held during the financial year ended 31 December 2018.

KEONG CHOON KEAT
INDEPENDENT NON-EXECUTIVE DIRECTOR

Keong Choon Keat, aged 74, 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 6 out of 7 Board of Directors' meetings held during the financial year ended 31 December 2018.

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 70, 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 (7 meetings) Board of Directors' Meetings held during financial year ended 31 December 2018.

ELSIE KOK YIN MEI
INDEPENDENT NON-EXECUTIVE DIRECTOR

Elsie Kok Yin Mei, aged 58, 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 (7 meetings) Board of Directors' meetings held during her tenure for the financial year ended 31 December 2018.

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 22 March 2019.

DATO' HAJI KAMIL KHALID ARIFF	KEONG CHOON KEAT
DIRECTOR	DIRECTOR

Kuala Lumpur, Malaysia
22 March 2019

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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 Keong Choon Keat, 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 165 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 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 22 March 2019.

DATO' HAJI KAMIL KHALID ARIFF
DIRECTOR

KEONG CHOON KEAT
DIRECTOR

Kuala Lumpur, Malaysia
22 March 2019

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 165 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 22 March 2019

SAIME DEFNE TURKES

Before me,

PESURUHJAYA SUMPAH
W 729
MARDHIYYAH
ABDUL WAHAB
1 OKT 2018-31 DIS 2020
MALAYSIA

SUITE 9.03, TINGKAT 9
MENARA RAJA LAUT
NO. 288 JALAN RAJA LAUT
50350 KUALA LUMPUR

Building a better working world

Ernst & Young AF: 0039
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+603 2095 9078
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Independent auditors' report to the members of Liberty Insurance Berhad (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Liberty Insurance Berhad, which comprise the statement of financial position as at 31 December 2018, 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 165.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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.

**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 alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

**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 events in a manner that achieves fair presentation.

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

Other matters

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

Ernst & Young	Brandon Bruce Sta Maria
AF: 0039	No. 02937/09/2019 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia
22 March 2019

LIBERTY INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Property and equipment	4(a)	57,059	61,099
Intangible assets - software	4(b)	1,897	2,478
Investment properties	5	52,228	54,528
Available-for-sale financial assets	6(a)	-	387,206
Financial assets at fair value through other comprehensive income	6(b)	367,776	-
Loans and receivables	7(a)	-	816,195
Financial assets at amortised cost	7(b)	924,582	-
Reinsurance assets	9	122,613	263,990
Insurance receivables	10	38,241	35,204
Tax recoverable		3,201	1,740
Deferred tax assets	8	123	-
Deferred acquisition costs	11	29,127	30,834
Cash and short term deposits	12	9,816	30,465
Total assets		1,606,663	1,683,739
EQUITY			
Share capital	13	100,000	100,000
Other reserves	14	18,230	19,715
Retained earnings	15	482,600	463,778
Total equity		600,830	583,493
LIABILITIES			
Insurance contract liabilities	16	931,073	1,031,252
Deferred tax liabilities	8	-	1,885
Deferred acquisition costs - reinsurance	11	2,676	2,684
Insurance payables	17	23,662	21,430
Other payables	18	48,422	42,995
Total liabilities		1,005,833	1,100,246
Total equity and liabilities		1,606,663	1,683,739

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 2018

	Note	2018 RM'000	2017 RM'000
Gross written premiums		640,163	651,826
Change in premium liabilities		13,869	(13,488)
Gross earned premiums (a)		654,032	638,338
Reinsurance premiums ceded		(75,857)	(95,672)
Change in premium liabilities		812	(28,282)
Premiums ceded to reinsurers (b)		(75,045)	(123,954)
Net earned premiums (a) - (b)		578,987	514,384
Investment income	19	48,983	45,116
Realised losses	20	(115)	(34)
Net fair value (losses)/gains	21	(2,300)	500
Commission income	22	15,763	26,931
Other operating income	23	4,435	9,722
Other revenue		66,766	82,235
Gross claims paid		(548,615)	(361,231)
Claims ceded to reinsurers		172,694	62,291
Gross change to claims liabilities		86,310	(173,422)
Change in claims liabilities ceded to reinsurers		(142,189)	126,952
Net claims incurred		(431,800)	(345,410)
Commission expense	22	(69,046)	(68,810)
Management expenses	24	(121,388)	(115,643)
Other expenses		(190,434)	(184,453)
Profit before taxation		23,519	66,756
Tax expense	25	(4,954)	(14,244)
Net profit for the financial year		18,565	52,512
Basic and diluted earnings per share (sen)	26	18.57	52.51

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 2018

	Note	2018 RM'000	2017 RM'000
Net profit for the financial year		18,565	52,512
Other comprehensive income:			
Item that will not be subsequently reclassified to profit or loss:			
Asset revaluation reserve			
Revaluation (deficit)/surplus on self-occupied properties	4(a)	(1,812)	526
Tax effect on revaluation surplus		392	(193)
		(1,420)	333
Item that may be subsequently reclassified to profit or loss:			
Available-for-sale ("AFS") reserve			
Fair value gain of AFS financial assets	6 (a)	-	3,866
Tax effect on fair value gain of AFS financial assets	8	-	(928)
		-	2,938
Fair value through other comprehensive income ("FVOCI")			
Fair value loss of FVOCI financial assets	6 (b)	(60)	-
Tax effect on fair value loss of FVOCI financial assets	8	15	-
		(45)	-
Total comprehensive income for the financial year		17,100	55,783

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

LIBERTY INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

			Non-distributable			Distributable	
	Note	Issued and fully paid ordinary shares RM'000	Asset revaluation reserve RM'000	AFS reserve RM'000	FVOCI reserve RM'000	Retained earnings RM'000	Total RM'000
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		100,000	20,802	(1,087)	-	463,778	583,493
At 1 January 2018, as previously stated		100,000	20,802	(1,087)	-	463,778	583,493
Effect of adopting *MFRS 9 Financial Instruments*	2(b)(i)(e)	-	-	1,087	(1,107)	257	237
At 1 January 2018, as restated		100,000	20,802	-	(1,107)	464,035	583,730
Total comprehensive income for the financial year		-	(1,420)	-	(45)	18,565	17,100
At 31 December 2018		100,000	19,382	-	(1,152)	482,600	600,830

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 2018

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		18,565	52,512
Adjustment for non-cash items:			
Property and equipment			
- depreciation	4(a)	3,138	3,242
- loss on disposal	20	112	-
- written off	4(a)	43	130
- reclassification	4(a)	98	-
Amortisation of intangible assets	4(b)	1,055	1,174
Reclassification and adjustments intangible assets	4(b)	12	-
Net fair value losses/(gains) on investment properties	5	2,300	(500)
Interest income	19	(48,001)	(44,442)
Net rental income	19	(374)	(331)
Net accretion of discounts	19	(608)	(343)
Write back of for impairment allowance for insurance receivables	24	(472)	(10)
Impairment allowance of uncollectible service tax	24	1,351	-
Written off/(recoveries) of bad debts	24	263	(299)
Tax expense	25	4,954	14,244
		(17,564)	25,377
Purchase of available-for-sale financial assets	6(a)	-	(54,809)
Proceeds from maturity of available-for-sale financial assets	6(a)	-	16,733
Purchase of FVOCI financial assets	6(b)	(15,087)	-
Proceeds from maturity of FVOCI financial assets	6(b)	35,025	-
Interest income received		46,257	44,955
Net rental income	19	374	331
Decrease/(Increase) in reinsurance assets	9	141,377	(98,670)
Increase in insurance receivables		(3,902)	(6,872)
Decrease/(Increase) in deferred acquisition costs	11	1,707	(1,074)
Increase/(Decrease) in insurance payables	17	2,232	(19,018)
(Decrease)/Increase in insurance contract liabilities	16	(100,179)	186,910
Increase in loans and receivables		-	(105,682)
Increase in financial assets at amortised cost		(106,643)	-
Increase/(Decrease) in other payables	18	5,427	(13,350)
Decrease in deferred acquisition costs - reinsurance	11	(8)	(2,459)
Cash used from operating activities		(10,984)	(27,628)
Income tax paid		(8,016)	(23,971)
Net cash outflows from operating activities		(19,000)	(51,599)

LIBERTY INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	4(a)	(1,349)	(1,422)
Purchase of intangible assets - software	4(b)	(486)	(443)
Proceeds from disposal of property and equipment		186	-
Net cash outflows from investing activities		(1,649)	(1,865)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid	27	-	(5,000)
Net cash outflows from financing activities		-	(5,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(20,649)	(58,464)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		30,465	88,929
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	12	9,816	30,465

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

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 22 March 2019.

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 and IFRS 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

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

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

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

The Company has adopted the new and amended MFRSs and interpretation mandatory for annual financial periods beginning on or after 1 January 2018 during the financial year ended 31 December 2018.

The adoption of the new and amended MFRSs and interpretation disclosed in Note 2(b)(i) during the year has not resulted in any material financial impact to the financial statements, except for MFRS 9 Financial Instruments.

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 2018, the Company adopted the following new and amended MFRSs and interpretation, which are mandatory for annual financial periods beginning on or after 1 January 2018.

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 (IFRS 9 as issued by IASB in July 2014)	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 Financial Instruments

The adoption of MFRS 9 Financial Instruments resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. As permitted by the transitional provisions of MFRS 9 Financial Instruments, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of adoption were recognised directly in retained profits as of 1 January 2018. Note 2(b)(i)(e) shows the reconciliation and impact to retained profits as a result of the adoption of MFRS 9.

Set out below are disclosure relating to the impact of adoption of MFRS 9 Financial Instruments to the Company:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

MFRS 9 Financial Instruments (continued)

(a) Classification and measurement

The Company has assessed the classification of its financial assets based on the Cashflow Characteristics and Business Model ("BM") test 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 under 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 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 Goverment Securities ("MGS")) are measured at fair value through other comprehensive income (“FVOCI”). The management has made an irrevocable election under MFRS 9 to classify the unquoted equities as FVOCI, with no recycling allowed.

The Company did not 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 on 1 January 2021.

(b) Impairment

MFRS 9 introduces the expected credit losses ("ECL") model for impairment of financial assets 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 of the Company which are measured at amortised cost and FVOCI.

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:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

MFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

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 the 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 a 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.

ECL for its investment in debt securities' (including investment in MGS) is 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 updated for credit risk staging purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

MFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

For other in-scope financial assets, including insurance receivables, the Company used 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, complied with the ECL requirements under MFRS 9.

(c) Hedge accounting

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

(d) 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. Gain and losses are recognised in the statement of income.

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 9 Financial Instruments (continued)

(e) Reconciliation of financial assets at 1 January, 2018 from MFRS 139 to MFRS 9

The following table provides a reconciliation of the carrying amounts of financial assets under MFRS 139 to MFRS 9:

Financial assets	**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**
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
Fixed and call deposits	7(a)	Loans and receivables	Amortised cost	751,124	-	-	751,124
Other receivables (except deposits and prepayment)	7(a)	Loans and receivables	Amortised cost	63,270	-	-	63,270
Total Financial assets				1,236,804	-	277	1,237,081
EQUITY							
AFS reserves	14			(1,087)	1,087	-	-
FVOCI reserves	14			-	(1,087)	(20)	(1,107)
Total Equity				(1,087)	-	(20)	(1,107)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model applied to revenue arising from contracts with customers. MFRS 15 superseded the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations as at 1 January 2018.

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.

The adoption of MFRS 15 did not have a material impact on the Company as insurance contracts and financial instruments related revenue/income are scoped out of MFRS 15 except for MMIP servicing fee. However, there was no significant impact arising from this fee as it is already being recognised in accordance with the principles of MFRS 15.

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 interpretation, if applicable, when they become effective:

Description	Effective for annual financial periods beginning on or after
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 and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to references to the Conceptual Framework in MFRS Standards	1 January 2020
Amendments to MFRS 3 Business Combinations (Definition of a Business)	1 January 2020
Amendments to MFRS 101 Presentation of Financial Statements (Definition of Material)	1 January 2020
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The above new and amended standards and interpretation are not expected to have any material effect on the financial statements in the period of initial application except as discussed below:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

MFRS 16 Leases

MFRS 16 replaced 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.

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.

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 standard will affect primarily the accounting for the Company's operating leases. The practical expedient of the standard does not require the Company to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the Company is permitted:

a) to apply this Standard to contracts that were previously identified as leases applying MFRS 117 Leases and IC Interpretation 4 Determining whether an Arrangement contains a Lease. The entity shall apply the transition requirements to those leases; and

b) not to apply this Standard to contracts that were not previously identified as containing a lease applying MFRS 117 and IC Interpretation 4.

The Company is expected to adopt this practical expedient.

The Company will adopt MFRS 16 on the mandatory effective date. The practical expedient of MFRS 16 allows the Company to recognise the cumulative effect of applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application without restatement of comparative information.

Based on preliminary assessment on the contracts previously identified as operating leases, the financial impact arising from the adoption of MFRS 16 is not expected to have a significant impact to the net financial position, performance and solvency of the Company.

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

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 Company 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.

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.

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 Company plans to adopt the new standard on the required effective date. 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. The Company had completed the gap analysis and identified the key gaps arising from MFRS 17. The Company is currently in the process of designing the data and system requirements of MFRS 17.

(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 based 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property and equipment and depreciation (continued)

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets – software

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

(f) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets and financial liabilities (Policy applicable before 1 January 2018)

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

(i) Loans and receivables ("LAR")

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

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

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

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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets and financial liabilities (Policy applicable before 1 January 2018) (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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets and financial liabilities (Policy applicable before 1 January 2018) (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) Financial assets and financial liabilities (Policy applicable after 1 January 2018)

The Company classifies its financial assets into the following categories: financial assets at amortised cost and financial assets at FVOCI. The classification of financial assets at intial recognition depends on the financial assets' contractual cash flow characteristics ("SPPI test") and the business model for managing them.

The SPPI test determines whether the contractual cash flows are solely for payments of principal and interest. This assessment is performed at an instrument level.

The business model for managing financial assets refers to how the Company manages its financial assets in order to generate cash flows. The business model determines whether the cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

(i) Financial assets at amortised cost

A financial asset is measured at amortised cost if its business model is to hold the asset in order to collect contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial assets. Financial assets at amortised cost are subsequently measured using the effctive interest method and are subject to impairment. Gains and losses are recognised in the statement of income when the financial assets at amortised cost are derecognised or impaired, as well as through the amortisation process.

The Company classifies fixed and call deposits, insurance receivables and other receivables as financial assets measured at amortised cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(ii) Financial assets at FVOCI

A financial asset is measured at FVOCI if both the following conditions are met:

- its business model is both to hold the asset in order to collect contractual cash flows and to sell the financial assets; and

- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The company classifies its debt and equity instruments as financial assets at FVOCI.

For debt instruments at fair value through OCI, interest income and impairment losses or reversals are recognised in the statement of income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Debt instruments measured at FVOCI are subject to impairment assessment. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Upon initial recognition of equity instruments, the Company can elect to irrevocably classify its equity instruments as at fair value through OCI when they meet the definition of equity under MFRS 132 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses from equity instruments at FVOCI are never recycled to profit or loss. Dividends are recognised as other income in the statement of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to impairment assessment.

The Company has made an irrevocable election under MFRS 9 to classify the unquoted equities as FVOCI, with no recycling allowed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(iii) Financial liabilities

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

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

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

(iv) Derecognition of financial assets and liabilities

A financial asset is derecognised when:

- The contractual right to receive cash flows from the financial asset has expired;

- The Company retains the contractual right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party; or

- The Company has transferred its rights to receive cash flows from the asset and either:

  (a) has transferred substantially all the risks and rewards of the asset; or

  (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

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

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

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

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

(j) Impairment (Policy applicable before 1 January 2018)

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (Policy applicable before 1 January 2018) (continued)

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

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (Policy applicable before 1 January 2018) (continued)

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

(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.

(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(j)(i)(a).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (Policy applicable before 1 January 2018) (continued)

(iii) Impairment of non-financial assets

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

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

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

(k) Impairment (Policy applicable after 1 January 2018)

(i) Impairment of financial assets

Insurance receivables is deemed past due when the counterparty has failed to make payment when the outstanding amounts are contractually due i.e. a default occurs. The credit risk of the insurance receivables is addressed through assessment of the expected credit loss using a provision matrix which specify fixed provision rates depending on the number of days that a trade receivable is past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (Policy applicable after 1 January 2018) (continued)

(i) Impairment of financial assets (continued)

MFRS 9 allows the calculation of the expected credit losses on trade receivables using a provision matrix. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Company recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised using two measurement bases. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For financial assets including insurance receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company established a provision matrix that is based on its historical credit loss experience, adjusted with forward-looking information. Note 3.2(b) further explains details of the provision matrix.

For debt instruments at fair value through OCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company's debt instruments at fair value through OCI comprise solely of Malaysia government papers and unquoted corporate securities that are graded in the top investment category (rated AA and above) by Rating Agency of Malaysia (RAM) and Malaysian Rating Corporation (MARC) and, therefore, are considered to be low credit risk investments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (Policy applicable after 1 January 2018) (continued)

(i) Impairment of financial assets (continued)

It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, for FVOCI that when there has been a significant increase in credit risk since origination whereby an investment grade bond (BBB and above) falls under a non-investment grade bond (below BBB), the allowance will be based on the lifetime ECL. The Company uses ratings from RAM and MARC to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

Write-off
The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company makes an assessment with respect to the timing and amount of write off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off.

(ii) 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.

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 less allowance for impairment. Impairment is determined in accordance with the policy described in Note 2(k)(i).

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 amounts 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) General insurance underwriting results (continued)

(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;

(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.

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Other revenue recognition

Revenue is recognised when control of the goods or services are transferred at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

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.

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.

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/mutual 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.

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.

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 methods applied and results of such valuations are presented to the Senior management and Board of Directors for approval.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iv) Fair value information has 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 Services 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. GST was replaced by the Sales Tax and Services Tax effective from 1 September 2018.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3. 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.

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.

Insurance contract liabilities are disclosed in Note 16 to the financial statements.

(ii) Pipeline Premiums

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.

The total amount of pipeline premiums recorded for the year amounted to RM 4,233,141(2017: RM5,044,754)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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.

Expected credit losses of financial assets

(a) Impairment of financial assets at FVOCI

Significant judgement is required to assess impairment for financial assets at FVOCI using the ECL method. 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 a financial asset at FVOCI is impaired as well as the estimation of the recoverable value of financial assets at FVOCI against which the carrying value is compared to determine the impairment loss to be recognised in the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

Expected credit losses of financial assets (continued)

(a) Impairment of financial assets at FVOCI (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:

a) 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.

b) 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.

c) 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.

Any resulting impairment loss on financial assets at FVOCI is recognised in the profit or loss.

(b) Impairment of receivables

Significant judgement is required to assess impairment for insurance receivables.

The Company uses a provision matrix to calculate ECLs for insurance recievables. The key variables of the ECL provision matrix includes the probability of default (PD) and loss given default (LGD) rates.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

Expected credit losses of financial assets (continued)

(b) Impairment of receivables (continued)

To determine the PD, the Company segregates the trade receivables into various categories that share similiar loss patterns. The monthly data of each segments are collated. The latest available data are used to ensure the latest trend of collectives are reflected. A weighted average is calculated to ensure there is an equal distribution amongst each of the categories of receivables.

The LGD is expressed as a proportion of the total exposure that is lost in the event of a default. The Company estimates the LGD parameters based on the historical recovery rates if claims against defaulted counterparties.

However where there is insufficient historical data available in the Company and industry to perform a statistical study of the LGD of the identified category of insurance receivables which share similar loss patterns, the Company will exercise its judgement based on the risk characters of the categories.

The Company uses a provision matrix to calculate ECLs for insurance receivables. The provision rates are based on days past due for groupings of various segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, and ECLs is a significant estimate. Based on the assessment performed, the forward looking information incorporated into the ECL model, does not result in significant changes to the estimated ECL. The amount of ECLs is sensitive to changes in circumstances and of forecast of economic conditions. The Company's historical credit loss experience and forecast of economic conditions may not be representative of the customer's actual default in the future.

The Company recognises the resulting impairment loss in the profit or loss.

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4(a) PROPERTY AND EQUIPMENT

	Freehold land RM'000	Long term leasehold land RM'000	Freehold buildings RM'000	Long term leasehold building RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Office renovation RM'000	Computer equipment RM'000	Total RM'000
Net book value at 1 January 2018	2,686	14,567	3,129	31,763	338	1,660	875	3,009	3,072	61,099
Additions at cost	-	-	-	-	365	53	48	35	848	1,349
Disposal at net book value	-	-	-	-	(296)	-	(2)	-	-	(298)
Write-offs at net book value (Note 23)	-	-	-	-	-	(5)	(4)	(29)	(5)	(43)
Depreciation charge for the financial year (Note 24)	-	(212)	(122)	(963)	(68)	(242)	(138)	(390)	(1,003)	(3,138)
Revaluation surplus /(deficit) recognised in other comprehensive income	-	432	306	(2,550)	-	-	-	-	-	(1,812)
Internal reclassifications and adjustments	-	-	(9)	(87)	-	-	9	-	(11)	(98)
Net book value at 31 December 2018	2,686	14,787	3,304	28,163	339	1,466	788	2,625	2,901	57,059
<u>At 31 December 2018</u>					-					
Cost	-	-	-	-	450	3,653	2,845	6,895	9,030	22,873
Valuation	2,686	14,787	3,304	28,163	-	-	-	-	-	48,940
Accumulated depreciation	-	-	-	-	(111)	(2,187)	(2,057)	(4,270)	(6,129)	(14,754)
Net book value	2,686	14,787	3,304	28,163	339	1,466	788	2,625	2,901	57,059

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4(a) PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Long term leasehold land RM'000	Freehold buildings RM'000	Long term leasehold building RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Office renovation RM'000	Computer equipment RM'000	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
Disposal at net book value	-	-	-	-	-	-	-	-		-
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	2,686	14,567	3,129	31,763	338	1,660	875	3,009	3,072	61,099
<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	2,686	14,567	3,129	31,763	338	1,660	875	3,009	3,072	61,099

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:

	2018 RM'000	2017 RM'000
Freehold land and buildings	1,614	1,690
Long-term leasehold land and buildings	22,970	23,741
	24,584	25,431

The long-term leasehold land and buildings have unexpired lease periods ranging from 60 years to 876 years (2017: 61 years to 877 years).

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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 of the fair value hierarchy):

2018 **Description**	**Fair Value** **RM'000**	**Valuation** **technique**	**Unobservable** **input**	**Range of values**
Freehold land and buildings	5,990	Comparison approach	Estimated Value p.s.f	RM125 - RM490
Long term leasehold land and buildings	3,550	Comparison approach	Estimated Value p.s.f	RM65 - RM432
Long term leasehold land and buildings	39,400	Income approach	Estimated Value p.s.f	RM3 - RM4
2017 **Description**				
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

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

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 of the fair value hierarchy), as disclosed in Note 4(a)(i) and the corresponding revaluation surplus recognised in other comprehensive income.

	Self-occupied properties Fair value measurements using significant unobservable inputs (Level 3)	
	2018 RM'000	**2017 RM'000**
Opening balance	52,145	52,970
Depreciation for the financial year	(1,297)	(1,351)
Revaluation (deficit)/ surplus recognised in other comprehensive income	-	526
Internal reclassifications and adjustments	(96)	-
Closing balance	50,752	52,145

4(b) INTANGIBLE ASSETS - SOFTWARE

	2018 RM'000	**2017 RM'000**
Cost	11,013	10,542
Accumulated amortisation	(9,116)	(8,064)
Net book value	1,897	2,478
<u>Net book value</u>		
At beginning of the financial year	2,478	5,572
Additions at cost	486	443
Transferred to Property and equipment (Note 4(a))	-	(2,363)
Amortisation for the financial year (Note 24)	(1,055)	(1,174)
Internal reclassification amd adjustments	(12)	-
At end of the financial year	1,897	2,478

5. INVESTMENT PROPERTIES

	Freehold land and building RM'000	Leasehold land and building RM'000	Total RM'000
At fair value:			
At 1 January 2017	15,300	38,728	54,028
Net fair value gain/ (losses) (Note 21)	1,500	(1,000)	500
At 31 December 2017/1 January 2018	16,800	37,728	54,528
Net fair value losses (Note 21)	(500)	(1,800)	(2,300)
At 31 December 2018	16,300	35,928	52,228

The rental income and operating expenses in relation to investment properties are as disclosed in Note 19.

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 loss on investment properties for the financial year is RM2,300,000 (2017: Net fair value gain of RM500,000).

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 of the fair value hierarchy).

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 RM16,300,000 (2017: RM16,800,000) 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.

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 of the fair value hierarchy):

2018 Description	Fair Value RM'000	Valuation technique	Unobservable input	Range of values
Freehold land and building	8,000	Comparison approach	Estimated Value p.s.f	RM294 - RM541
Leasehold land and buiding	35,928	Income approach	Rental per square foot ("p.s.f") per month	RM3.30 - RM9.00
			Discount rate	4.5% - 6.5%
Freehold land	8,300	Comparison approach	Estimated Value p.s.f	RM89 - RM112
2017 **Description**				
Freehold land and building	8,800	Income approach	Rental per square foot ("p.s.f") per month	RM3.50
			Discount rate	5.50%
Leasehold land and buiding	37,728	Income approach	Rental per square foot ("p.s.f") per month	RM3.30 - RM9.00
			Discount rate	4.5% - 6.5%
Freehold land	8,000	Comparison approach	Estimated Value p.s.f	RM89 - RM112

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

6(a). AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2018 RM'000	2017 RM'000
AFS financial assets		
Malaysian government papers	-	172,496
Unquoted equity securities in Malaysia	-	25
Unquoted corporate debt securities in Malaysia	-	214,685
	-	387,206

(ii) Carrying value of AFS financial assets - Malaysian government papers and Unquoted corporate debt securities

	AFS RM'000	Total RM'000
At 1 January 2017	344,614	344,614
Purchases	54,809	54,809
Maturity/Disposal	(16,733)	(16,733)
Accretion of discounts, net of amortisation of premium (Note 19)	343	343
Movement in accrued interest	271	271
Fair value loss recorded in:		
- Other comprehensive income	3,877	3,877
At 31 December 2017	387,181	387,181
Effect of adoption of MFRS 9		
- reclassification of AFS financial assets to financial assets at FVOCI	(387,181)	(387,181)
At 1 January 2018	-	-

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

(iii) Carrying value of AFS financial assets - Unquoted equity securities

	AFS RM'000	Total RM'000
At 1 January 2017	36	36
Fair value loss recorded in:		
- Other comprehensive income	(11)	(11)
At 31 December 2017	25	25
Effect of adoption of MFRS 9		
- reclassification of AFS financial assets to financial assets at FVOCI	(25)	(25)
At 1 January 2018	-	-

The maturity structure of AFS financial assets (excluding unquoted equity securities) at 31 December 2017 was as follows:

	2017 RM'000
Investments maturing within 12 months	35,457
Investments maturing after 12 months	351,724
	387,181

(iv) 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 in 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.

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

(iv) 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. Adjusted Net Tangible Assets (NTA) method was used to value the stocks whereby adjusted net assets are divided by the share capital to obtain the price per share.

The following table shows AFS financial assets at 31 December 2017 recorded at fair value analysed by the different bases of fair values as follows:

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

The reconciliation for unquoted equity securities measured at fair value based on significant unobservable inputs (Level 3 of the fair value hierarchy) is as shown in Note 6(a)(iii).

6(b). FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

(i) Financial assets at FVOCI comprise the following investments:

	2018 RM'000	2017 RM'000
Malaysian government papers	161,393	-
Unquoted equity securities in Malaysia	30	-
Unquoted corporate debt securities in Malaysia	206,353	-
	367,776	-

(ii) Carrying value of financial assets - Malaysian government papers and Unquoted corporate debt securities

	FVOCI RM'000	Total RM'000
At 31 December 2017	-	-
Effect of adoption of MFRS 9		
- reclassification of AFS financial assets to financial assets at FVOCI	387,181	387,181
At 1 January 2018	387,181	387,181
Purchases	15,087	15,087
Maturity/Disposal	(35,025)	(35,025)
Accretion of discounts, net of amortisation of premium	608	608
Movement in accrued interest	(40)	(40)
Fair value loss recorded in:		
- Other comprehensive income	(65)	(65)
At 31 December 2018	367,746	367,746

6(b). FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI") (CONTINUED)

(iii) Carrying value of financial assets - Unquoted equity securities

	FVOCI RM'000	Total RM'000
At 31 December 2017	-	-
Effect of adoption of MFRS 9		
- reclassification of AFS financial assets to financial assets at FVOCI	25	25
At 1 January 2018	25	25
Fair value gain recorded in:		
- Other comprehensive income	5	5
At 31 December 2018	30	30

The maturity structure of financial assets at FVOCI (excluding unquoted equity securities) as at 31 December 2018 is as follows:

	2018 RM'000
Investments maturing within 12 months	50,456
Investments maturing after 12 months	317,290
	367,746

(iv) Fair value hierarchy of financial assets at FVOCI

Recurring fair value measurements

The Company categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used in 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.

6(b). FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI") (CONTINUED)

(iv) Fair value hierarchy of financial assets at FVOCI (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. Adjusted Net Tangible Assets (NTA) method was used to value the stocks whereby adjusted net assets are divided by the share capital to obtain the price per share.

The following table shows financial assets at FVOCI at 31 December 2018 recorded at fair value analysed by the different bases of fair values as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2018				
Malaysian government papers	-	161,393	-	161,393
Unquoted equity securities in Malaysia	-	-	30	30
Unquoted corporate debt securities in Malaysia	-	206,353	-	206,353
	-	367,746	30	367,776

The reconciliation for unquoted equity securities measured at fair value based on significant unobservable inputs (Level 3 of the fair value hierarchy is as shown in Note 6(b)(iii).

7(a). LOANS AND RECEIVABLES

	2018 RM'000	2017 RM'000
Fixed and call deposits with licensed banks held for investment purposes	-	733,300
Accrued interest	-	17,824
	-	751,124
Other receivables:		
Malaysian Motor Insurance Pool ("MMIP" or "the Pool") balances*		
- Cash calls paid to MMIP	-	25,359
- Share of net assets held under MMIP	-	35,539
	-	60,898
MMIP commission receivable	-	754
Deposits	-	973
Prepayments	-	828
Other receivables	-	1,618
	-	65,071
Total loans and receivables	-	816,195

The maturity profile of fixed and call deposits with licensed financial institutions as at 31 December 2017 was as follows:

	2017 RM'000
Maturing within 12 months	714,915
Maturing after 12 months	36,209

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

* See note 7(b) at page 95.

7(b). FINANCIAL ASSETS AT AMORTISED COST

	2018 RM'000	2017 RM'000
Fixed and call deposits with licensed banks held for investment purposes	844,300	-
Accrued interest	19,608	-
	863,908	-
Other receivables:		
Malaysian Motor Insurance Pool ("MMIP" or "the Pool") balances*		
- Cash calls paid to MMIP	31,506	-
- Share of net assets held under MMIP	22,691	-
	54,197	-
MMIP commission receivable	351	-
Deposits	949	-
Prepayments	818	-
Other receivables	4,359	-
	60,674	-
Total loans and receivables	924,582	-

The maturity profile of fixed and call deposits with licensed financial institutions as at 31 December 2018 is as follows:

	2018 RM'000	2017 RM'000
Maturing within 12 months	843,714	-
Maturing after 12 months	20,194	-

The carrying amounts of the financial assets (excluding deposits and prepayments) 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 proportionate share of the assets, liabilities and performance of the Pool. The net assets held under MMIP represent the Company's proportionate share of the Pool's net assets, before insurance contract liabilities. The Company's proportionate 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 RM31,506,332 (2017: 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.

8. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

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

	2018 RM'000	2017 RM'000
Deferred tax assets/(liabilities)	123	(1,885)
At beginning of the financial year	(1,885)	500
Credited/(charged) to statement of income (Note 25)		
- property and equipment	410	449
- investment properties	552	(120)
- AFS financial assets	-	963
- FVOCI financial assets	(130)	-
- retirement benefits	(14)	65
- insurance receivables	262	(78)
- other receivables	-	(6)
- other payables	529	(2,487)
- premium liabilities	(8)	(50)
	1,601	(1,264)
Credited/(charged) to equity		
Asset revaluation reserve		
Property and equipment	392	(193)
AFS reserve		
AFS financial assets	-	(928)
FVOCI		
FVOCI financial assets	15	-
At end of the financial year	123	(1,885)
Deferred tax assets (before offsetting)		
AFS financial assets	-	98
Insurance receivables	565	303
Retirement benefits	262	276
Other payables	8,559	8,030
	9,386	8,707
Offsetting	(9,263)	(8,707)
Deferred tax assets (after offsetting)	123	-

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

	2018 RM'000	2017 RM'000
Deferred tax liabilities (before offsetting)		
Property and equipment	5,556	6,358
Investment properties	3,634	4,186
FVOCI financial assets	17	-
Premium liabilities	56	48
	9,263	10,592
Offsetting	(9,263)	(8,707)
Deferred tax liabilities (after offsetting)	-	1,885

9. REINSURANCE ASSETS

	2018 RM'000	2017 RM'000
Reinsurance of insurance contracts:		
Claims liabilities (Note 16)	97,127	239,316
Premium liabilities (Note 16)	25,486	24,674
	122,613	263,990

10. INSURANCE RECEIVABLES

	2018 RM'000	2017 RM'000
Due premium including agents, brokers and co-insurers balance	17,156	19,121
Due from reinsurers and cedants	25,077	20,060
	42,233	39,181
Accumulated impairment losses	(5,244)	(5,927)
	36,989	33,254
Knock-for-knock claims recoveries due from other insurers	1,254	2,018
Accumulated impairment losses	(2)	(68)
	1,252	1,950
	38,241	35,204

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

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:

	Gross carrying amount RM'000	Gross amounts offset in the statement of financial position RM'000	Net amounts in the statement of financial position RM'000
31 December 2018			
Premiums	27,352	(9,428)	17,924
Commissions	1,923	(2,480)	(557)
Claims	26,120	-	26,120
	55,395	(11,908)	43,487
31 December 2017			
Premiums	35,529	(10,497)	25,032
Commissions	1,120	(2,552)	(1,432)
Claims	17,599	-	17,599
	54,248	(13,049)	41,199

11. DEFERRED ACQUISITION COSTS

	2018 RM'000	2017 RM'000
Deferred acquisition costs:		
At beginning of the financial year	30,834	29,760
Movement during the financial year (Note 22)	(1,707)	1,074
At end of the financial year	29,127	30,834
Deferred acquisition costs - reinsurance:		
At beginning of the financial year	(2,684)	(5,143)
Movement during the financial year (Note 22)	8	2,459
At end of the financial year	(2,676)	(2,684)

12. CASH AND SHORT TERM DEPOSITS

	2018 RM'000	2017 RM'000
Cash and bank balances	7,789	11,704
Short term deposits with licensed banks with original maturities of 3 months or less	2,027	18,761
Cash and cash equivalents	9,816	30,465

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

	2018		2017	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Ordinary shares:				
Issued and fully paid	100,000	100,000	100,000	100,000

14. OTHER RESERVES

	2018 RM'000	2017 RM'000
<u>Non-distributable</u>		
Asset revaluation reserve	19,382	20,802
AFS reserve	-	(1,087)
FVOCI reserve	(1,152)	-
	18,230	19,715

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

The AFS reserve at 31 December 2017 was RM1 mil upon adoption of MFRS 9 on 1 January 2018 as disclosed in Note 2(b)(i)(e).

15. RETAINED EARNINGS

The Company can distribute all of its retained earnings as at 31 December 2018 as single-tier dividends.

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16. INSURANCE CONTRACT LIABILITIES

	2018 Gross RM'000	2018 Re-insurance RM'000	2018 Net RM'000	2017 Gross RM'000	2017 Re-insurance RM'000	2017 Net RM'000
General insurance	931,073	(122,613)	808,460	1,031,252	(263,990)	767,262

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

	2018 Gross RM'000	2018 Re-insurance RM'000	2018 Net RM'000	2017 Gross RM'000	2017 Re-insurance RM'000	2017 Net RM'000
Provision for claims	429,047	(69,191)	359,856	491,890	(184,990)	306,900
Provision for incurred but not reported ("IBNR") claims	198,629	(27,936)	170,693	222,096	(54,326)	167,770
Claims liabilities (i)	627,676	(97,127)	530,549	713,986	(239,316)	474,670
Premium liabilities (iii)	303,397	(25,486)	277,911	317,266	(24,674)	292,592
	931,073	(122,613)	808,460	1,031,252	(263,990)	767,262

16. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(i) Claims liabilities

	2018			2017		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
At beginning of the financial year	713,986	(239,316)	474,670	540,564	(112,364)	428,200
Claims incurred for the current accident year (direct and facultative)	449,575	(38,765)	410,810	523,245	(171,284)	351,961
Adjustment to claims incurred in prior accident years (direct and facultative)	25,672	(5,932)	19,740	(11,160)	(1,506)	(12,666)
Claims incurred during the financial year (treaty inwards claims)	2,769	-	2,769	2,477	-	2,477
Movement in PRAD of claims liabilities at 75% confidence level	(13,930)	14,192	262	22,347	(16,453)	5,894
Movement in claims handling expenses	(1,781)	-	(1,781)	(2,256)	-	(2,256)
Claims paid during the financial year	(548,615)	172,694	(375,921)	(361,231)	62,291	(298,940)
At end of the financial year	627,676	(97,127)	530,549	713,986	(239,316)	474,670

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16. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Claims liabilities by class of business

	2018			2017		
	Motor RM'000	Non-motor RM'000	Total RM'000	Motor RM'000	Non-motor RM'000	Total RM'000
Gross claims liabilities	555,660	72,015	627,675	520,744	193,242	713,986
Reinsurance	(52,438)	(44,689)	(97,127)	(74,610)	(164,706)	(239,316)
Net claims liabilities	503,222	27,326	530,548	446,134	28,536	474,670

(iii) Premium liabilities

	2018			2017		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
At beginning of the financial year	317,266	(24,674)	292,592	303,778	(52,956)	250,822
Premiums written during the financial year	640,163	(75,857)	564,306	651,826	(95,672)	556,154
Premiums earned during the financial year	(654,032)	75,045	(578,987)	(638,338)	123,954	(514,384)
At end of the financial year	303,397	(25,486)	277,911	317,266	(24,674)	292,592

As at 31 December 2018, the insurance contract liabilities above include the Company's proportionate share of MMIP's claims and premium liabilities amounting to RM37,969,066 (2017: RM43,201,104) and RM2,978,011 (2017: RM3,719,105) respectively. The Company's net exposure arising from its participation in the Pool is detailed in Note 33.

17. INSURANCE PAYABLES

	2018 RM'000	2017 RM'000
Due to insurers, agents, brokers and co-insurers	13,115	11,993
Due to reinsurers and cedants	10,547	9,437
	23,662	21,430

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:

	Gross carrying amount RM'000	Gross amounts offset in the statement of financial position RM'000	Net amounts in the statement of financial position RM'000
31 December 2018			
Premiums	25,530	(2,372)	23,158
Commissions	477	(1,399)	(922)
Claims	1,796	(370)	1,426
	27,803	(4,141)	23,662
31 December 2017			
Premiums	29,140	(1,425)	27,715
Commissions	388	(3,775)	(3,387)
Claims	284	(3,182)	(2,898)
	29,812	(8,382)	21,430

18. OTHER PAYABLES

	2018 RM'000	2017 RM'000
Payroll liabilities	7,280	13,511
Defined contribution plan *	1,091	1,149
Unclaimed monies	1,400	1,054
Cash collaterals held on bond business	657	657
Stamp duty payable	712	855
MMIP collection payable	2,802	3,569
Profit commission payable	3,810	4,233
Interest on premium reserve	-	62
Tenant deposits	394	394
Termination benefits provision **	6,356	-
Accrued expenses	14,397	12,517
Other payables	9,523	4,994
	48,422	42,995

* 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 termination benefits provision relates to accruals in respect of eligible employees under the Voluntary Separation Scheme (VSS) that was executed by the Company during the 2018 financial year. This amount was fully paid in January 2019.

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

	2018 RM'000	2017 RM'000
AFS financial assets:		
Interest income from Malaysian government papers	-	6,238
Interest income from corporate debt securities	-	10,050
Net accretion of discounts	-	343
FVOCI financial assets:		
Interest income from Malaysian government papers	6,154	-
Interest income from corporate debt securities	8,480	-
Net accretion of discounts	608	-
Loans and receivables:		
Interest income from loans and receivables and cash and short term deposits	33,367	28,154
Rental income	1,551	1,674
Less: Rates and maintenance expenses	(1,177)	(1,343)
	48,983	45,116

20. REALISED LOSSES

	2018 RM'000	2017 RM'000
Realised losses for:		
- Property and equipment	(112)	-
- Foreign currency translation	(3)	(34)
	(115)	(34)

21. NET FAIR VALUE (LOSSES)/GAINS

	2018 RM'000	2017 RM'000
Fair value (losses)/gains on investment properties		
Leasehold land and building	(1,800)	(1,000)
Freehold land and building	(500)	1,500
	(2,300)	500

22. COMMISSION INCOME/(EXPENSE)

	2018 RM'000	2017 RM'000
Commission income:		
Commission income	15,755	24,472
Movement in deferred acquisition costs (Note 11)	8	2,459
	15,763	26,931
Commission expense:		
Commission expense	(67,339)	(69,884)
Movement in deferred acquisition costs (Note 11)	(1,707)	1,074
	(69,046)	(68,810)

23. OTHER OPERATING INCOME

	2018 RM'000	2017 RM'000
Gross servicing fees from MMIP	4,674	7,316
Less: Related management expenses including depreciation charge of RM95,710 (31.12.2017: RM102,155) (Note 24)	(2,823)	(4,857)
	1,851	2,459
Interest on deposits retained	18	689
Property and equipment written off (Note 4(a))	(43)	(130)
Others	2,609	6,704
	4,435	9,722

24. MANAGEMENT EXPENSES

	2018 RM'000	2017 RM'000
Staff costs:		
Salaries, bonus and allowance	45,280	50,620
Employees' Provident Fund	6,946	7,787
Defined Contribution Plan	97	498
Termination benefits	6,356	-
Other benefits	6,938	6,013
	65,617	64,918
Advertising	12,394	11,688
Directors' fees	461	434
Directors' allowances	129	134
Auditors’ remuneration:		
- Statutory audit fees	417	493
- Regulated-related fees	26	56
- Other services	-	55
Depreciation of property and equipment (Note 4(a))	3,138	3,242
Amortisation of intangible assets - software (Note 4(b))	1,055	1,174
EDP expenses	5,759	5,023
Postage and telephone	2,098	2,050

24. MANAGEMENT EXPENSES (CONTINUED)

	2018 RM'000	2017 RM'000
Printing and stationery	4,501	4,363
Rental of properties	1,165	1,138
Training expenses	3,291	2,626
Reimbursement of depreciation charge from MMIP (Note 23)	(96)	(102)
Write back of impairment allowance for insurance receivables	(472)	(10)
Impairment allowance for uncollectible service tax	1,351	-
Write-off/(recoveries) of bad debts	263	(299)
Fund management and professional fees	3,188	1,113
Entertainment	2,564	3,082
Credit card charges	7,102	7,168
Others	7,437	7,297
	55,771	50,725
Total management expenses	121,388	115,643

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

	2018 RM'000	2017 RM'000
Non-Executive Directors:		
- Fees	461	434
- Other emoluments	129	134
Total Directors' remuneration	590	568

	2018 Fees RM'000	Allowance RM'000	Total RM'000
Non-Executive Directors			
- YBhg. Dato' Haji Kamil Khalid Ariff	132	37	169
- Mr Keong Choon Keat	102	23	125
- YBhg. Dato' Lim Heen Peok	117	37	154
- Mdm Elsie Kok Yin Mei	110	32	142
Total Directors' remuneration	461	129	590

24. MANAGEMENT EXPENSES (CONTINUED)

	Fees RM'000	2017 Allowance RM'000	Total RM'000
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 Peok	111	40	151
- Mdm Elsie Kok Yin Mei	45	13	58
Total Directors' remuneration	434	134	568

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 as follows:

	2018 RM'000	2017 RM'000
Non-Executive Directors:		
RM50,001 - RM100,000	-	2
More than RM 100,000	4	3

The remuneration attributable to the Chief Executive Officer of the Company which is included in staff costs are: Salary RM1,000,008 (2017: RM1,332,420), Bonus RM nil (2017: RM1,664,347), Employees' Provident Fund Contribution RM217,608 (2017: RM479,494), Benefits-In-Kind RM47,483 (2017: RM31,150), Executive Partnership Program RM nil (2017: RM121,180) and Perquisites RM140,000 (2017: RM nil).

25. TAX EXPENSE

	2018 RM'000	2017 RM'000
Current tax:		
Current financial year	7,474	14,804
Over-provision in prior financial years	(919)	(880)
Tax refund arising from prior year of assessment	-	(944)
	6,555	12,980
Deferred tax (Note 8)	(1,601)	1,264
Tax expense	4,954	14,244

25. TAX EXPENSE (CONTINUED)

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

	2018 RM'000	2017 RM'000
Profit before taxation	23,519	66,756
Tax calculated at the statutory rate of 24%	5,644	16,021
Tax effect of:		
- expenses not deductible for tax purposes	229	47
Over-provision of tax in prior financial year	(919)	(880)
Tax refund arising from prior year of assessment	-	(944)
	4,954	14,244

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.

	2018 RM'000	2017 RM'000
Profit attributable to ordinary equity holders	18,565	52,512
Number of shares in issue	100,000	100,000
Basic earnings per share (sen)	18.57	52.51

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.

27. DIVIDENDS

	2018 RM'000	2017 RM'000
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	-	5,000

28. COMMITMENTS

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

	2018 RM'000	2017 RM'000
Authorised by the Directors and contracted for:		
- Property and equipment	326	415

(b) Operating lease commitments

(i) The Company as lessee

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

	2018 RM'000	2017 RM'000
Not later than 1 year	1,780	3,094
Later than 1 year and no later than 5 years	2,063	1,988
	3,843	5,082

28. COMMITMENTS (CONTINUED)

(b) Operating lease commitments (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:

	2018 RM'000	2017 RM'000
Not later than 1 year	971	1,641
Later than 1 year and no later than 3 years	423	986
	1,394	2,627

29. SIGNIFICANT RELATED PARTY DISCLOSURES

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

	2018 RM'000	2017 RM'000
Expenses/(income) :		
Transactions with non-controlling shareholder:		
Reinsurance ceded premium	1,592	1,921
Reinsurance commission received	(393)	(568)
Reinsurance claims recovery	(11,783)	(619)
Due from/(due to) :		
Balance with non-controlling shareholder:		
Reinsurance receivables	294	126
Reinsurance payables	(803)	-

29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

RELATED PARTY DISCLOSURES - LIBERTY GROUP

	2018 RM'000	2017 RM'000
Expenses/(income) :		
Transactions with Liberty Group Companies:		
Reinsurance ceded premium		
- Liberty Insurance Pte. Ltd, Singapore	6,880	5,549
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	5,735	509
- Liberty Mutual Insurance Co Boston	1,516	3,396
- Liberty (Lloyd's Syndicate 4472)	-	811
	14,131	10,265
Reinsurance commission received		
- Liberty Insurance Pte. Ltd, Singapore	(611)	(487)
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(810)	(46)
- Liberty Mutual Insurance Co Boston	(247)	(859)
- Liberty (Lloyd's Syndicate 4472)	-	(243)
	(1,668)	(1,635)
Reinsurance claims recovery		
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(11)	-
- Liberty Insurance Pte. Ltd, Singapore	(2,016)	(587)
- Liberty Mutual Insurance Co Boston	(11,795)	(2,207)
	(13,822)	(2,794)
EDP expenses		
- Liberty Mutual Insurance Company	641	749
	641	749
Staff salaries		
- Liberty Mutual Insurance Company	(675)	30
	(675)	30
Staff salaries and others		
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(580)	(138)
	(580)	(138)

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29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

RELATED PARTY DISCLOSURES - LIBERTY GROUP (CONTINUED)

	2018 RM'000	2017 RM'000
Due from/(due to) :		
Balances with Liberty Group comprises:		
Reinsurance receivables		
- Liberty Insurance Pte. Ltd, Singapore	5,995	5,527
- Liberty Mutual Insurance Co Boston	753	331
	6,748	5,858
Reinsurance payables		
- Liberty Insurance Pte. Ltd, Singapore	(1,217)	(442)
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	(224)	(354)
- Liberty Mutual Insurance Co Boston	(304)	-
	(1,745)	(796)
Other receivables		
- Liberty Mutual Insurance Company	512	212
- Liberty International Underwriters Pte Ltd. (Labuan Branch)	317	138
	829	350

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) and other receivables (Note 7)(b).

29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

RELATED PARTY DISCLOSURES - KEY MANAGEMENT PERSONNEL

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

	2018 RM'000	2017 RM'000
Fixed Remuneration:		
- Salaries	2,859	3,613
- Other allowance	162	218
- Employees' Provident Fund	449	658
	3,470	4,489
Variable Remuneration:		
- Bonus	925	1,361
- Employees' Provident Fund	140	216
Key management personnel (a)	4,535	6,066
Fixed Remuneration:		
- Fees	461	434
Variable Remuneration:		
- Allowance	129	134
Non Executive Directors' remuneration (Note 24) (b)	590	568
Fixed Remuneration:		
- Salaries	1,000	1,332
- Benefits-In-Kind	47	31
- Perquisites	140	-
- Employees' Provident Fund	218	213
	1,405	1,576
Variable Remuneration:		
- Bonus	-	1,664
- Executive Partnership Program	-	121
- Employees' Provident Fund	-	266
Chief Executive Officer (Note 24) (c)	1,405	3,627
Total key management personnel (a) + (b) + (c)	6,530	10,261

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.

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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 current financial year. A total of RM nil (2017: RM56,732) sign-on bonus had been awarded to a member of the Senior Management team during the current financial year.

30. FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at FVOCI RM'000	Financial assets at amortisation cost RM'000	Assets not in scope of MFRS 9 RM'000	Total RM'000
2018				
Assets				
Property and equipment	-	-	57,059	57,059
Intangible assets - software	-	-	1,897	1,897
Investment properties	-	-	52,228	52,228
Financial assets at FVOCI	367,776	-	-	367,776
Financial assets at amortised cost	-	923,764	818	924,582
Reinsurance assets	-	-	122,613	122,613
Insurance receivables	-	38,241	-	38,241
Tax recoverable	-	-	3,201	3,201
Deferred tax assets	-	-	123	123
Deferred acquisition costs	-	-	29,127	29,127
Cash and short term deposits	-	9,816	-	9,816
Total assets	367,776	971,821	267,066	1,606,663

	Other financial liabilities RM'000	Liabilities not in scope of MFRS 9 RM'000	Total RM'000
Liabilities			
Insurance contract liabilities	-	931,073	931,073
Deferred acquisition costs - reinsurances	-	2,676	2,676
Insurance payables	23,662	-	23,662
Other payables	46,937	1,485	48,422
Total liabilities	70,599	935,234	1,005,833

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30. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	AFS RM'000	LAR RM'000	Assets not in scope of MFRS 139 RM'000	Total RM'000
2017				
Assets				
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 recoverable	-	-	1,740	1,740
Deferred acquisition costs	-	-	30,834	30,834
Cash and short term deposits	-	30,465	-	30,465
Total assets	387,206	881,036	415,497	1,683,739

	Other financial liabilities RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000
Liabilities			
Insurance contract liabilities	-	1,031,252	1,031,252
Deferred acquisition costs - reinsurances	-	1,885	1,885
Insurance payables	-	2,684	2,684
Other payables	21,430	-	21,430
Tax liabilities	41,452	1,543	42,995
Total liabilities	62,882	1,037,364	1,100,246

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.

<u>Responsibilities</u>

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.

31. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Responsibilities (continued)

The Management, headed by the CEO, is supported in its role by the Enterprise-Wide Opportunity and Risk Management Committee of the Management ("EORMC-M"), comprising the CEO and Heads of Divisions. The EORMC-M assists the 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 Enterprise Risk Management & 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 adopted 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 the risks identified by the risk owners. Complementing this is the internal audit, which provides independent assurance of the effectiveness of the risk management approach and controls.

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

32. INSURANCE RISK

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

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. Insurance contracts transfer risk to the Company by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments may differ significantly from expectations.

The factors that contribute to the risks include fluctuations in timing, frequency and severity of claims, as well as the adequacy of premiums and reserves.

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

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.

32. INSURANCE RISK (CONTINUED)

- The Company has in place a claims management and control system to pay claims and control claims leakages and fraud. The Company has a claim review policy to access all new and ongoing claims as well as claims handling procedures. Investigations of suspected fraudulent claims are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

- The Company purchases reinsurance protection as part of its risks mitigation programme. The objectives are to provide sufficient capacity in underwriting business while protecting the Company's financial position and optimising its capital efficiency. Reinsurance is ceded on proportional and non-proportional basis. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. The selection of reinsurers on its treaty and facultative programmes are based on their security ratings and local regulatory requirements.

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32. INSURANCE RISK (CONTINUED)

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

	2018 Gross premiums RM'000	2018 Re-insurance premiums ceded RM'000	2018 Net premiums RM'000	2017 Gross premiums RM'000	2017 Re-insurance premiums ceded RM'000	2017 Net premiums RM'000
Motor	535,550	(16,795)	518,755	549,385	(35,602)	513,783
Fire	57,515	(32,037)	25,478	59,640	(36,298)	23,342
Marine, Aviation and Transit	4,350	(2,273)	2,077	4,368	(2,515)	1,853
Miscellaneous	42,748	(24,752)	17,996	38,433	(21,257)	17,176
	640,163	(75,857)	564,306	651,826	(95,672)	556,154

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

	2018 Gross RM'000	2018 Re-insurance RM'000	2018 Net RM'000	2017 Gross RM'000	2017 Re-insurance RM'000	2017 Net RM'000
Motor	807,776	(58,669)	749,107	793,556	(83,516)	710,040
Fire	54,115	(33,164)	20,951	175,123	(152,507)	22,616
Marine, Aviation and Transit	6,514	(3,537)	2,977	7,163	(3,957)	3,206
Miscellaneous	62,667	(27,243)	35,424	55,410	(24,010)	31,400
	931,072	(122,613)	808,459	1,031,252	(263,990)	767,262

32. INSURANCE RISK (CONTINUED)

Key assumptions

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

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

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

Sensitivity analysis

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

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

32. INSURANCE RISK (CONTINUED)

Sensitivities (continued)

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		←	Increase/(decrease)		→
2018					
Average claim cost	+10%	57,983	49,136	(49,136)	(37,343)
Average number of claims	+10%	53,161	40,650	(40,650)	(30,894)
Increase in Loss Ratio for AY 2018	Increased by 10% on Motor Act 1% on Motor Non-Act 10% on Non Motor	26,950	23,796	(23,796)	(18,085)
Claims Handling Expenses	+1%	3,040	3,030	(3,030)	(2,303)

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		←	Increase/(decrease)		→
2017					
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)

* Impact on equity reflects adjustments for tax, when applicable

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 2018:

Motor

Accident year	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year	169,686	182,101	197,354	195,867	219,795	247,814	280,641	318,255	
One year later	199,134	216,464	232,502	243,644	270,095	314,906	375,267		
Two years later	208,116	225,629	242,663	258,282	287,570	347,351			
Three years later	207,815	225,395	241,903	258,113	294,438				
Four years later	201,898	223,180	236,830	255,489					
Five years later	202,263	221,571	236,828						
Six years later	200,133	218,362							
Seven years later	199,320								
Current estimate of cumulative claims incurred	199,320	218,362	236,828	255,489	294,438	347,351	375,267	318,255	2,245,310

32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2018: (continued)

Motor (continued)

	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year	82,738	89,848	92,568	92,202	105,674	113,178	131,286	152,381	
One year later	157,070	170,560	187,118	187,320	199,911	232,889	274,710		
Two years later	184,615	199,282	213,401	224,259	250,057	302,229			
Three years later	193,002	210,676	223,120	238,710	271,579				
Four years later	195,116	214,715	227,920	244,926					
Five years later	197,185	216,621	231,375						
Six years later	199,111	217,284							
Seven years later	199,268								
Cumulative payments to-date	199,268	217,284	231,375	244,926	271,579	302,229	274,710	152,381	1,893,752

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32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2018: (continued)

Motor (continued)

Accident year	Before 2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Gross Motor insurance outstanding liabilities (direct and facultative)	583	52	1,078	5,453	10,563	22,859	45,122	100,557	165,874	352,141
Gross IBNR	-	-	(205)	(526)	-	-	3,453	35,751	89,498	127,971
Gross Motor insurance outstanding liabilities(treaty inwards)										31,735
Best estimates of claims liabilities										511,847
Claims handling expenses										5,434
PRAD at 75% confidence level										38,379
Gross Motor insurance contract claims liabilities per statement of financial position (Note 16 (ii))										555,660

32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2018: (continued)

Non-motor

Accident year	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year	34,669	34,161	23,634	28,115	33,493	29,644	135,376	37,396	
One year later	35,768	30,912	26,035	36,450	34,755	26,665	113,386		
Two years later	32,372	32,181	25,059	33,906	32,555	26,085			
Three years later	31,973	31,498	24,299	31,350	28,894				
Four years later	31,089	28,406	23,800	31,676					
Five years later	30,871	27,060	24,366						
Six years later	29,046	28,091							
Seven years later	28,779								
Current estimate of cumulative claims incurred	28,779	28,091	24,366	31,676	28,894	26,085	113,386	37,396	318,673

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32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2018: (continued)

Non-motor (continued)

	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year	11,705	7,282	6,953	10,834	9,991	12,158	11,697	17,320	
One year later	19,870	16,320	14,906	22,023	21,730	19,267	101,777		
Two years later	24,777	18,528	18,217	25,267	24,464	20,645			
Three years later	25,245	20,665	18,948	27,249	25,549				
Four years later	26,123	22,281	19,259	28,113					
Five years later	26,359	23,080	19,355						
Six years later	26,527	23,119							
Seven years later	26,713								
Cumulative payments to-date	26,713	23,119	19,355	28,113	25,549	20,645	101,777	17,320	262,591

32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2018: (continued)

Non-motor (continued)

Accident year	Before 2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Gross Non-Motor insurance outstanding liabilities (direct and facultative)	1,230	2,066	4,972	5,011	3,563	3,345	5,440	11,609	20,076	57,312
Gross IBNR	-	-	(9)	(27)	(7)	1	25	(87)	4,426	4,322
Gross Non-Motor insurance outstanding liabilities (treaty inwards)										1,204
Best estimates of claims liabilities										62,838
Claims handling expenses										254
PRAD at 75% confidence level										8,923
Gross Non-Motor insurance contract claims liabilities per statement of financial position (Note 16(ii))										72,015

32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2018

Motor

Accident year	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year	95,829	129,285	154,209	154,497	184,381	216,218	247,941	309,855	
One year later	110,928	150,294	179,753	190,464	225,552	270,119	325,024		
Two years later	115,579	157,150	185,140	200,808	239,787	292,829			
Three years later	115,782	156,785	184,713	200,589	244,178				
Four years later	112,911	155,248	180,516	197,910					
Five years later	112,538	153,798	180,630						
Six years later	111,710	150,591							
Seven years later	110,893								
Current estimate of cumulative claims incurred	110,893	150,591	180,630	197,910	244,178	292,829	325,024	309,855	1,811,910

32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2018: (continued)

Motor (continued)

	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year	44,803	61,303	71,664	72,210	88,167	98,982	115,369	148,590	
One year later	87,450	119,054	144,030	146,559	167,549	200,045	240,231		
Two years later	102,749	139,059	164,001	174,592	208,242	254,790			
Three years later	107,479	146,708	171,280	185,448	225,260				
Four years later	108,625	149,214	174,572	188,510					
Five years later	108,004	149,374	175,408						
Six years later	110,720	149,650							
Seven years later	110,844								
Cumulative payments to-date	110,844	149,650	175,408	188,510	225,260	254,790	240,231	148,590	1,493,283

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32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2018: (continued)

Motor (continued)

Accident year	Before 2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Net Motor insurance outstanding liabilities (direct and facultative)	488	49	941	5,222	9,400	18,918	38,039	84,793	161,265	319,115
Net IBNR	-	-	(218)	(556)	(161)	492	3,418	29,077	81,253	113,305
Net Motor insurance outstanding liabilities (treaty inward)										31,735
Best estimates of claims liabilities										464,155
Claims handling expenses										5,434
PRAD at 75% confidence level										33,633
Net Motor insurance contract claims liabilities per statement of financial position (Note 16(ii))										503,222

32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2018:

Non-motor

Accident year	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**	**2014 RM'000**	**2015 RM'000**	**2016 RM'000**	**2017 RM'000**	**2018 RM'000**	**Total RM'000**
At end of accident year	15,128	15,400	12,431	14,351	16,383	16,282	17,382	18,381	
One year later	14,589	13,819	13,980	16,417	16,772	16,346	18,052		
Two years later	13,469	13,976	13,665	16,411	15,913	15,819			
Three years later	13,156	13,848	13,397	14,843	16,168				
Four years later	12,834	13,300	13,109	14,811					
Five years later	12,808	12,793	13,085						
Six years later	12,245	12,511							
Seven years later	12,124								
Current estimate of cumulative claims incurred	12,124	12,511	13,085	14,811	16,168	15,819	18,052	18,381	120,951

32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2018: (continued)

Non-motor (continued)

	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year	5,414	6,163	5,489	6,810	7,910	8,950	8,731	9,571	
One year later	10,211	10,053	9,693	12,043	12,717	12,775	14,570		
Two years later	11,438	10,979	11,113	12,815	13,750	13,252			
Three years later	11,632	11,667	11,678	12,878	14,386				
Four years later	11,770	11,641	11,874	13,578					
Five years later	11,822	11,699	11,887						
Six years later	11,846	11,697							
Seven years later	11,892								
Cumulative payments to-date	11,892	11,697	11,887	13,578	14,386	13,252	14,570	9,571	100,833

32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2018: (continued)

Non-motor (continued)

Accident year	Before 2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Net Non-Motor insurance outstanding liabilities (direct and facultative)	1,028	232	814	1,198	1,233	1,782	2,567	3,482	8,810	21,146
Net IBNR	-	-	11	25	7	105	31	82	1,323	1,584
Net Non-Motor insurance outstanding liabilities (treaty inwards)										1,204
Best estimates of claims liabilities										23,934
Claims handling expenses										254
PRAD at 75% confidence level										3,138
Net Non-Motor insurance contract claims liabilities per statement of financial position (Note 16(ii))										27,326

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32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2017:

<u>Motor</u>

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	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	205,120	200,133	221,571	236,830	258,113	287,570	314,906	280,641	2,004,884

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32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2017: (continued)

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	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	205,055	199,111	216,621	227,920	238,710	250,057	232,889	131,286	1,701,649

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 (Note 16 (ii)).										520,744

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32. INSURANCE RISK (CONTINUED)

Gross claims liabilities for 31 December 2017 (continued):

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	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	40,270	29,046	27,060	23,800	31,350	32,555	26,665	135,376	346,122

32. INSURANCE RISK (CONTINUED)

Gross 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	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	39,314	26,527	23,080	19,259	27,249	24,464	19,267	11,697	190,857

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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	5,636	5,768
Gross Non-Motor insurance outstanding liabilities (treaty inwards)										1,569
Best estimates of claims liabilities										170,617
Claims handling expenses										389
PRAD at 75% confidence level										22,236
Gross Non-Motor insurance contract claims liabilities per statement of financial position (Note 16 (ii)).										193,242

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32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2017

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	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	168,143	111,710	153,798	180,516	200,589	239,787	270,119	247,941	1,572,603

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32. INSURANCE RISK (CONTINUED)

Net claims liabilities for 31 December 2017: (continued)

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	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	168,080	110,720	149,374	174,572	185,448	208,242	200,045	115,369	1,311,850

32. INSURANCE RISK (CONTINUED)

Net 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
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 (Note 16 (ii)).										446,134

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	17,431	12,245	12,793	13,109	14,843	15,913	16,346	17,382	120,062

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

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										389
PRAD at 75% confidence level										3,171
Net Non-Motor insurance contract claims liabilities per statement of financial position (Note 16 (ii)).										28,536

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.

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:.

	2018 RM'000	2017 RM'000
Available-for-sale financial assets :		
Malaysian government papers	-	172,496
Unquoted debt securities	-	214,685
FVOCI financial assets :		
Malaysian government papers	161,393	-
Unquoted debt securities	206,353	-
Reinsurance assets - excluding premium liabilities	97,127	239,316
Loans and receivables - excluding prepayments	-	815,367
Financial assets at amortised cost, excluding deposits and prepayments	922,815	-
Insurance receivables	38,241	35,204
Cash and short term deposits	9,816	30,465
	1,435,745	1,507,533

33. FINANCIAL RISK (CONTINUED)

(ii) Credit exposure by credit quality

The table below sets out the credit quality of financial assets measured at FVOCI.

2018	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Financial assets at FVOCI				
Malaysian government papers (government guaranteed)	161,393	-	-	161,393
Unquoted debt securities (government guaranteed)	33,708	-	-	33,708
Unquoted debt securities (AA to AAA)	172,645	-	-	172,645
	367,746	-	-	367,746

No comparative numbers are presented as MFRS 9 is adopted on 1 January 2018.
The ratings above is based on ratings obtained from Rating Agency Malaysia ("RAM") or Malaysian Rating Corporation Berhad's ("MARC").

Set out below is the information about the credit risk exposure on the Company's insurance receivables, using a provision matrix:

	Days past due				
	< 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	More than 90 days* RM'000	Total RM'000
31 December 2018	8,465	4,330	3,727	21,719	38,241
Expected credit loss rate	1%	1%	1%	19%	12%
Gross carrying amount					
- insurance receivables	8,512	4,364	3,766	26,845	43,487
Allowance for ECL	(47)	(34)	(39)	(5,126)	(5,246)

33. FINANCIAL RISK (CONTINUED)

(ii) Credit exposure by credit quality (continued)

	Days past due				
	< 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	More than 90 days* RM'000	Total RM'000
1 January 2018	10,492	5,530	5,085	14,097	35,204
Expected credit loss rate	2%	3%	5%	27%	14%
Gross carrying amount					
- insurance receivables	10,655	5,691	5,359	19,217	40,922
Allowance for ECL	(163)	(161)	(274)	(5,120)	(5,718)

* Included in these balances are credit impaired gross receivables amounting to RM3,298,584 (1 January 2018 : RM3,694,319) and ECL allowance of RM2,594,635 (1 January 2018 : RM3,757,794).

The table below provides information regarding the credit analysis 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.

2018	Government Guaranteed RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	B RM'000	Unrated RM'000	Total RM'000
FVOCI financial assets:								
Malaysian government papers	161,393	-	-	-	-	-	-	161,393
Unquoted debt securities	33,708	126,956	45,689	-	-	-	-	206,353
Reinsurance assets, excluding premium liabilities	-	84,001	745	11,625	-	-	756	97,127
Financial assets at amortised cost, excluding deposits and prepayments	-	574,960	217,027	16,068	-	-	114,760	922,815
Insurance receivables	-	1,396	7,735	14,031	4	-	15,075	38,241
Cash and short term deposits	-	7,598	-	131	-	-	2,087	9,816
	195,101	794,911	271,196	41,855	4	-	132,678	1,435,745

33. FINANCIAL RISK (CONTINUED)

(ii) Credit exposure by credit quality (continued)

	Neither past due nor impaired/ investment grade RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Total RM'000
2017				
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	10,611	24,593	5,995	41,199
Cash and short term deposits	30,465	-	-	30,465
	1,482,940	24,593	5,995	1,513,528
Allowance for impairment	-	-	(5,995)	(5,995)
	1,482,940	24,593	-	1,507,533

33. FINANCIAL RISK (CONTINUED)

(ii) Credit exposure by credit quality (continued)

	Government Guaranteed RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	B RM'000	Unrated RM'000	Total RM'000
2017								
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	-	1,991	6,448	9,451	16	-	17,298	35,204
Cash and short term deposits	-	11,365	-	4,205	-	-	14,895	30,465
	205,017	692,025	208,955	291,988	16	25	111,247	1,509,273

33. FINANCIAL RISK (CONTINUED)

(iii) Amounts arising from Expected Credit Loss ("ECL")

Measurement of ECL – Explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (“PD”)
- Loss given default (“LGD”) and
- Exposure at default (“EAD”)

These parameters are derived from internally developed statistical models as developed by the Company based on historical data. They are adjusted to reflect forward-looking information.

PD represents the likelihood of a borrower defaulting on its financial obligation at the time of default, either over the next 12 months (12M PD), or over the remaining lifetime ('Lifetime PD') of the obligation. They are estimates at a certain date, which are calculated based on statistical models. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors.

If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. The ECL considers the contractual maturities of exposure.

LGD is the magnitude of the likely loss if there is a default. LGD is expressed as a percentage per loss per unit of exposure at the time of default and varies by type and seniority of claims, availability of collateral, geographical location and industry of borrower and existing market conditions. They are estimates at a certain date, which are calculated based on statistical models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty, including amortisation schedules. The EAD of a financial asset is its gross carrying amount.

The ECL is determined by projecting PD, LGD and EAD for each individual exposure. These three components are multiplied together and adjusted for forward-looking information. This is then discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

33. FINANCIAL RISK (CONTINUED)

(iii) Amounts arising from Expected Credit Loss ("ECL") (continued)

Measurement of ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The insurance receivables and other receivables are in scope for ECL impairment provisions using the simplified approach under MFRS 9 of which a lifetime ECL is recognised for all debts.

Significant increase in credit risk

For debt instruments at fair value through OCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment categories (rated AA and above) by Rating Agency of Malaysia (RAM) and Malaysian Rating Corporation (MARC) and, therefore, are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination whereby an investment grade bond (BBB and above) falls under a non-investment grade bond (below BBB), the allowance will be based on the lifetime ECL. The Company uses ratings from RAM and MARC to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

ECLs are recognised in two measurement bases. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

33. FINANCIAL RISK (CONTINUED)

(iii) Amounts arising from Expected Credit Loss ("ECL") (continued)

Definition of default

<u>Qualitative criteria</u>

For insurance receivables, the counterparty fails to make contractual payments within 12 months when they fall due, which are derived based on the Company's historical information. For bonds and loans, the instrument is in overdue status and there are non-payments on another debt obligation of the same issuer to the Company.

The counterparty is in bankruptcy or has indications of potentially significant financial difficulty such as lawsuits or similar actions that threaten the financial viability of the counterparty; distressed exchange, merger or amalgamation without assumption, restructuring with expected principal haircut or a breach in material loan covenant that is not rectified within a given timeframe.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company's expected loss calculations.

Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company has performed historical analysis and identified key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Experienced judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are obtained from publicly available economic databases published on a quarterly basis and provide the best estimate view of the economy over the next four to five years, after which, to project the economic variables for the full remaining lifetime of each instrument, a mean reversion approach is used. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and the components of LGD and EAD.

33. FINANCIAL RISK (CONTINUED)

(iii) Amounts arising from Expected Credit Loss ("ECL") (continued)

Incorporation of forward looking information (continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and the actual outcomes may be significantly different from those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The sensitivity of the ECL to the economic variable assumptions affecting the calculation of ECL was not material to the Company for the year ended 31 December 2018.

33. FINANCIAL RISK (CONTINUED)

(iii) Amounts arising from Expected Credit Loss ("ECL") (continued)

Incorporation of forward looking information (continued)

The following table show the reconciliations from opening to the closing balance of the loss allowance. Comparative amounts for 2017 represent the allowance amount for credit losses and reflect measurement basis under MFRS 139.

(a) Financial assets at FVOCI

	2018			
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
At 31 December 2017 (as previously stated)	-	-	-	-
Effect of adopting MFRS 9	20	-	-	20
At 1 January 2018 (as restated)	20	-	-	20
New financial asset purchased	4	-	-	4
Financial assets that has been derecognised	(9)	-	-	(9)
At 31 December	15	-	-	15

(b) Financial assets at amortised cost

	2018		2017
Insurance receivables	Credit impaired RM'000	Not credit impaired RM'000	Total RM'000
At 1 January 2018 (as previously stated) /1 January 2017	3,758	2,237	6,005
Effect of adopting MFRS 9	-	(277)	-
At 1 January 2018 (as previously stated) /1 January 2017	3,758	1,960	6,005
Loss allowance			
- Individual impairment	(1,691)	-	(171)
- Collective impairment	531	688	161
At 31 December	2,598	2,648	5,995

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.

33. FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

2018	Carrying value RM'000	Up to a year* RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
FVOCI financial assets:							
Malaysian government papers	161,393	15,888	88,854	73,323	-	-	178,065
Unquoted equity security in Malaysia	30	-	-	-	-	30	30
Unquoted debt securities	206,353	48,059	56,140	69,584	62,358	-	236,141
Reinsurance assets, excluding premium liabilities	97,126	24,627	61,073	8,680	2,747	-	97,127
Financial assets at amortised cost, excluding deposits and prepayments	922,815	848,423	20,194	-	54,198	-	922,815
Insurance receivables	38,241	38,241	-	-	-	-	38,241
Cash and cash equivalents	9,816	9,816	-	-	-	-	9,816
Total financial assets	1,435,774	985,054	226,261	151,587	119,303	30	1,482,235
Claims liabilities	627,676	340,427	250,925	30,768	5,555	-	627,675
Insurance payables	23,662	23,662	-	-	-	-	23,662
Other payables	48,422	47,748	636	38	-	-	48,422
Total financial liabilities	699,760	411,837	251,561	30,806	5,555	-	699,759

33. FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

2017	Carrying value RM'000	Up to a year* RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
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	35,204	35,204	-	-	-	-	35,204
Cash and cash equivalents	30,465	30,465	-	-	-	-	30,465
Total financial assets	1,507,558	984,867	237,854	164,895	179,493	25	1,567,134
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
Total financial liabilities	778,411	456,063	232,652	60,862	28,834	-	778,411

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

33. FINANCIAL RISK (CONTINUED)

Included in other receivables and other payables is the Company's proportionate share in the assets and liabilities held under MMIP as disclosed in Note 7 and Note 18. The Company's proportionate 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 proportionate 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 proportionate share in the net assets held under the MMIP as at 31 December 2018:

	2018 RM'000	2017 RM'000
Assets/(Liabilities):		
Assets:		
- Accumulated cash contributions to MMIP	31,506	25,359
- Other assets	22,691	35,539
Total Assets (Note 7)	54,197	60,898
Liabilities		
- Other payables	(2,802)	(3,569)
Total Liabilities (Note 18)	(2,802)	(3,569)
Net assets held under MMIP	51,395	57,329
Insurance contract liabilities (Note 16)		
- Claim liabilities	(37,969)	(43,201)
- Premium liabilities	(2,978)	(3,719)
	(40,947)	(46,920)
Net assets after insurance contract liabilities	10,448	10,409

Market risk

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

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).

	2018		2017	
	Impact on PBT RM'000	Impact on Equity* RM'000	Impact on PBT RM'000	Impact on Equity* RM'000
Change in Variable	←	(Decrease)/Increase		→
Interest Rate +50bps	-	(3,927)	-	(5,030)
Interest Rate -50bps	-	4,013	-	5,157

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

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 2018 and 2017, the Company has a capital adequacy ratio in excess of the minimum requirement.

34. REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

The capital structure of the Company as at 31 December 2018, and the comparative, as prescribed under the RBC Framework is provided below:

	2018 RM'000	2017 RM'000
Eligible Tier 1 Capital:		
Share capital (paid up)	100,000	100,000
Retained earnings	482,600	463,778
	582,600	563,778
Tier 2 Capital:		
Asset revaluation reserve	19,382	20,802
AFS reserve	-	(1,087)
FVOCI reserve	(1,152)	-
	18,230	19,715
Amounts deducted from capital	(11,283)	(11,185)
Total capital available	589,547	572,308

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") 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’s de novo case proceeded and was completed for the Company on 19 and 20 February 2019. MyCC has fixed now the 13 and 14 May 2019 and 17 and 18 June 2019 as the oral representation dates for the other 18 insurers and PIAM. BNM has been granted a date on 13 May 2019 to address the MyCC as a third party in a partly closed session. Counsel has advised the Company that due to the other 18 insurers having further sessions on the above dates, any final finding of infringement or non-infringement by MyCC will not likely take place until sometime after 18 June 2019. Based on current status of the case the Directors maintain that there is no liability or contingent liability to the Company.

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