Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2016

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the Group and Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

FINANCIAL RESULTS

	Group RM	Company RM
Net profit for the financial year	21,575,130	21,307,804

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

In the opinion of the Directors, the results of the operations of the Group and Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than Koperasi MCIS Berhad exercised and took up 15% equity interest in the company as disclosed in Note 33 to the financial statements.

DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2016.

DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

Dato' Huang Sin Cheng
Sammy Chan Sum Yu
Datuk Abu Hassan bin Kendut
Abdullah bin Tarmugi
Zainul Abidin bin Mohamed Rasheed
Hashim bin Harun

Pursuant to the Companies' Act 2016, there is no age limit for directors. Accordingly, Dato' Huang Sin Cheng, Datuk Abu Hassan bin Kendut and Mr Abdullah bin Tarmugi, who were re-appointed as Directors of the Company under the resolutions passed pursuant to Section 129 of the Companies' Act, 1965 (which was then in force) at the 33rd Annual General Meeting of the Company deemed held on 29 June 2016, will be re-appointed to continue to act as Directors of the Company from the date of the forthcoming Annual General Meeting to be held in the year 2017 and shall be subject to retirement by rotation, if deemed appropriate.

In accordance with Article 65 of the Company's Constitution, Dato' Huang Sin Cheng and Mr Sammy Chan Sum Yu will retire at the forthcoming Annual General Meeting and they being eligible, offer themselves for re-election.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Notes 22 and 28 to the financial statements and the financial statements of its related corporations or the fixed salary and benefits of a full-time employee of the holding company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, the interest of a Director in office at the end of the financial year in shares and options in the Company and its related corporations during the financial year was as follows:

	Holdings registered in name of a Director			
	01.01.2016	Acquired	Exercised	31.12.2016
Ultimate Holding Company - Fairfax Financial Holdings Limited ("FFHL")				
(Common or Subordinate voting shares of no par value each)				
Sammy Chan Sum Yu	25,863	-	-	25,863

Other than as disclosed, none of the Directors in office at the end of the financial year had any interest in shares and in options in the Company or its related corporations during the financial year.

DIRECTORS' REMUNERATION

	Group	Company
	RM	RM
Directors' fees	400,200	400,200
Indemnity given or insurance effected for any Director and officer	22,743	22,743
	422,943	422,943

Details of Directors' remuneration are set out in Note 22(b) to the financial statements.

CORPORATE GOVERNANCE

The memberships, roles and terms of reference of the Audit, Risk Management, Nominating and Remuneration Committees of the Board during the financial year are as follows:

(a) Board Responsibility and Oversight

Board Responsibility

The Board is committed to ensure that the highest standards of corporate governance are observed in the Company so that the affairs of the Company are conducted with professionalism, accountability and integrity with the objective of enhancing shareholders' value as well as safeguarding the interests of other stakeholders.

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines, BNM/RH/PD 029-9 on Corporate Governance. The Company has complied with the prescriptive applications and adopted management practices that are consistent with these guidelines.

The Board has overall responsibility for the strategic direction and development plans in furthering the achievements of the Company. The Board meets regularly and has a formal schedule of matters specifically reserved for its consideration and approval, which includes the annual business and strategic plans, business operations, financial performance, risk management, investment, as well as compliance requirements under the Risk-Based Capital Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers. The Board's approval is also sought for transactions by the Company on outsourcing of certain business functions, major acquisition and disposal of assets, as well as material related party transactions. In addition, the Board also reviews the Company's investment risk management and reinsurance practices and approves the authority levels for the Company's core functions, including expenditure approving, risk acceptance and claims approval.

The Company provides an orientation training programme for the newly appointed Directors. The training serves to familiarise the newly appointed Directors with the Malaysian general insurance industry as well as the Company's operations, compliance controls, risk overview and corporate governance practices. On an ongoing basis, the Directors are kept informed through relevant training programmes and briefings to assist them to keep abreast with developments in the market place. The Directors are also updated with the policy and administrative changes as well as new guidelines issued by BNM and relevant professional bodies.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Composition and Meetings

On a yearly basis, the Directors are subject to an internal declaration to review their status of compliance with BNM/RH/GL 018-5 on Fit and Proper Criteria, BNM/RH/PD 029-9 on Corporate Governance and Section 60 of the Financial Services Act 2013 on the fulfilment of the minimum criteria of a "fit and proper person". In accordance with Section 54 of the Financial Services Act, 2013, all Directors are appointed and reappointed to the Board after prior approval has been obtained from BNM. All Directors comply with the prescribed maximum number of directorships held and none of them are active politicians.

The Directors are persons of calibre, credibility and integrity. Collectively they bring with them a wide range of business and management experience, skills and specialised knowledge that are required to lead and oversee the affairs of the Company.

The Company's Board of Directors as at 31 December 2016 consists of six (6) Directors as set out below:

Members	Status of Directorship
Dato' Huang Sin Cheng	Independent Non-Executive Director, Chairman
Sammy Chan Sum Yu*	Non-Independent Executive Director
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director
Hashim bin Harun	Independent Non-Executive Director

* Sammy Chan Sum Yu has been redesignated as an Executive Director of the Company, on 24 March 2017.

(a) Board Responsibility and Oversight

The Board met six (6) times during the financial year and the details of the Directors' attendance are as follows:

	Number of Board Meetings	
Name	Attended	Percentage (%)
Dato' Huang Sin Cheng	6/6	100
Sammy Chan Sum Yu	6/6	100
Datuk Abu Hassan bin Kendut	6/6	100
Abdullah bin Tarmugi	6/6	100
Zainul Abidin bin Mohamed Rasheed	5/6	83.3
Hashim bin Harun	6/6	100

The Board members are provided with adequate and timely information and reports, including background explanatory information, on matters brought before the Board. All the Directors have full and unrestricted access to all information and records of the Company as well as services and advice of the Company Secretary and the senior management of the Company to assist them in discharging their duties and responsibilities.

Board Committees

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees, namely the Audit Committee and Risk Management Committee which operate within clearly defined terms of reference. The Committees report to the Board on matters discussed at their meetings and make recommendations on items that require the Board's approval.

(i) Audit Committee

The Audit Committee ("AC") comprises three (3) members who are independent non-executive directors. The composition of the committee is as follows:

Members:	Status of Directorship
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director, Chairman
Abdullah bin Tarmugi	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director

The AC met four (4) times during the financial year and the details of the members' attendance are as follows:

	Number of Meetings	
Name	Attended	Percentage (%)
Datuk Abu Hassan bin Kendut	4/4	100
Abdullah bin Tarmugi	4/4	100
Zainul Abidin bin Mohamed Rasheed	3/4	75

The AC's terms of reference are in compliance with BNM/RH/PD 029-9 on Corporate Governance. The AC has independent access to the Company's internal auditors, external auditors and management to enable it to discharge its functions, which include the reinforcement of the independence and objectivity of the internal and external audit functions and their scope of work and results. The AC reviewed the findings of the internal/external auditors and those of the examiners from BNM, as well as the management's responses and actions taken to address the findings. The AC also reviewed, inter-alia, the Company's financial statements, the impact of new or proposed changes in accounting standards and policies on the financial statements and the maintenance of a sound system of internal control to safeguard shareholders' investment and the Company's assets. Besides reviewing and approving the annual Audit Plan, the AC also evaluated the effectiveness, independence and objectivity of the external auditors before recommending to the shareholders on the former's appointment or reappointment.

CORPORATE GOVERNANCE (CONTINUED)

(ii) Risk Management Committee

The Risk Management Committee ("RMC") supports the Board in the overall risk management oversight of the Company and comprises three (3) members who are independent non-executive directors. The composition of the committee is as follows:

Members:	Status of Directorship
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Sammy Chan Sum Yu*	Non-Independent Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director

* Sammy Chan Sum Yu ceased to be a RMC Member following his redesignation as Executive Director on 24 March 2017.

The RMC met four (4) times during the financial year and the details of the members' attendance are as follows:

	Number of Meetings	
Name	Attended	Percentage (%)
Zainul Abidin bin Mohamed Rasheed	3/4	75
Dato' Huang Sin Cheng	4/4	100
Sammy Chan Sum Yu *	4/4	100
Abdullah bin Tarmugi	4/4	100

BNM's Guidelines BNM/RH/PD 029-9 on Corporate Governance requires the RMC to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively. During the financial year 2016, the RMC reviewed periodic management reports on risk exposure, risk portfolio and management strategies, mitigation plans and control measures ensuring adequacy of infrastructure, resources and systems for effective risk management, assessing adequacy of policies and framework for identifying, measuring, monitoring and controlling risks, as well as reviewing the extent to which these are operating effectively. The RMC was also involved in the review of requirements under the Risk-Based Capital Framework and Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers in relation to the Company's capital management plan, internal target capital level and results of periodic stress test. The Company had successfully implemented the Risk-Based Capital Framework since 2009 and the ICAAP on 1 September 2012 with a capital adequacy ratio well above the internal and supervisory capital targets.

Nomination and Remuneration Committees

The terms of reference of both Nomination Committee ("NC") and Remuneration Committee ("RC") are in compliance with the guidelines on the functions and responsibilities of the committees for insurers issued under BNM's Guidelines BNM/RH/PD 029-9 on Corporate Governance.

(i) Nomination Committee

The NC comprises three (3) members who are independent non-executive directors and one (1) member who is a non-independent executive director. The composition of the committee is as follows:

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

(i) Nomination Committee (cont'd)

Members:	Status of Directorship
Zainul Abidin bin Mohamed Rasheed	Independent Non-Executive Director, Chairman
Dato' Huang Sin Cheng	Independent Non-Executive Director
Sammy Chan Sum Yu	Non-Independent Executive Director
Abdullah bin Tarmugi	Independent Non-Executive Director

The NC met once during the financial year and the details of the members' attendance are as follows:

	Number of Meetings	
Name	Attended	Percentage (%)
Zainul Abidin bin Mohamed Rasheed	1/1	100
Dato' Huang Sin Cheng	1/1	100
Sammy Chan Sum Yu	1/1	100
Abdullah bin Tarmugi	1/1	100

The NC is entrusted with the responsibility to consider and evaluate the appointment of new directors and directors to sit on Board Committees of the Company and to recommend candidates to the Board for appointment and reappointment or re-election. The committee is also responsible to recommend to the Board the appointment of the chief executive officer and key senior officers of the Company.

With regards to retiring directors, the NC reviewed the suitability and competencies and contributions of directors for re-election and reappointment before recommending them to the Board for approval and subsequently to the shareholders for approval at the Annual General Meeting.

The NC also annually reviews the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. It also assesses on an annual basis, the effectiveness of the Board as a whole and the Board Committees and the contributions of each individual director. In addition, the NC deliberated on Board succession plans as and when appropriate.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(ii) Remuneration Committee

The RC comprises two (2) members who are independent non-executive directors. The composition of the committee is as follows:

Members:	Status of Directorship
Abdullah bin Tarmugi	Independent Non-Executive Director, Chairman
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Sammy Chan Sum Yu *	Non-Independent Executive Director

* Sammy Chan Sum Yu ceased to be a RC Member following his redesignation as Executive Director on 24 March 2017.

The RC met once during the financial year and the details of the members' attendance of the members' are as follows:

	Number of Meetings	
Name	Attended	Percentage (%)
Abdullah bin Tarmugi	1/1	100
Datuk Abu Hassan bin Kendut	1/1	100
Sammy Chan Sum Yu *	1/1	100

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate the Directors, chief executive officer and key senior officers of the quality required to manage the Company. In this respect, the RC reviewed and approved the remuneration packages of the Directors, Chief Executive Officer and key senior officers of the Company.

(b) Management Accountability

The Company has an organisational structure with clearly communicated defined lines of accountability and delegated authority to ensure proper identification of responsibilities and segregation of duties. The operational authority limits covering all aspects of operations which include underwriting, claims and finance are reviewed and updated as appropriate. Clearly documented job descriptions for all management and executive employees are maintained while formal appraisals of performance are conducted at least once annually. Any changes to the organisational structure are communicated to all staff.

The Directors, Chief Executive Officer and key senior officers of the Company responsible for processing credit facilities do not have any direct or indirect interest in the facilities, in accordance to the provisions of the Financial Services Act, 2013.

The Directors who hold office or possess property do not have any direct or indirect interest, which is in conflict with their duty or interest as Directors, as referred to in Section 58 of the Financial Services Act, 2013.

(c) Corporate Independence

The Company has met all the requirements of BNM's Guidelines BNM/RH/GL 018-6 on Related Party Transactions. Other than the provision of financial services which are on normal commercial terms and in the ordinary course of business, all material related party transactions have been disclosed in the audited financial statements in accordance with MFRS124 Related Party Disclosures.

(d) Internal Controls and Operational Risk Management

The Board has the overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company in order to provide reasonable assurance for effective and efficient operations, internal financial controls and compliance with laws and regulations. There is a continuous process present for identifying, evaluating and managing the significant risks faced by the Company. This process is periodically reviewed by the RMC and the Board.

A formal risk management framework has been maintained in the Company by the Risk Management Department ("RMD") which was headed by the Risk Management cum Compliance Officer. The RMD reports directly and independently to the RMC of the Company.

During the financial year, the following risk management initiatives were undertaken by the RMD:

(i) On a quarterly basis, the RMD reviewed the risks identified and reported its risk assessment results to the RMC and the Board for consideration.

(ii) The RMD assessed and identified from time to time, the significant risks faced by the Company such as business strategic risks and operational risks, which included areas related to regulatory and compliance issues, financial, underwriting and claims risks and business continuity plan. The mitigating plans and control measures were formulated and implemented to address these risks and were monitored in terms of their timeliness and effectiveness. In addition, the RMD also considered the target dates for possible improvement in the risk rating, while working towards them with the appropriate follow-up of action plans.

(iii) The RMD maintained an updated database of all risks and controls in the form of detailed risk registers and individual risk profiles for the Company. The likelihood of the key risks occurring and their impact are periodically monitored and rated.

The disclosure of the Company's risk management policies are set out under Notes 29, 30 and 31 to the financial statements.

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company:

(i) The Business Resumption and Contingency Plan Committee is tasked to prepare, review and periodically test the effectiveness of the Company's business continuity plan (BCP) to support critical business functions in the event of a disruption to the operations. It also has in place an IT Disaster Recovery Plan (ITDRP) which aims to ensure that disruptions to IT operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had tested the BCP and the ITDRP last year, with observation by the internal audit team.

CORPORATE GOVERNANCE (CONTINUED)

(d) Internal Controls and Operational Risk Management (continued)

(ii) The Information Technology Steering Committee ("ITSC") has the responsibility to monitor the overall efficiency, performance and effectiveness of IT services. The IT plans formulated during the financial year included the short-term and long-term IT plans which are aligned to the business strategy of the Company.

(iii) The Anti-Money Laundering and Counter-Financing of Terrorism ("AML/CFT") – Management Committee comprising the Chief Executive Officer, Compliance Officers at the Head Office as well as Branches, and key senior officers of the Company manages the risk and areas related to AML/CFT. The Company is also leveraging on IT as a tool to facilitate the detection of suspicious transactions.

The Company has in place an AML/CFT Framework in accordance with the relevant BNM guidelines and the Anti-Money Laundering, Anti-Terrorism Financing Act and Proceeds of Unlawful Activities Act 2001 to prevent the Company from being used as a channel to launder funds in the financial system. By a Technical Notice dated 14.7.2016 BNM had significantly scaled down the requirement of general insurers to monitor risks relating to AML/CFT.

(iv) The Credit Control Committee reviews credit risk, recoverability of trade receivables and reconciliation of accounts with third parties as well as studies the requirements of Malaysian Financial Reporting Standards, International Financial Reporting Standards pertaining to credit risk and makes recommendations on its compliance. The committee also considers and implements appropriate measures to improve existing credit control procedures and practices.

(v) The Company established the Pricing Steering Committee to address the challenges of the detariffication for motor and fire. The Company proposes to increase the scope of the Pricing Steering Committee to a Pricing and Product Steering Committee to include the review of existing products and undertake the planning, design and development of new products, against the prevailing BNM guidelines, e.g.. BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure. All newly developed products are submitted to the Board for approval and where appropriate to BNM for approval.

(vi) The Company is Goods and Service Tax ("GST") registered and in compliant with the GST Act effective 1 April 2015.

(vii) The Occupational Safety and Health Management Committee is committed to provide a working environment that emphasises on the safety and health of the employees. The Company develops and adopts relevant policies and applicable best practices to improve the standard of safety and health environment of the Company.

The Company operates in a highly regulated business environment that is subject to prudential and supervisory review by Bank Negara Malaysia and Persatuan Insuran Am Malaysia. The Company Secretary and Management keep the Board apprised of new laws and guidelines and changes thereof as well as new accounting and insurance standards to be adopted by the Company. To address compliance risks, the Company has a designated Compliance Officer who is responsible for implementing a compliance framework to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines. The Compliance Department submits a compliance statement to the Board on a quarterly basis.

The internal audit department is headed by the Chief Internal Audit (CIA) who works in consultation with the Head of Internal Audit of Fairfax Asia Limited. The internal audit department reports directly to the AC.

(d) Internal Controls and Operational Risk Management (continued)

The functions and responsibilities of the AC with respect to the internal audit and the functions and responsibilities of the internal audit department are in accordance with BNM's Guidelines BNM/RH/GL 013-4: Guidelines on Internal Audit Function of Licensed Institutions and BNM/RH/PD 029-9 on Corporate Governance.

The internal audit function adopts a systematic, disciplined risk-based audit methodology and prepares its audit strategy and plan based on the risk profiles of the business and functional departments of the Company, identified through a risk management process. Internal audit independently reviews the risk exposures and control processes on governance, operations and information systems implemented by Management. The internal audit activities are guided by a detailed annual audit plan which is approved by the AC and thereafter updated as and when necessary with the prior approval of the AC.

The internal audit reports were tabled at the AC's meetings, at which the audit findings were reviewed with the management. Follow-up audits were also conducted by internal auditors to ensure that recommendations to improve controls were promptly implemented by management. The AC met with the external auditors twice this year without management's presence to discuss any problems, issues and concerns arising from the interim and final statutory audits, as well as any other relevant matters.

These initiatives, together with the management's adoption of the external auditors' recommendations for improvement on internal controls noted during their audits, provided reasonable assurance that necessary control procedures were in place.

The other key elements of the Company's system of internal control are stated below:

(i) Corporate culture

The Board and Management of the Company set the requirements for an effective control culture in the organisation through the Company's core corporate values i.e. professionalism, integrity, excellent customer service, teamwork and governance.

(ii) Organisation structure

The Company has an organisational structure showing clearly defined lines of accountability and delegated authority levels to ensure effectiveness of the internal control system. Any changes to organisational structure are communicated to all staff to ensure proper identification of responsibilities and segregation of duties.

(iii) Communication

Regular Management meetings are held in the Company to discuss the financial performance, operational performance, business issues, implications of new risks and any other relevant matters.

(iv) Staff competency and succession planning

The professionalism and competency of staff are enhanced through continuous training and development programmes and a structured recruitment process. A performance planning and appraisal system of staff is in place with established key performance indicators and competencies subject to mid-year and annual review. The Company has a Code of Ethics that guides all staff in their work performance and in upholding their ethical standards.

(d) Internal Controls and Operational Risk Management (continued)

The Board is cognisant of its responsibilities to identify and develop viable candidates for long term succession planning of the senior management. The senior management has identified key staff for critical functions to ensure a smooth succession plan is in place.

(v) Whistleblowing program

Whistleblowing is considered an effective safeguard against fraud, corruption or other malpractice that undermines the internal control system and organisational reporting lines. Hence, the Company has implemented a whistleblowing program to encourage its staff to report, in good faith, any suspicion of fraud, irregularity or misdemeanour, without fear of reprisals by any party. The Board shall review concerns, including anonymous complaints, which staff or external parties may, in confidence, raise about possible misconduct or improprieties within the Company and shall have the concerns independently investigated by the internal audit department and/or external service providers whom the Board may think fit.

(vi) Independence of external auditors

The Company has adopted a policy on the provision of non-audit services by the external auditors. The Company has always ensured that the external auditors' ability to conduct audits objectively and independently is not impaired, or perceived to be impaired. Unless specifically allowed by the Board, the Company only engages the services of the external auditors for audit assurance and corporate tax. The Board also reviews the total fees earned by the external auditors from non-audit services rendered to the Company for assurance that the independence of the external auditors is not impaired.

(e) Public Accountability and Fair Practices

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company has taken the appropriate steps to ensure that all insurance policies issued or delivered to all policyholders contain the necessary information to alert them of the existence of the Financial Mediation Bureau and BNM's Consumer and Market Conduct Department, in compliance with the requirements of BNM's BNM/RH/GL 003-9 Guidelines on Claims Settlement Practices (Consolidated). The Financial Mediation Bureau and BNM's Consumer and Market Conduct Department were set up with the view to provide alternative avenues for the policyholders to seek redress against any occurrence of unfair market practices.

BNM's BNM/RH/GL 003-6 on Guidelines on Unfair Practices in Insurance Business was issued to promote higher standards of transparency, greater market discipline and accountability in the conduct of insurance business for the protection of policyholders. The Company has implemented measures for compliance with BNM/RH/GL 003-6 by having in place a Centralised Complaints Unit to provide effective and fair services to the customers.

(e) Public Accountability and Fair Practices (continued)

The Company has also taken the necessary measures to comply with the requirements pursuant to BNM's BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure.

In line with the Bank Negara Malaysia Financial Sector Blueprint 2012-2020, the Company has taken the necessary actions to migrate payment to e-payment, as a means to improve payment efficiency to the insuring public and the prevention of fraud.

CORPORATE GOVERNANCE (CONTINUED)

(f) Financial Reporting

The Board has overall oversight responsibility for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, the provisions of the Companies Act, 1965 in Malaysia and relevant regulatory requirements.

OTHER STATUTORY INFORMATION

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

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

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

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

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts of the Group and Company inadequate to any substantial extent; and

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

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

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

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

(ii) any contingent liability of the Group and Company which has arisen since the end of the financial year other than as disclosed in Note 34.

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

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

(f) In the opinion of the Directors:

(i) no contingent or other liability other than as disclosed in Note 34. has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and Company to meet its obligations when they fall due; and

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DIRECTORS' REPORT (CONTINUED)

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

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

(g) Before the financial statements of the Group and Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") Framework for Insurers issued by BNM.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 16 December 2016, Koperasi MCIS Berhad exercised and took up 15% equity interest in the Company in relation to a Call Option Agreement dated 9 September 2015 between Fairfax Asia Limited, the Pacific Insurance Berhad and Koperasi MCIS Berhad.

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77, is the holding company. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.

AUDITORS' REMUNERATION

	Group	Company
	RM	RM
Auditors' remuneration	300,000	300,000
Indemnity given or insurance effected for any auditor of the company	-	-

Details of auditors' remuneration are set out in Note 22 to the financial statements.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 31 March 2017.

DATO' HUANG SIN CHENG
DIRECTOR

DATUK ABU HASSAN BIN KENDUT
DIRECTOR

Company No.
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STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016		2015	
		Group RM	Company RM	Group RM	Company RM
Gross earned premiums	17(a)	483,289,226	483,289,226	410,371,009	410,371,009
Earned premiums ceded to reinsurers	17(b)	(324,142,170)	(324,142,170)	(211,651,523)	(211,651,523)
Net earned premiums	17	159,147,056	159,147,056	198,719,486	198,719,486
Investment income	18	22,287,344	21,494,813	19,644,504	18,798,767
Realised gains/(losses)	19	331,384	184,383	(364,394)	(356,244)
Fair value gains and losses	20	(973,000)	(973,000)	(2,165,877)	(2,165,877)
Fee and commission income	21	55,591,458	55,591,458	42,295,574	42,295,574
Other operating revenue		2,399,296	2,368,994	3,526,681	3,916,934
Other revenue		79,636,482	78,666,648	62,936,488	62,489,154
Total revenue		238,783,538	237,813,704	261,655,974	261,208,640
Gross benefits and claims paid	13(i)	(236,507,588)	(236,507,588)	(166,233,662)	(166,233,662)
Claims ceded to reinsurers	13(i)	117,673,696	117,673,696	53,918,761	53,918,761
Gross change to claims liabilities		58,381,486	58,381,486	(41,556,847)	(41,556,847)
Change to claims liabilities ceded to reinsurers		(13,627,494)	(13,627,494)	32,149,788	32,149,788
Net benefits and claims		(74,079,900)	(74,079,900)	(121,721,960)	(121,721,960)
Fee and commission expenses		(59,166,305)	(59,166,305)	(50,837,730)	(50,837,730)
Management expenses	22	(75,114,191)	(74,411,683)	(63,831,048)	(63,396,448)
Other expenses		(134,280,496)	(133,577,988)	(114,668,778)	(114,234,178)
Finance cost		(1,708,293)	(1,708,293)	(1,330,221)	(1,330,221)
Profit before taxation		28,714,849	28,447,523	23,935,015	23,922,281
Taxation	23	(7,139,719)	(7,139,719)	(3,865,085)	(3,865,085)
Net profit for the financial year		21,575,130	21,307,804	20,069,930	20,057,196
Net profit for the financial year attributable to:					
Owner of the Company		21,564,083	21,307,804	20,057,196	20,057,196
Non-controlling interest		11,047	-	12,734	-
		21,575,130	21,307,804	20,069,930	20,057,196
Earnings per share attributable to owner of the Company (sen)					
Basic	24	9.8	9.7	9.1	9.1

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016		2015	
	Group	Company	Group	Company
	RM	RM	RM	RM
Net profit for the financial year	21,575,130	21,307,804	20,069,930	20,057,196
Other comprehensive income/(loss):				
Items that may be subsequently reclassified to the income statement:				
Fair value gain arising during the financial year	3,326,670	1,908,198	(505,602)	689,096
Fair value (loss)/gain transferred to Statement of Income	(260,541)	113,540	(333,889)	(333,889)
	3,066,129	2,021,738	(839,491)	355,207
Tax effect thereon (Note 14)	(485,217)	(485,217)	(77,124)	(77,124)
	2,580,912	1,536,521	(916,615)	278,083
Total comprehensive income for the financial year	24,156,042	22,844,325	19,153,315	20,335,279
Total comprehensive income attributable to:				
Owner of the Company	24,136,239	22,844,325	19,138,372	20,335,279
Non-controlling interest	19,803	-	14,943	-
	24,156,042	22,844,325	19,153,315	20,335,279

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 Group	2016 Company	2015 Group	2015 Company
		RM	RM	RM	RM
ASSETS					
Property and equipment	3	63,171,269	63,171,269	64,107,590	64,107,590
Investment properties	4	78,167	78,167	81,667	81,667
Intangible assets	5	31,978,478	31,978,478	32,140,521	32,140,521
Investments					
Available-for-sale financial assets	6	236,784,207	287,893,457	245,307,117	263,201,461
Fair value through profit or loss financial assets	6	33,158,405	33,158,405	31,747,806	31,747,806
Loans and receivables	6	26,677,467	26,677,467	24,822,130	24,822,130
Reinsurance assets	8	458,854,430	458,854,430	337,727,218	337,727,218
Insurance and other receivables	9	159,563,793	159,563,793	166,594,807	165,594,807
Loans	10	1,852,169	1,852,169	1,777,778	1,777,778
Deferred tax asset	14	3,363,034	3,363,034	10,516,404	10,516,404
Tax recoverable		14,360,852	14,360,852	11,065,752	11,065,752
Cash and cash equivalents		302,467,059	250,877,612	333,252,774	317,201,930
Total assets		1,332,309,330	1,331,829,133	1,259,141,564	1,259,985,064
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	11	219,875,038	219,875,038	219,875,038	219,875,038
Available-for-sale reserves		2,484,641	2,643,704	(87,515)	1,107,183
Retained profits		113,618,418	113,362,140	92,054,335	92,054,335
		335,978,097	335,880,882	311,841,858	313,036,556
Non-controlling interest		308,547	-	288,744	-
Total equity		336,286,644	335,880,882	312,130,602	313,036,556
Liabilities					
Insurance contract liabilities	13	811,511,456	811,511,456	743,898,000	743,898,000
Subordinated loan	16	27,376,018	27,376,018	25,667,725	25,667,725
Insurance and other payables	15	157,135,212	157,060,777	177,445,237	177,382,783
Total liabilities		996,022,686	995,948,251	947,010,962	946,948,508
Total equity and liabilities		1,332,309,330	1,331,829,133	1,259,141,564	1,259,985,064

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

			Attributable to owners of the Company				
	Note	Share capital	Available for-sale reserves	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interest	Total equity
		RM	RM	RM	RM	RM	RM
Group							
At 1 January 2015		100,000,000	829,100	71,997,139	172,826,239	273,800	173,100,039
Issuance of share capital		119,875,038	-	-	119,875,038	-	119,875,038
Net profit for the financial year		-	-	20,057,196	20,057,196	12,734	20,069,930
Other comprehensive income for the financial year		-	(916,615)	-	(916,615)	2,210	(914,405)
At 31 December 2015		219,875,038	(87,515)	92,054,335	311,841,858	288,744	312,130,602
At 1 January 2016		219,875,038	(87,515)	92,054,335	311,841,858	288,744	312,130,602
Net profit for the financial year		-	-	21,564,083	21,564,083	11,047	21,575,130
Other comprehensive income for the financial year		-	2,572,156	-	2,572,156	8,756	2,580,912
At 31 December 2016		219,875,038	2,484,641	113,618,418	335,978,097	308,547	336,286,644

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Non-distributable	Distributable	
	Share capital RM	Available-for-sale reserves RM	Retained earnings RM	Total RM
Company				
At 1 January 2015	100,000,000	829,100	71,997,139	172,826,239
Issuance of share capital	119,875,038	-	-	119,875,038
Net profit for the financial year	-	-	20,057,196	20,057,196
Other comprehensive income for the financial year	-	278,083	-	278,083
At 31 December 2015	219,875,038	1,107,183	92,054,335	313,036,556
At 1 January 2016	219,875,038	1,107,183	92,054,335	313,036,556
Net profit for the financial year	-	-	21,307,804	21,307,804
Other comprehensive income for the financial year	-	1,536,521	-	1,536,521
At 31 December 2016	219,875,038	2,643,704	113,362,139	335,880,881

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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	28,714,849	28,447,523	23,935,015	23,922,281
Adjustment for:				
Depreciation of property and equipment	2,538,590	2,538,590	1,405,087	1,405,087
(Gain)/ Loss on disposal of property and equipment	99	99	(101,373)	(101,373)
Property and equipment written-off	759	759	190,138	190,138
Finance costs	1,708,293	1,708,293	1,330,221	1,330,221
Change in fair value of FVTPL financial assets	973,000	973,000	2,165,877	2,165,877
Foreign currency translation differences	(961,289)	(961,289)	(2,049,795)	(2,049,795)
Depreciation of investment properties	3,500	3,500	3,500	3,500
Amortisation of intangible assets	169,008	169,008	220,738	220,738
Net gain on disposal of:				
FVTPL financial assets	(70,942)	(70,942)	(66,410)	(66,410)
AFS financial assets	(260,541)	(113,540)	342,039	333,889
Investment income	(22,247,744)	(21,455,213)	(19,607,004)	(18,761,267)
Other interest income	(39,600)	(39,600)	(37,500)	(37,500)
Bad debts written-off /(recovery)	1,475,232	1,475,232	(96,430)	(96,430)
Provision for/(write-back of) allowance for impairment losses:				
Insurance receivables	1,527,288	1,527,288	1,037,060	1,037,060
Reinsurance assets	(3,198,840)	(3,198,840)	3,688,183	3,688,183
Profit from operations before changes in operating assets and liabilities	10,331,662	11,003,868	12,359,346	13,184,199
Purchase of investments	(253,750,603)	(256,832,877)	(177,994,289)	(169,187,300)
Proceeds from disposal/ maturity of investments	260,089,093	230,319,742	225,255,770	205,510,831
Increase in loans and receivables	(74,391)	(74,391)	537,585	537,585
Increase in reinsurance assets	(121,127,212)	(121,127,212)	(62,998,381)	(62,998,381)
Decrease in insurance and other receivables	8,956,594	6,065,224	(33,131,200)	(33,381,200)

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
Increase in insurance contract liabilities	67,613,456	67,613,456	50,233,146	50,233,146
Decrease in insurance and other payables	(20,310,025)	(20,322,006)	89,845,840	89,835,715
Cash generated from operations	(48,271,425)	(83,354,196)	104,107,817	93,734,595
Investment income received	22,814,312	22,367,237	20,828,008	20,331,294
Other interest income received	39,402	39,402	34,200	34,200
Income tax paid	(3,766,668)	(3,766,668)	(3,224,997)	(3,224,997)
Net cash generated from operating activities	(29,184,379)	(64,714,225)	121,745,028	110,875,092
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(1,648,085)	(1,648,085)	(63,786,640)	(63,786,640)
Purchase of intangible assets	(6,965)	(6,965)	(440,530)	(440,530)
Acquisition of MCIS general insurance business	-	-	(48,620,286)	(48,620,286)
Cash acquired from MCIS general insurance business	-	-	54,221,068	54,221,068
Proceeds from disposal of property and equipment	44,958	44,958	128,381	128,381
Distribution to non-controlling interest	8,756	-	2,209	-
Net cash used in investing activities	(1,601,336)	(1,610,092)	(58,495,798)	(58,498,007)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of subordinated loan	-	-	24,337,504	24,337,504
Proceeds from issuance of ordinary share capital	-	-	119,875,038	119,875,038
	-	-	144,212,542	144,212,542

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
NET INCREASE IN CASH AND CASH EQUIVALENT	(30,785,715)	(66,324,317)	207,461,772	196,589,627
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	333,252,774	317,201,930	125,791,002	120,612,303
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	302,467,059	250,877,612	333,252,774	317,201,930
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions	291,717,031	240,127,584	325,343,095	308,146,592
Cash and cash equivalents	10,750,028	10,750,028	7,909,679	9,055,338
	302,467,059	250,877,612	333,252,774	317,201,930

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

1. CORPORATE INFORMATION

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 40-1, Q Sentral,2A Jalan Stesen Sentral 2, Kuala Lmupur, 50470 Kuala Lumpur.

The Company is a subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited, a company incorporated in Canada.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 31 March 2017

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with the provisions of Financial Services Act 2013, Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The Company has met the minimum capital requirements as prescribed by the RBC Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers as at the date of the statements of financial position.

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

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 4 to the financial statements.

(a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company that are effective

On 1 January 2016, the Company adopted the following standards mandatory for financial year beginning on or after 1 January 2016:

- Amendments to MFRS 10, MFRS 12 and MFRS 128 "Investment Entities: Applying the Consolidation Exception"
- Amendments to MFRS 101 "Disclosure Initiative"
- Amendments to MFRS 116 and MFRS 138 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Annual Improvements to MFRSs 2012 - 2014 Cycle

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company that are effective (cont'd)

The initial application of the aforesaid amendments did not have any material financial impact to the current and prior periods' financial statements upon their adoption other than enhanced disclosures to the financial statements.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Group and Company but not yet effective

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit losses model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

  The Company has yet to assess the full impact of MFRS 9 onto the Company's accounting policies.

- MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018)

  MFRS 15 replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Group and Company but not yet effective (cont'd)

- MFRS 15 ‘Revenue from Contracts with Customers’ (cont'd)

  A new five-step process is applied before revenue can be recognised:

  - Identify contracts with customers;
  - Identify the separate performance obligations;
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:

  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standard, There are also increased disclosures.

  The Company has yet to assess the full impact of MFRS 15 onto the Company’s accounting policies.

- MFRS 16 ‘Leases’ (effective from 1 January 2019).

  MFRS 16 ‘Leases’ supersedes MFRS 117 ‘Leases’ and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a “right-of-use” of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 ‘Property, Plant and Equipment’ and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

  The Company has yet to assess the full impact of MFRS 16 onto the Company’s accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Group and Company but not yet effective (cont'd)

- Amendments to MFRS 112 "Recognition of Deferred Tax Assets for Unrealised Losses" (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

  In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

  The amendments shall be applied retrospectively.

  All other new amendments to the published standards and interpretations to existing standards issued by the MASB effective for financial periods subsequent to 1 January 2016 are not relevant to the Company.

2.2 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. See accounting policy Note 3(d) to the financial statements on goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the gain is recognised directly in the

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. This may indicate an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the

The gain or loss on disposal of a subsidiary which is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the statement of income attributable to the parent.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (cont'd)

(ii) Investment in subsidiaries

In the Group's separate financial statements, investment in a subsidiary is stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 2.2(i) to the financial statements on impairment of financial assets. The amount due from subsidiary of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in the subsidiary.

(iii) Change in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions that are transactions with the owner in their capacity as owners. The difference between fair value of any consideration paid and relevant shares equivalent of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost with change in carrying amount recognised in statement of income. The fair value is the initial carrying amount for the purposed of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement

(b) Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries (including structured entities) are carried at fair value in accordance with MFRS 139 Financial Instruments: Recognition and Measurement. On disposal of investment in subsidiaries, the difference between the disposal proceeds and the carrying amounts of the investment is recognised in the statement of income.

(c) Property and equipment

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

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Property and equipment (cont'd)

Depreciation is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Leasehold land and building	Over the remaining period of the lease or 50 years whichever if shorter
Office renovation	$33^{1}/3\%$
Motor vehicles	20%
Furniture, fixtures and fittings	10%
Office equipment	10%
Computer equipment	20% - 50%

A depreciation rate of 50% is applied to computer notebooks on loan to agents of the Company.

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the statement of

(d) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both are classified as investment properties.

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Depreciation is provided for on a straight-line basis over the estimated useful life of 50 years for the investment properties. The residual values and useful lives of the investment properties are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal is recognised in the statement of income in the year in which it arises.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Intangible assets

Intangible assets of the Group and Company consist of computer software and goodwill.

Computer software

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

The computer software is amortised on a straight-line basis over the estimated economic useful life of five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

Goodwill arising on acquisition of general insurance business represents the excess of the cost of acquisition of the general insurance business over the fair value of the identifiable net assets recognised at the date of acquisition. Goodwill on acquisition of general insurance business is included in the statement of financial position as intangible assets.

Goodwill on acquistion of general insurance business is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment loss on goodwill on acquisition of general insurance business is recognised immediately as an expenses and is not subsequently reversed as set out in Note 2.2(f) on the accounting policy for impairment for non-financial assets.

Goodwill is allocated to cash-generating unit (“CGU”) for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. The Group allocates goodwill to the combined general insurance business as a whole, which has been identified as a CGU.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, 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 amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets

The Group and Company classifies its investments into financial assets at fair value through profit or loss ("FVTPL"), loans and other receivables ("LAR") and available-for-sale financial assets ("AFS").

The Group and Company determines the classification of its investments at initial recognition, depending on the purpose for which the investments were acquired or originated and re-evaluates them at every reporting date.

The Group and Company initially recognises financial assets including cash and short-term deposits, loans and other receivables when it becomes a party to the contractual provisions of the instruments.

All regular way purchases and sales of financial assets with delivery of assets within the time period established by regulation or market convention are recognised or derecognised on the trade date (i.e., the date that the Company commits to purchase or sell the asset).

(i) <u>FVTPL</u>

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. These investments are initially recorded at fair value and transaction costs are expensed in the statement of income. Subsequent to initial recognition, these assets are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in the statement of income.

(ii) <u>LAR</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. After initial measurement, LAR assets are measured at amortised cost, using the effective yield method, less allowance for impairment. The Company's LAR comprises fixed and call deposits with licensed financial institutions.

(iii) <u>AFS</u>

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) Fair value of financial instruments

All financial instruments are recognised initially at the transacted price, which is the best indicator of fair value. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For financial instruments where there is no active market such as unquoted securities, fair value is determined based on quotes from independent brokers.

(i) Impairment of financial assets

The Group and Company assesses at each date of the statement of financial position, whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

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

The Group and 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 that group of 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 the date of the statement of financial position.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the 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)

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (cont'd)

(ii) AFS financial asset

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity through the statement of comprehensive income or from insurance contract liabilities to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the statement of income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the statement of income.

(j) Derecognition of financial assets

Financial assets are derecognised when the Group and Company’s contractual rights to the cash flows from the financial assets expire or when the Group and Company transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset.

(k) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(l) Equity instruments

Ordinary shares are classified as equity on the statement of financial position.

Dividends on ordinary shares are recognised and reflected in the statement of changes in equity when they are approved by the Company’s shareholders. Interim dividends are deducted from equity when they are paid.

(m) Product classification

The Company issues contracts that transfer insurance risk only.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Reinsurance

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

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

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measureable 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 for general insurance contracts 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 liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

(o) Underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, unearned premiums, commissions and claims incurred.

(i) Premium income

Premiums from direct business are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted before the end of the reporting period for which policies are issued subsequent to the end of the reporting period are accrued at the end of the reporting period.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(ii) Premium liabilities

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves (“UPR”) for all lines of business and the best estimate value of the insurer’s unexpired risk reserves (“URR”) at the end of the financial year, and the provision of risk margin for adverse deviation (“PRAD”) calculated at 75% confidence level 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 at the end of the financial year including allowance for insurer’s expenses.

(a) Unexpired risk reserves

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year and also includes allowance for 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 expected future premium refunds.

(b) Unearned premium reserves

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.

In determining the UPR at reporting date, the method that most accurately reflects the actual liability is used, as follows:

- 25% method for marine cargo, aviation cargo and transit business.

- 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower:

- Motor and bonds	10%
- Fire, engineering, aviation and marine hull	15%
- Medical	10 – 15%
- Other classes	25%

- non-annual policies are time-apportioned over the period of the risks.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(iii) Claim liabilities

Claim liabilities are recognised as the obligation to make future payments in relation to all claims that have been incurred as at the end of the financial year. They are recognised in respect of both direct insurance and inward reinsurance. The value is the best estimate value of claim liabilities which include provision for claims reported, claims incurred but not enough reserved (“IBNER”), claims incurred but not reported (“IBNR”) and direct and indirect claim-related expenses as well as PRAD at 75% confidence level calculated at the overall Company level. These are based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development pattern.

(iv) 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.

(p) Insurance receivables

Insurance receivables are recognised when due and measured at the fair value of the consideration received and receivable.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in statement of income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process and method as described in Note 2.2(i) to the financial statements.

(q) Insurance contract liabilities

Insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, 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 end of the reporting period. The liability is calculated at the end of the reporting period 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 reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Insurance contract liabilities (continued)

The unearned premiums reserves represent premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

At each reporting date, 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 deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of 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 by setting up a provision for liability adequacy.

(r) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Gross dividend/distribution income from unit trust funds

Gross dividend/distribution income from unit trust funds is recognised on a declared basis when the shareholder's/unitholders' right to receive payment is established.

(iv) Net realised gain/loss on investment

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the statement of income.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(s) Income tax (continued)

Deferred tax is provided for using the liability method. 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 profit 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 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 at the end of the reporting period. Deferred tax is recognised as an income or an expense and included in the statement of income for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(t) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation. The Company makes statutory and voluntary contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the statement of income as incurred.

(iii) Employee share ownership plan

Employee share ownership plan (“ESOP”) is a long term investment plan for the employees within the Fairfax group to invest in the shares of Fairfax Financial Holdings Ltd through the employees’ salary deduction. The Company makes contributions to the plan and such contributions are recognised as an expense in the income statement as incurred.

(u) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. At the end of each reporting period, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange rate differences are taken to the statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) Other financial liabilities and insurance payables

Other liabilities and payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

(w) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances, and fixed and call deposits with financial institutions with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

The statement of cash flows has been prepared using the indirect method.

(x) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Recognition method

The particular recognition method adopted for financial instruments recognised on the statement of financial position is disclosed in the individual accounting policy note associated with each item.

Fair value estimation

The Group and Company's basis of estimation of fair values for financial instruments is as follows:

- the fair values of Malaysian Government Securities and Government investment issues are based on the indicative market prices;

- the fair values of unquoted corporate debt securities are based on the indicative market yield obtained from dealers and brokers;

- the fair values of quoted equity securities and Real Estate Investment Trusts ("REITs") are based on quoted prices;

- the fair values of the unit trust funds are based on the fair value of the underlying assets of the fund; and

- 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.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible, Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(x) Financial instruments (continued)

Fair value estimation (continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

2.3 Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

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

(a) Critical judgements made in applying the Group and Company’s accounting policies

In the process of applying the Group and Company's accounting policies, management is of the opinion that there are no instances of judgement which are expected to have a significant financial impact on the amounts and balances recognised in the financial statements.

(b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom 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 discussed below:

(i) Valuation of insurance contract liabilities

For insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims IBNR reserves at the end of the reporting period.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the claim liabilities. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Link Ratio and Bornheutter-Ferguson methods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(i) Valuation of insurance contract liabilities (continued)

The main assumption 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 geographical areas, as well as by significant business lines and claims type. 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 ratio. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes 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 account of all the uncertainties involved.

(ii) Income and deferred taxes

Significant judgement is required in determining the income and deferred taxes applicable to the Company's business. There are transactions and calculations for which the ultimate tax determination is subject to agreement with the tax authorities. The Company recognizes 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.

(iii) Impairment of goodwill

The Company assesses the Impairment of goodwill on an annual basis in accordance with its accounting policy in Note 2.2(f) to the financial statements. The recoverable amount of the goodwill has been determined based on the value of expected future new business, taking into account of expected future expense overruns. The key assumptions used in the assessment are disclosed in Note 5 to the financial statements.

3. PROPERTY AND EQUIPMENT

	Office renovations	Motor vehicles	Furniture, fixtures,office equipment and computers	Building	Capital work-in progress	Total
	RM	RM	RM	RM	RM	RM
Group/Company						
2016						
Cost						
At 1 January 2016	1,728,863	646,856	8,650,549	58,740,000	454,745	70,221,013
Additions	96,362	4,629	1,027,541	-	519,553	1,648,085
Disposals	(725,640)	(2,700)	(907,183)	-	-	(1,635,523)
Write-offs	-	-	(31,655)	-	-	(31,655)
At 31 December 2016	1,099,585	648,785	8,739,252	58,740,000	974,298	70,201,920
Accumulated depreciation						
At 1 January 2016	1,469,420	323,246	3,733,357	587,400	-	6,113,423
Charge for the financial year	147,851	124,080	1,091,859	1,174,800	-	2,538,590
Disposals	(697,867)	(2,430)	(890,169)	-	-	(1,590,466)
Write-offs	-	-	(30,896)	-	-	(30,896)
At 31 December 2016	919,404	444,896	3,904,151	1,762,200	-	7,030,651
Net book value	180,181	203,889	4,835,101	56,977,800	974,298	63,171,269

3. PROPERTY AND EQUIPMENT (CONTINUED)

	Office renovations	Motor vehicles	Furniture, fixtures,office equipment and computers	Building	Capital work-in progress	Total
	RM	RM	RM	RM	RM	RM
Group/Company						
2015						
Cost						
At 1 January 2015	1,432,630	788,832	4,325,012	-	75,567	6,622,041
Acquisition of MCIS general insurance business	10	1	288,438	-	-	288,449
Additions	298,233	-	4,369,229	58,740,000	379,178	63,786,640
Disposals	-	(141,977)	(76,000)	-	-	(217,977)
Write-offs	(2,010)	-	(256,130)	-	-	(258,140)
						-
At 31 December 2015	1,728,863	646,856	8,650,549	58,740,000	454,745	70,221,013
Accumulated depreciation						
At 1 January 2015	1,363,112	285,822	3,318,371	-	-	4,967,305
Additions	108,230	153,372	556,085	587,400	-	1,405,087
Disposals	-	(115,948)	(76,000)	-	-	(191,948)
Write-offs	(1,922)	-	(65,099)	-	-	(67,021)
At 31 December 2015	1,469,420	323,246	3,733,357	587,400	-	6,113,423
Net book value	259,443	323,610	4,917,192	58,152,600	454,745	64,107,590

4. INVESTMENT PROPERTIES

	2016 RM	2015 RM
Group/Company		
Cost		
At 1 January / 31 December	175,000	175,000
Accumulated depreciation		
At 1 January	93,333	89,833
Charge for the financial year	3,500	3,500
31 December	96,833	93,333
Net book value	78,167	81,667
Fair value	550,000	550,000

The fair value of the property is estimated at RM550,000 based on a valuation performed by an independent professionally qualified valuer. The fair value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of investment property is categorized at Level 2 of the fair value hierarchy. Fair value of the investment property is measured in whole by reference to inputs other than the quoted price included within Level 1 that are observable for the investment property, either directly or indirectly. The investment property is valued using the Comparison Method.

There were no transfers between Level 1 and 2 fair value measurements during the financial year.

As at 31 December 2016, the only commercial investment property held by the Company is leased to a third party. Rental income from the property is included in Note 18 to the financial statements.

5. INTANGIBLE ASSETS

	Goodwill RM	Computer Software RM	Total RM
Group/Company			
2016			
Cost			
At 1 January 2016	31,325,682	1,279,898	32,605,580
Additions	-	6,965	6,965
Disposal	-	(799)	(799)
At 31 December 2016	31,325,682	1,286,064	32,611,746
Accumulated Amortisation			
At 1 January 2016	-	465,059	465,059
Charge for the financial year	-	169,008	169,008
Disposal	-	(799)	(799)
At 31 December 2016	-	633,268	633,268
Net book value	31,325,682	652,796	31,978,478

5. INTANGIBLE ASSETS (CONTINUED)

Group/Company

2015	Goodwill	Computer Software	Total
Cost	RM	RM	RM
At 1 January 2015	-	411,274	411,274
Acquisition of MCIS general insurance business	31,325,682	428,094	31,753,776
Additions	-	440,530	440,530
At 31 December 2015	31,325,682	1,279,898	32,605,580
Accumulated Amortisation			
At 1 January 2015	-	244,321	244,321
Additions	-	220,738	220,738
At 31 December 2015	-	465,059	465,059
Net book value	31,325,682	814,839	32,140,521

(a) The Company tests goodwill on acquisition of general insurance business for impairment annually in accordance with its accounting policy. More regular reviews are performed if events indicate that this is necessary.

(b) Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing being the combined general business as a whole.

5. INTANGIBLE ASSETS (CONTINUED)

In testing whether impairment is necessary, the recoverable amount of the goodwill has been determined based on future new business. Management's judgement is involved in estimating the value of expected future new business. The key assumptions are detailed as follow:

(i) The growth is projected based on expected future new business at a growth rate of approximately 10% p.a.

(ii) Loss ratio range are projected based on the Company's prior years' actual claims experience range from 60% to 65%.

(iii) Post tax discount rate at 13.1%.

(iii) Other assumption used include expense ratio, commission ratio and investment return.

At 31 December 2016, the recoverable amount exceeds the carrying value of goodwill.

A reasonably possible change in any key assumption is not expected to cause the carrying value of the CGU to exceed its recoverable amount.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

6. INVESTMENTS

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
Malaysian Government Securities	20,387,861	-	20,484,217	20,484,217
Government Investment Issues	-	-	13,033,337	10,132,627
Corporate Bonds	109,007,176	-	106,502,710	-
Unit Trust Investments	107,389,170	287,893,457	105,286,853	232,584,617
Equity securities	29,705,205	29,705,205	28,760,206	28,760,206
Real Estate Investment Trusts ("REITs")	3,453,200	3,453,200	2,987,600	2,987,600
Deposits with Licensed Financial Institutions	26,677,467	26,677,467	24,822,130	24,822,130
	296,620,079	347,729,329	301,877,053	319,771,397

The financial investments are summarised by categories as follows:

	Group 2016 RM	Company 2016 RM	Group 2015 RM	Company 2015 RM
AFS financial assets	236,784,207	287,893,457	245,307,117	263,201,461
FVTPL financial assets	33,158,405	33,158,405	31,747,806	31,747,806
LAR	26,677,467	26,677,467	24,822,130	24,822,130
	296,620,079	347,729,329	301,877,053	319,771,397
The following investments mature after 12 months:				
AFS financial assets	124,907,609	-	88,021,329	-

(a) AFS financial assets

Fair value

	Group 2016 RM	Company 2016 RM	Group 2015 RM	Company 2015 RM
Malaysian Government Securities	20,387,861	-	20,484,217	20,484,217
Government Investment Issues	-	-	13,033,337	10,132,627
Unit Trust Investments				
Quoted in Malaysia:	107,389,170	107,389,170	105,286,853	105,286,853
Unquoted in Malaysia:	-	180,504,287	-	127,297,764
Corporate bonds	109,007,176	-	106,502,710	-
	236,784,207	287,893,457	245,307,117	263,201,461

(b) FVTPL financial assets

Fair value

	Group 2016 RM	Company 2016 RM	Group 2015 RM	Company 2015 RM
Equity securities	29,705,205	29,705,205	28,760,206	28,760,206
REITs	3,453,200	3,453,200	2,987,600	2,987,600
	33,158,405	33,158,405	31,747,806	31,747,806

6. INVESTMENTS (CONTINUED)

(c) LAR

	2016 Group RM	2016 Company RM	2015 Group RM	2015 Company RM
Amortised cost				
Deposits with Commercial Banks	26,677,467	26,677,467	24,822,130	24,822,130

(d)

	AFS RM	FVTPL RM	LAR RM	Total RM
2016				
Group				
At 1 January 2016	245,307,117	31,747,806	24,822,130	301,877,053
Purchases	226,050,884	1,477,419	26,222,300	253,750,603
Maturities	(200,070,000)	-	(24,378,174)	(224,448,174)
Disposals	(35,585,810)	(55,109)	-	(35,640,919)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(973,000)	-	(973,000)
Other comprehensive income	1,345,159	-	-	1,345,159
Currency translations differences	-	961,289	-	961,289
Fair value loss transferred to Statement of Income	260,541	-	-	260,541
Movement in accrued interest	(296,863)	-	11,211	(285,652)
Amortisation of premiums	(226,821)	-	-	(226,821)
At 31 December 2016	236,784,207	33,158,405	26,677,467	296,620,079
2015				
Group				
At 1 January 2015	162,663,574	20,108,789	22,028,618	204,800,981
Acquisition of MCIS general insurance business	146,627,240	-	-	146,627,240
Purchases	141,822,089	11,794,026	24,378,174	177,994,289
Maturities	(21,996,600)	-	(21,649,925)	(43,646,525)
Disposals	(181,845,947)	(38,927)	-	(181,884,874)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(2,165,877)	-	(2,165,877)
Other comprehensive income	(505,602)	-	-	(505,602)
Currency translations differences	-	2,049,795	-	2,049,795
Fair value gains transferred to Statement of Income	(333,889)	-	-	(333,889)
Movement in accrued interest	(1,176,522)	-	65,263	(1,111,259)
Amortisation of premiums	52,774	-	-	52,774
At 31 December 2015	245,307,117	31,747,806	24,822,130	301,877,052

6. INVESTMENTS (CONTINUED)

(d) Carrying values of financial investments (continued)

	AFS RM	FVTPL RM	LAR RM	Total RM
2016				
Company				
At 1 January 2016	263,201,461	31,747,807	24,822,130	319,771,397
Purchases	229,133,159	1,477,418	26,222,300	256,832,877
Maturities	(198,000,000)	-	(24,378,174)	(222,378,174)
Disposals	(7,886,459)	(55,109)	-	(7,941,568)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(973,000)	-	(973,000)
Other comprehensive income	1,908,198	-	-	1,908,198
Currency translations differences	-	961,289	-	961,289
Fair value loss transferred to Statement of Income	113,540	-	-	113,540
Movement in accrued interest	(379,844)	-	11,211	(368,634)
Amortisation of premiums	(196,598)	-	-	(196,598)
At 31 December 2016	287,893,457	33,158,405	26,677,467	347,729,328
2015				
Company				
At 1 January 2015	168,766,143	20,108,789	22,028,618	210,903,550
Acquisition of MCIS general insurance business	146,627,240	-	-	146,627,240
Purchases	133,015,100	11,794,026	24,378,174	169,187,300
Maturities	(30,999,909)	-	(21,649,925)	(52,649,834)
Disposals	(153,089,550)	(38,927)	-	(153,128,477)
Fair value (losses)/gains recorded in:				
Statement of Income	-	(2,165,877)		(2,165,877)
Other comprehensive income	689,096	-	-	689,096
Currency translations differences	-	2,049,796	-	2,049,796
Fair value gains transferred to Statement of Income	(333,889)	-	-	(333,889)
Movement in accrued interest	(1,515,887)	-	65,263	(1,450,624)
Amortisation of premiums	43,117	-	-	43,117
At 31 December 2015	263,201,461	31,747,807	24,822,130	319,771,397

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments

The following tables show financial investments recorded at fair value analysed by the different basis of fair values and valuation methods as follows:

	Level 1 RM	Level 2 RM
Group		
2016		
Recurring fair value measurements		
AFS		
- Malaysian Government Securities	-	20,387,861
- Government Investment Issues	-	-
- Corporate Bonds	-	109,007,176
- Unit Trust Investments	107,389,170	-
FVTPL		
- Equity securities	29,705,205	-
- Real Estate Investment Trusts (“REITs”)	3,453,200	-
	140,547,575	129,395,037
2015		
Recurring fair value measurements		
AFS		
- Malaysian Government Securities	-	20,484,217
- Government Investment Issues	-	13,033,337
- Corporate Bonds	-	106,502,710
- Unit Trust Investments	105,286,853	-
FVTPL		
- Equity securities	28,760,206	-
- Real Estate Investment Trusts (“REITs”)	2,987,600	-
	137,034,659	140,020,264
Company		
2016		
Recurring fair value measurements		
AFS		
- Unit Trust Investments	107,389,170	180,504,287
FVTPL		
- Equity securities	29,705,205	-
- Real Estate Investment Trusts (“REITs”)	3,453,200	-
	140,547,575	180,504,287

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

	Level 1	Level 2
	RM	RM
2015		
Recurring fair value measurements		
AFS		
- Malaysian Government Securities	-	20,484,217
- Government Investment Issues	-	10,132,627
- Corporate Bonds	-	-
- Unit Trust Investments	105,286,853	127,297,764
FVTPL		
- Equity securities	28,760,206	-
- Real Estate Investment Trusts (“REITs”)	2,987,600	-
	137,034,659	157,914,608

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

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

Financial instruments that are valued not based on observable market data are categorised as Level 3. There are no financial instruments categorised as Level 3.

There were no transfers between level 1 and 2 during the financial year.

7. STRUCTURED ENTITIES

The Company has determined that its investment in wholesale unit trust funds amounting to RM180,504,287 (2015: RM127,297,764) as disclosed in Note 6 to the financial statements as investment in structured entities (“investee funds”). The Company invests in the investee funds whose objectives range from achieving medium to long-term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by approved asset management companies and apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund’s net assets.

The investee fund is classified as available-for-sale investment and the change in fair value of the investee fund is included in the statement of other comprehensive income in the Company’s separate financial statements.

7. STRUCTURED ENTITIES (CONTINUED)

The Company's exposure to investments in the investee funds is disclosed below.

	2016 RM	2015 RM
Number of wholesale unit trust fund	2	2
Average net asset value per unit of wholesale unit trust funds:		
Opus Enhanced Income Fund	1.0233	1.0098
Affin Hwang Wholesale Fund 1	0.3556	0.3469
Fair value of underlying assets:		
Corporate bonds	107,962,416	105,432,580
Malaysian Government Securities	20,254,000	-
Government Investment Securities	-	2,875,200
Deposits with licensed financial institutions	51,530,513	17,194,260
Receivables	1,205,221	2,097,880
Cash equivalents	32,335	49,042
	180,984,485	127,648,962
Total realised gain/ (loss) for the financial year	260,541	(8,150)

The Company's maximum exposure to loss from its interests in the investee funds is equal to the fair value of its investment in the investee funds.

As the Company has control over these investee funds which are considered wholly owned structured entities, these structured entities are consolidated at Group level. The underlying assets of these structured entities have been duly consolidated as shown in Note 6 to the financial statements.

The investee funds for Opus Enhanced Income Fund are audited by Crowe Horwath and Affin Hwang Wholesale Fund are audited by PricewaterhouseCoopers.

8. REINSURANCE ASSETS

	2016 RM	2015 RM
Group/Company		
Reinsurance of insurance contracts (Note 13)	458,854,430	337,727,218

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair value at the date of the statement of financial position.

9. INSURANCE AND OTHER RECEIVABLES

	2016		2015	
	Group	**Company**	**Group**	**Company**
	RM	**RM**	**RM**	**RM**
Due premiums including agents /brokers and co-insurers balances	50,814,558	50,814,558	66,556,706	66,556,706
Allowance for impairment	(1,449,599)	(1,449,599)	(3,144,908)	(3,144,908)
	49,364,959	49,364,959	63,411,798	63,411,798
Amounts due from reinsurers/ ceding companies	41,865,319	41,865,319	19,410,166	19,410,166
Allowance for impairment	(5,372,986)	(5,372,986)	(2,150,389)	(2,150,389)
	36,492,334	36,492,334	17,259,777	17,259,777
Total insurance receivables	85,857,293	85,857,293	80,671,575	80,671,575
Other receivables:				
Other receivables, deposits and prepayments	5,630,703	5,630,703	12,073,392	11,073,392
Malaysian Motor Insurance Pool ("MMIP")				
- Cash call made	-	-	34,359,477	34,359,477
- Other assets held in MMIP	61,669,310	61,669,310	38,497,815	38,497,815
Service tax and GST receivable	6,392,290	6,392,290	819,330	819,330
Income due and accrued	14,197	14,197	173,218	173,218
Total other receivables	73,706,500	73,706,500	85,923,232	84,923,232
Total insurance and other receivables	159,563,793	159,563,793	166,594,807	165,594,807
Receivable within 12 months	97,894,483	97,894,483	93,737,515	92,737,515
Receivable after 12 months	61,669,310	61,669,310	72,857,292	72,857,292

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

MMIP as at 31 December 2016 is a net receivable of RM5,008,152 (2015 : Net Payable RM1,564,203) after setting-off the amount payable from MMIP against the Company's share of claims and premium liabilities amounting to RM56,661,158 (2015: 74,421,495) included in Note 13 to the financial statements.

Financial assets

There is no netting off of the gross amount of recognised financial assets against the gross amount of financial liabilities in the statement of financial position.

There are no financial assets that are subject to enforceable master netting arrangements or similar arrangements to financial instruments received as collateral or any cash collateral pledged or received (2015: Nil).

10. LOANS

	2016 RM	2015 RM
Group/Company		
Staff loans:		
Secured	1,842,207	1,753,269
Unsecured	9,962	24,509
	1,852,169	1,777,778
Receivable after 12 months	1,469,802	995,480

The weighted average effective interest rate for staff loans as at 31 December 2016 was 3.11% (2015: 2.49%) per annum on the basis of monthly rest.

11. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2016 RM	2015 RM	2016 RM	2015 RM
Group/Company				
Authorised:				
At beginning and end of financial year	500,000,000	500,000,000	500,000,000	500,000,000
Issued and paid up:				
At beginning of financial year	219,875,038	100,000,000	219,875,038	100,000,000
Issuance of share capital	-	119,875,038	-	119,875,038
At end of financial year	219,875,038	219,875,038	219,875,038	219,875,038

12. RESERVES

The Company may distribute single-tier tax exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend. Pursuant to the Risk-Based Capital Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividends would impair its Capital Adequacy Ratio position to below its internal target.

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13. INSURANCE CONTRACT LIABILITIES

	Note			**2016**			**2015**
		Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
		RM	**RM**	**RM**	**RM**	**RM**	**RM**
Group/Company							
Provision for claims reported by policyholders		406,348,625	(259,497,903)	146,850,722	365,212,202	(193,565,291)	171,646,911
Provision for incurred but not reported ("IBNR")		191,609,861	(82,978,575)	108,631,286	174,364,798	(45,775,709)	128,589,089
		597,958,486	(342,476,478)	255,482,008	539,577,000	(239,341,000)	300,236,000
Less: impairment loss on reinsurance assets		-	2,125,942	2,125,942	-	5,324,782	5,324,782
Claim liabilities (i)		597,958,486	(340,350,536)	257,607,950	539,577,000	(234,016,218)	305,560,782
Premium liabilities (ii)		213,552,970	(118,503,894)	95,049,076	204,321,000	(103,711,000)	100,610,000
		811,511,456	(458,854,430)	352,657,026	743,898,000	(337,727,218)	406,170,782

(i) Claim liabilities

At 1 January	539,577,000	(239,341,000)	300,236,000	233,364,000	(84,838,000)	148,526,000
Acquisition of MCIS general insurance						
business	-	-	-	264,656,153	(120,716,613)	143,939,540
Claims incurred in the current accident year	331,702,124	(166,574,949)	165,127,174	241,937,650	(91,354,443)	150,583,207
Claims incurred in prior accident years	(45,104,913)	(46,082,800)	(91,187,712)	(29,413,256)	(1,233,356)	(30,646,612)
Movement in PRAD of claim liabilities at	5,755,414	(8,151,425)	(2,396,011)			
75% confidence level	-	-	-	(3,909,449)	4,882,651	973,202
Movement in claims handling expenses	2,536,449	-	2,536,449	(824,436)	-	(824,436)
Claims paid during the financial year	(236,507,588)	117,673,696	(118,833,892)	(166,233,662)	53,918,761	(112,314,901)
	597,958,486	(342,476,478)	255,482,008	539,577,000	(239,341,000)	300,236,000
Less: Impairment loss on reinsurance assets	-	2,125,942	2,125,942	-	5,324,782	5,324,782
At 31 December	597,958,486	(340,350,536)	257,607,950	539,577,000	(234,016,218)	305,560,782

13. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premium liabilities

	Note	2016 Gross RM	2016 Reinsurance RM	2016 Net RM	2015 Gross RM	2015 Reinsurance RM	2015 Net RM
At 1 January		204,321,000	(103,711,000)	100,610,000	128,547,000	(47,847,000)	80,700,000
Acquisition of MCIS general insurance business		-	-	-	67,097,701	(21,327,224)	45,770,477
Premiums written in the financial year	17	492,521,196	(338,935,064)	153,586,132	419,047,308	(246,188,299)	172,859,009
Premiums earned during the financial year	17	(483,289,226)	324,142,170	(159,147,056)	(410,371,009)	211,651,523	(198,719,486)
At 31 December		213,552,970	(118,503,894)	95,049,076	204,321,000	(103,711,000)	100,610,000

14. DEFERRED TAX ASSET

	2016 RM	2015 RM
Group/Company		
At 1 January	10,516,404	3,413,850
Acquisition of MCIS general insurance business		11,044,763
- Recognised in statement of income	(6,668,153)	(3,865,085)
- Recognised in other comprehensive income	(485,217)	(77,124)
At 31 December	3,363,034	10,516,404

14. DEFERRED TAX ASSET (CONTINUED)

	Receivables RM	Fair value changes on investments RM	Unutilised tax benefit RM	Premium liabilities RM	Others RM	Total RM
2016						
Deferred tax asset						
At 1 January 2016	788,274	1,771,308	7,108,343	736,097	1,054,392	11,458,414
- Recognised in statement of income	848,957	2,811	(7,108,343)	(261,262)	472,433	(6,045,403)
- Recognised in other comprehensive income	-	-	-	-	-	-
At 31 December 2016 (before offsetting)	1,637,231	1,774,119	-	474,835	1,526,825	5,413,011
Offsetting						(2,049,977)
Net deferred tax assets (after offsetting)						3,363,034

	Fair value changes on investments RM	Property and equipment RM	Others RM	Total RM
2016				
Deferred tax liabilities				
At 1 January 2016	301,863	640,147	-	942,010
- Recognised in statement of income	-	586,236	36,514	622,750
- Recognised in other comprehensive income	485,217	-	-	485,217
At 31 December 2016 (before offsetting)	787,080	1,226,383	36,514	2,049,977
Offsetting				(2,049,977)
Net deferred tax liabilities (after offsetting)				-

14. DEFERRED TAX ASSET (CONTINUED)

	Receivables RM	Fair value changes on investments RM	Unutilised tax loss RM	Premium liabilities RM	Others RM	Total RM
2015						
Deferred tax asset						
At 1 January 2015	30,394	1,816,215	625,333	616,409	869,372	3,957,723
Acquisition of MCIS general insurance business	-	-	-	11,044,763	-	11,044,763
- Recognised in statement of income	757,880	(43,884)	6,483,010	(10,925,075)	185,020	(3,543,049)
- Recognised in other comprehensive income	-	(1,023)	-	-	-	(1,023)
At 31 December 2015 (before offsetting)	788,274	1,771,308	7,108,343	736,097	1,054,392	11,458,414
Offsetting						(942,010)
Net deferred tax assets (after offsetting)						10,516,404

	Fair value changes on investments RM	Property and equipment RM	Total RM
2015			
Deferred tax liabilities			
At 1 January 2015	225,762	318,111	543,873
- Recognised in statement of income	-	322,036	322,036
- Recognised in other comprehensive income	76,101	-	76,101
At 31 December 2015 (before offsetting)	301,863	640,147	942,010
Offsetting			(942,010)
Net deferred tax assets (after offsetting)			-

14. DEFERRED TAX ASSET (CONTINUED)

	2016	2015
	RM	RM
Current	2,477,351	9,632,182
Non-current	885,683	884,222

15. INSURANCE AND OTHER PAYABLES

	2016		2015	
	Group	Company	Group	Company
	RM	RM	RM	RM
Trade payables:				
Amount due to reinsurers/ ceding companies	54,775,627	54,775,627	109,947,274	109,947,274
Amount due to brokers, co-insurers and insureds	18,858,603	18,858,603	28,360,038	28,360,038
Deposits received from reinsurers	1,189,138	1,189,138	1,247,683	1,247,683
	74,823,368	74,823,368	139,554,995	139,554,995
Other payables:				
Accrual for agents' profit commission	3,196,786	3,196,786	2,492,426	2,492,426
Accrual for bonus (including EPF for bonus)	5,881,708	5,881,708	4,234,900	4,234,900
Cash collateral held for bond business	1,548,607	1,548,607	963,511	963,511
Premium funds withheld	59,766,728	59,766,728	21,432,597	21,432,597
Other payables and accrued liabilities	11,918,015	11,843,580	8,766,808	8,704,354
	82,311,844	82,237,409	37,890,242	37,827,788
Total insurance and other payables	157,135,212	157,060,777	177,445,237	177,382,783
Payable within 12 months	139,038,337	138,963,902	169,288,909	169,226,455
Payable after 12 months	18,096,875	18,096,875	8,156,328	8,156,328

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

Financial liabilities

There is no netting off of gross amount of recognised financial liabilities against the gross amount of financial assets in the statement of financial position.

There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2015: Nil).

16. SUBORDINATED LOANS

	2016 RM	2015 RM
Group/Company		
Subordinated Loans	24,337,504	24,337,504
Add: Interest Payable	3,038,514	1,330,221
	27,376,018	25,667,725
Payable within 12 months	3,038,514	1,330,221
Payable after 12 months	24,337,504	24,337,504

The fair value of the subordinated loans as at 31 December 2016 amounted to RM27.8m (2015 : RM27.5m). The fair value is estimated based on discounted cash flow model for the remaining term of maturity and is within level 2 of the fair value hierarchy.

17. NET EARNED PREMIUMS

	2016 RM	2015 RM
Group/Company		
(a) Gross earned premiums	492,521,196	419,047,308
Change in premium liabilities	(9,231,970)	(8,676,299)
	483,289,226	410,371,009
(b) Premium ceded to reinsurers		
Ceded premiums (Note 13(ii))	(338,935,064)	(246,188,299)
Change in premium liabilities	14,792,894	34,536,776
	(324,142,170)	(211,651,523)
Net earned premiums	159,147,056	198,719,486

18. INVESTMENT INCOME

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
Rental income from investment properties	39,600	39,600	37,500	37,500
Financial assets at FVTPL				
Dividend income				
- equity securities	160,894	160,894	171,169	171,169
- REITs	161,020	161,020	159,274	159,274

18. INVESTMENT INCOME (CONTINUED)

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
AFS financial assets				
Interest income	5,601,624	689,381	8,198,848	3,363,171
Dividend income – unit trusts	5,049,394	9,557,854	1,311,660	5,629,020
Interest income from loans and receivables	861,932	861,932	793,511	793,511
Profit income from cash & cash equivalents	10,639,701	10,220,730	8,919,767	8,602,005
Amortisation of premiums, net of accretion of discounts	(226,821)	(196,598)	52,775	43,117
	22,287,344	21,494,813	19,644,504	18,798,767

19. REALISED GAINS/(LOSSES)

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
Financial assets at FVTPL				
Realised gains:				
Equity securities	70,942	70,942	66,410	66,410
AFS financial assets				
Realised gains/(losses):				
Corporate bonds	237,441	-	413,863	423,813
Malaysian Government Securities/ Government Investment Issues	23,100	-	(755,902)	(757,702)
Unit trusts	-	113,540	-	-
	260,541	113,540	(342,039)	(333,889)
Property and equipment				
Realised gains	45,179	45,179	101,373	101,373
Realised losses	(45,279)	(45,279)	(190,138)	(190,138)
	(99)	(99)	(88,765)	(88,765)
	331,384	184,383	(364,394)	(356,244)

20. FAIR VALUE GAINS AND LOSSES

	2016 RM	2015 RM
Group/Company		
Financial assets at FVTPL	(973,000)	(2,165,877)

21. FEES AND COMMISSION INCOME

	2016 RM	2015 RM
Group/Company		
Reinsurance commission income	55,591,458	42,295,574

22. MANAGEMENT EXPENSES

	Note	2016 Group RM	2016 Company RM	2015 Group RM	2015 Company RM
Employee benefits expenses	22(a)	45,009,770	45,009,770	35,900,363	35,900,363
Directors' fees	22(b)	400,200	400,200	347,815	347,815
Auditors' remuneration					
- Audit related services		300,000	300,000	284,000	284,000
- Non-audit related services		7,500	7,500	35,500	35,500
Depreciation of property and equipment	3	2,538,590	2,538,590	1,405,087	1,405,087
Depreciation of investment properties	4	3,500	3,500	3,500	3,500
Direct operating expenses of investment properties					
- revenue generating		8,618	8,618	436,373	436,373
Amortisation of intangible assets	5	169,008	169,008	220,738	220,738
Bad debts written-off/(recovery)		1,475,232	1,475,232	(96,430)	(96,430)
Provision for allowance for impairment losses					
- insurance receivables		1,527,288	1,527,288	1,037,060	1,037,060
- reinsurance assets		(3,198,840)	(3,198,840)	3,688,183	3,688,183
Office rental		937,436	937,436	2,440,821	2,440,821
Office equipment rental		580,180	580,180	409,595	409,595
Computer maintenance		5,369,724	5,369,724	2,457,355	2,457,355
Entertainment		1,433,006	1,433,006	779,818	779,818
Transport and travelling		1,209,244	1,209,244	931,530	931,530
Printing and stationery		535,863	535,863	552,591	552,591

22. MANAGEMENT EXPENSES (CONTINUED)

	Note	2016 Group RM	2016 Company RM	2015 Group RM	2015 Company RM
Networking charges		1,182,997	1,182,997	509,479	509,479
Management fees to holding company		665,923	665,923	587,850	587,850
Stamp duties		12,547	12,547	150,028	150,028
Bank charges		3,782,184	3,782,184	2,988,425	2,988,425
Other expenses		11,164,221	10,461,713	8,761,366	8,326,766
		75,114,191	74,411,683	63,831,048	63,396,448

(a) Employee benefits expense

	2016 Group RM	2016 Company RM	2015 Group RM	2015 Company RM
Wages and salaries	34,998,487	34,998,487	28,251,106	28,251,106
Social security contributions	248,731	248,731	196,605	196,605
Contributions to defined contribution plan, EPF	5,161,957	5,161,957	4,144,993	4,144,993
Employee share ownership plan ("ESOP")	161,821	161,821	100,773	100,773
Other benefits	4,438,774	4,438,774	3,206,886	3,206,886
	45,009,770	45,009,770	35,900,363	35,900,363

(b) Directors' remuneration

The details of remuneration receivable by Directors during the financial year are as follows:

	2016 RM	2015 RM
Group/Company		
(i) Directors' fees		
Dato' Huang Sin Cheng	80,400	72,675
Datuk Abu Hassan bin Kendut	91,900	84,350
Abdullah bin Tarmugi	98,600	89,675
Zainul Abidin bin Mohamed Rasheed	86,300	81,800
Hashim bin Harun	43,000	19,315
	400,200	347,815
(ii) Indemnity given or insurance effected for any Director and officer	22,743	14,571

22. MANAGEMENT EXPENSES (CONTINUED)

(c) CEO remuneration

The details of remuneration received and receivable by the CEO during the financial year are as follows :

	2016 RM	2015 RM
Group/Company		
Salary and other emoluments	582,364	582,872
Bonus	284,796	136,264
Contribution to defined contribution plan	21,446	20,067
Estimated money value of benefits-in-kind	317,670	318,435
	1,206,276	1,057,638

23. TAXATION

	2016 RM	2015 RM
Group/Company		
Income tax:		
Malaysian income tax	688,879	-
Underprovision of deferred tax in respect of prior years	(217,313)	-
	471,566	-
Deferred tax relating to origination and reversal of temporary differences (Note 14)	6,668,153	3,865,085
Tax expense for the financial year	7,139,719	3,865,085

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) on the estimated assessable profit for the financial year.

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

	2016 RM	2015 RM
Group		
Profit before taxation	28,714,849	23,935,015
Taxation at Malaysian statutory income tax rate of 24% (2015: 25%)	6,891,564	5,983,754
Expenses not deductible for tax purposes	2,010,895	1,379,564
Income not subject to tax	(2,435,302)	(1,489,866)
Tax credit from MMIP cash calls	-	(1,752,894)
Recognition of previously unrecognised deferred tax	672,562	(255,473)
Tax expense for the financial year	7,139,719	3,865,085

23. TAXATION (CONTINUED)

	2016 RM	2015 RM
Company		
Profit before taxation	28,447,523	23,922,281
Taxation at Malaysian statutory income tax rate of 24% (2015: 25%)	6,827,406	5,980,570
Expenses not deductible for tax purposes	2,010,895	1,379,564
Income not subject to tax	(2,371,144)	(1,489,866)
Tax credit from MMIP cash calls	-	(1,752,894)
Recognition of previously unrecognised deferred tax	672,562	(252,289)
Tax expense for the financial year	7,139,719	3,865,085

24. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share of RM1.00 each is based on the profit after taxation for the financial year over the number of shares in issue during the financial year of RM219,875,038 (2015: RM219,875,038).

	2016		2015	
	Group RM	Company RM	Group RM	Company RM
Net profit for the financial year	21,575,130	21,307,804	20,069,930	20,057,196

25. DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2016.

26. OPERATING LEASE ARRANGEMENTS

The Group and Company has entered into non-cancellable operating lease agreements for the use of several of its photocopiers and printing system. The lease agreements have fixed rentals for a period of five years.

The future aggregate minimum lease payment under non-cancellable operating leases contracted for as at the end of the reporting period but not recognised as liabilities are as follows:

	2016 RM	2015 RM
Group/Company		
Future minimum rental payment:		
Not later than 1 year	333,239	333,506
Later than 1 year and not later than 5 years	50,972	386,157
	384,211	719,663

27. CAPITAL COMMITMENTS

	2016 RM	2015 RM
Group/Company		
Approved and contracted for:		
Office suites	-	5,773,131
Computers	15,960	2,136,875
Renovations	195,100	35,283
Office equipment	-	-
Furniture and fittings	20,650	-
	231,710	7,945,289
Approved and not contracted for:		
Computers	1,563,665	1,492,075
Office equipment and Renovations	1,350,000	85,695
	2,913,665	1,577,770

28. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The Company is a subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.

(b) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group:

	Significant transactions		Carrying value	
	2016 RM	2015 RM	2016 RM	2015 RM
Group/Company				
Fellow subsidiary:				
Income				
Commission receivable				
- CRC Reinsurance Limited (Barbados)	226,429	980,859	-	-
- First Capital Insurance Limited	70,316	12,123	-	-
- Falcon Insurance Co. (HK) Ltd	-	2,728	-	-
- Wentworth Insurance Company Limited (Labuan)	31,438,054	17,400,530	-	-

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group:

	Significant transactions		Carrying value	
	2016	2015	2016	2015
	RM	RM	RM	RM
Expense				
Reinsurance premium ceded				
- CRC Reinsurance Limited (Barbados)	136,204	3,380,175	-	-
- First Capital Insurance Limited	14,173	20,384	-	-
- Falcon Insurance Co. (HK) Ltd	-	11,522	-	-
- Wentworth Insurance Company Limited (Labuan)	15,286,063	76,204,790	-	-
Investment management fees				
- Hamblin Watsa Investment Counsel Ltd	219,676	394,466	-	-
Management fees				
- Fairfax Asia Limited	665,923	587,850	-	-
Finance cost				
- Fairfax Asia Limited	1,708,293	1,330,221	-	-
Receivables				
Other balances due from				
- Fairfax Asia Limited	-	-	-	65,368
- Hamblin Watsa Investment Counsel Ltd	-	-	-	29,219
- Wentworth Insurance Company Limited (Labuan)	-	-	12,641,157	-
- First Capital Insurance Limited	-	-	70,316	-
- CRC Reinsurance Limited	-	-	-	-

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group (continued):

	Significant transactions		Carrying value	
	2016 RM	2015 RM	2016 RM	2015 RM
Payables				
Other balances due to				
- First Capital Insurance Limited	-	-	-	-
- Falcon Insurance Co. (HK) Ltd	-	-	-	6,333
- CRC Reinsurance Limited (Barbados)	-	-	-	868,375
- Wentworth Insurance Company Limited (Labuan)	-	-	4,295,206	63,062,276
- Fairfax Asia Limited	-	-	27,376,018	25,667,725
- Hamblin Watsa Investment Counsel Ltd	-	-	61,330	-

(c) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year was as follows:

	2016 RM	2015 RM
Short-term employee benefits	2,126,360	1,817,304
Defined contribution plan	249,401	169,935
	2,375,761	1,987,239

Includes compensation payable to key management personnel at the end of reporting period of RM151,867 (2015: RM146,235).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The key management personnel of the Company includes the Directors, Chief Executive Officer, Senior General Manager and Chief Financial Officer.

29. RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Group and Company's financial risk management policies seek to ensure that the outcomes of activities involving elements of risk are consistent with the Group and Company's objectives and risk tolerance, while maintaining an appropriate risk and reward balance and protecting the Group and Company's statement of financial position from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk tolerances with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties.

(b) Regulatory framework

Insurers have to comply with the Financial Services Act, 2014 and circulars and guidelines issued by BNM, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policies rests with the Board. The Board exercises oversight on the investments to safeguard the interests of the policyholders and shareholders.

(c) Capital management

The Group and Company's capital management policy is to create shareholder value, deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth. The RBC Framework and Guidelines on ICAAP for the insurance industry came into effect on 1 January 2009 and 1 September 2012 respectively. Under the frameworks, the Company has to maintain a capital adequacy level that commensurate with its risk profiles. The minimum capital requirement under the Risk-Based Capital Framework regulated by Bank Negara Malaysia is 130%. During this financial year, the Company maintained an ICAAP higher than the minimum requirement by the authority.

30. INSURANCE RISK

Insurance risk comprises of both actuarial and underwriting risks resulting from the pricing and acceptance of insurance contracts. The risks arise when actual claims experience are different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims.

Risks under most general insurance policies usually cover a twelve-month duration. The risk inherent in general insurance contracts is reflected in the insurance contract liabilities which include the premium and claim liabilities, as set out under Note 13 of the financial statements. The premium liabilities comprise reserve for unexpired risks, while the claim liabilities comprise the loss reserves which include both provision for outstanding claims notified and IBNR.

The Company has in place a prudent underwriting policy to ensure appropriate risk classification and premium levels. The Group and Company's reinsurance management strategy and policy are reviewed and approved by the Board.

Stress Testing ("ST") is performed twice a year. The purpose of the ST is to test the solvency of the general fund under the various scenarios according to regulatory guidelines, simulating changes in major parameters such as new business volume, claims experience, expenses and investment environment.

30. INSURANCE RISK (CONTINUED)

	2016			2015		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
Group/Company						
Claim liabilities						
Motor	288,934,768	(115,322,523)	173,612,245	247,383,000	(34,105,491)	213,277,509
Fire	90,419,605	(69,772,085)	20,647,520	68,896,000	(46,549,643)	22,346,357
Marine, Aviation and Transit	67,899,314	(52,237,218)	15,662,096	68,605,000	(54,185,413)	14,419,587
Medical and Health	11,699,826	(273,069)	11,426,757	11,428,000	(554,544)	10,873,456
Miscellaneous	139,004,973	(104,871,583)	34,133,390	143,265,000	(98,621,127)	44,643,873
	597,958,486	(342,476,478)	255,482,008	539,577,000	(234,016,218)	305,560,782
Premium liabilities						
Motor	111,126,037	(57,184,355)	53,941,682	104,259,000	(50,732,000)	53,527,000
Fire	31,942,034	(24,038,852)	7,903,182	18,845,000	(9,978,000)	8,867,000
Marine, Aviation and Transit	15,801,956	(12,334,270)	3,467,686	9,748,000	(5,161,000)	4,587,000
Medical and Health	19,997,293	(1,991,830)	18,005,463	45,780,000	(24,239,000)	21,541,000
Miscellaneous	34,685,650	(22,954,587)	11,731,063	25,689,000	(13,601,000)	12,088,000
	213,552,970	(118,503,894)	95,049,076	204,321,000	(103,711,000)	100,610,000

Key assumptions

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

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

30. INSURANCE RISK (CONTINUED)

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

Sensitivities

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

The following analysis 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 claim liabilities, but to demonstrate the impact due to changes in assumptions, these assumptions are illustrated on an individual basis. It should be noted that movements in these assumptions are non-linear.

	Change in assumptions RM	Impact on gross liabilities RM	Impact on net liabilities RM	Impact on profit before tax RM	Impact on equity RM
Group/Company					
2016					
Provision for Risk Margin for Adverse Deviation (“PRAD”)	+5%	2,253,253	833,598	(833,598)	(633,534)
Loss ratio	+5%	93,134,283	42,865,109	(42,865,109)	(32,577,483)
Claim handling expenses	+5%	626,401	626,401	(626,401)	(476,065)
2015					
Provision for Risk Margin for Adverse Deviation (“PRAD”)	+5%	(609,000)	(1,622,000)	1,622,000	1,216,500
Loss ratio	+5%	12,509,000	7,067,000	(7,067,000)	(5,300,250)
Claim handling expenses	+5%	(2,162,000)	(2,162,000)	2,162,000	1,621,500

30. INSURANCE RISK (CONTINUED)

Claims development table

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

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 relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Two separate tables have been shown to account for claim developments for Pacific Insurance Berhad (PIB) ongoing business and MCIS run-off (ex-MCIS) business respectively with the reasons of :

- Ex-MCIS table consists of cohort of claims from existing risks of MCIS up to the point of acquisition 28 February 2015. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2016 (PIB):

Accident year	Prior to 2011 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM
Group/Company							
At end of accident year		144,171,467	135,203,325	116,338,554	123,760,119	203,716,816	317,146,705
One year later		120,667,544	119,708,428	105,807,794	114,975,495	208,908,915	
Two years later		121,099,270	115,919,355	106,791,073	111,045,828		
Three years later		118,433,538	115,268,290	104,834,497			
Four years later		118,359,666	110,443,503				
Five years later		115,905,608					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		115,905,608	110,443,503	104,834,497	111,045,828	208,908,915	317,146,705
At end of accident year		(45,032,760)	(38,341,088)	(42,066,707)	(39,174,817)	(51,264,771)	(84,733,806)
One year later		(100,846,814)	(87,538,028)	(71,934,324)	(73,691,410)	(124,567,293)	
Two years later		(108,290,519)	(96,979,889)	(85,486,306)	(87,747,029)		
Three years later		(110,968,371)	(100,494,788)	(91,334,354)			
Four years later		(111,797,776)	(105,516,825)				
Five years later		(113,204,918)					
Six years later							
Seven years later							
Cumulative payments to-date		(113,204,918)	(105,516,825)	(91,334,354)	(87,747,029)	(124,567,293)	(84,733,806)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2016 (PIB) (continued):

Accident year	**Prior to 2011 RM**	**2011 RM**	**2012 RM**	**2013 RM**	**2014 RM**	**2015 RM**	**2016 RM**	**Total RM**
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	1,586,628	2,700,690	4,926,679	13,500,144	23,298,799	84,341,622	232,412,899	362,767,460
Gross general insurance outstanding liabilities (treaty inward)								43,368,350
Best estimate of claim liabilities								406,135,810
Claims handling expenses								8,066,384
PRAD at 75% confidence Level								40,328,943
Gross general insurance contract liabilities per statement of financial position								454,531,137

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2016 (MCIS general insurance business run-off):

Accident year	**Prior to 2011 RM**	**2011 RM**	**2012 RM**	**2013 RM**	**2014 RM**	**2015 RM**	**2016 RM**
Group/Company							
At end of accident year		135,990,000	145,104,000	105,396,000	86,623,384	18,695,705	167,828
One year later		130,732,000	156,394,000	93,253,432	86,840,507	21,626,874	
Two years later		127,229,000	158,346,490	92,377,981	83,113,690		
Three years later		127,401,572	152,161,537	87,378,959			
Four years later		123,456,655	150,706,019				
Five years later		122,313,991					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		122,313,991	150,706,019	87,378,959	83,113,690	21,626,874	167,828
At end of accident year		(35,455,173)	(58,383,924)	(26,581,810)	(23,780,956)	(3,073,991)	-
One year later		(78,892,936)	(94,233,566)	(54,196,942)	(38,329,500)	(8,496,081)	
Two years later		(99,558,899)	(107,970,113)	(61,129,585)	(55,233,080)		
Three years later		(106,472,560)	(112,078,896)	(68,642,256)			
Four years later		(111,155,150)	(116,886,455)				
Five years later		(114,070,828)					
Six years later							
Seven years later							
Cumulative payments to-date		(114,070,828)	(116,886,455)	(68,642,256)	(55,233,080)	(8,496,081)	-

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2016 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2011 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	Total RM
Group/Company								
Gross general insurance outstanding liabilities (direct and facultative)	24,263,443	8,243,163	33,819,564	18,736,703	27,880,610	13,130,793	167,828	126,242,104
Gross general insurance outstanding liabilities (treaty inward)								717,207
Best estimate of claim liabilities								126,959,310
Claims handling expenses								3,322,733
PRAD at 75% confidence Level								13,145,305
Gross general insurance contract liabilities per statement of financial position								143,427,348

The financial information for 2016 is based on a 6 months analysis for the period of 1 July 2016 to 31 December 2016.

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2016 (PIB):

Accident year	Prior to 2011 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM
Group/Company							
At end of accident year		70,626,359	71,293,412	76,527,904	82,907,814	121,532,796	150,715,647
One year later		68,348,022	67,364,621	72,915,675	64,204,183	121,955,485	
Two years later		66,923,137	64,872,867	65,794,967	60,252,225		
Three years later		65,526,931	63,307,168	64,247,522			
Four years later		64,511,259	62,065,027				
Five years later		64,079,564					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		64,079,564	62,065,027	64,247,522	60,252,225	121,955,485	150,715,647
At end of accident year		(36,266,616)	(35,186,016)	(36,078,103)	(34,893,870)	(42,780,549)	(57,094,912)
One year later		(56,248,456)	(54,745,833)	(56,406,967)	(51,160,371)	(82,033,698)	
Two years later		(60,768,608)	(59,602,493)	(60,685,360)	(54,989,373)		
Three years later		(62,815,314)	(60,180,616)	(61,894,440)			
Four years later		(63,106,482)	(60,723,891)				
Five years later		(63,307,618)					
Six years later							
Seven years later							
Cumulative payments to-date		(63,307,618)	(60,723,891)	(61,894,440)	(54,989,373)	(82,033,698)	(57,094,912)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2016 (PIB) (continued):

Accident year	**Prior to 2011 RM**	**2011 RM**	**2012 RM**	**2013 RM**	**2014 RM**	**2015 RM**	**2016 RM**	**Total RM**
Group/Company								
Net general insurance outstanding liabilities (direct and facultative)	620,757	771,946	1,341,136	2,353,082	5,262,852	39,921,787	93,620,735	143,892,296
Net general insurance outstanding liabilities (treaty inward)								43,368,350
Best estimate of claim liabilities								187,260,646
Claims handling expenses								8,066,384
PRAD at 75% confidence Level								21,595,890
Net general insurance contract liabilities per statement of financial position								216,922,920

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2016 (MCIS general insurance business run-off):

Accident year	Prior to 2011 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM
Group/Company							
At end of accident year		89,931,000	83,506,000	76,525,000	69,675,872	14,530,459	23,937
One year later		88,989,000	80,843,000	72,610,787	71,475,987	14,557,068	
Two years later		85,328,000	79,972,584	72,900,862	43,832,305		
Three years later		85,130,555	78,699,009	55,813,147			
Four years later		83,896,587	70,386,354				
Five years later		78,030,428					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		78,030,428	70,386,354	55,813,147	43,832,305	14,557,068	23,937
At end of accident year		(29,453,892)	(29,844,489)	(22,034,001)	(22,210,967)	(2,922,588)	-
One year later		(60,731,822)	(55,720,126)	(45,329,555)	(33,676,688)	(7,614,617)	
Two years later		(69,608,618)	(63,851,310)	(49,278,223)	(34,477,349)		
Three years later		(75,039,981)	(66,484,174)	(49,539,391)			
Four years later		(76,604,660)	(66,293,975)				
Five years later		(76,220,883)					
Six years later							
Seven years later							
Cumulative payments to-date		(76,220,883)	(66,293,975)	(49,539,391)	(34,477,349)	(7,614,617)	-

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30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2016 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2011 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	Total RM
Group/Company								
Net general insurance outstanding liabilities (direct and facultative)	2,536,861	1,809,545	4,092,379	6,273,756	9,354,956	6,942,451	23,937	31,033,885
Net general insurance outstanding liabilities (treaty inward)								717,207
Best estimate of claim liabilities								31,751,092
Claims handling expenses								3,322,733
PRAD at 75% confidence Level								3,485,263
Net general insurance contract liabilities per statement of financial position								38,559,088

The financial information for 2016 is based on a 6 months analysis for the period of 1 July 2016 to 31 December 2016.

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (PIB):

Accident year	**Prior to 2010 RM**	**2010 RM**	**2011 RM**	**2012 RM**	**2013 RM**	**2014 RM**	**2015 RM**
Group/Company							
At end of accident year		80,623,250	144,171,467	135,203,325	116,338,554	123,760,119	203,716,816
One year later		87,820,763	120,667,544	119,708,428	105,807,794	114,975,495	
Two years later		79,606,318	121,099,270	115,919,355	106,791,073		
Three years later		75,096,778	118,433,538	115,268,290			
Four years later		74,422,857	118,359,666				
Five years later		74,434,144					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		74,434,144	118,359,666	115,268,290	106,791,073	114,975,495	203,716,816
At end of accident year		(36,889,706)	(45,032,760)	(38,341,088)	(42,066,707)	(39,174,817)	(51,264,771)
One year later		(64,369,651)	(100,846,814)	(87,538,028)	(71,934,324)	(73,691,410)	
Two years later		(68,499,657)	(108,290,519)	(96,979,889)	(85,486,306)		
Three years later		(70,835,395)	(110,968,371)	(100,494,788)			
Four years later		(71,823,919)	(111,797,776)				
Five years later		(72,228,814)					
Six years later							
Seven years later							
Cumulative payments to-date		(72,228,814)	(111,797,776)	(100,494,788)	(85,486,306)	(73,691,410)	(51,264,771)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (PIB) (continued):

Accident year	Prior to 2010 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	2,863,603	2,205,330	6,561,890	14,773,502	21,304,767	41,284,085	152,452,045	241,445,222
Gross general insurance outstanding liabilities (treaty inward)								59,073,494
Best estimate of claim liabilities								300,518,716
Claims handling expenses								4,791,035
PRAD at 75% confidence Level								29,469,834
Gross general insurance contract liabilities per statement of financial position								334,779,585

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30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (MCIS general insurance business run-off):

Accident year	Prior to 2010 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM
Group/Company							
At end of accident year		135,798,000	135,990,000	145,104,000	105,396,000	86,623,384	18,695,705
One year later		116,750,000	130,732,000	156,394,000	93,253,432	86,840,507	
Two years later		109,532,000	127,229,000	158,346,490	92,377,981		
Three years later		109,960,000	127,401,572	152,161,537			
Four years later		110,263,088	123,456,655				
Five years later		109,818,866					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		109,818,866	123,456,655	152,161,537	92,377,981	86,840,507	18,695,705
At end of accident year		(31,393,119)	(35,455,173)	(58,383,924)	(26,581,810)	(23,780,956)	(3,073,991)
One year later		(69,436,204)	(78,892,936)	(94,233,566)	(54,196,942)	(38,329,500)	
Two years later		(83,145,035)	(99,558,899)	(107,970,113)	(61,129,585)		
Three years later		(89,471,047)	(106,472,560)	(112,078,896)			
Four years later		(92,955,876)	(111,155,150)				
Five years later		(93,183,983)					
Six years later							
Seven years later							
Cumulative payments to-date		(93,183,983)	(111,155,150)	(112,078,896)	(61,129,585)	(38,329,500)	(3,073,991)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2015 (MCIS general insurance business run-off) (continued):

Accident year	**Prior to 2010 RM**	**2010 RM**	**2011 RM**	**2012 RM**	**2013 RM**	**2014 RM**	**2015 RM**	**Total RM**
Group/Company								
Gross general insurance outstanding liabilities (direct and facultative)	16,658,759	16,634,883	12,301,505	40,082,641	31,248,396	48,511,007	15,621,714	181,058,905
Gross general insurance outstanding liabilities (treaty inward)								1,427,877
Best estimate of claim liabilities								182,486,782
Claims handling expenses								4,061,633
PRAD at 75% confidence Level								18,249,000
Gross general insurance contract liabilities per statement of financial position								204,797,415

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (PIB):

Accident year	**Prior to 2010 RM**	**2010 RM**	**2011 RM**	**2012 RM**	**2013 RM**	**2014 RM**	**2015 RM**
Group/Company							
At end of accident year		65,160,963	70,626,350	71,293,412	76,527,904	82,907,814	121,573,096
One year later		65,221,561	68,348,022	67,364,621	72,915,675	64,204,183	
Two years later		63,839,900	66,923,137	64,872,867	65,794,967		
Three years later		60,645,873	65,526,931	63,307,168			
Four years later		60,121,891	64,511,259				
Five years later		59,572,051					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		59,572,051	64,511,259	63,307,168	65,794,967	64,204,183	121,573,096
At end of accident year		(34,150,025)	(36,266,616)	(35,186,016)	(36,078,103)	(34,893,870)	(42,820,849)
One year later		(53,401,540)	(56,248,456)	(54,745,833)	(56,406,967)	(51,160,371)	
Two years later		(56,659,878)	(60,768,608)	(59,602,493)	(60,685,360)		
Three years later		(58,453,152)	(62,815,314)	(60,180,616)			
Four years later		(58,801,001)	(63,106,482)				
Five years later		(58,966,311)					
Six years later							
Seven years later							
Cumulative payments to-date		(58,966,311)	(63,106,482)	(60,180,616)	(60,685,360)	(51,160,371)	(42,820,849)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (PIB) (continued):

Accident year	Prior to 2010 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
Group/Company								
Net general insurance outstanding liabilities (direct and facultative)	1,267,385	605,740	1,404,777	3,126,552	5,109,607	13,043,812	78,752,247	103,310,120
Net general insurance outstanding liabilities (treaty inward)								59,073,493
Best estimate of claim liabilities								162,383,613
Claims handling expenses								4,791,035
PRAD at 75% confidence Level								16,030,256
Net general insurance contract liabilities per statement of financial position								183,204,904

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (MCIS general insurance business run-off):

Accident year	Prior to 2010 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM
Group/Company							
At end of accident year		89,390,000	89,931,000	83,506,000	76,525,000	69,675,872	14,530,459
One year later		81,447,000	88,989,000	80,843,000	72,610,787	71,475,988	
Two years later		78,013,000	85,328,000	79,972,584	72,900,862		
Three years later		75,968,000	85,130,555	78,699,009			
Four years later		75,766,994	83,896,587				
Five years later		74,670,866					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		74,670,866	83,896,587	78,699,009	72,900,862	71,475,988	14,530,459
At end of accident year		(26,001,267)	(29,453,892)	(29,844,489)	(22,034,001)	(22,210,967)	(2,922,588)
One year later		(53,895,678)	(60,731,822)	(55,720,126)	(45,329,555)	(33,676,688)	
Two years later		(64,039,644)	(69,608,618)	(63,851,310)	(49,278,222)		
Three years later		(67,436,928)	(75,039,981)	(66,484,174)			
Four years later		(69,489,591)	(76,604,660)				
Five years later		(69,629,397)					
Six years later							
Seven years later							
Cumulative payments to-date		(69,629,397)	(76,604,660)	(66,484,174)	(49,278,222)	(33,676,688)	(2,922,588)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2015 (MCIS general insurance business run-off) (continued):

Accident year	**Prior to 2010 RM**	**2010 RM**	**2011 RM**	**2012 RM**	**2013 RM**	**2014 RM**	**2015 RM**	**Total RM**
Group/Company								
Net general insurance outstanding liabilities (direct and facultative)	2,516,635	5,041,469	7,291,927	12,214,835	23,622,640	37,799,300	11,607,871	100,094,677
Net general insurance outstanding liabilities (treaty inward)								1,427,878
Best estimate of claim liabilities								101,522,555
Claims handling expenses								4,061,633
PRAD at 75% confidence Level								11,446,908
Net general insurance contract liabilities per statement of financial position								117,031,096

31. FINANCIAL RISKS

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

(i) Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The major classes of financial assets of the Group are deposits with financial institutions, available-for-sale securities (unit trusts and bonds), loan receivables and trade receivables.

Credit risk arises when the Group and Company's cash assets are placed in interest-bearing instruments, mainly fixed and call deposits and repurchase agreements with licensed financial institutions. The Group and Company manages this credit risk by spreading its deposits with a large group of financial institutions.

Trade receivables are monitored regularly and the Group and Company adopts various control measures such as 60 days Premium Warranty and Cash Before Cover to minimise this credit risk.

Credit exposure

At the reporting date, the Group and Company's maximum exposure to credit risk is represented by the maximum amount of each class of financial assets recognised in the statements of financial position.

Credit exposure by credit rating

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

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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired				
	Investment grade	Not rated	Past-due but not impaired	Past-due and impaired	Total
	RM	RM	RM	RM	RM
2016					
Group					
LAR					
Fixed and call deposits	26,677,467	-	-	-	26,677,467
AFS financial investments					
Malaysian Government Securities	-	20,387,860	-	-	20,387,860
Government Investment Issues	-	-	-	-	-
Corporate bonds	104,293,659	4,713,517	-	-	109,007,176
Unit trusts	-	107,389,170	-	-	107,389,170
FVTPL financial investments					
Equity securities	-	29,705,205	-	-	29,705,205
REITs	-	3,453,200	-	-	3,453,200
Reinsurance assets	39,165,218	419,689,212	-	2,125,942	460,980,372
Insurance receivables	2,197,279	53,420,656	30,239,357	6,822,585	92,679,877
Cash and cash equivalents	302,457,359	9,700	-	-	302,467,059
Allowance for impairment	-	-	-	(8,948,527)	(8,948,527)
	474,790,982	638,768,520	30,239,357	-	1,143,798,859

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired				
	Investment grade	**Not rated**	**Past-due but not impaired**	**Past-due and impaired**	**Total**
	RM	**RM**	**RM**	**RM**	**RM**
2016					
Company					
LAR					
Fixed and call deposits	26,677,467	-	-	-	26,677,467
Unit trusts	-	287,893,457	-	-	287,893,457
FVTPL financial investments					
Equity securities	-	29,705,205	-	-	29,705,205
REITs	-	3,453,200	-	-	3,453,200
Reinsurance assets	39,165,218	419,689,212	-	2,125,942	460,980,372
Insurance receivables	2,197,279	53,420,656	30,239,357	6,822,585	92,679,878
Cash and cash equivalents	250,867,912	9,700	-	-	250,877,612
Allowance for impairment	-	-	-	(8,948,527)	(8,948,527)
	318,907,876	794,171,430	30,239,357	-	1,143,318,664

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired		Past-due	Past-due	
	Investment grade	Not rated	but not impaired	and impaired	Total
	RM	RM	RM	RM	RM
2015					
Group					
LAR					
Fixed and call deposits	24,534,534	287,596	-	-	24,822,130
AFS financial investments					
Malaysian Government Securities	-	20,484,217	-	-	20,484,217
Government Investment Issues	-	13,033,337	-	-	13,033,337
Corporate bonds	98,347,370	8,155,340	-	-	106,502,710
Unit trusts	-	105,286,853	-	-	105,286,853
FVTPL financial investments					
Equity securities	-	28,760,206	-	-	28,760,206
REITs	-	2,987,600	-	-	2,987,600
Reinsurance assets	201,722,051	136,005,167	-	5,324,782	343,052,000
Insurance receivables	7,644,708	47,320,559	25,706,308	5,295,297	85,966,872
Cash and cash equivalents	333,242,574	10,200	-	-	333,252,774
Allowance for impairment	-	-	-	(10,620,079)	(10,620,079)
	665,491,237	362,331,075	25,706,308	-	1,053,528,620

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired				
	Investment grade	**Not rated**	**Past-due but not impaired**	**Past-due and impaired**	**Total**
	RM	**RM**	**RM**	**RM**	**RM**
2015					
Company					
LAR					
Fixed and call deposits	24,534,534	287,596	-	-	24,822,130
AFS financial investments					
Malaysian Government Securities	-	20,484,217	-	-	20,484,217
Government Investment Issues	-	10,132,627	-	-	10,132,627
Corporate bonds	-	-	-	-	-
Unit trusts	-	232,584,617	-	-	232,584,617
FVTPL financial investments					
Equity securities	-	28,760,206	-	-	28,760,206
REITs	-	2,987,600	-	-	2,987,600
Reinsurance assets	201,722,051	136,005,167	-	5,324,782	343,052,000
Insurance receivables	7,644,708	47,320,559	25,706,308	5,295,297	85,966,872
Cash and cash equivalents	317,191,730	10,200	-	-	317,201,930
Allowance for impairment	-	-	-	(10,620,079)	(10,620,079)
	551,093,023	478,572,789	25,706,308	-	1,055,372,120

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit ratings of counterparties obtained from Rating Agency of Malaysia ("RAM"), Malaysian Rating Corporation Berhad ("MARC"), A.M. Best Company ("A.M. Best") and Standard & Poor's ("'S&P"). AAA is the highest possible rating.

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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
2016						
Group						
LAR						
Fixed and call deposits	9,470,073	13,199,427	4,007,967	-	-	26,677,467
AFS financial investments						
Malaysian Government Securities	-	-	-	-	20,387,860	20,387,860
Government Investment Issues	-	-	-	-	-	-
Corporate bonds	25,246,574	55,913,094	23,133,991	-	4,713,517	109,007,176
Unit trusts	-	-	-	-	107,389,170	107,389,170
FVTPL financial investments						
Equity securities	-	-	-	-	29,705,205	29,705,205
REITs	-	-	-	-	3,453,200	3,453,200
Reinsurance assets	-	1,443,220	37,721,998	-	421,815,154	460,980,372
Insurance receivables	-	879,441	1,317,839	-	83,660,014	85,857,294
Cash and cash equivalents	36,683,075	265,771,393	2,891	-	9,700	302,467,059
	71,399,722	337,206,575	66,184,685	-	671,133,820	1,145,924,803
Neither past-due nor impaired	71,399,722	337,206,575	66,184,685	-	640,894,462	1,115,685,445
Past-due but not impaired	-	-	-	-	30,239,357	30,239,357
	71,399,722	337,206,575	66,184,685	-	671,133,820	1,145,924,802

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31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	AAA	AA	A	B	Not rated	Total
	RM	RM	RM	RM	RM	RM
2016						
Company						
LAR						
Fixed and call deposits	9,470,073	13,199,427	4,007,967	-	-	26,677,467
AFS financial investments						
Malaysian Government Securities	-	-	-	-	-	-
Government Investment Issues	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Unit trusts	-	-	-	-	287,893,457	287,893,457
FVTPL financial investments						
Equity securities	-	-	-	-	29,705,205	29,705,205
REITs	-	-	-	-	3,453,200	3,453,200
Reinsurance assets	-	1,443,220	37,721,998	-	421,815,154	460,980,372
Insurance receivables	-	879,441	1,317,839	-	83,660,014	85,857,293
Cash and cash equivalents	17,102,705	233,762,316	2,891	-	9,700	250,877,612
	26,572,778	249,284,404	43,050,694	-	826,536,730	1,145,444,606
Neither past-due nor impaired	26,572,778	249,284,404	43,050,694	-	796,297,372	1,115,205,249
Past-due but not impaired	-	-	-	-	30,239,357	30,239,357
	26,572,778	249,284,404	43,050,694	-	826,536,730	1,145,444,606

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	AAA	AA	A	B	Not rated	Total
	RM	RM	RM	RM	RM	RM
2015						
Group						
LAR						
Fixed and call deposits	7,953,804	11,957,417	4,623,313	-	287,596	24,822,130
AFS financial investments						
Malaysian Government Securities	-	-	-	-	20,484,217	20,484,217
Government Investment Issues	-	-	-	-	13,033,337	13,033,337
Corporate bonds	22,472,824	68,239,842	7,634,704	-	8,155,340	106,502,710
Unit trusts	-	-	-	-	105,286,853	105,286,853
FVTPL financial investments						
Equity securities	-	-	-	-	28,760,206	28,760,206
REITs	-	-	-	-	2,987,600	2,987,600
Reinsurance assets	610,490	24,510,242	176,538,861	62,458	136,005,167	337,727,218
Insurance receivables	233,884	1,543,790	5,866,935	99	73,026,867	80,671,575
Cash and cash equivalents	16,281,812	316,957,840	2,922	-	10,200	333,252,774
	47,552,814	423,209,131	194,666,735	62,557	388,037,383	1,053,528,620
Neither past-due nor impaired	47,552,814	423,209,131	194,666,735	62,557	362,331,075	1,027,822,312
Past-due but not impaired	-	-	-	-	25,706,308	25,706,308
	47,552,814	423,209,131	194,666,735	62,557	388,037,383	1,053,528,620

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	AAA RM	AA RM	A RM	B RM	Not rated RM	Total RM
2015						
Company						
LAR						
Fixed and call deposits	7,953,804	11,957,417	4,623,313	-	287,596	24,822,130
AFS financial investments						
Malaysian Government Securities	-	-	-	-	20,484,217	20,484,217
Government Investment Issues	-	-	-	-	10,132,627	10,132,627
Corporate bonds	-	-	-	-	-	-
Unit trusts	-	-	-	-	232,584,617	232,584,617
FVTPL financial investments						
Equity securities	-	-	-	-	28,760,206	28,760,206
REITs	-	-	-	-	2,987,600	2,987,600
Reinsurance assets	610,490	24,510,242	176,538,861	62,458	136,005,167	337,727,218
Insurance receivables	233,884	1,543,790	5,866,935	99	73,026,867	80,671,575
Cash and cash equivalents	8,974,060	308,214,748	2,922	-	10,200	317,201,930
	17,772,238	346,226,197	187,032,031	62,557	504,279,097	1,055,372,120
Neither past-due nor impaired	17,772,238	346,226,197	187,032,031	62,557	478,572,789	1,029,665,812
Past-due but not impaired	-	-	-	-	25,706,308	25,706,308
	17,772,238	346,226,197	187,032,031	62,557	504,279,097	1,055,372,120

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The Company uses the ratings assigned by external rating agencies to assess credit risk.

Age analysis of financial assets past-due but not impaired

	<30 days	31 to 60 days	61 to 90 days	91 to 180 days	>180 days	Total
Group/Company						
2016						
Insurance receivables	11,740,896	2,172,739	6,034,375	6,749,803	3,541,545	30,239,357
2015						
Insurance receivables	3,704,953	5,330,439	5,293,864	4,199,280	7,177,772	25,706,308

* Past-due but not impaired refers to amounts outstanding more than 90 days from the effective date of the transactions. The above balances had been aged according to the period subsequent to classification of these balances as past-due.

31. FINANCIAL RISKS (CONTINUED)

At 31 December 2016, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM2,125,942 (2015: RM5,324,782). No collateral is held as security for any past-due or impaired assets. The Group and Company records impairment allowance for insurance receivables in separate “allowance for impairment losses” account. A reconciliation of the allowance for impairment losses for insurance receivables & reinsurance assets are as follows:

	Insurance receivable Allowance for Impairment losses		Reinsurance Assets Allowance for Impairment losses		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**	**RM**	**RM**
Group/Company						
At 1 January	5,295,297	406,613	5,324,782	-	10,620,079	406,613
Acquisition of MCIS general insurance business	-	3,857,171	-	1,636,599	-	5,493,770
Allowance/(write back of) for the financial year	3,002,520	935,083	-	3,688,183	3,002,520	4,623,266
Bad debts write back/ (written-off)	(1,475,232)	96,430	(3,198,840)	-	(4,674,072)	96,430
At 31 December	6,822,585	5,295,297	2,125,942	5,324,782	8,948,527	10,620,079

Liquidity risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting obligations associated with financial liabilities. The Group and Company’s exposure to liquidity risk arises mainly from its lending commitments, borrowings, trade and other payables.

The Group and Company actively manages the profile of its deposits with financial institutions, operating cash flows and the availability of funding so as to ensure that all operating needs are met. As part of its overall prudent liquidity management, the Group and Company maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles

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

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

Unearned premiums reserves and the reinsurers' share of the unearned premiums reserves have been excluded from the analysis as there are no contractual obligations with those balances.

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2016								
Group								
Financial investments:								
LAR	26,677,467	27,151,135	-	-	-	-	-	27,151,135
AFS	236,784,206	4,695,750	59,347,723	32,251,025	61,070,700	3,853,500	107,389,170	268,607,868
FVTPL	33,158,405	-	-	-	-	-	33,158,405	33,158,405
Reinsurance assets on claim liabilities	342,476,478	194,098,844	101,534,456	36,491,034	10,352,144	-	-	342,476,478
Insurance receivables	85,857,293	85,857,293	-	-	-	-	-	85,857,293
Other receivables								
- staff loans	1,852,168	382,367	448,411	267,079	582,878	171,433	-	1,852,168
- bond collateral deposits placements	1,430,082	1,446,288	-	-	-	-	-	1,446,288
Cash and cash equivalents	302,467,059	291,989,680	-	-	-	-	10,782,364	302,772,044
Total financial assets	1,030,703,158	605,621,357	161,330,590	69,009,138	72,005,722	4,024,933	151,329,939	1,063,321,678

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2016								
Company								
Financial investments:								
LAR	26,677,467	27,151,135	-	-	-	-	-	27,151,135
AFS	287,893,457	50,015,000	-	-	-	-	237,878,457	287,893,457
FVTPL	33,158,405	-	-	-	-	-	33,158,405	33,158,405
Reinsurance assets on claim liabilities	342,476,478	194,098,844	101,534,456	36,491,034	10,352,144	-	-	342,476,478
Insurance receivables	85,857,293	85,857,293	-	-	-	-	-	85,857,293
Other receivables								
- staff loans	1,852,168	382,367	448,411	267,079	582,878	171,433	-	1,852,168
- bond collateral deposits placements	1,430,082	1,446,288	-	-	-	-	-	1,446,288
Cash and cash equivalents	250,877,612	240,414,735	-	-	-	-	10,750,029	251,164,764
Total financial assets	1,030,222,962	599,365,662	101,982,867	36,758,113	10,935,022	171,433	281,786,891	1,030,999,988

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2016								
Group/Company								
Insurance contract liabilites								
- claim liabilities	597,958,486	332,729,966	194,473,376	50,797,669	19,957,475	-	-	597,958,486
Subordinated loans	27,376,018	-	-	32,766,941	-	-	-	32,766,941
Insurance payables	74,823,368	74,823,368	-	-	-	-	-	74,823,368
Other payables								
cash collateral held for								
bond business	1,581,363	643,842	746,637	190,884	-	-	-	1,581,363
Total financial liabilities	701,739,235	408,197,176	195,220,013	83,755,494	19,957,475	-	-	707,130,158

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2015								
Group								
Financial investments:								
LAR	24,822,130	25,233,439	-	-	-	-	-	25,233,439
AFS	138,804,407	35,191,843	8,129,624	54,165,596	69,527,542	16,414,022	105,286,853	288,715,480
FVTPL	31,747,806	-	-	-	-	-	31,747,806	31,747,806
Reinsurance assets on claim liabilities	239,341,000	123,452,489	77,288,750	27,861,734	10,738,027	-	-	239,341,000
Insurance receivables	80,671,575	80,671,575	-	-	-	-	-	80,671,575
Other receivables								
- staff loans	1,777,778	260,265	413,469	288,858	670,953	144,233	-	1,777,778
- bond collateral deposits placements	780,208	792,678	-	-	-	-	-	792,678
Cash and cash equivalents	333,252,774	325,849,214	-	-	-	-	7,909,679	333,758,893
Total financial assets	851,197,678	591,451,503	85,831,843	82,316,188	80,936,522	16,558,255	144,944,338	1,002,038,649

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2015								
Company								
Financial investments:								
LAR	24,822,130	25,233,439	-					25,233,439
AFS	263,201,461	31,014,150	-	-	-	-	232,584,617	263,598,767
FVTPL	31,747,806	-	-				31,747,806	31,747,806
Reinsurance assets on claim liabilities	239,341,000	123,452,489	77,288,750	27,861,734	10,738,027	-	-	239,341,000
Insurance receivables	80,671,575	80,671,575	-	-	-	-	-	80,671,575
Other receivables								
- staff loans	1,777,778	260,265	413,469	288,858	670,953	144,233	-	1,777,778
- bond collateral deposits placements	780,208	792,678	-	-	-	-	-	792,678
Cash and cash equivalents	317,201,930	308,652,714	-	-	-	-	9,055,338	317,708,052
Total financial assets	959,543,888	570,077,310	77,702,219	28,150,592	11,408,980	144,233	273,387,761	960,871,095

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2015								
Group/Company								
Insurance contract liabilities								
- claim liabilities	539,577,000	270,779,511	190,491,346	51,309,744	26,996,399	-	-	539,577,000
Subordinated loans	25,667,725	-	-	-	32,878,969	-	-	32,878,969
Insurance payables	139,554,995	139,554,995	-	-	-	-	-	139,554,995
Other payables								
- cash collateral held for bond business	981,209	621,776	181,449	177,984	-	-	-	981,209
Total financial liabilities	705,780,929	410,956,282	190,672,795	51,487,728	59,875,368	-	-	712,992,173

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-Current RM	Total RM
Group			
2016			
Financial investments:			
LAR	26,677,467	-	26,677,467
AFS	111,876,598	124,907,608	236,784,206
FVTPL	33,158,405	-	33,158,405
Reinsurance assets on claim liabilities	194,098,844	148,377,634	342,476,478
Insurance receivables	85,857,293	-	85,857,293
Other receivables			
- staff loans	382,367	1,469,801	1,852,168
- bond collateral deposits placements	1,430,082	-	1,430,082
Cash and cash equivalents	302,467,059	-	302,467,059
Total financial assets	755,948,114	274,755,043	1,030,703,158
2015			
Financial investments:			
LAR	24,822,130	-	24,822,130
AFS	140,020,041	105,287,076	245,307,117
FVTPL	31,747,806	-	31,747,806
Reinsurance assets on claim liabilities	123,452,489	115,888,511	239,341,000
Insurance receivables	80,671,575	-	80,671,575
Other receivables			
- staff loans	260,265	1,517,513	1,777,778
- bond collateral deposits placements	780,208	-	780,208
Cash and cash equivalents	333,252,774	-	333,252,774
Total financial assets	735,007,288	222,693,100	957,700,388

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-Current RM	Total RM
Company			
2016			
Financial investments:			
LAR	26,677,467	-	26,677,467
AFS	287,893,457	-	287,893,457
FVTPL	33,158,405	-	33,158,405
Reinsurance assets on claim liabilities	194,098,844	148,377,634	342,476,478
Insurance receivables	85,857,293	-	85,857,293
Other receivables			
- staff loans	382,367	1,469,801	1,852,168
- bond collateral deposits placements	1,430,082	-	1,430,082
Cash and cash equivalents	250,877,612	-	250,877,612
Total financial assets	880,375,527	149,847,435	1,030,222,962
2015			
Financial investments:			
LAR	24,822,130	-	24,822,130
AFS	263,201,461	-	263,201,461
FVTPL	31,747,806	-	31,747,806
Reinsurance assets on claim liabilities	123,452,489	115,888,511	239,341,000
Insurance receivables	80,671,575	-	80,671,575
Other receivables			
- staff loans	260,265	1,517,513	1,777,778
- bond collateral deposits placements	780,208	-	780,208
Cash and cash equivalents	317,201,930	-	317,201,930
Total financial assets	842,137,864	117,406,024	959,543,888

31. FINANCIAL RISKS (CONTINUED)

Market price risk

Market price risk is the risk that the fair value or future cash flows of the Company’s financial instruments will fluctuate because of changes in market prices (other than interest rates).

The Company's investments in equities and REITs are subject to fluctuation in market prices of quoted securities while investments in unit trusts are subject to fluctuation in the net asset value of the unit trust funds. The Company’s investments in equities are managed by licensed asset management companies. The Company has given clear investment guidelines and performance benchmarks to the asset management companies under the fund management agreements in order to manage the market risk. The unit trusts held by the Company are invested with unit trust funds governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Company monitors the performance of the investments against the relevant performance benchmarks established by the Company.

The analysis below is performed for reasonably possible price movements in the available-for-sale and trading securities of the Company. The impact on equity represents the changes in fair value of AFS financial assets.

	2016			2015		
	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM
Group						
Market value						
Available-for-sale securities:						
Unit trust investmen	+5%	-	4,080,788	+5%	-	3,948,257
Unit trust investmen	-5%	-	(4,080,788)	-5%	-	(3,948,257)
FVTPL:						
Equities	+5%	1,485,260	1,128,798	+5%	1,438,010	1,078,508
Equities	-5%	(1,485,260)	(1,128,798)	-5%	(1,438,010)	(1,078,508)
REITs	+5%	172,660	131,222	+5%	149,380	112,035
REITs	-5%	(172,660)	(131,222)	-5%	(149,380)	(112,035)
Company						
Market value						
Available-for-sale securities:						
Unit trust investmen	+5%	-	10,939,951	+5%	-	8,721,923
Unit trust investmen	-5%	-	(10,939,951)	-5%	-	(8,721,923)
FVTPL:						
Equities	+5%	1,485,260	1,128,798	+5%	1,438,010	1,078,508
Equities	-5%	(1,485,260)	(1,128,798)	-5%	(1,438,010)	(1,078,508)
REITs	+5%	172,660	131,222	+5%	149,380	112,035
REITs	-5%	(172,660)	(131,222)	-5%	(149,380)	(112,035)

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

31. FINANCIAL RISKS (CONTINUED)

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's primary interest rate risk relates to interest-bearing assets. The interest-bearing assets are made up primarily of fixed and call deposits with licensed financial institutions, Malaysian Government Securities and bonds issued by corporations in Malaysia. Floating rate/yield instruments expose the Company to cash flow interest/profit risk, whereas fixed rate/yield instruments expose the Company to fair value interest/profit risk.

The Company manages the interest rate risk of its deposits with licensed financial institutions by maintaining a prudent mix of short and longer term deposits and actively reviewing its portfolio of deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the deposits and fixed income securities of the Company:

	Impact on profit before tax RM	Impact on equity* RM
Group		
Change in interest rates:		
2016		
+50 basis points	(1,044,919)	(794,138)
- 50 basis points	1,171,738	890,521
2015		
+50 basis points	(1,824,737)	(1,368,552)
- 50 basis points	1,969,647	1,477,235
Company		
Change in interest rates:		
2016		
+50 basis points	1,574,432	1,196,568
- 50 basis points	(1,574,432)	(1,196,568)
2015		
+50 basis points	1,255,248	941,436
- 50 basis points	(1,256,248)	(942,186)

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

32. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2016, as prescribed under the Risk-Based Capital Framework is provided below:

	2016 RM	2015 RM
Eligible Tier 1 Capital		
Share capital (paid-up)	219,875,038	219,875,038
Reserves, including retained earnings	113,362,139	92,054,335
	333,237,177	311,929,373
Tier 2 Capital		
Available-for-sale-reserves	2,643,704	1,107,183
Subordinated term debts	22,508,517	25,667,725
Goodwill & other intengible assets	(31,978,478)	(32,140,521)
Deferred tax assets	(3,363,034)	(10,516,404)
Total Capital Available	323,047,886	296,047,356

33. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 16th December 2016, Koperasi MCIS Berhad exercised and took up 15% equity interest in the company in relation to a Call Option Agreement dated 9th September 2015 between Fairfax Asia Limited, The Pacific Insurance Berhad and Koperasi MCIS Berhad.

34. CONTINGENT LIABILITY

In August 2016, Malaysia Competition Commission ("MYCC") had commenced investigation under Section 15(1) of the Competition Act 2010 (“the Act”) against PIAM (Malaysian General Insurance Association) and 22 member companies with regards to an alleged infringement of Section 4(2)(a) of the Act in relation to an agreement to fix parts trade discount and labour rates for 6 vehicle makes. On 22 February 2017, MYCC issued a proposed decision to all 22 member companies, proposing to impose collective penalty of MYR213 million on the general insurance industry. The Company has until 5 April 2017 to submit written and/or oral representations to MYCC before any final decision is made and shall defend the allegation as an 'industry collective action'.

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251 (1) OF THE COMPANIES ACT, 2016

We, Dato' Huang Sin Cheng and Datuk Abu Hassan bin Kendut, being two of the Directors of The Pacific Insurance Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 15 to 111 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of the results and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 31 March 2017.

DATO' HUANG SIN CHENG
DIRECTOR

DATUK ABU HASSAN BIN KENDUT
DIRECTOR

STATUTORY DECLARATION
PURSUANT TO SECTION 251 (1) OF THE COMPANIES ACT, 2016

I, Athappan Gobinath Arvind, being the Officer primarily responsible for the financial management of The Pacific Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 15 to 111 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.

ATHAPPAN GOBINATH ARVIND

Subscribed and solemnly declared by the abovenamed Athappan Gobinth Arvind at Kuala Lumpur in Wilayah Persekutuan on 31 March 2017, before me

COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

Lot 350, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

pwc

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD

(Incorporated in Malaysia)
(Company No. 91603 - K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of The Pacific Insurance Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 15 to 111.

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 opinion.

Independence and other ethical responsibilities

We are independent of the Group and 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.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 91603 - K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Directors' Report, which we obtained prior to the date of this auditors' report which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

In connection with our audit of the financial statements of the Group and 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 Group and 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 on the other information that we obtained prior to the date of this auditors' report, 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 the financial statements of the Group and of the Company that give a true and fair view in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 91603 - K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and 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.

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:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and 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.

(b) 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 Group's and the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) 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 Group's or 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 Group and 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 Group or the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 91603 – K)

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 7 to the financial statements.

(c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(d) The auditors' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 91603 – K)

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2019 J
Chartered Accountant

Kuala Lumpur
31 March 2017