Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2017

Company No.
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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 2017.

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	23,479,438	22,800,698

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 the transfer of the general insurance business of Prudential Assurance Malaysia Berhad ("PAMB") as disclosed in Note 34 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 2017.

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
Rasalingam a/l Kanagalingam (appointed on 23 May 2017)

In accordance with Article 63 (i) (d) of the Company's Constitution, Dato' Huang Sin Cheng, Datuk Abu Hassan bin Kendut, Abdullah bin Tarmugi and Zainul Abidin bin Mohamed Rasheed will retire at the forthcoming Annual General Meeting and separate resolutions will be proposed for their re-appointment as Directors in accordance with Article 63 (ii) of the Company's Constitution to hold office until the conclusion of the next Annual General Meeting of the Company.

In accordance with Article 60 of the Company's Constitution, Mr Rasalingam a/l Kanagalingam will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

In accordance with Article 65 of the Company's Constitution, Hashim bin Harun will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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			
	01.01.2017	Acquired	Exercised	31.12.2017
Ultimate Holding Company - Fairfax Financial Holdings Limited ("FFHL")				
(Common or Subordinate voting shares of no par value each)				
Sammy Chan Sum Yu	25,863	515	-	26,378

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	461,117	461,117

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

INDEMNIFICATION OF DIRECTORS

The Directors and Officers of the Company are covered by a Directors' and Officers' Liability insurance maintained by the ultimate holding company, Fairfax Financial Holdings Limited ("FFHL"). The insurance covers the Malaysian subsidiaries of FFHL up to an aggregate limit of USD 10 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Directors and Officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. The premium for the insurance is RM24,296.

CORPORATE GOVERNANCE

The memberships, roles and terms of reference of the Audit, Risk Management, Nomination 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 Policy Document (PD) on Corporate Governance issued on 3 August 2016. The Company has complied with the standards and adopted management practices that are consistent with these guidelines and PD.

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.

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.

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 Policy Document on Corporate Governance issued on 3 August 2016 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.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

The Company's Board of Directors as at 31 December 2017 consists of seven (7) 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
Rasalingam a/l Kanagalingam (appointed on 23 May 2017)	Non-Independent Non-Executive Director

* Sammy Chan Sum Yu was redesignated as an Executive Director of the Company on 24 March 2017

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
Rasalingam a/l Kanagalingam (appointed on 23 May 2017)	5/5	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.

Directors' Profile

Dato' Huang Sin Cheng
Chairman / Independent Non-Executive Director

Dato' Huang Sin Cheng was appointed as Chairman of the Board on 24 March 2011. He is also a member of the Risk Management Committee and Nomination Committee.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile (continued)

Dato' Huang Sin Cheng (continued)

Dato' Huang graduated with a Bachelor of Arts (Hons) from the University of Malaya and obtained a Banking Diploma from the Institute of Bankers, London. He is also a Fellow of the Institute of Bankers Malaysia.

Dato' Huang has more than 40 years of experience in the banking industry and was formerly the Deputy Governor of Bank Negara Malaysia.

Sammy Chan Sum Yu
Non-Independent Executive Director

Mr Sammy Chan Sum Yu was appointed to the Board on 24 March 2011. He is also a member of the Nomination Committee.

Mr Sammy Chan graduated from the University of Waterloo with Bachelor of Mathematic (major in Actuarial Science).

Mr Sammy Chan has more than 35 years of experience in property and casualty insurance companies. Currently, he is the President of Fairfax Asia Ltd, and a key member of the due diligence team on mergers and acquisition. Mr Sammy Chan is also a member of the Board of Directors of Falcon Insurance Co. (Hong Kong) Ltd, Hong Kong; Falcon (1998) Co. Ltd., Hong Kong; The Falcon Insurance Public Co. Ltd., Thailand; as well as Alltrust Insurance Co. Ltd., China.

Datuk Abu Hassan bin Kendut
Independent Non-Executive Director

Datuk Abu Hassan bin Kendut was appointed to the Board on 16 May 2012. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee.

Datuk Abu Hassan is a member of The Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants (MIA).

Datuk Abu Hassan has more than 40 years of experience in the field of audit and finance. He is currently the Chairman of Metrod Holding Berhad. He had also held previous position such as past president of MICPA and the Asean Federation of Accountants, and was also formerly the Senior Partner of Coopers & Lybrand (currently known as PricewaterhouseCoopers).

Abdullah bin Tarmugi
Independent Non-Executive Director

Mr Abdullah bin Tarmugi was appointed to the Board on 16 May 2012. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile (Continued)

Abdullah bin Tarmugi (continued)

Mr Abdullah graduated with Bachelor of Social Science (Hons) from the University of Singapore. He also holds a Postgraduate Diploma (Merit) in Urban Studies from the University of London under the Commonwealth Scholarship.

Mr Abdullah has more than 40 years of experience in diverse fields, including Urban Sociologist, Statistician/ Planning Analyst and News Editor. Currently, he is an Independent Director of Islamic Bank of Asia, GuocoLand Limited and Goodhope Asia Holdings Ltd.

Mr Abdullah is a member of the Presidential Council for Minority Rights and was formerly the Speaker of Parliament and Member of Parliament for East Coast GRC. He had held various ministerial positions previously in the Ministry of Environment, Ministry of Home Affairs, and Ministry of Community Development and Sports.

Zainul Abidin bin Mohamed Rasheed
Independent Non-Executive Director

Mr Zainul Abidin bin Mohamed Rasheed was appointed to the Board on 31 October 2012. He is also the Chairman of the Risk Management Committee and the Nomination Committee and a member of the Audit Committee.

Mr Zainul Abidin graduated with Bachelor of Arts (Hons) in Economics and Malay Studies from the University of Singapore.

Mr Zainul Abidin comes with 40 years of wide and relevant experience to the Company including managing a news media company and served as President of the Statutory Board of the Islamic Religious Council of Singapore (MUIS). He was also the Chief Executive Officer of the Council for the Development of the Muslim Community. Currently Mr Zainul Abidin serves on a few company boards including Singapore's Nanyang Technological University Board of Trustees and the Independent Deputy Chairman of AGX-listed OM Holdings Ltd. He is also a Corporate Advisor to Temasek International Pte Ltd.

Mr Zainul Abidin was a Member of Parliament in Singapore (1997 – 2011) and was formerly the Senior Minister of State for Foreign Affairs.

Hashim bin Harun
Independent Non-Executive Director

Mr Hashim bin Harun was appointed to the Board on 23 July 2015. He was also appointed as a member of the Risk Management Committee and the Nomination Committee on 22 June 2017.

Mr Hashim graduated with Bachelor of Arts (Hons) from the University of Malaya.

Mr Hashim has more than 35 years of working experience at senior levels that included more than 15 years in general insurance and reinsurance industries in Malaysia. He is currently the Chairman of the Malaysian Insurance Institute (MII) where he has served as its Chairman since 2009. He is also a director of the Asian Institute of Finance (AIF) since 2012.

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile (Continued)

Hashim bin Harun (continued)

Mr Hashim was previously the CEO for both Uni Asia General Insurance Bhd and Malaysian Reinsurance Berhad (Malaysian Re) where he has been instrumental in leading both companies to a steady progress and scaling new heights by enhancing their competitiveness and efficiency. In recent years, Malaysian Re has grown in stature as an important international player having established a strong market presence in Asia, the Middle East and North Africa.

Rasalingam a/l Kanagalingam
Non-Independent Non-Executive Director

Mr Rasalingam a/l Kanagalingam was appointed to the Board on 23 May 2017 and appointed as a member of the Audit Committee and the Remuneration Committee on 22 June 2017.

Mr Rasalingam graduated with Bachelor of Laws from the University of London and Certificate of Legal Practice from the Legal Profession Qualifying Board in 2013. He also holds a Master of Business Administration from the University of Nottingham, United Kingdom.

Mr Rasalingam has more than 24 years of working experience in both life and general insurance agency in Malaysia and currently he is the Chairman of Koperasi Cakra Mas Seremban Berhad (since 2012) and Koperasi MCIS Berhad (since 2016), as a shareholder of the Company.

Training attended by Board of Directors

The following are the trainings attended by the Directors:

(i) Briefing by the in-house Company Secretary on the salient changes pursuant to the new Companies Act, 2016.
(ii) Briefing by Messrs Ernst & Young on MFRS 9.
(iii) 24th Annual Conference of the International Association of Insurance Supervisors hosted by Bank Negara Malaysia, attended by Mr Rasalingam a/l Kanagalingam and Mr Hashim bin Harun.
(iv) The Financial Institutions Directors' Education (FIDE) Core Programme (Module A - Insurance) attended by Mr Rasalingam a/l Kanagalingam.

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 and one (1) member who is a non-independent non-executive director. The composition of the Committee is as follows:

CORPORATE GOVERNANCE (CONTINUED)

(a) **Board Responsibility and Oversight (continued)**

Board Committees (continued)

(i) Audit Committee (continued)

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
Rasalingam a/l Kanagalingam (appointed on 22 June 2017)	Non-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
Rasalingam a/l Kanagalingam (appointed on 22 June 2017)	2/2	100

The AC's terms of reference are in compliance with BNM's PD on Corporate Governance. The AC has independent access to the Company's internal auditors, external auditors and management so as 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 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 controls 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 their appointment or reappointment.

(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
Hashim bin Harun (appointed on 22 June 2017)	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.

* Abdullah bin Tarmugi ceased to be a RMC Member on 22 June 2017.

CORPORATE GOVERNANCE (CONTINUED)

(a) **Board Responsibility and Oversight (continued)**

Board Committees (continued)

(ii) Risk Management Committee (continued)

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

Name	Number of Meetings Attended	Percentage (%)
Zainul Abidin bin Mohamed Rasheed	3/4	75
Dato' Huang Sin Cheng	4/4	100
Hashim bin Harun (appointed on 22 June 2017)	2/2	100
Sammy Chan Sum Yu *	1/1	100
Abdullah bin Tarmugi **	2/2	100

* Sammy Chan Sum Yu ceased to be a RMC Member following his redesignation as Executive Director on 24 March 2017.
* Abdullah bin Tarmugi ceased to be a RMC Member on 22 June 2017.

BNM's Guidelines BNM/RH/GL 013-5 on Risk Governance requires the Board to ensure that the Company's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities. The Board must also provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework. During the financial year 2017, 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 the Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers, which included the review of the Company's capital management plan, internal target capital level and results of periodic stress tests. The Company had successfully implemented the Risk-Based Capital Framework since 2009 and the ICAAP since 2012 with a capital adequacy ratio above the internal and supervisory target capital levels.

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 PD on Corporate Governance.

(i) Nomination Committee

The NC comprises four (4) 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:

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
Hashim bin Harun (appointed on 22 June 2017)	Independent Non-Executive Director

CORPORATE GOVERNANCE (CONTINUED)

(a) **Board Responsibility and Oversight (continued)**

Nomination and Remuneration Committees (continued)

(i) Nomination Committee (continued)

The NC met twice 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	2/2	100
Dato' Huang Sin Cheng	2/2	100
Sammy Chan Sum Yu	2/2	100
Abdullah bin Tarmugi	2/2	100
Hashim bin Harun (appointed on 22 June 2017)	2/2	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.

(ii) Remuneration Committee

The RC comprises two (2) members who are independent non-executive directors and one (1) member who is a non-independent non-executive director. The composition of the committee is as

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
Rasalingam a/l Kanagalingam (appointed on 22 June 2017)	Non-Independent Non-Executive Director

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

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Nomination and Remuneration Committees (continued)

(ii) Remuneration Committee (continued)

The RC met once during the financial year and the details of the members' attendance 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
Rasalingam a/l Kanagalingam (appointed on 22 June 2017).	0/0	-

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

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) Remuneration policy

The Remuneration Policy ("Policy) is one of the key components of the Human Resources strategy to fully support the overall business strategy.

The main functions of the Policy are to:

- support the Company's strategy to build a healthy and high performance based culture that attracts, retains, motivates and rewards employees based on merit.
- promote the achievement of strategic objectives within the company's risk appetite.

CORPORATE GOVERNANCE (CONTINUED)

(c) Remuneration policy (continued)

Scope of Coverage

All permanent and contract employees of the Company. We believe the long term success of the Company is directly linked to the positive attitude and caliber of employees that we employ and the working environment that we create.

Remuneration Philosophy

The company's remuneration philosophy is to:
- recruit, motivate, reward and retain employees who believe in, and live by, the Company's culture and values.
- maintain healthy working environment that motivates high performance so that all employees can positively contribute to the strategy, vision, goals and values of the Company.
- set employees' total remuneration package at a competitive level by benchmarking to the market and providing incentives geared to agreed performance outcomes, where appropriate.

Key Remuneration Principles

The Remuneration Policy is based fundamentally on the following principles:
- The Policy is aligned to the overall business strategy, objectives and values of the group without being detrimental to the interests of its policy holders.
- The Policy contains arrangements for ensuring that executive remuneration is fair and responsible in the context of overall company remuneration.
- The remuneration includes fixed, variable, short and long-term as well as intangible rewards (in line with market practice), or any other rewards the Company may deem fit from time to time.
- The Policy encourages employees to be prudent risk takers and to act in the interest of the Company.
- Incentives aimed at encouraging retention are clearly distinguished from those relating to rewarding performance.
- Bonus is at the discretion of the Board, subject to the performance of the Company.
- To ensure compliance with the regulatory requirements and Law.
- Performance measures take into account both quantitative as well as qualitative factors consistent with Company's culture.

Remuneration Guiding Principle

<u>Base Principle</u>
- The key objective is to provide the base element of remuneration that reflects the person's role/position in the Company and is payable for doing the expected job.
- Base Salary is determined generally by job at a competitive and fair market rate.
- Base Salary should exclude Fixed Allowances.
- Base Salary is targeted at market median (P50) in general, but can be targeted at between market P50 to P75 for critical positions, key talents and high-value specialists.
- External competitiveness and internal equity should be well balanced.

<u>Market Benchmarking & Positioning</u>
- Comparisons of reward programs are primarily made against major companies that the Company competes with for business and talents in the markets where we operate in.
- Pay positioning is benchmarked to the companies of similar size with both local and foreign players in the market.
- Participation in the remuneration survey of the financial services industry.
- Internal salary structure should be market competitive and reviewed as and when necessary.

(c) Remuneration policy (continued)

Remuneration Guiding Principle (continued)

Benefits
- Risk and non-risk benefits are market driven whilst always maintaining a balance between benefits to employees and costs to / long term interest of the Company.
- Cope with emerging benefits trends.
- Comply with local regulations.
- Long term cost containment.

Elements of the Remuneration Plan

The remuneration plan includes, but is not limited to, the following elements:

Remuneration Element	Purpose
Guaranteed package	- Pays based on overall job requirements, accountability, complexity / variety of tasks. - Ensures that the Company attracts and retains high-performing people by paying market based guaranteed package. - May be performance based.
Short-term incentives	- Focuses on attaining results in both the short and medium term, whilst at the same time ensuring successful execution of the Company's strategic plan.
- Performance Bonus	- Variable component that rewards contributions based on performance and prudent risk taking behaviour.
- Pay-for-Performance	- Offers the opportunity for Pay-for-Performance to incentivise employees.
Long-term incentives	- Crucial in retaining dedication and committed employees. - Rewards sustainable performance.
Recognition	- Supports and reinforces innovation and entrepreneurship. - Recognises employees living the values of the company and contributing towards an entrepreneurial culture.

Communication

- Email communication to the Head of Departments (HODs) on the annual appraisal exercise and the requirements.
- Communicate the key elements and process to managers.

Interpretation

The Chief Executive Officer is authorised to resolve any issues, which may arise in the course of administering the Compensation Schemes/Plans.

CORPORATE GOVERNANCE (CONTINUED)

(c) Remuneration policy (continued)

Policy Review

The Policy shall be reviewed from time to time, as necessary and appropriate. Any revision to the Policy shall be reviewed by the Remuneration Committee to recommend to the Board for approval.

Material Risk Takers

Material Risk Takers are also the key management personnel and the remuneration structure is as disclosed in Note 28 to the financial statements.

(d) Corporate Independence

The Company has met all the requirements of BNM's Guidelines BNM/RH/GL 018-6 on Related Party Transactions and BNM Circular on Intercompany Charges paid to Financial Group. 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.

(e) Internal Controls and Operational Risk Management

The Board must oversee the design and development of the risk management framework and ensure that the framework is effective for controlling risk-taking activities of the Company in line with its risk appetite and has taken into account changes in the business environment. In doing so, the Board should provide constructive challenge to management on the credibility and robustness of the framework to ensure that there are no material gaps or weaknesses.

The risk management framework must enable the identification, measurement, and continuous monitoring of all relevant and material risks on a group and company-wide basis, supported by robust management information systems that facilitate the timely and reliable reporting of risks and the integration of information across the Company. The sophistication of the Company's risk management framework must keep pace with any changes in the Company's risk profile (including its business growth and complexity) and the external risk environment.

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 key risks of 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 Head of Risk Management. 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) The RMD identified and assessed the Company's keys risks in the risk registers on a regular basis. The key risks of the Company comprised of strategic risks, insurance risks (i.e. product risks and underwriting risks), financial risks, operational risks, and emerging risks. Control measures were formulated to mitigate all risks. In addition, the RMD also set target dates for lowering the risk rating of 'high' and 'significant' (i.e. critical) rated risks with appropriate action plans.

CORPORATE GOVERNANCE (CONTINUED)

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

(ii) The RMD maintained a database of all key risks, their control measures, any action plan, and other supporting information, in detailed risk registers.

(iii) On a quarterly basis, the RMD reviewed the key risks, identified new/emerging risks and reported the assessment of the critical rated risks to the RMC and the Board for consideration.

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.

(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) Following the Anti-Money Laundering Anti-Terrorism Financing and Proceeds of Unlawful Activities (AMLATFPUA) (Amendment of First Schedule) Order 2014, whereby general insurers are no longer defined as Reporting Institutions under the AMLATFPUA Act 2001 with effect from 5 November 2014, and the Technical Note dated 14.7.2016 issued by BNM, the scope of AML/CFT risk monitoring under the AMLAFTPUA Act 2001 for general insurers had been significantly scaled down. Based on the development, the Company has in place an AML/CFT Policy in accordance with the relevant BNM guidelines/technical note and the AMLATFPUA Act 2001 to prevent the Company from being used as a channel for financing of terrorism. Towards this end, the Company is leveraging on IT program to facilitate the detection of suspicious transactions against the database of named individuals and entities published in the relevant United Nations Security Council Resolutions (UNSCRs).

(iv) The Company had established the Pricing Steering Committee to address the challenges of the detariffication for motor and fire. During the year, the Company increased 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.

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

CORPORATE GOVERNANCE (CONTINUED)

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

(vi) 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 Auditor (CIA), who works in consultation with the Head of Internal Audit of Fairfax Asia Limited. The internal audit department reports directly to the AC.

The roles and responsibilities of the AC with respect to the internal audit department functions are in accordance with BNM's Guidelines BNM/RH/GL 013-4: Guidelines on Internal Audit Function of Licensed Institutions and BNM Policy Document on Corporate Governance issued on 3 August 2016.

The internal audit function adopts a systematic and disciplined, risk-based audit methodology, and prepares its audit strategy and annual plan based on the risk profiles of the business and functional departments of the Company, identified through an audit 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, with its status of achievement reported at every AC

The internal audit reports are tabled at the AC meetings, after audit findings have been addressed by Management. Follow-up audits are also conducted by internal auditors to ensure that recommendations to improve controls are promptly implemented by Management. The AC met with the external auditors at least once annually 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 are 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.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

(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 annual review. The Company has a Code of Ethics that guides all staff in their work performance and in upholding their ethical standards.

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, transfer pricing 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.

CORPORATE GOVERNANCE (CONTINUED)

(f) 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 Ombudsman for Financial Services and BNM LINK, in compliance with the requirements of BNM's BNM/RH/GL 003-9 Guidelines on Claims Settlement Practices (Consolidated) and BNM/RH/GL 000-3 Guidelines on Product Transparency and Disclosure. The Ombudsman for Financial Services and BNM LINK were set up with the view to provide alternative avenues for the policyholders/claimants to seek redress if the complaint/appeal is not resolved by the Financial Service Provider.

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.

(g) 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, 2016 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.

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

(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 35.

(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 35 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

(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 EVENT DURING THE FINANCIAL YEAR

On 30 August 2017, Prudential Assurance Malaysia Berhad transferred its general insurance business to the Company in accordance with a Scheme & Transfer which was approved by Bank Negara Malaysia ("BNM") and confirmed by the High Court of Malaysia.

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	375,134	362,500
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 PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appoinment as auditors.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 March 2018.

DATO' HUANG SIN CHENG
DIRECTOR

DATUK ABU HASSAN BIN KENDUT
DIRECTOR

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017		2016	
		Group RM	Company RM	Group RM	Company RM
Gross earned premiums	17(a)	503,015,272	503,015,272	483,289,226	483,289,226
Earned premiums ceded to reinsurers	17(b)	(278,217,649)	(278,217,649)	(324,142,170)	(324,142,170)
Net earned premiums	17	224,797,623	224,797,623	159,147,056	159,147,056
Investment income	18	21,545,839	20,696,017	22,287,344	21,494,813
Realised gains	19	1,742,427	1,286,094	331,384	184,383
Fair value gains/(losses)	20	6,164,946	6,164,946	(11,710)	(11,710)
Fee and commission income	21	60,541,325	60,541,325	55,591,458	55,591,458
Other operating revenue		1,084,104	1,083,954	1,438,006	1,407,704
Other revenue		91,078,642	89,772,336	79,636,482	78,666,648
Total revenue		315,876,265	314,569,959	238,783,538	237,813,705
Gross benefits and claims paid	13(i)	(253,412,901)	(253,412,901)	(236,507,588)	(236,507,588)
Claims ceded to reinsurers	13(i)	122,567,531	122,567,531	117,673,696	117,673,696
Gross change to claims liabilities		(22,497,810)	(22,497,810)	58,381,486	58,381,486
Change to claims liabilities ceded to reinsurers		14,017,132	14,017,132	(13,627,494)	(13,627,494)
Net benefits and claims		(139,326,048)	(139,326,048)	(74,079,900)	(74,079,900)
Fee and commission expenses		(61,444,564)	(61,444,564)	(59,166,305)	(59,166,305)
Management expenses	22	(85,296,250)	(84,668,684)	(75,114,191)	(74,411,683)
Other expenses		(146,740,813)	(146,113,248)	(134,280,497)	(133,577,989)
Finance cost		(1,703,622)	(1,703,622)	(1,708,293)	(1,708,293)
Profit before taxation		28,105,781	27,427,041	28,714,849	28,447,523
Taxation	23	(4,626,343)	(4,626,343)	(7,139,719)	(7,139,719)
Net profit for the financial year		23,479,438	22,800,698	21,575,130	21,307,805
Net profit for the financial year attributable to:					
Owner of the Company		23,354,650	22,800,698	21,564,083	21,307,805
Unitholders		124,788	-	11,047	-
		23,479,438	22,800,698	21,575,130	21,307,805
Earnings per share attributable to owner of the Company (sen)					
Basic	24	10.6	10.4	9.8	9.7

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 2017

	2017		2016	
	Group	Company	Group	Company
	RM	RM	RM	RM
Net profit for the financial year	23,479,438	22,800,698	21,575,130	21,307,805
Other comprehensive income/(loss):				
Items that may be subsequently reclassified to the income statement:				
Fair value gain arising during the financial year	2,698,412	2,890,522	3,326,670	2,135,278
Fair value (gain)/loss transferred to Statement of Income	(1,706,943)	(1,250,610)	(260,541)	(113,540)
	991,469	1,639,912	3,066,129	2,021,738
Tax effect thereon (Note 14)	(393,579)	(393,579)	(485,217)	(485,217)
	597,890	1,246,333	2,580,912	1,536,521
Total comprehensive income for the financial year	24,077,328	24,047,031	24,156,042	22,844,326
Total comprehensive income attributable to:				
Owner of the Company	23,950,536	24,047,031	24,136,239	22,844,325
Unitholders	126,792	-	19,803	-
	24,077,328	24,047,031	24,156,042	22,844,325

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 2017

	Note	2017 Group	2017 Company	2016 Group	2016 Company
		RM	RM	RM	RM
ASSETS					
Property and equipment	3	61,972,338	61,972,338	63,171,269	63,171,269
Investment properties	4	74,667	74,667	78,167	78,167
Intangible assets	5	40,886,685	40,886,685	31,978,478	31,978,478
Investments					
Available-for-sale financial assets	6	451,257,917	454,274,373	236,784,207	287,893,457
Fair value through profit or loss financial assets	6	52,691,351	52,691,351	33,158,405	33,158,405
Loans and receivables	6	46,446,574	46,446,574	26,677,467	26,677,467
Reinsurance assets	8	491,676,323	491,676,323	458,854,430	458,854,430
Insurance and other receivables	9	145,691,313	145,912,686	159,563,793	159,563,793
Loans	10	1,197,238	1,197,238	1,852,169	1,852,169
Deferred tax asset	14	2,107,181	2,107,181	3,363,034	3,363,034
Tax recoverable		12,551,824	12,551,824	14,360,852	14,360,852
Cash and cash equivalents		111,965,232	108,184,713	302,467,059	250,877,612
Total assets		1,418,518,643	1,417,975,953	1,332,309,330	1,331,829,132
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		3,080,527	3,890,037	2,484,641	2,643,704
Retained profits		136,973,068	136,162,838	113,618,418	113,362,140
Total equity		359,928,633	359,927,913	335,978,097	335,880,882
Liabilities					
Insurance contract liabilities	13	869,329,969	869,329,969	811,511,456	811,511,456
Subordinated loan	16	29,079,640	29,079,640	27,376,018	27,376,018
Insurance and other payables	15	159,745,062	159,638,431	157,135,212	157,060,777
Other financial liability		435,339	-	308,547	-
Total liabilities		1,058,590,010	1,058,048,040	996,331,233	995,948,250
Total equity and liabilities		1,418,518,643	1,417,975,953	1,332,309,330	1,331,829,132

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 2017

		Attributable to owners of the Company			
	Note	Share capital	Available for-sale reserves	Retained earnings	Total equity
		RM	RM	RM	RM
Group					
At 1 January 2016		219,875,038	87,515	92,054,335	311,841,858
Net profit for the financial year		-	-	21,564,083	21,564,083
Other comprehensive income for the financial year		-	2,572,156	-	2,572,156
At 31 December 2016		219,875,038	2,484,641	113,618,418	335,978,097
At 1 January 2017		219,875,038	2,484,641	113,618,418	335,978,097
Net profit for the financial year		-	-	23,354,650	23,354,650
Other comprehensive income for the financial year		-	595,886	-	595,886
At 31 December 2017		219,875,038	3,080,527	136,973,068	359,928,633

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		Non-distributable	Distributable	
	Share capital	Available-for-sale reserves	Retained earnings	Total
	RM	RM	RM	RM
Company				
At 1 January 2016	219,875,038	1,107,183	92,054,335	313,036,556
Net profit for the financial year	-	-	21,307,805	21,307,805
Other comprehensive income for the financial year	-	1,536,521	-	1,536,521
At 31 December 2016	219,875,038	2,643,704	113,362,140	335,880,882
At 1 January 2017	219,875,038	2,643,704	113,362,140	335,880,882
Net profit for the financial year	-	-	22,800,698	22,800,698
Other comprehensive income for the financial year	-	1,246,333	-	1,246,333
At 31 December 2017	219,875,038	3,890,037	136,162,838	359,927,913

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 2017

	2017		2016	
	Group RM	Company RM	Group RM	Company RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	28,105,781	27,427,041	28,714,849	28,447,523
Adjustment for:				
Depreciation of property and equipment	2,670,382	2,670,382	2,538,590	2,538,590
Loss on disposal of property and equipment	(35,484)	(35,484)	99	99
Property and equipment written-off	24,982	24,982	759	759
Finance costs	1,703,622	1,703,622	1,708,293	1,708,293
Change in fair value of FVTPL financial assets	(8,982,333)	(8,982,333)	973,000	973,000
Foreign currency translation differences	2,817,387	2,817,387	(961,289)	(961,289)
Depreciation of investment properties	3,500	3,500	3,500	3,500
Amortisation of intangible assets	239,666	239,666	169,008	169,008
Intangible assets written-off	261	261	-	-
Net gain on disposal of:				
FVTPL financial assets	-	-	(70,942)	(70,942)
AFS financial assets	(1,806,935)	(1,250,610)	(260,541)	(113,540)
Investment income	(21,171,972)	(19,431,530)	(22,247,744)	(21,455,213)
Other interest income	(37,045)	(37,045)	(39,600)	(39,600)
Bad debts written-off	344,011	344,011	1,475,232	1,475,232
Provision for/(write-back of) allowance for impairment losses:				
Insurance receivables and reinsurance recoverables	207,242	207,242	1,527,288	1,527,288
Reinsurance assets	(348,049)	(348,049)	(3,198,840)	(3,198,840)
Profit from operations before changes in operating assets and liabilities	3,735,016	5,353,043	10,331,662	11,003,868
Purchase of investments	(434,665,578)	(291,084,917)	(253,750,603)	(256,832,877)
Proceeds from disposal/ maturity of investments	192,056,626	94,922,439	260,089,093	230,319,742
Increase/(decrease) in loans and receivables	654,931	654,931	(74,391)	(74,391)
Increase in reinsurance assets	(28,157,805)	(28,157,805)	(121,127,212)	(121,127,212)
Increase in insurance and other receivables	13,770,996	13,546,915	8,956,594	6,065,224

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017		2016	
	Group RM	Company RM	Group RM	Company RM
Increase in insurance contract liabilities	42,595,578	42,595,578	67,613,456	67,613,456
Increase in insurance and other payables	240,150	207,954	(20,310,025)	(20,322,006)
Cash generated from operations	(209,770,086)	(161,961,862)	(48,271,425)	(83,354,196)
Investment income received	19,187,880	19,187,880	22,814,312	22,367,237
Other interest income received	37,046	39,753	39,402	39,402
Income tax paid	(732,859)	(732,859)	(3,766,668)	(3,766,668)
Net cash generated from operating activities	(191,278,019)	(143,467,088)	(29,184,379)	(64,714,224)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(1,507,396)	(1,507,396)	(1,648,085)	(1,648,085)
Purchase of intangible assets	(86,441)	(86,441)	(6,965)	(6,965)
Completion cash payment from PAMB from acquisition of Prudential general insurance business (Note 34)	(10,000,000)	(10,000,000)	-	-
Acquisition of Prudential general insurance business (Note 34)	12,245,867	12,245,867	-	-
Cash acquired from Prudential general insurance business (Note 34)	75,711	75,711	-	-
Proceeds from disposal of property and equipment	46,447	46,447	44,958	44,958
Distribution to minority unitholders	2,004	-	8,756	-
Net cash used in investing activities	776,192	774,188	(1,601,336)	(1,610,092)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(190,501,827)	(142,692,900)	(30,785,715)	(66,324,317)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	302,467,059	250,877,613	333,252,774	317,201,930
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	111,965,232	108,184,713	302,467,059	250,877,613

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017		2016	
	Group	Company	Group	Company
	RM	RM	RM	RM
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions	90,621,988	86,841,469	291,717,031	240,127,584
Cash and cash equivalents	21,343,244	21,343,244	10,750,028	10,750,028
	111,965,232	108,184,713	302,467,059	250,877,613

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017

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 29 March 2018.

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, 2016 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 2.3 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 2017, the Company adopted the following standards mandatory for financial year beginning on or after 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 12 'Disclosures of Interests in Other Entities'

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 adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(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

- Amendments to MFRS 4 - Applying MFRS 9 'Financial Instruments' with MFRS 4 'Insurance Contracts' effective for annual periods beginning on or after 1 January 2018. The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 "Financial Instruments" before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

  The amendments provide 2 different approaches for entities:
  (i) a temporary exemption from MFRS 9 for entities that meet specific requirements; and
  (ii) the overlay approach
  Both approaches are optional.

  The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

  An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies MFRS 9 for the first time.

  The Company's business activity is predominately insurance and hence, qualifies for the temporary exemption approach. Consequently, management has decided to apply the temporary exemption from MFRS 9 from its annual period beginning 1 January 2018 and will adopt MFRS 9 for its annual period beginning 1 January 2019.

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

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 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.

  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.

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)

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.

• MFRS 17 "Insurance Contracts (effective from 1 January 2021) replaces MFRS 4 "Insurance Contracts".

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 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 "Revenue". An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that related to financial risks either in profit or loss or in other comprehensive income.

Alternative measurement models are provided for the different insurance coverages:
(i) Simplified Premium Allocation Approach if the insurance coverage period is a year or less.
(ii) Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

The Company has not yet fully assessed the impact of MFRS 17 on its financial statements.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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)

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

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 fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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 5 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 statement of income. Acquisition related costs are expensed as incurred.

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 Group.

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 (continued)

(i) Subsidiaries (continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(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 transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(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 purposes 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 of income.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable for operating in the manner intended by management.

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.

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 is 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 income.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Investment properties (continued)

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.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

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.

(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.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

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. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Intangible assets (continued)

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.

(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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

(i) FVTPL

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.

Certain financial assets are designated at initial recognition at fair value through profit or loss when one of the designation criteria is met:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- Its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The item is a hybrid contract that contains one or more embedded derivatives.

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. Interest and dividend income are separately recognised in the profit or loss.

(ii) LAR

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 interest method, less allowance for impairment. The Company's LAR comprises fixed deposits with licensed financial institutions.

(iii) AFS

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 statement of income.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividends income on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

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 (continued)

(ii) AFS financial asset

For debt securities, the Group uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss in subsequent periods.

(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.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(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.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

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

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Reinsurance (continued)

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Underwriting results (continued)

(ii) Premium liabilities (continued)

(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.

(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 a 75% confidence level calculated at the overall Company level. These estimates are based on an actuarial valuation performed by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development patterns.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Insurance receivables and reinsurance recoverable

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

If there is objective evidence that the insurance receivables and reinsurance recoverables is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(r) Other revenue recognition (continued)

(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 of 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.

Deferred tax is provided in full 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. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

Foreign currency transactions are translated into Ringgit Malaysia using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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:

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(y) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of income within.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(z) Operating Leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the lease period.

Initial direct costs incurred by the Company in negotiating and arranging operating leases are recognised in profit or loss when incurred.

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:

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

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.

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

(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						
2017						
Cost						
At 1 January 2017	1,099,585	648,785	8,739,252	58,740,000	974,298	70,201,920
Additions	480,333	138,796	1,600,786	-	(712,519)	1,507,396
Disposals	-	(250,856)	(226,910)	-	-	(477,766)
Write-offs	(137,924)	-	(359,275)	-	-	(497,199)
At 31 December 2017	1,441,994	536,725	9,753,853	58,740,000	261,779	70,734,351
Accumulated depreciation						
At 1 January 2017	919,404	444,896	3,904,151	1,762,200	-	7,030,651
Charge for the financial year	197,296	85,038	1,213,248	1,174,800	-	2,670,382
Disposals	-	(250,857)	(215,946)	-	-	(466,803)
Write-offs	(131,599)	-	(340,618)	-	-	(472,217)
At 31 December 2017	985,101	279,077	4,560,835	2,937,000	-	8,762,013
Net book value	456,893	257,648	5,193,017	55,803,000	261,779	61,972,338

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						
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

4. INVESTMENT PROPERTIES

	2017 RM	2016 RM
Group/Company		
Cost		
At 1 January / 31 December	175,000	175,000
Accumulated depreciation		
At 1 January	96,833	93,333
Charge for the financial year	3,500	3,500
31 December	100,333	96,833
Net book value	74,667	78,167
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 2017, 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			
2017			
Cost			
At 1 January 2017	31,325,682	1,286,064	32,611,746
Acquisition of Prudential general insurance business (Note 34)	8,777,819	283,874	9,061,693
Additions	-	86,441	86,441
Written Off	-	(11,565)	(11,565)
At 31 December 2017	40,103,501	1,644,814	41,748,315
Accumulated Amortisation			
At 1 January 2017	-	633,268	633,268
Charge for the financial year	-	239,666	239,666
Written Off	-	(11,304)	(11,304)
At 31 December 2017	-	861,630	861,630
Net book value	40,103,501	783,184	40,886,685

5. INTANGIBLE ASSETS (CONTINUED)

Group/Company

2016	Goodwill	Computer Software	Total
Cost	RM	RM	RM
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

(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 ranging from 4.5% to 13.9% p.a (2016: ranging from 3.0% p.a. to 9.0% p.a.).

(ii) Loss ratio range are projected based on the Company's prior years' actual claims experience of 66% (2016: 63.1%).

(iii) Post tax discount rate at 12.9% (2016: 13.1%).

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

At 31 December 2017, 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.

6. INVESTMENTS

	2017		2016	
	Group RM	Company RM	Group RM	Company RM
Malaysian Government Securities	154,513,930	-	20,387,861	-
Government Investment Issues	25,099,151	-	-	-
Corporate Bonds	110,285,097	7,149,756	109,007,176	-
Unit Trust Investments	161,359,739	447,124,617	107,389,170	287,893,457
Equity securities	49,567,951	49,567,951	29,705,205	29,705,205
Real Estate Investment Trusts ("REITs")	3,123,400	3,123,400	3,453,200	3,453,200
Deposits with Licensed Financial Institutions	46,446,574	46,446,574	26,677,467	26,677,467
	550,395,842	553,412,298	296,620,079	347,729,329

The financial investments are summarised by categories as follows:

	Group 2017 RM	Company 2017 RM	Group 2016 RM	Company 2016 RM
AFS financial assets	451,257,917	454,274,373	236,784,207	287,893,457
FVTPL financial assets	52,691,351	52,691,351	33,158,405	33,158,405
LAR	46,446,574	46,446,574	26,677,467	26,677,467
	550,395,842	553,412,298	296,620,079	347,729,329

The following investments mature after 12 months:

	Group 2017 RM	Company 2017 RM	Group 2016 RM	Company 2016 RM
AFS financial assets	282,367,124	7,149,756	124,907,609	-

(a) AFS financial assets

Fair value

	Group 2017 RM	Company 2017 RM	Group 2016 RM	Company 2016 RM
Malaysian Government Securities	154,513,930	-	20,387,861	-
Government Investment Issues	25,099,151	-	-	-
Unit Trust Investments				
Quoted in Malaysia:	161,359,739	161,359,739	107,389,170	107,389,170
Unquoted in Malaysia:	-	285,764,878	-	180,504,287
Corporate bonds	110,285,097	7,149,756	109,007,176	-
	451,257,917	454,274,373	236,784,207	287,893,457

(b) FVTPL financial assets

Fair value

	Group 2017 RM	Company 2017 RM	Group 2016 RM	Company 2016 RM
Equity securities	49,567,951	49,567,951	29,705,205	29,705,205
REITs	3,123,400	3,123,400	3,453,200	3,453,200
	52,691,351	52,691,351	33,158,405	33,158,405

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(c) LAR

	2017		2016	
	Group RM	Company RM	Group RM	Company RM
Amortised cost				
Deposits with Commercial Banks	46,446,574	46,446,574	26,677,467	26,677,467

(d) Carrying values of financial investments

	AFS RM	FVTPL RM	LAR RM	Total RM
2017				
Group				
At 1 January 2017	236,784,207	33,158,405	26,677,467	296,620,080
Purchases	375,652,098	13,368,000	45,645,480	434,665,578
Maturities	(50,000,000)	-	(26,222,300)	(76,222,300)
Disposals	(114,127,383)	-	-	(114,127,383)
Fair value (losses)/gains recorded in:				
Statement of Income	-	8,982,333	-	8,982,333
Other comprehensive income	2,796,400	-	-	2,796,400
Currency translations differences	-	(2,817,387)	-	(2,817,387)
Fair value gain transferred to Statement of Income	(1,706,943)	-	-	(1,706,943)
Movement in accrued interest	1,908,199	-	345,927	2,254,126
Amortisation of premiums	(48,661)	-	-	(48,661)
At 31 December 2017	451,257,917	52,691,351	46,446,574	550,395,842
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	1,866,241	-	-	1,866,241
Currency translations differences	-	961,289	-	961,289
Fair value gain 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

6. INVESTMENTS (CONTINUED)

(d) Carrying values of financial investments (continued)

	AFS RM	FVTPL RM	LAR RM	Total RM
2017				
Company				
At 1 January 2017	287,893,457	33,158,405	26,677,467	347,729,329
Purchases	232,071,437	13,368,000	45,645,480	291,084,917
Maturities	(50,000,000)	-	(26,222,300)	(76,222,300)
Disposals	(17,449,529)	-	-	(17,449,529)
Fair value (losses)/gains recorded in:				
Statement of Income	-	8,982,333	-	8,982,333
Other comprehensive income	2,890,522	-	-	2,890,522
Currency translations differences	-	(2,817,387)	-	(2,817,387)
Fair value gain transferred to Statement of Income	(1,250,610)	-	-	(1,250,610)
Movement in accrued interest	119,096	-	345,927	465,022
Amortisation of premiums	-	-	-	-
At 31 December 2017	454,274,373	52,691,351	46,446,574	553,412,297
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	2,135,278	-	-	2,135,278
Currency translations differences	-	961,289	-	961,289
Fair value gain transferred to Statement of Income	(113,540)	-	-	(113,540)
Movement in accrued interest	(379,844)	-	11,211	(368,633)
Amortisation of premiums	(196,598)	-	-	(196,598)
At 31 December 2016	287,893,457	33,158,405	26,677,467	347,729,329

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		
2017		
Recurring fair value measurements		
AFS		
- Malaysian Government Securities	-	154,513,930
- Government Investment Issues	-	25,099,151
- Corporate Bonds	-	110,285,097
- Unit Trust Investments	161,359,739	-
FVTPL		
- Equity Securities	49,567,951	-
- Real Estate Investment Trusts ("REITs")	3,123,400	-
	214,051,090	289,898,178
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
Company		
2017		
Recurring fair value measurements		
AFS		
- Corporate Bonds	-	7,149,756
- Unit Trust Investments	161,359,739	285,764,878
FVTPL		
- Equity Securities	49,567,951	-
- Real Estate Investment Trusts ("REITs")	3,123,400	-
	214,051,090	292,914,634

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

	Level 1 RM	Level 2 RM
2016		
Recurring fair value measurements		
AFS		
- Malaysian Government Securities	-	-
- Government Investment Issues	-	-
- Corporate Bonds	-	-
- 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

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 RM285,764,878 (2016: RM180,504.287) 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.

	2017 RM	2016 RM
Number of wholesale unit trust fund	3	2
Average net asset value per unit of wholesale unit trust funds:		
Opus Enhanced Income Fund	1.0297	1.0233
Affin Hwang Wholesale Fund 1	0.3584	0.3556
AmIncome Select	0.9899	-
Fair value of underlying assets:		
Corporate bonds	101,673,808	107,661,015
Malaysian Government Securities	152,879,932	20,227,670
Government Investment Securities	24,797,407	-
Deposits with licensed financial institutions	3,743,838	51,455,839
Receivables	2,963,964	1,202,069
Cash equivalents	26,800	32,267
Other payables	(320,871)	(74,573)
	285,764,878	180,504,287
Total realised gain for the financial year	455,722	259,736

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, Affin Hwang Wholesale Fund and AmIncome Select Fund are audited by Crowe Horwath, PricewaterhouseCoopers PLT and Ernst & Young respectively.

8. REINSURANCE ASSETS

	2017 RM	2016 RM
Group/Company		
Reinsurance of insurance contracts (Note 13)	491,676,323	458,854,430

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

	2017		2016	
	Group	Company	Group	Company
	RM	RM	RM	RM
Due premiums including agents /brokers and co-insurers balances	50,370,709	50,370,709	50,814,558	50,814,558
Allowance for impairment	(1,136,730)	(1,136,730)	(1,449,599)	(1,449,599)
	49,233,979	49,233,979	49,364,959	49,364,959
Amounts due from reinsurers/ ceding companies	29,249,439	29,249,439	41,865,319	41,865,319
Allowance for impairment	(5,455,925)	(5,455,925)	(5,372,986)	(5,372,986)
	23,793,514	23,793,514	36,492,334	36,492,334
Total insurance receivables and reinsurance recoverables	73,027,493	73,027,493	85,857,293	85,857,293
Other receivables:				
Other receivables, deposits and prepayments	7,037,563	7,037,563	5,630,703	5,630,703
Malaysian Motor Insurance Pool ("MMIP")				
- Cash call made	25,359,477	25,359,477	25,359,477	25,359,477
- Other assets held in MMIP	33,860,768	33,860,768	36,309,833	36,309,833
Service tax and GST receivable	6,394,524	6,394,524	6,392,290	6,392,290
Income due and accrued	11,488	232,861	14,197	14,197
Total other receivables	72,663,820	72,885,193	73,706,500	73,706,500
Total insurance and other receivables	145,691,313	145,912,686	159,563,793	159,563,793
Receivable within 12 months	86,471,068	86,692,441	97,894,483	97,894,483
Receivable after 12 months	59,220,245	59,220,245	61,669,310	61,669,310

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

MMIP as at 31 December 2017 is a net receivable of RM12,694,550 (2016: RM5,008,152) after setting-off the amount payable from MMIP against the Company's share of claims and premium liabilities amounting to RM46,525,695 (2016: RM56,661,158) 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 (2016: Nil).

10. LOANS

	2017 RM	2016 RM
Group/Company		
Staff loans:		
Secured	1,192,854	1,842,207
Unsecured	4,384	9,962
	1,197,238	1,852,169
Receivable after 12 months	881,269	995,480

The weighted average effective interest rate for staff loans as at 31 December 2017 was 2.15% (2016: 2.74%) per annum on the basis of monthly rest.

11. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2017 RM	2016 RM	2017 RM	2016 RM
Group/Company				
Authorised:				
At beginning and end of financial year	-	-	500,000,000	500,000,000
Issued and paid up:				
At beginning and 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.

13. INSURANCE CONTRACT LIABILITIES

	Note	2017 Gross RM	2017 Reinsurance RM	2017 Net RM	2016 Gross RM	2016 Reinsurance RM	2016 Net RM
Group/Company							
Provision for claims reported by policyholders		429,437,514	(267,397,026)	162,040,488	406,348,625	(259,497,903)	146,850,722
Provision for incurred but not reported ("IBNR")		200,166,230	(92,862,237)	107,303,993	191,609,861	(82,978,575)	108,631,286
		629,603,744	(360,259,263)	269,344,481	597,958,486	(342,476,478)	255,482,008
Less: impairment loss on reinsurance assets		-	1,862,523	1,862,523	-	2,125,942	2,125,942
Claim liabilities (i)		629,603,744	(358,396,740)	271,207,004	597,958,486	(340,350,536)	257,607,950
Premium liabilities (ii)		239,726,225	(133,279,583)	106,446,642	213,552,970	(118,503,894)	95,049,076
		869,329,969	(491,676,323)	377,653,646	811,511,456	(458,854,430)	352,657,026

(i) Claim liabilities

	2017 Gross RM	2017 Reinsurance RM	2017 Net RM	2016 Gross RM	2016 Reinsurance RM	2016 Net RM
At 1 January	597,958,486	(342,476,478)	255,482,008	539,577,000	(239,341,000)	300,236,000
Acquisition of Prudential general insurance business	9,147,448	(3,765,653)	5,381,795	-	-	-
Claims incurred in the current accident year	348,931,503	(172,059,090)	176,872,413	331,702,124	(166,574,949)	165,127,175
Claims incurred in prior accident years	(69,471,759)	34,815,564	(34,656,195)	(45,104,913)	(46,082,800)	(91,187,713)
Movement in PRAD of claim liabilities at	(2,675,476)	658,863	(2,016,613)	5,755,414	(8,151,425)	(2,396,011)
75% confidence level			-	-	-	-
Movement in claims handling expenses	(873,557)	-	(873,557)	2,536,449	-	2,536,449
Claims paid during the financial year	(253,412,901)	122,567,531	(130,845,370)	(236,507,588)	117,673,696	(118,833,892)
	629,603,744	(360,259,263)	269,344,481	597,958,486	(342,476,478)	255,482,008
Less: Impairment loss on reinsurance assets	-	1,862,523	1,862,523	-	2,125,942	2,125,942
At 31 December	629,603,744	(358,396,740)	271,207,004	597,958,486	(340,350,536)	257,607,950

13. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premium liabilities

	Note			2017			2016
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
		RM	RM	RM	RM	RM	RM
At 1 January		213,552,970	(118,503,894)	95,049,076	204,321,000	(103,711,000)	100,610,000
Acquisition of Prudential general insurance business		6,075,487	(983,066)	5,092,421	-	-	-
Premiums written during the financial year	17	523,113,040	(292,010,272)	231,102,768	492,521,196	(338,935,064)	153,586,132
Premiums earned during the financial year	17	(503,015,272)	278,217,649	(224,797,623)	(483,289,226)	324,142,170	(159,147,056)
At 31 December		239,726,225	(133,279,583)	106,446,642	213,552,970	(118,503,894)	95,049,076

14. DEFERRED TAX ASSET

	2017	2016
	RM	RM
Group/Company		
At 1 January	3,363,034	10,516,404
Acquisition of Prudential general insurance business	1,222,181	-
Recognised in statement of income	(2,084,456)	(6,668,153)
Recognised in other comprehensive income	(393,579)	(485,217)
At 31 December	2,107,180	3,363,034

14. DEFERRED TAX ASSET (CONTINUED)

	Receivables RM	Fair value changes on investments RM	Premium liabilities RM	Others RM	Total RM
2017					
Deferred tax asset					
At 1 January 2017	1,637,231	1,774,119	474,835	1,526,826	5,413,011
Acquisition of Prudential general insurance	-	-	1,222,181	-	1,222,181
Recognised in statement of income	363,992	(1,548,348)	(1,488,818)	436,856	(2,236,318)
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2017 (before offsetting)	2,001,223	225,771	208,198	1,963,682	4,398,874
Offsetting					(2,291,694)
Net deferred tax assets (after offsetting)					2,107,180

	Fair value changes on investments RM	Property and equipment RM	Others RM	Total RM
2017				
Deferred tax liabilities				
At 1 January 2017	787,080	1,226,383	36,514	2,049,977
Recognised in statement of income	(21,578)	(93,770)	(36,514)	(151,862)
Recognised in other comprehensive income	393,579	-	-	393,579
At 31 December 2017 (before offsetting)	1,159,081	1,132,613	-	2,291,694
Offsetting				(2,291,694)
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
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	472,434 -	6,045,403
Recognised in other comprehensive income	-	-	-	-	-	-
At 31 December 2016 (before offsetting)	1,637,231	1,774,119	-	474,835	1,526,826	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 assets (after offsetting)				-

14. DEFERRED TAX ASSET (CONTINUED)

	2017 RM	2016 RM
Current	1,030,372	2,477,351
Non-current	1,076,808	885,683

15. INSURANCE AND OTHER PAYABLES

	2017		2016	
	Group RM	Company RM	Group RM	Company RM
Trade payables:				
Amount due to reinsurers/ ceding companies	78,405,144	78,405,144	54,775,627	54,775,627
Amount due to brokers, co-insurers and insureds	20,161,981	20,161,981	18,858,603	18,858,603
Deposits received from reinsurers	-	-	1,189,138	1,189,138
	98,567,125	98,567,125	74,823,368	74,823,368
Other payables:				
Accrual for agents' profit commission	3,495,051	3,495,051	3,196,786	3,196,786
Accrual for bonus (including EPF for bonus)	5,273,247	5,273,247	5,881,708	5,881,708
Cash collateral held for bond business	1,374,688	1,374,688	1,581,364	1,581,364
Premium funds withheld	45,672,365	45,672,365	59,766,728	59,766,728
Other payables and accrued liabilities	5,362,586	5,255,955	11,885,258	11,810,823
	61,177,937	61,071,306	82,311,843	82,237,409
Total insurance and other payables	159,745,062	159,638,431	157,135,211	157,060,777
Payable within 12 months	103,380,547	103,273,916	139,038,337	138,963,902
Payable after 12 months	56,364,515	56,364,515	18,096,875	18,096,875

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 (2016: Nil).

16. SUBORDINATED LOANS

	2017 RM	2016 RM
Group/Company		
Subordinated Loans	24,337,504	24,337,504
Add: Interest Payable	4,742,136	3,038,514
	29,079,640	27,376,018
Payable within 12 months	4,742,136	3,038,514
Payable after 12 months	24,337,504	24,337,504

The fair value of the subordinated loans as at 31 December 2017 amounted to RM24.3m (2016: RM27.8m). 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

	2017 RM	2016 RM
Group/Company		
(a) Gross premiums written	523,113,040	492,521,196
Change in premium liabilities	(20,097,768)	(9,231,970)
Gross earned premium	503,015,272	483,289,226
(b) Premium ceded to reinsurers		
Ceded premiums (Note 13(ii))	(292,010,272)	(338,935,064)
Change in premium liabilities	13,792,623	14,792,894
Earned premiums ceded to reinsurers	(278,217,649)	(324,142,170)
Net earned premiums	224,797,623	159,147,056

18. INVESTMENT INCOME

	2017		2016	
	Group RM	Company RM	Group RM	Company RM
Rental income from investment properties	37,045	37,045	39,600	39,600
Financial assets at FVTPL				
Dividend income				
- equity securities	-	-	160,894	160,894
- REITs	155,976	155,976	161,020	161,020

18. INVESTMENT INCOME (CONTINUED)

	2017 Group RM	2017 Company RM	2016 Group RM	2016 Company RM
AFS financial assets				
Interest income	9,719,329	416,258	5,601,624	689,381
Dividend income – unit trusts	3,691,728	12,562,212	5,049,394	9,557,854
Interest income from loans and receivables	1,276,207	1,276,207	861,932	861,932
Profit and interest income from cash & cash equivalents	6,714,216	6,248,319	10,639,701	10,220,730
Amortisation of premiums, net of accretion of discounts	(48,662)	-	(226,821)	(196,598)
	21,545,839	20,696,017	22,287,344	21,494,813

19. REALISED GAINS/(LOSSES)

	2017 Group RM	2017 Company RM	2016 Group RM	2016 Company RM
Financial assets at FVTPL				
Realised gains:				
Equity securities	-	-	70,942	70,942
AFS financial assets				
Realised gains/(losses):				
Corporate bonds	(39,827)	-	237,441	-
Malaysian Government Securities/ Government Investment Issues	496,160	-	23,100	-
Unit trusts	1,250,610	1,250,610	-	113,540
	1,706,943	1,250,610	260,541	113,540
Property and equipment				
Realised gains	60,726	60,726	45,179	45,179
Realised losses	(25,242)	(25,242)	(45,279)	(45,279)
	35,484	35,484	(99)	(99)
	1,742,427	1,286,094	331,384	184,383

20. FAIR VALUE GAINS AND LOSSES

	2017 RM	2016 RM
Group/Company		
Financial assets at FVTPL	6,164,946	(11,710)

21. FEES AND COMMISSION INCOME

	2017 RM	2016 RM
Group/Company		
Reinsurance commission income	60,541,325	55,591,458

22. MANAGEMENT EXPENSES

		2017		2016	
	Note	Group RM	Company RM	Group RM	Company RM
Employee benefits expenses	22(a)	43,817,713	43,817,713	42,710,611	42,710,611
Directors' fees	22(b)	461,117	461,117	400,200	400,200
Auditors' remuneration					
- Audit related services		344,134	331,500	300,000	300,000
- Non-audit related services		31,000	31,000	7,500	7,500
Depreciation of property and equipment	3	2,670,382	2,670,382	2,538,590	2,538,590
Depreciation of investment properties	4	3,500	3,500	3,500	3,500
Direct operating expenses of investment properties					
- revenue generating		49,945	49,945	8,618	8,618
Amortisation of intangible assets	5	239,666	239,666	169,008	169,008
Bad debts (recovery)/written-off		(344,011)	(344,011)	1,475,232	1,475,232
Provision for allowance for impairment losses					
- insurance receivables and reinsurance recoverables		207,242	207,242	1,527,288	1,527,288
- reinsurance assets		(348,049)	(348,049)	(3,198,840)	(3,198,840)
Office rental		1,124,411	1,124,411	937,436	937,436
Office equipment rental		703,563	703,563	580,180	580,180
Computer maintenance		6,542,480	6,542,480	5,369,724	5,369,724
Entertainment		1,447,944	1,447,944	1,433,006	1,433,006
Transport and travelling		1,254,951	1,254,951	1,209,244	1,209,244
Printing and stationery		503,443	503,443	535,863	535,863

22. MANAGEMENT EXPENSES (CONTINUED)

	Note	2017 Group RM	2017 Company RM	2016 Group RM	2016 Company RM
Networking charges		747,083	747,083	1,182,997	1,182,997
Management fees to holding company		1,440,110	1,440,110	665,923	665,923
Stamp duties		307,223	307,223	12,547	12,547
Bank charges		3,687,775	3,687,775	3,782,258	3,782,258
Training		6,035,364	6,035,364	2,305,572	2,305,572
Advertising and Marketing Fees		2,444,233	2,444,233	1,276,503	1,276,503
Third Party Administrator (TPA) fees		3,648,334	3,648,334	2,495,899	2,495,899
Other expenses		8,276,697	7,661,765	7,385,332	6,682,824
		85,296,250	84,668,684	75,114,191	74,411,683

(a) Employee benefits expense

	2017 Group RM	2017 Company RM	2016 Group RM	2016 Company RM
Wages and salaries	35,808,685	35,808,685	34,998,487	34,998,487
Social security contributions	280,457	280,457	248,731	248,731
Contributions to defined contribution plan, EPF	5,065,877	5,065,877	5,161,957	5,161,957
Employee share ownership plan ("ESOP")	226,452	226,452	161,821	161,821
Staff insurance	1,406,777	1,406,777	1,192,593	1,192,593
Other benefits	1,029,465	1,029,465	947,023	947,023
	43,817,713	43,817,713	42,710,611	42,710,611

(b) Directors' remuneration

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

	2017 RM	2016 RM
Group/Company		
(i) Directors' fees		
Dato' Huang Sin Cheng	90,200	80,400
Datuk Abu Hassan bin Kendut	91,900	91,900
Abdullah bin Tarmugi	91,814	98,600
Zainul Abidin bin Mohamed Rasheed	87,200	86,300
Hashim bin Harun	58,032	43,000
Rasalingam a/l Kanagalingam	41,971	-
	461,117	400,200

23. TAXATION

	2017 RM	2016 RM
Group/Company		
Income tax:		
Malaysian income tax	2,710,289	688,879
Underprovision of income tax in respect of prior years	(168,402)	(217,313)
	2,541,887	471,566
Deferred tax relating to origination and reversal of temporary differences (Note 14)	2,084,456	6,668,153
Tax expense for the financial year	4,626,343	7,139,719

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% 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:

	2017 RM	2016 RM
Group		
Profit before taxation	28,105,781	28,714,849
Taxation at Malaysian statutory income tax rate of 24%	6,745,387	6,891,564
Expenses not deductible for tax purposes	2,201,256	2,010,895
Income not subject to tax	(3,436,512)	(2,435,302)
Underprovision of income tax in prior years	(168,402)	-
(Over)/underprovision of deferred tax in prior years	(541,741)	672,562
Unabsorbed tax losses from prior year	(173,645)	-
Tax expense for the financial year	4,626,343	7,139,719
Company		
Profit before taxation	27,427,041	28,447,523
Taxation at Malaysian statutory income tax rate of 24%	6,582,490	6,827,406
Expenses not deductible for tax purposes	2,364,153	2,010,895
Income not subject to tax	(3,436,512)	(2,371,144)
Underprovision of income tax in prior years	(168,402)	-
(Over)/underprovision of deferred tax in prior years	(541,741)	672,562
Unabsorbed tax losses from prior year	(173,645)	-
Tax expense for the financial year	4,626,343	7,139,719

24. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on the profit after taxation for the financial year over the number of shares in issue during the financial year of 219,875,038 units (2016: RM219,875,038).

	2017		2016	
	Group	Company	Group	Company
	RM	RM	RM	RM
Net profit for the financial year	23,479,438	22,800,698	21,575,130	21,307,804

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 2017.

26. OPERATING LEASE ARRANGEMENTS

The Group and Company has entered into non-cancellable operating lease agreements in respect of rental of office equipment, IT equipment, software licences and premises as well as leaseline expenses. The lease agreements have fixed rentals for a period of three to 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:

	2017	2016
	RM	RM
Group/Company		
Future minimum rental payment:		
Not later than 1 year	3,098,227	3,223,255
Later than 1 year and not later than 5 years	7,809,483	8,009,185
	10,907,710	11,232,440

27. CAPITAL COMMITMENTS

	2017 RM	2016 RM
Group/Company		
Approved and contracted for:		
Intangible asset	7,602,841	8,526,549
Computers	56,600	15,960
Renovations	76,000	195,100
Office equipment	63,293	-
Furniture and fittings	26,300	20,650
	7,825,034	8,758,259
Approved and not contracted for:		
Office equipment and Renovations	17,816	-

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	
	2017 RM	2016 RM	2017 RM	2016 RM
Group/Company				
Fellow subsidiary:				
Income				
Claim recovery				
- First Capital Insurance Limited	-	70,316	-	-
- Wentworth Insurance Company Limited (Labuan)	13,400,981	25,873,254	-	-
Commission Income				
- CRC Reinsurance Limited (Barbados)	13,855	226,429	-	-
- Wentworth Insurance Company Limited (Labuan)	1,787,083	5,564,800	-	-

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	
	2017 RM	2016 RM	2017 RM	2016 RM
Group/Company				
Fellow subsidiary:				
Expense				
Reinsurance premium ceded				
- CRC Reinsurance Limited (Barbados)	96,303	136,204	-	-
- First Capital Insurance Limited	-	14,173	-	-
- Wentworth Insurance Company Limited (Labuan)	8,780,556	15,286,063	-	-
Interest expense on premium witheld				
- Wentworth Insurance Company Limited (Labuan)	131,546	88,153	-	-
Investment management fees				
- Hamblin Watsa Investment Counsel Ltd	1,106,569	219,676	-	-
Management fees				
- Fairfax Asia Limited	1,440,110	665,923	-	-
Finance cost				
- Fairfax Asia Limited	1,703,622	1,708,293	-	-
Financial Services				
-FFH Management Services	99,031	-	-	-
Receivables				
Other balances due from				
- Wentworth Insurance Company Limited (Labuan)	-	-	-	12,641,157
- First Capital Insurance Limited	-	-	-	70,316

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	
	2017	2016	2017	2016
	RM	RM	RM	RM
Payables				
Other balances due to				
- CRC Reinsurance Limited (Barbados)	-	-	11,624	-
- Wentworth Insurance Company Limited (Labuan)	-	-	4,427,146	4,295,206
- Fairfax Asia Limited	-	-	30,097,023	27,376,018
- Hamblin Watsa Investment Counsel Ltd	-	-	71,291	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:

	2017	2016
	RM	RM
Short-term employee benefits	2,583,062	2,511,791
Defined contribution plan	105,614	167,040
	2,688,676	2,678,831

Includes compensation payable to key management personnel at the end of reporting period of RM811,117 (2016: RM684,996).

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.

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

	2017	2016
	RM	RM
Group/Company		
Salary and other emoluments	628,954	582,364
Bonus	350,000	284,796
Contribution to defined contribution plan	29,041	21,446
Estimated money value of benefits-in-kind	342,096	317,670
	1,350,091	1,206,276

29. RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Group and Company's Risk Management Framework (the "RMF") sets out a framework of principles on risk management to guide the board and senior management in performing their risk oversight function, and sets forth the principles and guidelines of the Company's risk management strategy.

The RMF is designed to:

- Provide the board and senior management reasonable assurance that the Company's business objectives will be achieved by aligning risk appetite and strategy, proactively responding to risks, reducing operational surprises and losses, and identifying and managing cross-enterprise risks.
- Improve deployment of capital.
- Enhance corporate governance and successfully respond to a changing business environment.
- Assist management in implementing a sound and risk-based internal control system and provide the risk reporting tools to be used to identify significant control lapses/weaknesses and monitor
- Guide staff in understanding the risk assessment methodology and strengthen their risk awareness and capability to identify, manage and control business risks.
- Assist Internal Audit in implementing a risk-based audit process for their independent review of the Company's RMF.

The RMF has the following core components:

1. A risk appetite framework which sets out the type and amount of risk it is able and willing to accept;
2. A risk management system that is used to identify, assess and manage the risks in accordance with the risk appetite framework; and
3. A risk governance culture which encourages all employees to engage actively in risk management through the operation of risk policies, standards and procedures.

(b) Regulatory framework

Insurers have to comply with the Financial Services Act, 2013 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 these requirements, the Company has to maintain a capital adequacy ratio (CAR) that commensurate with its risk profile. The minimum Statutory Target Capital Level requirement under the Risk-Based Capital Framework for insurers is 130%. Throughout the financial year, the Company maintained a CAR higher than the minimum requirement by the Authority.

30. INSURANCE RISK

In designing and pricing our general insurance products we make several assumptions about the expected number of claims, the average cost of each claim, and the average premium we will receive (together these risks are defined as premium risk). We also assess each year the expected level of claims we must pay based on events which have already occurred but where claim settlement remains outstanding (reserve risk) and make assumptions as to the number and average cost of large motor insurance claims (large loss risk). The Company may also be exposed to claims arising from natural catastrophe events (e.g. extreme weather) and an assumption is made as to the number and severity of such events (natural catastrophe risk). In all the above instances the risk to the Company arises from the fact that the actual outcome will be different from our assumptions.

30. INSURANCE RISK (CONTINUED)

Hence, the key risk here is the variability of the claim events which may differ from the assumptions made during the acceptance of the business and also during the assessment of the expected level of claims after an event occurs.

The variability of the claim events can be reduced by writing a more diversified portfolio of insurance contracts and also through the use of proper reinsurance arrangements. In addition, proper selection of risks and implementation of underwriting strategy and guidelines as well as claims management and control systems can aid to ensure a robust insurance risk management.

The objective of the Company is to control and manage insurance risk to reduce volatility of operating profits and has done it through the following:

- The Company's underwriting approach is governed by an underwriting policy and guidelines which sets out a control framework for risk acceptance and referrals, underwriting capacity and authority limits granted to the various operations.
- The Company's claims philosophy which provides the framework for claims management, regular claims review and claims handling procedures with the objectives to minimise the uncertainty of claims development and inflationary costs as well as to mitigate dubious or fraudulent claims whilst ensuring fair claims settlement.
- Reinsurance is used to limit the Company's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.

The key assumptions made when setting the premiums and valuation of technical provisions are that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of the possibility of claims, average claims costs and also the expenses involved in handling claims.Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example isolated occurrence of large claims as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

The risk inherent in general insurance contracts is reflected in the technical provisions 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. This is currently done at the 75% sufficiency level, according to the requirement set by Bank Negara under the RBC Framework.

Estimates of an insurance company's premium and claim liabilities are affected by future events, which can be unpredictable. Hence, the assumptions made may well vary from actual experience. In order for the management to understand the impact of these assumption difference, a Stress Testing exercise is performed annually to test the solvency of the company under various scenarios according to regulatory guidelines, simulating changes in major parameters such as new business volume, claims experience, expenses and investment environment. This will help inform the management of the key areas that will have a much more significant impact to the business and to manage these areas more effectively.

30. INSURANCE RISK (CONTINUED)

	2017			2016		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
Group/Company						
Claim liabilities						
Motor	314,582,534	(135,276,760)	179,305,774	288,934,768	(115,322,523)	173,612,245
Fire	90,849,655	(66,513,152)	24,336,503	90,419,605	(69,772,085)	20,647,520
Marine, Aviation and Transit	73,760,248	(60,990,869)	12,769,379	67,899,314	(52,237,218)	15,662,096
Medical and Health	11,332,890	(241,381)	11,091,509	11,699,826	(273,069)	11,426,757
Miscellaneous	139,078,417	(97,237,101)	41,841,316	139,004,973	(104,871,583)	34,133,390
	629,603,744	(360,259,263)	269,344,481	597,958,486	(342,476,478)	255,482,008
Premium liabilities						
Motor	130,621,162	(70,901,238)	59,719,924	111,126,037	(57,184,355)	53,941,682
Fire	42,111,393	(32,941,996)	9,169,397	31,942,034	(24,038,852)	7,903,182
Marine, Aviation and Transit	11,656,262	(9,129,573)	2,526,689	15,801,956	(12,334,270)	3,467,686
Medical and Health	25,720,236	(4,007,100)	21,713,136	19,997,293	(1,991,830)	18,005,463
Miscellaneous	29,617,172	(16,299,676)	13,317,496	34,685,650	(22,954,587)	11,731,063
	239,726,225	(133,279,583)	106,446,642	213,552,970	(118,503,894)	95,049,076

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					
2017					
Provision for Risk Margin for Adverse Deviation ("PRAD")	+5%	2,232,389	829,487	(829,487)	(630,410)
Loss ratio	+5%	102,437,888	50,916,676	(50,916,676)	(38,696,674)
Claim handling expenses	+5%	578,356	578,356	(578,356)	(439,550)
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)

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.

Three separate tables have been shown to account for claim developments for Pacific Insurance Berhad (PIB) ongoing business, MCIS Insurance Berhad run-off (ex-MCIS) business, Prudential Assurance Berhad run-off (ex-PAMB) 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 2016. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.

- Ex-PAMB table consists of cohort of claims from existing risks of PAMB up to the point of acquisition 30 August 2017. 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 2017 (PIB):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
Group/Company							
At end of accident year		135,203,325	116,338,554	123,760,119	203,716,816	317,146,705	335,408,810
One year later		119,708,428	105,807,794	114,975,495	208,908,915	295,572,540	
Two years later		115,919,355	106,791,073	111,045,828	190,026,570		
Three years later		115,268,290	104,834,497	109,759,689			
Four years later		110,443,503	104,377,724				
Five years later		109,193,122					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		109,193,122	104,377,724	109,759,689	190,026,570	295,572,540	335,408,810
At end of accident year		(38,341,088)	(42,066,707)	(39,174,817)	(51,264,771)	(84,733,806)	(93,494,069)
One year later		(87,538,028)	(71,934,324)	(73,691,410)	(124,567,293)	(178,156,018)	
Two years later		(96,979,889)	(85,486,306)	(87,747,029)	(150,468,251)		
Three years later		(100,494,788)	(91,334,354)	(95,024,687)			
Four years later		(105,516,825)	(97,660,478)				
Five years later		(105,804,141)					
Six years later							
Seven years later							
Cumulative payments to-date		(105,804,141)	(97,660,478)	(95,024,687)	(150,468,251)	(178,156,018)	(93,494,069)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (PIB) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
Group/Company								
Gross general insurance outstanding liabilities (direct and facultative)	1,855,371	3,388,981	6,717,246	14,735,002	39,558,319	117,416,522	241,914,741	425,586,182
Gross general insurance outstanding liabilities (treaty inward)								35,938,450
Best estimate of claim liabilities								461,524,632
Claims handling expenses								8,366,903
PRAD at 75% confidence Level								41,416,143
Gross general insurance contract liabilities per statement of financial position								511,307,678

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (MCIS general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
Group/Company							
At end of accident year		145,104,000	105,396,000	86,623,384	18,695,705	167,828	-
One year later		156,394,000	93,253,432	86,840,507	21,626,874	287,700	
Two years later		158,346,490	92,377,981	83,113,690	19,916,415		
Three years later		152,161,537	87,378,959	79,206,629			
Four years later		150,706,019	84,834,914				
Five years later		151,169,625					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		151,169,625	84,834,914	79,206,629	19,916,415	287,700	-
At end of accident year		(58,383,924)	(26,581,810)	(23,780,956)	(3,073,991)	-	-
One year later		(94,233,566)	(54,196,942)	(38,329,500)	(8,496,081)	(19,769)	
Two years later		(107,970,113)	(61,129,585)	(55,233,080)	(14,298,513)		
Three years later		(112,078,896)	(68,642,256)	(62,316,541)			
Four years later		(116,886,455)	(70,289,378)				
Five years later		(117,980,725)					
Six years later							
Seven years later							
Cumulative payments to-date		(117,980,725)	(70,289,378)	(62,316,541)	(14,298,513)	(19,769)	-

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
Group/Company								
Gross general insurance outstanding liabilities (direct and facultative)	26,608,317	33,188,900	14,545,536	16,890,088	5,617,902	267,931	-	97,118,674
Gross general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								97,832,711
Claims handling expenses								1,909,570
PRAD at 75% confidence Level								9,482,716
Gross general insurance contract liabilities per statement of financial position								109,224,997

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (Prudential general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
Group/Company							
At end of accident year							5,748,141
One year later						6,207,659	
Two years later					7,847,268		
Three years later				9,196,681			
Four years later			10,164,700				
Five years later		9,830,303					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		9,830,303	10,164,700	9,196,681	7,847,268	6,207,659	5,748,141
At end of accident year							(3,450,422)
One year later						(4,195,671)	
Two years later					(6,168,223)		
Three years later				(9,065,935)			
Four years later			(10,065,433)				
Five years later		(9,729,438)					
Six years later							
Seven years later							
Cumulative payments to-date		(9,729,438)	(10,065,433)	(9,065,935)	(6,168,223)	(4,195,671)	(3,450,422)

30. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2017 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
Group/Company								
Gross general insurance outstanding liabilities (direct and facultative)	1,827,127	100,865	99,267	130,746	1,679,045	2,011,988	2,297,719	8,146,757
Gross general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								8,146,757
Claims handling expenses								239,087
PRAD at 75% confidence Level								685,225
Gross general insurance contract liabilities per statement of financial position								9,071,069

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (PIB):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
Group/Company							
At end of accident year		71,293,412	76,527,904	82,907,814	121,532,796	150,715,647	163,233,359
One year later		67,364,621	72,915,675	64,204,183	121,955,485	142,324,732	
Two years later		64,872,867	65,794,967	60,252,225	115,029,552		
Three years later		63,307,168	64,247,522	59,043,708			
Four years later		62,065,027	63,869,542				
Five years later		61,722,173					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		61,722,173	63,869,542	59,043,708	115,029,552	142,324,732	163,233,359
At end of accident year		(35,186,016)	(36,078,103)	(34,893,870)	(42,780,549)	(57,094,912)	(60,684,046)
One year later		(54,745,833)	(56,406,967)	(51,160,371)	(82,033,698)	(96,246,726)	
Two years later		(59,602,493)	(60,685,360)	(54,989,373)	(95,997,486)		
Three years later		(60,180,616)	(61,894,440)	(56,268,953)			
Four years later		(60,723,891)	(62,351,437)				
Five years later		(60,793,315)					
Six years later							
Seven years later							
Cumulative payments to-date		(60,793,315)	(62,351,437)	(56,268,953)	(95,997,486)	(96,246,726)	(60,684,046)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (PIB) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
Group/Company								
Net general insurance outstanding liabilities (direct and facultative)	505,586	928,858	1,518,106	2,774,755	19,032,066	46,078,006	102,549,313	173,386,690
Net general insurance outstanding liabilities (treaty inward)								35,938,450
Best estimate of claim liabilities								209,325,140
Claims handling expenses								8,366,903
PRAD at 75% confidence Level								21,171,465
Net general insurance contract liabilities per statement of financial position								238,863,508

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (MCIS general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
Group/Company							
At end of accident year		83,506,000	76,525,000	69,675,872	14,530,459	23,937	-
One year later		80,843,000	72,610,787	71,475,987	14,557,068	39,688	
Two years later		79,972,584	72,900,862	43,832,305	13,431,149		
Three years later		78,699,009	55,813,147	42,375,851			
Four years later		70,386,354	54,608,309				
Five years later		70,393,598					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		70,393,598	54,608,309	42,375,851	13,431,149	39,688	-
At end of accident year		(29,844,489)	(22,034,001)	(22,210,967)	(2,922,588)	-	-
One year later		(55,720,126)	(45,329,555)	(33,676,688)	(7,614,617)	(5,387)	
Two years later		(63,851,310)	(49,278,223)	(34,477,349)	(10,212,208)		
Three years later		(66,484,174)	(49,539,391)	(37,001,563)			
Four years later		(66,293,975)	(49,937,501)				
Five years later		(66,442,572)					
Six years later							
Seven years later							
Cumulative payments to-date		(66,442,572)	(49,937,501)	(37,001,563)	(10,212,208)	(5,387)	-

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
Group/Company								
Net general insurance outstanding liabilities (direct and facultative)	2,927,371	3,951,026	4,670,808	5,374,288	3,218,941	34,301	-	20,176,736
Net general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								20,890,773
Claims handling expenses								1,909,570
PRAD at 75% confidence Level								1,890,174
Net general insurance contract liabilities per statement of financial position								24,690,517

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (Prudential general insurance business run-off):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM
Group/Company							
At end of accident year		9,227,049	10,011,520	8,602,421	6,248,605	6,190,620	5,292,896
One year later		8,592,820	9,343,655	7,694,913	6,765,166	5,637,703	
Two years later		8,571,345	9,082,945	7,678,580	6,388,061		
Three years later		8,672,289	9,081,461	7,550,671			
Four years later		8,494,630	8,993,745				
Five years later		8,462,960					
Six years later							
Seven years later							
Current estimate of cumulative claims incurred		8,462,960	8,993,745	7,550,671	6,388,061	5,637,703	5,292,896
At end of accident year		(4,511,680)	(4,632,641)	(3,817,365)	(3,456,977)	(2,490,530)	(3,124,049)
One year later		(7,500,538)	(7,947,200)	(6,587,588)	(5,476,125)	(3,978,040)	
Two years later		(8,148,473)	(8,514,934)	(7,326,801)	(5,833,496)		
Three years later		(8,212,418)	(8,664,745)	(7,423,196)			
Four years later		(8,358,465)	(8,896,964)				
Five years later		(8,364,616)					
Six years later							
Seven years later							
Cumulative payments to-date		(8,364,616)	(8,896,964)	(7,423,196)	(5,833,496)	(3,978,040)	(3,124,049)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

30. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2017 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2012 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	Total RM
Group/Company								
Net general insurance outstanding liabilities (direct and facultative)	381,285	98,343	96,781	127,474	554,565	1,659,663	2,168,847	5,086,958
Net general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								5,086,958
Claims handling expenses								239,087
PRAD at 75% confidence Level								464,411
Net general insurance contract liabilities per statement of financial position								5,790,456

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

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
Group/Company								
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)	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

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								126,959,311
Claims handling expenses								3,322,733
PRAD at 75% confidence Level								13,145,305
Gross general insurance contract liabilities per statement of financial position								143,427,349

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

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)	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

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	31,033,884
Net general insurance outstanding liabilities (treaty inward)								717,207
Best estimate of claim liabilities								31,751,091
Claims handling expenses								3,322,733
PRAD at 75% confidence Level								3,485,263
Net general insurance contract liabilities per statement of financial position								38,559,087

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.

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired		Past-due but not impaired	Past-due and impaired	Total
	Investment grade	Not rated			
	RM	RM	RM	RM	RM
2017					
Group					
LAR					
Fixed and call deposits	46,446,574	-	-	-	46,446,574
AFS financial investments					
Malaysian Government Securities	-	154,513,930	-	-	154,513,930
Government Investment Issues	-	25,099,151	-	-	25,099,151
Corporate bonds	98,296,124	11,988,973	-	-	110,285,097
Unit trusts	-	161,359,739	-	-	161,359,739
FVTPL financial investments					
Equity securities	-	49,567,951	-	-	49,567,951
REITs	-	3,123,400	-	-	3,123,400
Reinsurance assets	43,878,931	447,797,392	-	1,862,523	493,538,846
Insurance receivables and reinsurance recoverables	3,461,362	42,572,387	26,993,744	6,592,655	79,620,148
Cash and cash equivalents	111,955,232	10,000	-	-	111,965,232
Allowance for impairment	-	-	-	(8,455,178)	(8,455,178)
	304,038,223	896,032,923	26,993,744	-	1,227,064,890

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired		Past-due but not	Past-due and	
	Investment grade	Not rated	impaired	impaired	Total
	RM	RM	RM	RM	RM
2017					
Company					
LAR					
Fixed and call deposits	46,446,574	-	-	-	46,446,574
AFS financial investments					
Corporate bonds	-	7,149,756	-	-	7,149,756
Unit trusts	-	447,124,617	-	-	447,124,617
FVTPL financial investments					
Equity securities	-	49,567,951	-	-	49,567,951
REITs	-	3,123,400	-	-	3,123,400
Reinsurance assets	43,878,931	447,797,392	-	1,862,523	493,538,846
Insurance receivables and reinsurance recoverables	3,461,362	42,572,387	26,993,744	6,592,655	79,620,148
Cash and cash equivalents	108,174,713	10,000	-	-	108,184,713
Allowance for impairment	-	-	-	(8,455,178)	(8,455,178)
	201,961,580	997,345,503	26,993,744	-	1,226,300,827

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
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 and reinsurance recoverables	2,197,279	53,420,656	30,239,357	6,822,585	92,679,878
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	-	1,143,798,860

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 and reinsurance recoverables	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

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"), Standard & Poor's ("'S&P") and Fitch Solution. AAA is the highest possible rating.

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Government Guaranteed	AAA	AA	A	B	Not rated	Total
	RM	RM	RM	RM	RM	RM	RM
2017							
Group							
LAR							
Fixed and call deposits	0	39,512,182	2,787,185	4,147,207	-	-	46,446,574
AFS financial investments							
Malaysian Government Securities	154,513,930	-	-	-	-	-	154,513,930
Government Investment Issues	25,099,151	-	-	-	-	-	25,099,151
Corporate bonds	2,046,754	12,911,934	50,395,972	34,988,218	-	9,942,219	110,285,097
Unit trusts	-	-	-	-	-	161,359,739	161,359,739
FVTPL financial investments							
Equity securities	-	-	-	-	-	49,567,951	49,567,951
REITs	-	-	-	-	-	3,123,400	3,123,400
Reinsurance assets	-	-	13,985,944	29,892,987	-	447,797,392	491,676,323
Insurance receivables and reinsurance recoverables	-	-	2,604,517	856,845	-	69,566,131	73,027,493
Cash and cash equivalents	-	20,644,584	88,682,018	2,998	2,625,632	10,000	111,965,232
	181,659,835	73,068,700	158,455,636	69,888,255	2,625,632	741,366,832	1,227,064,890
Neither past-due nor impaired	181,659,835	73,068,700	158,455,636	69,888,255	2,625,632	714,373,088	1,200,071,146
Past-due but not impaired	-	-	-	-	-	26,993,744	26,993,744
	181,659,835	73,068,700	158,455,636	69,888,255	2,625,632	741,366,832	1,227,064,890

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Government Guaranteed	AAA	AA	A	B	Not rated	Total
	RM	RM	RM	RM	RM	RM	RM
2017							
Company							
LAR							
Fixed and call deposits	-	39,512,182	2,787,185	4,147,207	-	-	46,446,574
AFS financial investments							
Malaysian Government Securities	-	-	-	-	-	-	-
Government Investment Issues	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	7,149,756	7,149,756
Unit trusts	-	-	-	-	-	447,124,617	447,124,617
FVTPL financial investments							
Equity securities	-	-	-	-	-	49,567,951	49,567,951
REITs	-	-	-	-	-	3,123,400	3,123,400
Reinsurance assets	-	-	13,985,944	29,892,987	-	447,797,392	491,676,323
Insurance receivables and reinsurance recoverables	-	-	2,604,517	856,845	-	69,566,131	73,027,493
Cash and cash equivalents	-	20,623,419	87,548,296	2,998	-	10,000	108,184,713
	-	60,135,601	106,925,942	34,900,037	-	1,024,339,247	1,226,300,827
Neither past-due nor impaired	-	60,135,601	106,925,942	34,900,037	-	997,345,503	1,199,307,083
Past-due but not impaired	-	-	-	-	-	26,993,744	26,993,744
	-	60,135,601	106,925,942	34,900,037	-	1,024,339,247	1,226,300,827

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Government Guaranteed	AAA	AA	A	B	Not rated	Total
	RM	RM	RM	RM	RM	RM	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	2,026,504	25,246,574	55,913,094	23,133,991	-	2,687,013	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	-	419,689,212	458,854,430
Insurance receivables and reinsurance recoverables	-	-	879,441	1,317,839	-	83,660,014	85,857,293
Cash and cash equivalents	-	36,683,075	265,771,393	2,891	-	9,700	302,467,059
	22,414,364	71,399,722	337,206,575	66,184,685	-	646,593,513	1,143,798,860
Neither past-due nor impaired	22,414,364	71,399,722	337,206,575	66,184,685	-	612,216,554	1,109,421,901
Past-due but not impaired	-	-	-	-	-	34,376,959	34,376,959
	22,414,364	71,399,722	337,206,575	66,184,685	-	646,593,513	1,143,798,860

31. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Government Guaranteed	AAA	AA	A	B	Not rated	Total
	RM	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	-	419,689,212	458,854,430
Insurance receivables and reinsurance recoverables	-	-	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	-	824,410,787	1,143,318,664
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	-	-	-	-	-	34,376,959	34,376,959
	-	26,572,778	249,284,404	43,050,694	-	830,674,331	1,149,582,208

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						
2017						
Insurance receivables and reinsurance recoverables	3,073,843	3,038,990	1,819,064	6,129,423	12,932,424	26,993,744
2016						
Insurance receivables and reinsurance recoverables	3,166,396	5,553,372	4,394,316	(6,800,319)	28,063,194	34,376,959

* 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 2017, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables and reinsurance recoverables and reinsurance assets of RM8,455,178 (2016: RM8,948,527). No collateral is held as security for any past-due or impaired assets. The Group and Company records impairment allowance for insurance receivables,reinsurance recoverables and reinsurance assets in separate "allowance for impairment losses" account. A reconciliation of the allowance for impairment losses for insurance receivables & reinsurance assets are as follows:

	Insurance receivables and reinsurance recoverables Allowance for Impairment losses		Reinsurance Assets Allowance for Impairment losses		Total	
	2017	2016	2017	2016	2017	2016
	RM	RM	RM	RM	RM	RM
Group/Company						
At 1 January	6,822,585	5,295,297	2,125,942	5,324,782	8,948,527	10,620,079
Acquisition of Prudential general insurance business	111,295	-	84,630	-	195,925	-
Allowance/(write back of) for the financial year	(685,236)	3,002,520	(348,049)	(3,198,840)	(1,033,285)	(196,320)
Bad debts write back/ (written-off)	344,011	(1,475,232)	-		344,011	(1,475,232)
At 31 December	6,592,655	6,822,585	1,862,523	2,125,942	8,455,178	8,948,527

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
2017								
Group								
Financial investments:								
LAR	46,446,574	47,389,508	-	-	-	-	-	47,389,508
AFS	451,257,917	78,763,125	52,551,600	47,797,750	205,096,300	114,628,150	90,579,112	589,416,037
FVTPL	52,691,351	-	-	-	-	-	52,691,351	52,691,351
Reinsurance assets on claim liabilities	358,396,740	209,433,136	115,846,171	25,732,729	7,384,705	-	-	358,396,741
Insurance receivables and reinsurance recoverable	73,027,493	73,027,493	-	-	-	-	-	73,027,493
Other receivables								
- staff loans	1,197,238	315,969	294,102	229,098	260,231	97,838	-	1,197,238
- bond collateral deposits placements	1,430,082	1,446,288	-	-	-	-	-	1,446,288
Cash and cash equivalents	111,965,232	90,634,730	-	-	-	-	21,294,375	111,929,105
Total financial assets	1,096,412,627	501,010,249	168,691,873	73,759,577	212,741,236	114,725,988	164,564,838	1,235,493,761

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
2017								
Company								
Financial investments:								
LAR	46,446,574	47,389,508	-	-	-	-	-	47,389,508
AFS	454,274,373	71,002,000	-	-	-	55,058,500	376,122,617	502,183,117
FVTPL	52,691,351	-	-	-	-	-	52,691,351	52,691,351
Reinsurance assets on claim liabilities	358,396,740	209,433,136	115,846,171	25,732,729	7,384,705	-	-	358,396,741
Insurance receivables and reinsurance recoverables	73,027,493	73,027,493	-	-	-	-	-	73,027,493
Other receivables								
- staff loans	1,197,238	315,969	294,102	229,098	260,231	97,838	-	1,197,238
- bond collateral deposits placements	1,430,082	1,446,288	-	-	-	-	-	1,446,288
Cash and cash equivalents	108,184,713	86,880,650	-	-	-	-	21,267,534	108,148,184
Total financial assets	1,095,648,564	489,495,044	116,140,273	25,961,827	7,644,936	55,156,338	450,081,502	1,144,479,920

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
2017								
Group/Company								
Insurance contract liabilites								
- claim liabilities	629,603,744	368,137,350	203,065,674	42,314,176	16,086,543	-	-	629,603,743
Subordinated loans	29,079,640	-	-	-	-	49,812,526	-	49,812,526
Insurance payables	98,567,125	98,567,125	-	-	-	-	-	98,567,125
Other payables								
cash collateral held for								
bond business	1,374,688	611,206	745,784	17,698	-	-	-	1,374,688
Total financial liabilities	758,625,197	467,315,681	203,811,458	42,331,874	16,086,543	49,812,526	-	779,358,082

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	340,350,536	210,515,670	116,626,158	25,732,729	7,384,705	-	-	360,259,262
Insurance receivables and reinsurance recoverables	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	1,028,577,216	622,038,183	176,422,292	58,250,833	69,038,283	4,024,933	151,329,939	1,081,104,462

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	340,350,536	192,978,686	100,640,449	36,379,257	10,352,144	-	-	340,350,536
Insurance receivables and reinsurance recoverables	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	1,028,097,020	598,245,504	101,088,860	36,646,336	10,935,022	171,433	281,786,891	1,028,874,046

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 liabilities								
- 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	50,988,553	52,724,416	-	-	707,130,158

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-Current RM	Total RM
Group			
2017			
Financial investments:			
LAR	46,446,574	-	46,446,574
AFS	168,890,792	282,367,125	451,257,917
FVTPL	52,691,351	-	52,691,351
Reinsurance assets on claim liabilities	209,433,136	148,963,605	358,396,741
Insurance receivables and reinsurance recoverables	73,027,493	-	73,027,493
Other receivables			
- staff loans	315,969	881,269	1,197,238
- bond collateral deposits placements	1,430,082	-	1,430,082
Cash and cash equivalents	111,965,232	-	111,965,232
Total financial assets	664,200,629	432,211,999	1,096,412,628
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 and reinsurance recoverables	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

Company No.
91603-K

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

31. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Current RM	Non-Current RM	Total RM
Company			
2017			
Financial investments:			
LAR	46,446,574	-	46,446,574
AFS	447,124,617	7,149,756	454,274,373
FVTPL	52,691,351	-	52,691,351
Reinsurance assets on claim liabilities	209,433,136	148,963,605	358,396,741
Insurance receivables and reinsurance recoverables	73,027,493	-	73,027,493
Other receivables			
- staff loans	315,969	881,269	1,197,238
- bond collateral deposits placements	1,430,082	-	1,430,082
Cash and cash equivalents	108,184,713	-	108,184,713
Total financial assets	938,653,935	156,994,630	1,095,648,565
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 and reinsurance recoverables	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

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.

			2017			2016
	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 investments	+5%	-	6,131,670	+5%	-	4,080,788
Unit trust investments	-5%	-	(6,131,670)	-5%	-	(4,080,788)
FVTPL:						
Equities	+5%	2,478,398	1,883,582	+5%	1,485,260	1,128,798
Equities	-5%	(2,478,398)	(1,883,582)	-5%	(1,485,260)	(1,128,798)
REITs	+5%	156,170	118,689	+5%	172,660	131,222
REITs	-5%	(156,170)	(118,689)	-5%	(172,660)	(131,222)
Company						
Market value						
Available-for-sale securities:						
Unit trust investments	+5%	-	16,990,735	+5%	-	10,939,951
Unit trust investments	-5%	-	(16,990,735)	-5%	-	(10,939,951)
FVTPL:						
Equities	+5%	2,478,398	1,883,582	+5%	1,485,260	1,128,798
Equities	-5%	(2,478,398)	(1,883,582)	-5%	(1,485,260)	(1,128,798)
REITs	+5%	156,170	118,689	+5%	172,660	131,222
REITs	-5%	(156,170)	(118,689)	-5%	(172,660)	(131,222)

* 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:		
2017		
+50 basis points	(3,685,130)	(2,897,723)
- 50 basis points	10,202,009	7,851,118
2016		
+50 basis points	(1,044,919)	(794,138)
- 50 basis points	1,171,738	890,521
Company		
Change in interest rates:		
2017		
+50 basis points	1,101,204	739,891
- 50 basis points	(1,101,204)	(739,324)
2016		
+50 basis points	1,574,432	1,196,568
- 50 basis points	(1,574,432)	(1,196,568)

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

32. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as At 31 December 2017, as prescribed under the Risk-Based Capital Framework is provided below:

	2017 RM	2016 RM
Eligible Tier 1 Capital		
Share capital (paid-up)	219,875,038	219,875,038
Reserves, including retained earnings	136,162,838	113,362,140
	356,037,876	333,237,178
Tier 2 Capital		
Available-for-sale-reserves	3,890,037	2,643,704
Subordinated term debts	29,079,640	22,508,517
Goodwill & other intangible assets	(40,886,685)	(31,978,478)
Deferred tax assets	(2,107,180)	(3,363,034)
	(10,024,188)	(10,189,291)
Total Capital Available	346,013,688	323,047,887

33. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 30 August 2017, Prudential Assurance Malaysia Berhad transferred its general insurance business to the Company in accordance with a Scheme & Transfer which was approved by Bank Negara Malaysia ("BNM") and confirmed by the High Court of Malaysia.

34. BUSINESS COMBINATION

On 30 August 2017, the Company completed the acquisition of certain assets and liabilities of the general insurance business of Prudential Assurance Malaysia Berhad for a cash consideration of RM10,000,000.

The carrying amount of the assets and liabilities transferred to the Pacific Insurance Berhad on 30 August 2017 are as follows:

	2017 RM
Assets	
Cash and cash equivalents	75,711
Intangible assets	283,874
Insurance receivables	323,095
Reinsurance assets	4,664,088
	5,346,768
Liabilities	
Insurance contract liabilities	15,222,935
Insurance payables	1,461,888
Other payables	907,812
	17,592,635
Net assets/(liabilities) acquired *	(12,245,867)

* The net liabilities acquired of RM12,245,867 will be settled via a completion cash payment from Prudential Assurance Malaysia Berhad.

34. BUSINESS COMBINATION (CONTINUED)

The goodwill of RM8,777,819 is computed as follow:

	2017 RM
Total purchase consideration	10,000,000
Completion cash payment (Received by PIB)	(12,245,867)
Fair value of net assets acquired	12,245,867
Tax benefit on premium liabilities	(1,222,181)
Goodwill on acquisition (Note 5)	8,777,819

35. CONTINGENT LIABILITY

In August 2016, Malaysia Competition Commission ("MyCC") had commenced investigation under Section 15(1) of the Competition Act 2010 ("the Act") against the General Insurance Association of Malaysia ("PIAM") and its 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 RM213.5 million on the general insurance industry. As an 'industry collective action', the Company together with PIAM, submitted written representation and made oral representation to MyCC on 25 April 2017 and 29 January 2018 respectively to defend the allegation. Final decision by MyCC is yet to be informed.

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 21 to 127 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2017 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 29 March 2018.

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 21 to 127 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 Gobinath Arvind at Kuala Lumpur in Wilayah Persekutuan on 29 March 2018, before me

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

COMMISSIONER FOR OATHS

Lot 333, 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 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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 2017 of the Group and of the Company, and the statements of income, 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 21 to 127.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)
(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, but 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, 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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the 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.

pwc

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)
(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 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 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 Company to cease to continue as a going concern.

(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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)
(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 (continued)

(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 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 7 to the financial statements.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

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

Kuala Lumpur
29 March 2018