

**Allianz General Insurance Company
(Malaysia) Berhad**
(Company No. 735426-V)
(Incorporated in Malaysia)

**Financial statements for the year ended
31 December 2015**
(In Ringgit Malaysia)

Domiciled in Malaysia
Principal place of business
Level 29, Menara Allianz Sentral,
203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

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Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2015

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2015.

Principal activity

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

Results

	RM'000
Profit for the year	<u>245,204</u>

Dividends

Since the end of the previous financial year, the Company paid an interim dividend of 3.98 sen per ordinary share under single tier system totalling RM15,090,894 in respect of the financial year ended 31 December 2014 on 14 January 2015.

The Directors recommended a first and final dividend of 6.6 sen per ordinary share under single tier system totalling RM25,025,100 in respect of the financial year ended 31 December 2015.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Insurance claim liabilities and insurance premium liabilities

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

Company No. 735426-V

Bad and doubtful debts

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

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

Current assets

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

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

Valuation methods

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

Contingent and other liabilities

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

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

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

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

Company No. 735426-V

Change of circumstances

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

Items of an unusual nature

In the opinion of the Directors, the results of operations of the Company for the financial year ended 31 December 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

Issue of shares

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

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Corporate governance

A. Board responsibilities and oversight

The Board of Directors (“Board”) has overall responsibility for reviewing and adopting strategic plans for the Company, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company’s internal control system.

The Company complied with all the prescriptive requirements of, the Prudential Framework of Corporate Governance for Insurers issued by BNM (“CG Framework”) and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”) where applicable, and adopts management practices that are consistent with the principles and/or best practices prescribed under the CG Framework, the Listing Requirements and the Malaysian Code on Corporate Governance 2012 (“Code”), where applicable. The Board is committed to ensure that the highest standard of corporate governance is practiced throughout the Company as a fundamental of discharging its duties and responsibilities to protect the interests of its shareholders and policyholders.

A1. Composition of the Board

The Board comprises 4 Independent Non-Executive Directors and 1 Non-Independent Executive Director.

The Board comprises members from various fields with a balance of skills and experiences appropriate to the business of the Company.

All members of the Board complied with the BNM’s requirements on restriction of directorships and the minimum criteria of “A Fit and Proper Person” as prescribed under the Financial Services Act, 2013.

The appointments and re-appointments of all Board members were approved by BNM.

Company No. 735426-V

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A2. Board meetings

The Board meets regularly, at least 6 times in a year. Additional Board Meetings are held as and when required. There were 6 Board Meetings held during the financial year ended 31 December 2015 and the attendance of the Directors as at 31 December 2015 was as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Bin Ismail	6	6
Foo San Kan	6	5
Dato' Dr. Thillainathan A/L Ramasamy	6	6
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Zakri Bin Mohd Khir	6	6

A3. Board Committees

The Company has since 1 January 2008 formally used the services of the below mentioned Board Committees of its immediate holding company, Allianz Malaysia Berhad ("AMB"):-

- (a) Audit Committee;
- (b) Risk Management Committee;
- (c) Nominating Committee;
- (d) Remuneration Committee; and
- (e) Investment Committee*.

* The Investment Committee of AMB was reconstituted as a Management Committee of the respective insurance subsidiaries of AMB on 27 May 2015.

The Board Committees are operating on the terms of reference approved by the Board of AMB and adopted by the Board of the Company, to assist the Board in the execution of its responsibilities. These Board Committees shall have the authorities to examine particular issues and report to the Board with their observations and recommendations. The ultimate responsibility for the decision on all matters, however, lies with the entire Board.

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.1. Audit Committee of AMB

The composition of the Audit Committee of AMB as at the date of this report are as follows:-

Foo San Kan (Chairman-Independent Non-Executive Director)
 Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
 Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)
 Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)

There were 5 Audit Committee Meetings held by AMB during the financial year ended 31 December 2015 and the attendance of the abovementioned Audit Committee members was as follows:-

Name of Members	No. of Audit Committee Meetings Held	No. of Audit Committee Meetings Attended
Foo San Kan	5	4
Tan Sri Razali Bin Ismail	5	4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5
Dato' Dr. Thillainathan A/L Ramasamy	5	2 out of 2 meetings held after his appointment as a member of the Audit Committee of AMB on 27 May 2015

The terms of reference of the Audit Committee of AMB complied with the Listing Requirements, the BNM's Guidelines for Audit Committee and Internal Audit Department (BNM/RH/GL/003-22) and the Code.

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.2. Risk Management Committee of AMB

The composition of the Risk Management Committee of AMB as at the date of this report are as follows:-

Dato' Dr. Thillainathan A/L Ramasamy (Chairman - Independent Non-Executive Director)

Foo San Kan (Independent Non-Executive Director)

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)

Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director of AMB)

There were 5 Risk Management Committee Meetings held by AMB during the financial year ended 31 December 2015 and the attendance of the abovementioned Risk Management Committee members was as follows:-

Name of Members	No. of Risk Management Committee Meetings Held	No. of Risk Management Committee Meetings Attended
Dato' Dr. Thillainathan A/L Ramasamy	5	5
Foo San Kan	5	4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	5	2 out of 2 meetings held after his appointment as a member of the Risk Management Committee of AMB on 27 May 2015

The Risk Management Committee of AMB is responsible for driving the risk management framework of AMB and its subsidiaries ("Group") and to report to the Boards of the respective companies within the Group on its recommendations and/or decisions. The responsibilities of the Risk Management Committee of AMB are stated below:-

- (a) to address strategic and corporate level risks (including compliance risk) and recommend to the respective Boards of the Group, the strategies to manage these risks and ensure its implementation;
- (b) to review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.2. Risk Management Committee of AMB (continued)

- (c) to review and recommend risk management strategies, policies and risk parameters/tolerance levels, internal capital adequacy assessment process result for the approval of the respective Boards of the Group and to ensure any changes and concerns are communicated to senior management effectively;
- (d) to review and assess the effectiveness of the overall management of compliance risk;
- (e) to ensure the risk control and compliance functions have adequate resources, authority, infrastructure, systems and independence to enable an effective risk management and compliance;
- (f) to review the key risks profile and risks raised by business units and monitor the progress of action plans implemented;
- (g) to review and recommend for the approval of the respective Boards of the Group, the contingency planning, including its effectiveness testing covering policies, processes and resources in place to address potential crisis, unusual circumstances and stress situations;
- (h) to review periodic reports on risk exposure, risk portfolio composition and risk management activities;
- (i) to report to the respective Boards of the Group, the risk management and compliance status on a regular basis; and
- (j) to approve risk methodology to facilitate risk assessment.

A3.3. Nominating Committee of AMB

The composition of the Nominating Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director of AMB)

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.3. Nominating Committee of AMB (continued)

There were 6 Nominating Committee Meetings held by AMB during the financial year ended 31 December 2015 and the attendance of the abovementioned Nominating Committee members was as follows:-

Name of Members	No. of Nominating Committee Meetings Held	No. of Nominating Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Tan Sri Razali Bin Ismail	6	5
Foo San Kan	6	4
Dato' Dr. Thillainathan A/L Ramasamy	6	6
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	6	6

The primary objective of the Nominating Committee of AMB is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officers and other key responsible persons of the Group and to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), Chief Executive Officers and key responsible persons of the Group on an on-going basis.

The responsibilities of the Nominating Committee of AMB are stated below and shall be applicable to all companies within the Group:-

- (a) establishing minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors as well as diversity including gender diversity and other core competencies required, through annual reviews;

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.3. Nominating Committee of AMB (continued)

- (b) recommending and assessing the nominees for directorship, Directors to fill Board Committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for re-appointment, before an application for approval is submitted to BNM. The Nominating Committee of AMB in making its recommendation to the Board on candidates for directorship or re-appointment, should consider the candidates’:-
 - (i) skill, knowledge, competencies, expertise and experience;
 - (ii) professionalism;
 - (iii) integrity;
 - (iv) commitment, contribution and performance; and
 - (v) in the case of candidate for the position of Independent Non-Executive Directors, the Nominating Committee of AMB should also evaluate the candidates’ ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.
- (c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director including the Independent Directors to the effectiveness of the Board, the contribution of the Board’s various committees and the performance of the Chief Executive Officer. All assessments and evaluations carried out by the Nominating Committee of AMB in the discharge of all its functions should be properly documented;
- (d) developing the criteria to assess the independence of its Independent Directors;
- (e) overseeing the appointment, management succession planning and performance evaluation of Directors, Chief Executive Officer and other key responsible persons and recommending to the Board on removal of a Director/Chief Executive Officer/ other key responsible person if he/she is ineffective, errant or negligent in discharging his/her responsibilities; and
- (f) ensuring that all Directors undergo appropriate induction programmes and receive continuous training.

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.3. Nominating Committee of AMB (continued)

The Company has put in place a performance evaluation process and procedures for assessing the Directors and the effectiveness of the Board.

All appointments and re-appointments of Directors who are due for retirement and eligible for re-election at the Annual General Meeting of the Company and/or Directors whose terms of office as approved by BNM are due for renewal, will be reviewed by the Nominating Committee of AMB and approved by the Board before the applications are submitted to BNM for approval.

In the opinion of the Nominating Committee of AMB, the Board is made up of Directors from diverse backgrounds and qualifications with experiences from different fields and skills appropriate for the business of the Company.

The Nominating Committee continuously evaluates the training needs of the Directors. In order to keep the Directors abreast with the dynamic and complex business environment as well as new statutory and regulatory requirements, the Board has approved the following areas of training for the Directors:-

- Laws and regulations imposed by the relevant authorities and any updates in respect thereto.
- Risk management and compliance controls.
- Finance, accounting and insurance related requirements.
- Corporate governance.
- Business related subjects of the Group.

A3.4. Remuneration Committee of AMB

The composition of the Remuneration Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)

Tan Sri Razali Bin Ismail (Independent Non-Executive Director)

Foo San Kan (Independent Non-Executive Director)

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.4. Remuneration Committee of AMB (continued)

There were 3 Remuneration Committee Meetings held by AMB during the financial year ended 31 December 2015 and the attendance of the abovementioned Remuneration Committee members was as follows:-

Name of Members	No. of Remuneration Committee Meetings Held	No. of Remuneration Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	3	3
Tan Sri Razali Bin Ismail	3	3
Foo San Kan	3	2

The primary objective of the Remuneration Committee of AMB is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officers and other key responsible persons of the Group and ensuring that their compensation is competitive and consistent with the culture, objective and strategy of the Group.

The responsibilities of the Remuneration Committee of AMB are stated below and shall be applicable to all companies within the Group:-

- (a) recommending a framework of remuneration for Directors, Chief Executive Officer and other key responsible persons. The remuneration policy should:-
 - (i) be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - (ii) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and other key responsible persons;
 - (iii) be sufficient to attract and retain Directors, Chief Executive Officer and other key responsible persons of calibre needed to manage the Company successfully; and
 - (iv) be balanced against the need to ensure that the funds of the insurer are not used to subsidise excessive remuneration packages.

Corporate governance (continued)

A. Board responsibilities and oversight (continued)

A3.4. Remuneration Committee of AMB (continued)

- (b) recommending specific remuneration packages for Directors, Chief Executive Officer and other key responsible persons. The remuneration packages should:-
- (i) be based on an objective consideration and approved by the full Board;
 - (ii) take due consideration of the assessments of the Nominating Committee of AMB of the effectiveness and contribution of the Directors, Chief Executive Officer or other key responsible persons concerned;
 - (iii) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - (iv) be competitive and is consistent with the culture, objective and strategy of the Group.

The Board has established a remuneration policy for Directors of the Company. The Remuneration Committee of AMB recommends to the Board, the remuneration to be paid to each Director based on the remuneration policy as approved by the Board. Nevertheless, it is the ultimate responsibility of the Board to decide on the quantum for each Director.

Corporate governance (continued)

B. Management Accountability

B1. Organisational Structure and Allocation of Responsibilities

The organisational structure of the Company shows lines of reporting and responsibility for all levels of staff. The reporting lines are structured, taking into consideration that management control is maintained at all levels throughout the organisation and that there is no gap in the reporting lines.

In order to ensure that each staff fully understand his/her job responsibilities, a documented job description setting out the duties and responsibilities and reporting line for each staff is made available to the staff concerned. In allocating job duties and responsibilities to the staff, the Management also takes into consideration that there are appropriate segregation of duties and that the staff are not assigned with potentially conflicting responsibilities.

Various Management Committees are established by the Management to assist in managing the day-to-day operations and ensure its effectiveness. The Management Committees formulate tactical plans and business strategies, monitor the performance of the Company and ensure activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

The Board's approving authority is delegated to the Management through formal and defined operational authority limits that governs business procedures and decision making process in the Company. The operational authority limits incorporate segregation of duties and check and balance in delegation of authority. The Management's authority limits cover underwriting of risks, claims settlement, reinsurance, investment and capital expenditures and are reviewed and updated to ensure relevance to the Company's operations. Such authority limits are documented and made available to all staff via the Group's staff e-portal.

In ensuring that the decision making process is transparent and to the best interest of the Company, all Directors and staff including the Chief Executive Officer are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Company, any circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

Corporate governance (continued)

B. Management Accountability (continued)

B2. Communication

To support an effective flow of information within the Company and to ensure that important information reaches the appropriate personnel in a timely manner, the Company has in place the following practices:-

- Documentation of important policies and procedures in the form of operating manuals/workflows and published the same in the Group's staff e-portal.
- Senior Management Committee meets regularly to discuss the financial performance, plans and strategies, operational risk and compliance issues of the Company.
- Regular meetings were held by business units to review strategies, targets and results of the Company.
- Implementation of induction programmes for all newly recruited staff covering amongst others, background of the Group, Code of Conduct for Business Ethics and Compliance, internal policies and procedures and performance management system.
- Conduct regular staff dialogue/briefing.
- Monthly/quarterly staff newsletters are circulated to all staff of the Company.
- Regulatory guidelines, Company's policies and procedures, internal news, financial updates, operational and compliance data and external market information are disseminated through the Group's staff e-portal or e-mail to the relevant staff of the Company in a timely manner.

B3. Goal Setting

The Company recognises the importance of aligning the staff individual goals with the corporate objectives.

The performance management system is implemented throughout all levels of staff in the Company to ensure that staff individual goals are in line with the corporate goals and staff performance appraisals are based on the achievement of staff and corporate goals. Under the performance management system, corporate goals are cascaded into business unit goals and subsequently to individual goals on a yearly basis.

Staff's individual goals are set during the beginning of each assessment year by their respective superiors with the full participation of the staff concerned, following the finalisation of the corporate goals by the Chief Executive Officer for the said assessment year.

The achievement of the individual goals by the respective staff will be evaluated by their respective superiors during mid-year and at the end of the assessment year.

Corporate governance (continued)

C. Corporate Independence

C1. Related Party Transactions

The Company complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/018-6) and the Listing Requirements in respect of its related party undertakings. Necessary disclosures were made to the Board and where required, prior approval of the Board and/or shareholders for the transactions had also been obtained.

In line with Part E, Paragraph 10.09 of the Listing Requirements on recurrent related party transactions of a revenue or trading nature with related parties ("Recurrent Transactions"), the Company's parent company, AMB had obtained the shareholders' mandate for the Group to enter into Recurrent Transactions ("Shareholders' Mandate"). The Shareholders' Mandate will be renewed on a yearly basis at the Annual General Meeting of AMB.

The Group has also established a review procedure for related party transactions including Recurrent Transactions ("RPT Review Procedure") to ensure that they are:-

- (i) undertaken on arm's length basis;
- (ii) consistent with the Group's usual business practices and policies;
- (iii) the transaction prices and terms are not more favourable to the related parties than those extended to third parties/public; and
- (iv) are not to the detriment of the minority shareholders.

Under the RPT Review Procedure, a due diligence working group ("DDWG") was formed to review the related party transactions prior to the same being submitted to the Audit Committee of AMB for consideration. The Audit Committee of AMB will subsequently review the related party transactions and submit its recommendation to the Board for consideration.

The Audit Committee of AMB also reviews the RPT Review Procedure on an annual basis to ensure that the procedures and processes are sufficient and adequate to monitor, track and identify related party transactions including Recurrent Transactions in a timely and orderly manner.

C2. Group Structure

The Group recognises the importance of corporate independence in ensuring that the interests of its policyholders, claimants, creditors and minority shareholders are not compromised. With this in mind, professional, experienced and dedicated Independent Directors were appointed to the respective Boards of the Group.

To date, corporate independence within the Company is well represented by an effective Board which is predominated by dedicated, experienced and professional Independent Directors.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management

D1. Risk Recognition and Assessment

The Board recognises the importance of having in place a risk management system to identify key risks and implement appropriate controls to manage such risks as an integral part of the Company's operations.

The Company adopted the Group Risk Management Framework Manual ("RMFM"). The RMFM outlines the guiding principles of the risk management approach, structure, roles, responsibilities, accountabilities, reporting requirements as well as risk identification, evaluation and monitoring process of the Company. It is designed to formalise the risk management functions and practices across the Company and to increase awareness of the Company's employees to risk identification, measurement, control, on-going monitoring and reporting. The RMFM is in compliance with the relevant BNM and Allianz SE Group guidelines and policies.

The system of risk governance process is integrated into the core management processes and forms part of the daily business process so that a value-added contribution in terms of sustainable competitive advantage and improved business performance can be established. Various standards are implemented by the Company, including organisational structure, risk strategy, written policies, limits, system documentation and reporting, to ensure accurate and timely flow of risk-related information and a disciplined approach towards decision making and execution.

The Company also adopts the three lines of defence model where the "first line of defence" rests with the business managers. They are responsible in the first instance for both the risks and returns of their decisions. The "second line of defence" is made up of the oversight functions comprising Legal, Compliance, and Risk Management that are independent from business operations.

The Legal function seeks to mitigate legal risks arising from legislative changes, major litigation and disputes, regulatory proceedings and unclear contractual terms.

The Compliance function assists the Board and Senior Management in managing and mitigating the compliance risks due to any non-compliance of the requirements of the law, regulations and regulatory and industry guideline.

Risk Management function assists the Board and Senior Management to achieve its strategic goals and objectives by implementing risk management activities across the organisation.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D1. Risk Recognition and Assessment (continued)

Both the Compliance and Risk Management functions report to the Risk Management Committee of AMB which assists Board members to discharge its oversight function effectively. As part of its responsibilities, the Compliance and Risk Management functions advise the Board and Senior Management on compliance, risk and regulatory matters; and provide training to the Company's employees.

In addition to the above oversight functions, Actuarial function constitutes additional components of the "second line of defence". Actuarial function contributes towards assessing and managing risks in line with regulatory requirements and they report to the Board and Senior Management. Its scope of work includes the coordination and calculation of technical reserves for accounting and regulatory, oversight on product pricing/profitability and contribution to an effective risk management system. An appropriate control framework has been established to avoid any potential conflict of interest to fulfil their role as the second line of defence.

The Risk Management Committee of AMB drives the risk management framework of the Company and report quarterly to the Board on its recommendations and/or decisions. The Risk Management Working Committee is established at the management level and serves as a platform for two way communications between the Management and the Board on matters of the organisation's risk strategy and management. Through the quarterly reporting from Risk Management Working Committee, the Risk Management Committee of AMB consolidates the status of the risks and presents them to the Board for consideration.

D2. Internal Audit

The Company shared the services of the Internal Audit Department of AMB, which assists the Audit Committee of AMB to discharge its duties and responsibilities.

The Internal Audit function as the third line of defense undertakes independent reviews or assessments of the Company's operations and its system of internal controls and provides monitoring of the controls and risk management procedures as well as highlights significant risks impacting the Company. The internal audit personnel are independent from the day-to-day activities of the Company and have unrestricted access to all activities conducted by the Company.

The audit scope covers auditable areas encompassing operations (underwriting, policy servicing and other non financial operation), investments, back office functions, sales operations, regulatory compliance and information technology ("IT") systems. An annual audit plan is developed based on annual risk assessment and approved by the Audit Committee of AMB.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities

Internal audit findings are discussed at management level. Senior and functional line management are tasked to ensure that management action plans are carried out in accordance with internal audit recommendations. Follow-up audits are also performed to monitor continued compliance.

All internal audit reports are submitted to the Audit Committee of AMB. The Audit Committee of AMB will deliberate on the key audit findings and management actions to address these findings during the Audit Committee meetings. The internal auditors will provide quarterly/ bi-yearly updates to the Audit Committee of AMB on the progress of the management action plans as well as progress of the audit plan. The requirements of BNM's Guidelines on Internal Audit Function of Licensed Institutions (BNM/RH/GL/013-4) have been met.

The Audit Committee of AMB plays a vital role in ensuring the effectiveness of the internal audit function. Accordingly, two private discussions are held by the Audit Committee of AMB with the Head of Internal Audit Department on a yearly basis without the presence of the Management.

The Company's key internal control processes include the following:-

Underwriting and reinsurance

The Company employs high standards in its respective underwriting process. This includes among others, risk segmentation and selection, setting adequate pricing and terms and conditions, setting of right retention limit and adequate reinsurance protection.

Underwriting authority is controlled centrally at the Head Office level. Reinsurance is in place primarily to ensure that no single loss or aggregation of losses arising from a single event will have an adverse financial impact on the Company. Reinsurers selection is guided by the guidelines issued by the regulator and the Allianz SE Group.

Reinsurance needs are reviewed annually in respect of reinsurance treaties and on case to case basis on facultative arrangements.

Financial control procedures

Financial control procedures are put in place and are documented in the procedural workflows of each business unit. These workflows are subject to reviews and improvements to reflect changing risks and process enhancement as and when required.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Policies and Procedures

Clear, formalised and documented internal policies and procedures are in place to ensure continued compliance with internal controls and relevant rules and regulations imposed by the relevant authorities.

These policies and procedures are subject to review and improvement to reflect changing risks and process enhancement, as and when required. Policies are also made available via the Group's staff e-portal for easy access by the employees.

Investment

The Investment Committee of the Company is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department, which resides at the life operation of the Group and it reports directly to the Senior Management Committee. The Investment Department is responsible for managing the investment functions of the Group.

The Company has in place the Group Investment Manual which sets out the detailed investment procedures and controls, including an Investment Code of Ethics to ensure that the Company's interests prevail over the personal interests of the employees.

The investment limits are set at various levels with limits which are more stringent than the regulatory limits as prescribed by BNM. The investment limits are monitored monthly to ensure compliance with the investment limits as specified in the RBC Framework for Insurers issued by BNM.

The investment performance and bonds exposure reports are amongst the reports submitted to the Investment Committee of the Company for review at its quarterly meetings.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Information system

The Company complied with the BNM's Guidelines on Management of IT Environment (GPIS 1) and Guidelines on Internet Insurance (Consolidated) (BNM/RH/GL/003-5) by establishing a reliable information security system and a Group Information Security Policy and Standard ("Policy") to protect information confidentiality, integrity, availability and non-repudiation.

All employees are required to strictly abide by and comply with the Policy.

An IT Steering Committee is established and responsible for the overall strategic deployment of IT in tandem with the business objectives of the Company, establishing effective IT plans, recommending to the Senior Management Committee for approval on IT-related expenditure and monitoring the progress of approved IT projects.

Data management framework

The Group Data Management Framework ("DMF") has been in place to establish and maintain a sound data management and management information system framework. The objective of the DMF is to manage data and disseminate information effectively and efficiently and to maximise the effective use and value of data assets. In addition, the DMF aims to ensure the integrity of data assets by preventing unauthorised or inappropriate use of data and information.

Data privacy

Given the enforcement of the Personal Data Protection Act, 2010 ("PDPA") with effect from 15 November 2013, all internal processes, practices and policies pertaining to the collection, processing and storage of personal data are monitored to ensure compliance with the PDPA. Additionally, with the adoption of the Allianz Standard for Data Protection and Privacy ("ASDP") by the Company in August 2014, the Data Privacy Management System ("DPMS") which is a requirement under the ASDP has been implemented. The objectives of the DPMS are to ensure compliance with regulatory obligations pertaining to data privacy and securing the trust of customers and business partners in relation to the handling of personal data which ultimately would increase confidence and trust in the Allianz Brand.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Product development – Non motor

A Product Development Management Policy (“PDM Policy”) which sets out the policies and procedures on product development was established by the Company in accordance with the requirements of the Guideline on Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10) issued by BNM (“BNM Product Guidelines”).

The PDM Policy aims to promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risk during the development and marketing stages. The PDM Policy will also assist to ensure that the products developed and marketed by the Company are appropriate to the needs, resources and financial capability of the targeted consumer segments.

All new products launched will be developed in accordance with the requirements of the PDM Policy and BNM Products Guidelines, endorsed by the Senior Management Committee prior to the same being marketed by the Company.

The ongoing product risk management is embedded within the risk management framework of the Company.

Whistleblowing and Anti-Fraud

The oversight of whistleblowing and fraud matters of the Company is performed by the AMB Integrity Committee (“InC”). The InC coordinates all activities concerning prevention and detection of fraud and handling of whistleblowing incidents.

The Company has adopted the Group Anti-Fraud Policy and the Group Whistleblowing Policies and Procedures to address fraud and whistleblowing issues respectively. The Group Anti-Fraud Policy defines fraud events, investigation process, reporting procedures, fraud risk assessments, training and the roles and responsibilities of Management and employees. The Group Whistleblowing Policies and Procedures on the other hand, describe the Company’s Speak-Up Policy, avenues for filing a concern and handling of whistleblowing incidents.

In respect of whistleblowing, the Company has an established whistleblowing mechanism in place to enable anonymous and non-anonymous reporting of any breach of Code of Conduct for Business Ethics and Compliance, any laws, regulations, orders or any internal rules. These whistleblowing cases are assessed confidentially by the InC to determine the validity and appropriate actions to be taken.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Whistleblowing and Anti-Fraud (continued)

The InC reports its findings and recommendations to the Audit Committee of AMB.

Anti-Corruption

The Company adopted the Allianz SE Group's Anti-Corruption Policy which serves to outline the Group's existing controls and behavioral guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments.

The Vendor Integrity Screening process which is a part of the Allianz SE Group's Anti-Corruption Program is aimed at ensuring an integrity based due diligence before any third party vendor is engaged. The screening contains a self-assessment section which amongst others includes questions on anti-corruption to be answered by the potential vendor and a risk evaluation to be completed by the relevant staff/department in charge. Only those vendors whose screening does not reveal any negative findings will be engaged.

Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT")

The Company has in place internal policies and procedures relating to AML/CFT to prevent and detect money laundering and terrorism financing activities. The sanction list screening procedures are in place and any suspicious transactions are reported to the Compliance Department.

Agent Sales Compliance Disciplinary Policy

As part of measures to improve uniformity in disciplining the agency force, the Company had formalised a Sales Compliance Disciplinary Policy detailing definition of types of offences/misconduct and the associated recommended disciplinary actions.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Employees and agents

All staff are required to make an annual declaration that they fulfilled the minimum criteria of "A Fit and Proper Person" as prescribed in Section 59(1), (2) and (3) of the Financial Services Act, 2013. In addition, all staff are also required to attest that they understand and comply with the requirements of the following internal guidelines and policies:-

- (i) Related Party Transaction Declaration;
- (ii) Disclosure of Data;
- (iii) Conflict of Interest;
- (iv) Code of Conduct for Business Ethics and Compliance;
- (v) General Insurance Association of Malaysia ("PIAM")'s Code of Ethics and Conduct
- (vi) IT Security Policy and Guideline e-Awareness Declaration;
- (vii) Anti-Corruption Policy;
- (viii) Anti-Fraud Awareness Declaration; and
- (ix) Dealing with Government Client (for employees under Sales only).

The Company's agents are guided by the Sales Policy and Sales Agent Code of Conduct in order to promote professional sales conduct by agents. The Company has established the Ethics and Compliance Committee to deal with agents behaviours that are contrary to the Sales Policy and Sales Agent Code of Conduct.

In addition, the Company's agents are also subject to PIAM's Code of Ethics and Conduct.

All internal control deficiencies or breaches are reported to the Senior Management Committee and/or the Board, where applicable, as soon as they are identified by the Compliance Department, Internal Audit Department, business units or BNM examiners. Corrective measures will be at the same time presented to the Senior Management Committee and/or the Board for consideration. The progress of the corrective measures will also be presented on a timely manner to the Senior Management Committee and/or the Board until the matters are fully resolved.

Business continuity management

Business Continuity Plan for the Company has been formulated to ascertain that the Company will recover and restore any interrupted critical functions within a predetermined time upon the occurrence of any disastrous events.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Business continuity management (continued)

The testing for Business Continuity Plan for all critical business functions and Disaster Recovery Plan test for all main application systems had been conducted during the financial year ended 31 December 2015 and the findings were reported to the Board.

Reputation Risk Management

The Group has in place a Reputation Risk and Issues Management Policy which establishes a core set of principles and processes for the management of reputational risks and reputational issues within the Group. The management of direct reputational risk requires balancing the benefits of a given business decision against the potential reputational impacts, taking into account the Group's reputational risks strategy and Environmental, Social and Governance approach. Indirect reputational risks are managed through the top risk assessment and risk and control self-assessment processes, which apply the same reputational risk assessment methodology used for direct reputational risks.

Human resources policies and procedures

The Company has established proper policies and procedures on human resource management, including recruitment, training, appraisal, benefits, promotion, resignation, termination. These policies and procedures are reviewed as and when the need arises and changes effected are communicated to relevant employees via-email or through memorandum. The policies and procedures are also made available via the Group's staff e-portal for easy access by the employees.

The Company aims to equip employees with the relevant knowledge, skills and competencies required for their roles and responsibilities through structured training and development programmes. These include a combination of classroom training, on-the-job attachment, professional examinations and project assignments. Employees are encouraged to embrace the culture of continuous learning for personal competency and career development.

Talent development is another key focus area of the Company. As part of on-going efforts in promoting a culture of high performance and in retaining key staff, the Company has embarked on a systematic approach for identifying and developing these talents. Through the Career Development Conference, the Management is updated on the career and development progress of these individuals.

Corporate governance (continued)

E. Public Accountability

The Company complied with the provisions relating to policies under Sections 128, 129 and 130 and Schedules 8, 9 and 10 of the Financial Services Act, 2013. Each staff of the Company and the agency force are also required to adhere to PIAM's Code of Ethics and Conduct when dealing with customers.

Members of the public are also made aware of avenues for appeal against the Company's practices or decisions. The Company's policy contracts contain a written statement alerting them to the existence of the Financial Mediation Bureau ("FMB") and BNM's Customer Services Bureau ("CSB"), their roles in investigating complaints into unfair market practices, their contact details and procedures for lodging complaints with the FMB or CSB. In addition, notices containing the same information are exhibited in the Head Office and all the Company's branches. The Company's letter to any claimant on the rejection of a claim also includes similar information for appeal to either FMB and/or CSB.

The Company has a well defined complaint management process to handle all complaints within the stipulated turnaround time. There is also an avenue for public to lodge complaints via the Group's website.

F. Financial Reporting

Statutory reporting and public disclosure

The Company exercises due care and diligence in ensuring compliance with the requirements of statutory reporting to BNM and other relevant authorities, the accuracy of information contained in the reports submitted to the relevant authorities, as well as maintaining appropriate accounting records. The Group Retention Period of Documents Policy has been in place to ensure that the Company's accounting records are properly kept.

The external auditors are appointed in accordance with the Section 67 of Financial Services Act, 2013 and the requirements of the Companies Act, 1965. They provide an independent opinion that the financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company and its financial performance and cash flows.

Corporate governance (continued)

F. Financial Reporting (continued)

Statutory reporting and public disclosure (continued)

The abridged audited financial statements of the Company are published in two daily national press and a copy of which are also exhibited at all branches in a conspicuous position. In addition, the audited financial statements and the unaudited interim financial statements of the Company are also made available in the Group's website at www.allianz.com.my.

Management Reporting

Financial reports form the primary basis for decision making and strategies taken by the Senior Management Committee and the Board in respect of the Company's corporate objectives and day-to-day operations. To enable the Senior Management Committee and the Board to effectively monitor the financial condition and performance as well as challenges or risks faced by the Company towards achieving its corporate objectives and subsequently formulate appropriate strategies, various management reports including the RBC results are submitted to the Senior Management Committee and the Board for review at their regular meetings.

The financial and business performance reports as well as the yearly corporate goals target performance report are regular monthly reports submitted to the Senior Management Committee for review. These reports cover the performance of all key operational areas and highlighting challenges faced by the Company, to enable the Senior Management Committee to assess the business development and financial condition of the Company at any point in time and formulate appropriate strategies in addressing operational problems or risks in a timely manner.

In addition, special purpose management reports prepared for decision making will also be presented to the Senior Management Committee on a need to basis.

A yearly internal capital adequacy process will be conducted based on the Company's annual business plans, business strategy and appetite and the results will be reported to the Board.

Annual business plans and budgets are reviewed by the Senior Management Committee before submitting to the Board for approval. Business performance reports are also submitted to the Board for review at its regular meetings. These reports cover all key operational areas and provide a sound basis for the Board to assess the financial performance of the Company and to identify potential problems or risks faced by the Company, thus enabling the Board to effectively monitor on an on-going basis, the affairs of the Company.

Similarly, special purpose management reports prepared for decision making will also be presented to the Board on a need to basis.

Company No. 735426-V

Directors of the Company

Directors who served since the date of the last report are:

Tan Sri Razali Bin Ismail (Chairman - Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)
Zakri Bin Mohd Khir

Directors' interests

As the Company is a wholly-owned subsidiary of AMB, the interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) are reported in the Directors' report of AMB.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as reported in the financial statements or the fixed salary of a full time employee of the Company or of related companies/corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the objective of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Ultimate holding company

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

Immediate holding company

The immediate holding company is AMB, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Company No. 735426-V

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tan Sri Razali Ismail

Zakri Bin Mohd Khir

Kuala Lumpur,

Date: 26 February 2016

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement of financial position as at 31 December 2015

	Note	2015 RM'000	2014 RM'000
Assets			
Property, plant and equipment	3	63,411	97,324
Investment properties	4	46,186	-
Intangible assets	5	4,885	1,844
Deferred tax assets	15	19,050	21,322
Investments	6		
Malaysian government securities		1,688,746	1,488,523
Malaysian government guaranteed bonds and loans		687,280	638,082
Ringgit denominated bonds by foreign issuers in Malaysia		-	40,055
Unquoted debt securities		1,037,607	940,730
Unquoted equity securities		*	*
Fixed deposits		120,000	-
Structured deposits and negotiable instruments of deposit with licensed financial institutions		152,299	121,072
Reinsurance assets	7	1,064,230	1,248,233
Insurance receivables	8	190,605	139,975
Loans and other receivables	9	134,222	112,613
Deferred acquisition costs	10	82,199	77,426
Other financial assets	11	30	-
Cash and cash equivalents		162,557	113,139
Total assets		5,453,307	5,040,338

* Denotes RM4

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2015 (continued)

	Note	2015 RM'000	2014 RM'000
Equity and liabilities			
Share capital	12	379,168	379,168
Retained earnings	13	1,218,058	972,854
Other reserves	13	12,817	(3,524)
Total equity		<u>1,610,043</u>	<u>1,348,498</u>

Insurance contract liabilities	14	3,480,910	3,327,243
Other financial liabilities	16	-	145
Insurance payables	17	231,148	228,639
Other payables and accruals	18	123,769	125,189
Current tax liabilities		7,437	10,624
Total liabilities		<u>3,843,264</u>	<u>3,691,840</u>

Total equity and liabilities		<u>5,453,307</u>	<u>5,040,338</u>

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2015

	Note	2015 RM'000	2014 RM'000
Operating revenue	19	2,277,998	2,292,223
Gross earned premiums	20	2,135,958	2,167,035
Premiums ceded to reinsurers	20	(419,801)	(611,332)
Net earned premiums		1,716,157	1,555,703
Investment income	21	142,040	125,188
Realised gains and losses	22	23	63
Fee and commission income	23	63,406	85,993
Other operating income		3,922	5,757
Other income		209,391	217,001
Gross claims paid		(1,026,526)	(986,853)
Claims ceded to reinsurers		237,676	154,696
Gross change in claims liabilities		(109,129)	(257,790)
Change in claims liabilities ceded to reinsurers		(143,238)	167,951
Net claims incurred	24	(1,041,217)	(921,996)
Fee and commission expense	25	(260,535)	(247,148)
Management expenses	26	(289,452)	(272,544)
Other operating expenses		(3,063)	(5,314)
Other expenses		(553,050)	(525,006)
Profit before tax		331,281	325,702
Tax expense	27	(86,077)	(85,673)
Profit for the year		245,204	240,029
Profit attributable to:			
Owners of the Company		245,204	240,029
Basic earnings per ordinary share (sen)	28	64.7	70.9

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2015

	Note	2015 RM'000	2014 RM'000
Profit for the year		245,204	240,029
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss			
Asset revaluation reserve		3,481	-
Tax effects thereon	27.3	(786)	-
		<u>2,695</u>	<u>-</u>
Item that may be reclassified subsequently to profit or loss			
Available-for-sale reserve	6.2	18,184	(1,916)
Tax effects thereon	27.3	(4,538)	479
		<u>13,646</u>	<u>(1,437)</u>
Total other comprehensive income/(loss) for the year, net of tax		<u>16,341</u>	<u>(1,437)</u>
Total comprehensive income for the year		<u>261,545</u>	<u>238,592</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>261,545</u>	<u>238,592</u>

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2015

Note	← Non-distributable →				Distributable		
	Share capital	Capital reserve	Available-for-sale fair value reserve	Asset revaluation reserve	Retained earnings	Total equity	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2014	334,990	4,523	(11,581)	4,982	747,905	1,080,819	
Fair value of available-for-sale financial assets	-	-	(1,437)	-	-	(1,437)	
Total other comprehensive loss for the year	-	-	(1,437)	-	-	(1,437)	
Profit for the year	-	-	-	-	240,029	240,029	
Total comprehensive income for the year	-	-	(1,437)	-	240,029	238,592	
Realisation of revaluation gain due to disposal	-	-	-	(11)	11	-	
<i>Contributions by and distributions to owners of the Company</i>							
- Dividends paid to the owners of the Company	29	-	-	-	(15,091)	(15,091)	
- Issue of ordinary shares		44,178	-	-	-	44,178	
Total transactions with owners of the Company		44,178	-	-	(15,091)	29,087	
At 31 December 2014 / At 1 January 2015		379,168	4,523	(13,018)	4,971	972,854	1,348,498

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2015 (continued)

Note	← Non-distributable →				Distributable	
	Share capital	Capital reserve	Available-for-sale fair value reserve	Asset revaluation reserve	Retained earnings	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	379,168	4,523	(13,018)	4,971	972,854	1,348,498
Fair value of available-for-sale financial assets	-	-	13,646	-	-	13,646
Revaluation for property, plant and equipment	-	-	-	2,695	-	2,695
Total other comprehensive income for the year	-	-	13,646	2,695	-	16,341
Profit for the year	-	-	-	-	245,204	245,204
Total comprehensive income for the year	-	-	13,646	2,695	245,204	261,545
At 31 December 2015	379,168	4,523	628	7,666	1,218,058	1,610,043
	Note 12	Note 13.1	Note 13.2	Note 13.3	Note 13.4	

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2015

	2015 RM'000	2014 RM'000
Operating activities		
Profit before tax	331,281	325,702
Investment income	(142,040)	(125,188)
Realised gains recorded in profit or loss	(23)	(63)
Purchases of available-for-sale investments	(760,908)	(785,191)
Placement of fixed deposits	(120,000)	-
Proceeds from disposal of available-for-sale investments	53,012	75,188
Maturity of available-for-sale investments	390,000	317,000
Non-cash items:		
Depreciation of property, plant and equipment	12,271	11,696
Property, plant and equipment written off	341	2,378
Amortisation of intangible assets	1,564	1,138
(Reversal of)/Allowance for impairment loss on insurance receivables	(2,219)	2,277
(Reversal of)/Allowance for impairment loss on other receivables	(4,963)	2,329
Bad debts recovered	(144)	(204)
Bad debts written off on receivables	4,242	937
Bad debts written off on other receivables	2,643	-
Interest expense	401	540
Changes in working capital:		
Change in reinsurance assets	184,003	(59,070)
Change in insurance receivables	(52,509)	(32,695)
Change in loans and other receivables	(14,023)	(25,962)
Change in deferred acquisition costs	(4,773)	(8,545)
Change in other financial assets	(30)	-
Change in insurance contract liabilities	153,667	225,062
Change in other financial liabilities	(145)	(1,389)
Change in insurance payables	2,509	4,498
Change in other payables and accruals	13,273	(24,762)
Cash generated from/(used in) operating activities	47,430	(94,324)

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of cash flows for payments of claims incurred for insurance contracts, which are respectively treated under operating activities.

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2015 (continued)

	2015 RM'000	2014 RM'000
Cash generated from/(used in) operating activities	47,430	(94,324)
Dividend income received	-	31
Interest income received	134,623	121,581
Rental income received	781	93
Income tax paid	(92,316)	(83,379)
Net cash flows from/(used in) operating activities	<u>90,518</u>	<u>(55,998)</u>
Investing activities		
Proceeds from disposal of property, plant and equipment	114	151
Purchase of property, plant and equipment	(21,515)	(57,196)
Purchase of intangible assets	(4,605)	(1,509)
Proceeds from disposal of investment properties	-	2,233
Net cash flows used in investing activities	<u>(26,006)</u>	<u>(56,321)</u>
Financing activities		
Proceeds from issuance of ordinary shares	-	44,178
Repayment of lease arrangements	(3)	(18)
Dividends paid to owners of the Company	(15,091)	-
Net cash flows (used in)/from financing activities	<u>(15,094)</u>	<u>44,160</u>
Net increase/(decrease) in cash and cash equivalents	49,418	(68,159)
Cash and cash equivalents at beginning of year	113,139	181,298
Cash and cash equivalents at end of year	<u>162,557</u>	<u>113,139</u>
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months):	161,935	112,441
Cash and bank balances	622	698
	<u>162,557</u>	<u>113,139</u>

Included in the fixed and call deposits are RM67,592,000 (2014: RM63,324,000) held as cash collateral for guarantees issued on behalf of the policyholders (Note 17).

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Notes to the financial statements

Corporate information

Allianz General Insurance Company (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Company is as follows:

Level 29, Menara Allianz Sentral,
203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The immediate holding company is Allianz Malaysia Berhad ("AMB"), a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

The financial statements were authorised for issue by the Board of Directors on 26 February 2016.

1. Basis of preparation

1.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the requirements of the Companies Act, 1965 in Malaysia, Financial Services Act, 2013 and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The following are accounting standards, amendments, and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

MFRS 14, *Regulatory Deferral Accounts*

Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*

Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*

Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*

Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*

Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*

Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*

Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*

Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012 -2014 Cycle)*

Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*

Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012- 2014 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

MFRS 9, *Financial Instruments (2014)*

MFRS 15, *Revenue from Contracts with Customers*

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for Amendments to MFRS 5, Amendments to MFRS 10, Amendments to MFRS 11, MFRS 14, Amendments to MFRS 116 and MFRS 141, Amendments to MFRS 119 and Amendments to MFRS 127 which are not applicable to the Company.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have material financial impact to the financial statements of the Company except as mentioned below:

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfer of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition for non-insurance contracts might be different as compared with the current practices.

The adoption of MFRS 15 will result in a change in accounting policy. The Company is currently assessing the financial impact of adopting MFRS 15.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of MFRS 9 may result in a change in accounting policy for financial assets. The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the financial statements.

1.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1.4 Use of estimates and judgements

The preparation of financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2.2(a) – Valuation of owner occupied properties
- Note 2.3(c) – Valuation of investment properties
- Note 2.6 – Valuation of financial instruments
- Note 2.14 – Valuation of insurance contract liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

2.1 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting period except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2.2 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment except for work-in-progress are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses. Work-in-progress is stated at cost.

The Company revalues its properties comprising land and buildings every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

The revalued amounts of property are determined by using the comparison method. The comparison method entails critical analysis of recent evidence of values of comparable properties in the neighbourhood and making adjustments for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics. Valuation of properties involves a degree of judgement before arriving at the respective property's revalued amount. As such, the revalued amount of the properties may be different from its actual market price.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(a) Recognition and measurement (continued)

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "realised gains and losses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(b) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Work-in-progress are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	Over lease period
Buildings	50 years
Office equipment, computers, furniture and fittings	3 to 10 years
Motor vehicles	5 years
Office renovations and partitions	10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

2.3 Investment properties

(a) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administration purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

2. Significant accounting policies (continued)

2.3 Investment properties (continued)

(a) Investment properties carried at fair value (continued)

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(b) Reclassification to/from investment properties

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

(c) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment properties portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the 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 determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from its actual market price.

2. Significant accounting policies (continued)

2.4 Intangible assets

(a) Development costs

Expenditure incurred on software development is capitalised.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(b) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(c) Amortisation

Intangible assets with finite useful lives are amortised from the date that they are available for use. Amortisation is based on the cost of an intangible asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for the current and comparative periods of capitalised software development costs is 5 years.

Amortisation methods, useful life and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2.5 Leased assets

(a) Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

2. Significant accounting policies (continued)

2.5 Leased assets (continued)

(a) Finance lease (continued)

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(b) Operating lease

Leases where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged out to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

2. Significant accounting policies (continued)

2.6 Financial instruments

(a) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(b) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

(i) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(ii) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(iii) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market that include staff loans, other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(iv) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(v) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.7(b).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.6(e), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (See Note 2.7).

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(c) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair value arising from financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(d) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(e) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.7 Impairment of financial assets

(a) Financial assets, excluding insurance receivables

All financial assets (except for financial assets categorised as fair value through profit or loss and fixed and call deposits) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2.7(b) below) and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

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

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the financial asset's acquisition cost (net of any principal repayment and amortisation) and the financial asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument 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, to the extent that the financial asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

(b) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables 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, to the extent that the insurance receivable's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. Significant accounting policies (continued)

2.8 Impairment of other assets

The carrying amounts of other assets (except for deferred tax assets and investment properties that are measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that largely independent of the cash inflows of other assets or groups of assets (known as "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

2. Significant accounting policies (continued)

2.9 Equity instruments

Instrument classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(a) Ordinary share capital

Ordinary share capital is classified as equity.

(b) Dividends on ordinary share capital

Dividends on ordinary share capital are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the end of the reporting period are dealt with as a subsequent event.

2.10 Product classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

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

2. Significant accounting policies (continued)

2.11 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. Amounts 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 measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in profit or loss.

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 expired or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

2.12 Commission and agency expenses

Gross commission and agency expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurance in the course of ceding of premiums to reinsurers, are charged to profit or loss in the period in which they are incurred or deferred where appropriate as set out in Note 2.13(e).

2. Significant accounting policies (continued)

2.13 General insurance underwriting results

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

(a) Gross premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period.

(b) Reinsurance premiums

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

Inwards treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inception dates of these risks and contractually accounted for as such to reinsurers under the terms of the proportional treaties. In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premiums are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

(c) Unearned premium reserves

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 period.

In determining UPR at the end of the reporting period, the method that most accurately reflects the actual unearned premium used is as follows:

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method (or other more accurate) method for all other classes of Malaysian general policies
- 1/8th method for all other classes of overseas inward treaty business
- Non-annual policies are time-apportioned over the period of the risks

2. Significant accounting policies (continued)

2.13 General insurance underwriting results (continued)

(d) Claims and expenses

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

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the end of the reporting period.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the end of the reporting period, using a mathematical method of estimation.

(e) Acquisition costs and deferred acquisition cost ("DAC")

The gross costs of acquiring and renewing insurance policies and income derived from ceding reinsurance premiums are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

Such costs are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, deferred acquisition cost is amortised/ allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. DAC is also considered in the liability adequacy test for each accounting period.

DAC is derecognised when the related contracts are either settled or disposed of.

2. Significant accounting policies (continued)

2.14 Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities

Claims liabilities are recognised in respect of both direct insurance and inward reinsurance. Claims liabilities refer to the obligation by the Company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date (See Note 2.23(a)). These include provision for claims reported, claims incurred but not reported ("IBNR"), claims incurred but not enough reserved ("IBNER") together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall Company level. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserve is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Premium liabilities

Premium liabilities is the higher of the aggregate of the UPR and the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the PRAD calculated at the overall Company level.

The provision for unearned premiums represents 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.

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred while administering these policies and settling the relevant claims, and expected future premium refunds.

2. Significant accounting policies (continued)

2.15 Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(a) Rental income

Rental income from investment properties and self-occupied properties are recognised in profit or loss on a straight-line basis over the term of the lease.

(b) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss except where an interest bearing investment is considered non-performing i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

(c) Dividend income

Dividend income is recognised in profit or loss on the date the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(d) Realised gains and losses on investments

Realised gains and losses recorded in profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the differences between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

2. Significant accounting policies (continued)

2.16 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised if the temporary difference arises from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2.3, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies (continued)

2.17 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

2.18 Employee benefits

Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

2.19 Other financial liabilities and insurance payables

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

2. Significant accounting policies (continued)

2.20 Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hand, balances and deposits held at call with financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 2.6(b)(iii).

2.21 Earnings per ordinary share

The Company presents basic earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

No diluted EPS is disclosed in these financial statements as there are no dilutive potential ordinary shares.

2.22 Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access 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.

2. Significant accounting policies (continued)

2.22 Fair value measurement (continued)

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.

2.23 Significant accounting judgements, estimates and assumptions

(a) Valuation of general insurance claims liabilities

For general insurance contracts, claims liabilities are the outstanding claims reserve required for the future settlement of losses on claims which have occurred but have yet to be fully settled. Claims liabilities fall into two categories: expected ultimate cost of claims reported and expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period.

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

The expected ultimate cost of claims reported are based on estimates of future payments that will be made with respect to individual claims. Such estimates are made on a case-by-case basis, based on the information available at the time the reserves are established. The estimates reflect the informed judgement of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim.

These reserves are regularly re-evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available. IBNR reserves are established to recognise the estimated cost of losses that have occurred but where the Company has not yet been notified. The valuation of IBNR reserves is carried out by an Appointed Actuary approved by BNM using her professional judgement in applying actuarial methodology and assumptions, based on the Company's current and past claims experience, taking into account the Company's underwriting practice and industry experience. IBNR reserves are estimated based on actuarial statistical projections of the expected cost of the ultimate settlement and administration of claims. The projections are based on available information at the time and include factors such as trends in claims frequency, severity and speed of settlement. IBNR reserves are reviewed and revised quarterly as additional information becomes available with the actual claims development.

2. Significant accounting policies (continued)

2.23 Significant accounting judgements, estimates and assumptions (continued)

(a) Valuation of general insurance claims liabilities (continued)

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience. These uncertainties may arise from changes in the underlying risks, changes in the spread of risk, changes in the speed of reporting and settlement of claims as well as the suitability of the methodology used in the projection model and its underlying assumptions.

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3. Property, plant and equipment

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in- progress RM'000	Total RM'000
Cost/Valuation									
At 1 January 2014		14,025	11,437	1,459	60,176	247	22,294	1,130	110,768
Additions		-	44,178	-	10,210	134	708	1,966	57,196
Disposals		(105)	(90)	-	(26)	-	-	-	(221)
Reclassification		-	-	-	1,428	-	182	(1,610)	-
Written off		-	-	-	(6,061)	-	(5,471)	-	(11,532)
At 31 December 2014 / 1 January 2015		13,920	55,525	1,459	65,727	381	17,713	1,486	156,211
Additions		-	-	-	8,406	252	5,588	7,269	21,515
Disposals		-	-	-	(275)	-	-	-	(275)
Reclassification		-	-	-	2,158	-	1,565	(3,723)	-
Transfer to investment properties	4	-	(46,186)	-	-	-	-	-	(46,186)
Written off		-	-	-	(1,735)	-	(184)	-	(1,919)
Revaluation		-	2,008	-	-	-	-	-	2,008
At 31 December 2015		13,920	11,347	1,459	74,281	633	24,682	5,032	131,354

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3. Property, plant and equipment (continued)

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in- progress RM'000	Total RM'000
Depreciation									
At 1 January 2014		364	1,402	110	41,826	52	12,622	-	56,376
Depreciation for the year	26	114	1,342	17	8,159	76	1,988	-	11,696
Disposals		-	(16)	-	(15)	-	-	-	(31)
Written off		-	-	-	(5,984)	-	(3,170)	-	(9,154)
At 31 December 2014 / 1 January 2015		478	2,728	127	43,986	128	11,440	-	58,887
Depreciation for the year	26	114	1,044	17	8,856	126	2,114	-	12,271
Disposals		-	-	-	(164)	-	-	-	(164)
Written off		-	-	-	(1,456)	-	(122)	-	(1,578)
Offset of accumulated depreciation on revaluation		-	(1,473)	-	-	-	-	-	(1,473)
At 31 December 2015		592	2,299	144	51,222	254	13,432	-	67,943

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3. Property, plant and equipment (continued)

	Land	Buildings	Land and buildings*	Office equipment, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work-in-progress	Total
Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Carrying amounts								
At 1 January 2014	13,661	10,035	1,349	18,350	195	9,672	1,130	54,392
At 31 December 2014 / 1 January 2015	13,442	52,797	1,332	21,741	253	6,273	1,486	97,324
At 31 December 2015	13,328	9,048	1,315	23,059	379	11,250	5,032	63,411

* The carrying amounts of land and buildings are not segregated as the required information is not available.

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3. Property, plant and equipment (continued)

3.1 Revaluation of properties

The Company's land and buildings were revalued by C H Williams Talhar & Wong Sdn Bhd and Henry Butcher Malaysia Sdn Bhd, independent professional qualified valuers using the comparison method in 2011 and 2012. During the year, the Company has revalued one of its buildings, resulting in a revaluation surplus amounting to RM3,481,000. The revalued building with a carrying amount of RM46,186,000 was subsequently transferred to investment properties following the change in its use.

Had the land and buildings of the Company been carried under the cost model, their carrying amounts would have been as follows:

	2015 RM'000	2014 RM'000
Land	9,745	9,824
Buildings	7,233	50,889
Land and buildings	1,319	1,335
	18,297	62,048
	18,297	62,048

3.2 Leased computers

At 31 December 2015, the net carrying amount of leased computers of the Company was RM Nil (2014 – RM 10,000).

3.3 Land

Included in the carrying amounts of land are:

	2015 RM'000	2014 RM'000
Freehold land	5,834	5,834
Long term leasehold land with unexpired lease period of more than 50 years	7,494	7,608
	13,328	13,442
	13,328	13,442

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3. Property, plant and equipment (continued)

3.4 Fair value information

Fair value of land and buildings of the Company are categorised as follows:

	2015			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	13,328	-	13,328
Buildings	-	9,048	-	9,048
Land and buildings	-	1,315	-	1,315
	-	23,691	-	23,691

	2014			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	13,442	-	13,442
Buildings	-	52,797	-	52,797
Land and buildings	-	1,332	-	1,332
	-	67,571	-	67,571

Level 2 fair value

Level 2 fair value of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable land and buildings in close proximity are adjusted for differences in key attributes such as location, property size, shape and terrain of land, tenure, title restriction if any, availability of infrastructure, building construction, finishes and services, and other relevant characteristics.

4. Investment properties

	Note	2015 RM'000	2014 RM'000
At 1 January		-	2,300
Transfer from property, plant and equipment	3	46,186	-
Disposal		-	(2,300)
At 31 December		<u>46,186</u>	<u>-</u>

Included in the above are:

	2015 RM'000	2014 RM'000
At fair value:		
Freehold land	-	-
Long term leasehold land	-	-
Buildings	46,186	-
	<u>46,186</u>	<u>-</u>

The fair values of investment properties are determined by Rahim & Co., independent professional qualified valuers using the sales comparison method. The investment properties are for capital appreciation and do not generate any rental income.

Fair value information

Fair values of investment properties are categorised as follows:

	2015			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
Freehold land	-	-	-	-
Long term leasehold land	-	-	-	-
Buildings	-	46,186	-	46,186
	-	<u>46,186</u>	-	<u>46,186</u>

	2014			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
Freehold land	-	-	-	-
Long term leasehold land	-	-	-	-
Buildings	-	-	-	-
	-	<u>-</u>	<u>-</u>	<u>-</u>

4. Investment properties (continued)

Fair value information (continued)

Level 2 fair value

Level 2 fair values of buildings have been generally derived using the sales comparison approach. Sales price of comparable buildings in close proximity are adjusted for differences in key attributes such as location, property size, shape and terrain of land, tenure, title restriction if any, availability of infrastructure, building construction, finishes and services, and other relevant characteristics.

5. Intangible assets

	Note	Software development costs RM'000	Total RM'000
Cost			
At 1 January 2014		13,022	13,022
Additions		1,509	1,509
At 31 December 2014/1 January 2015		14,531	14,531
Additions		4,605	4,605
At 31 December 2015		19,136	19,136
Amortisation			
At 1 January		11,549	11,549
Amortisation for the year	26	1,138	1,138
At 31 December 2014/1 January 2015		12,687	12,687
Amortisation for the year	26	1,564	1,564
At 31 December 2015		14,251	14,251
Carrying amounts			
At 1 January 2014		1,473	1,473
At 31 January 2014/1 January 2015		1,844	1,844
At 31 December 2015		4,885	4,885

The software development costs are in relation to internal development expenditures incurred for the Integrated Insurance Management System, Alternate Front End System and Business Intelligence System. These systems are designed to improve the efficiency of the business activities of the Company.

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6. Investments

	2015 RM'000	2014 RM'000
Malaysian government securities	1,688,746	1,488,523
Malaysian government guaranteed bonds and loans	687,280	638,082
Ringgit denominated bonds by foreign issuers in Malaysia	-	40,055
Unquoted debt securities	1,037,607	940,730
Unquoted equity securities	*	*
Fixed deposits	120,000	-
Structured deposits and negotiable instruments of deposit with licensed financial institutions	152,299	121,072
	<u>3,685,932</u>	<u>3,228,462</u>

* Denotes RM4

6.1 The Company's financial investments are summarised by categories as follows:

	2015 RM'000	2014 RM'000
Loans and receivables ("L&R")	120,000	-
Available-for-sale financial assets ("AFS")	3,565,932	3,228,462
	<u>3,685,932</u>	<u>3,228,462</u>

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6. Investments (continued)

6.1 The Company's financial investments are summarised by categories as follows: (continued)

	2015		2014	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Loans and receivables				
Fixed deposits	120,000	120,000	-	-
Available-for-sale				
Malaysian government securities	1,688,746	1,688,746	1,488,523	1,488,523
Malaysian government guaranteed bonds and loans	687,280	687,280	638,082	638,082
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	40,055	40,055
Unquoted debt securities	1,037,607	1,037,607	940,730	940,730
Unquoted equity securities	*	-	*	-
Structured deposits and negotiable instruments of deposit with licensed financial institutions	152,299	152,299	121,072	121,072
	<u>3,685,932</u>	<u>3,685,932</u>	<u>3,228,462</u>	<u>3,228,462</u>

* Denotes RM4 measured at cost

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6. Investments (continued)

6.2 The carrying values of the financial investments are stated as follows:

	L&R RM'000	AFS RM'000	Total RM'000
At 1 January 2014	-	2,837,410	2,837,410
Purchases	-	785,191	785,191
Maturities	-	(317,000)	(317,000)
Disposals	-	(75,019)	(75,019)
Fair value loss recorded in other comprehensive income	-	(1,916)	(1,916)
Accretion	-	3,456	3,456
Amortisation	-	(3,660)	(3,660)
At 31 December 2014 / 1 January 2015	-	3,228,462	3,228,462
Purchases	120,000	760,908	880,908
Maturities	-	(390,000)	(390,000)
Disposals	-	(52,992)	(52,992)
Fair value gain recorded in other comprehensive income	-	18,184	18,184
Accretion	-	3,805	3,805
Amortisation	-	(2,435)	(2,435)
At 31 December 2015	120,000	3,565,932	3,685,932

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7. Reinsurance assets

	Note	2015 RM'000	2014 RM'000
Non-current			
Reinsurance of insurance contracts			
Claims liabilities		322,935	545,423
Current			
Reinsurance of insurance contracts			
Claims liabilities		555,436	476,186
Premium liabilities	14.2	185,859	226,624
		<u>741,295</u>	<u>702,810</u>
		<u>1,064,230</u>	<u>1,248,233</u>

8. Insurance receivables

	Note	2015 RM'000	2014 RM'000
Current			
Due premiums including agent, brokers and co-insurers balances		161,172	111,445
Due from reinsurers and cedants		45,016	47,078
		<u>206,188</u>	<u>158,523</u>
Allowance for impairment	35.1.3	(16,455)	(18,674)
		<u>189,733</u>	<u>139,849</u>
Due from related companies	8.1	872	126
		<u>190,605</u>	<u>139,975</u>

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting period due to the relatively short term nature of these financial instruments.

8.1 Amounts due from related companies

The amounts due from related companies are unsecured.

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9. Loans and other receivables

	Note	2015 RM'000	2014 RM'000
Non-current			
Staff loans			
Mortgage loans		3,041	3,155
Other secured loans		649	573
		<u>3,690</u>	<u>3,728</u>
Other receivables			
Other receivables, deposits and prepayments		6,262	5,329
Malaysian Institute of Insurance ("MII") bonds		490	490
		<u>6,752</u>	<u>5,819</u>
Current			
Staff loans			
Mortgage loans		392	415
Other secured loans		248	255
		<u>640</u>	<u>670</u>
Other receivables			
Other receivables, deposits and prepayments		84,940	75,914
Allowance for impairment	35.1.3	(742)	(5,705)
		<u>84,198</u>	<u>70,209</u>
Income due and accrued		36,750	31,485
Due from ultimate holding company	9.1	10	3
Due from related companies	9.1	2,182	699
		<u>123,140</u>	<u>102,396</u>
Total loans and other receivables		<u>134,222</u>	<u>112,613</u>

The carrying amounts of other receivables reasonably approximate their fair values at the end of the reporting period due to the relatively short term nature of these financial instruments.

9.1 Amounts due from ultimate holding company and related companies

The amounts due from ultimate holding company and related companies are unsecured, interest free and repayable on demand.

10. Deferred acquisition costs

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2014		92,267	(23,386)	68,881
Movement during the year	23,25	8,154	391	8,545
At 31 December 2014/ 1 January 2015		100,421	(22,995)	77,426
Movement during the year	23,25	(1,608)	6,381	4,773
At 31 December 2015		98,813	(16,614)	82,199

11. Other financial assets

	2015 RM'000	2014 RM'000
Current		
Deposits receivable from reinsurers	30	-

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting period due to the relatively short term nature of these financial instruments.

12. Share capital

	2015		2014	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares of RM1 each:				
Authorised				
At 1 January / 31 December	500,000	500,000	500,000	500,000

	2015		2014	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid				
At 1 January	379,168	379,168	334,990	334,990
Issued for cash	-	-	44,178	44,178
At 31 December	379,168	379,168	379,168	379,168

12. Share capital (continued)**Ordinary shares**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

13. Retained earnings and other reserves**13.1 Capital reserve**

The capital reserve comprises the equity portion of financial instruments issued.

13.2 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

13.3 Revaluation reserve

The revaluation reserve represents the surplus on revaluation of land and buildings and revaluation of land and buildings immediately prior to their transfer as investment properties.

13.4 Retained earnings**Restriction on payment of dividends**

Pursuant to the RBC 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.

Pursuant to the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend with effect from the financial year beginning 1 January 2014.

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14. Insurance contract liabilities

General insurance contract liabilities consist of:

	Note	Gross RM'000	2015 Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	2014 Reinsurance RM'000 (Note 7)	Net RM'000
Provision for claims reported by policyholders		1,723,804	(630,253)	1,093,551	1,713,357	(737,488)	975,869
Provision for incurred but not reported claims ("IBNR")		736,207	(248,118)	488,089	637,525	(284,121)	353,404
Provision for outstanding claims	14.1	2,460,011	(878,371)	1,581,640	2,350,882	(1,021,609)	1,329,273
Provision for unearned premiums	14.2	1,020,899	(185,859)	835,040	976,361	(226,624)	749,737
		<u>3,480,910</u>	<u>(1,064,230)</u>	<u>2,416,680</u>	<u>3,327,243</u>	<u>(1,248,233)</u>	<u>2,079,010</u>

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14. Insurance contract liabilities (continued)

14.1 Provision for outstanding claims

	Note	Gross RM'000	2015 Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	2014 Reinsurance RM'000 (Note 7)	Net RM'000
At 1 January	24	2,350,882	(1,021,609)	1,329,273	2,093,092	(853,658)	1,239,434
Claims incurred in the current accident year		1,372,212	(239,092)	1,133,120	1,302,767	(313,069)	989,698
Other movements in claims incurred in prior accident years		(236,557)	144,654	(91,903)	(58,124)	(9,578)	(67,702)
Claims paid during the year	24	(1,026,526)	237,676	(788,850)	(986,853)	154,696	(832,157)
At 31 December	24	<u>2,460,011</u>	<u>(878,371)</u>	<u>1,581,640</u>	<u>2,350,882</u>	<u>(1,021,609)</u>	<u>1,329,273</u>

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14. Insurance contract liabilities (continued)

14.2 Provision for unearned premiums

		Gross RM'000	2015 Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	2014 Reinsurance RM'000 (Note 7)	Net RM'000
	Note						
At 1 January		976,361	(226,624)	749,737	1,009,089	(335,505)	673,584
Premiums written in the year	20	2,180,496	(379,036)	1,801,460	2,134,307	(502,451)	1,631,856
Premiums earned during the year	20	(2,135,958)	419,801	(1,716,157)	(2,167,035)	611,332	(1,555,703)
At 31 December		<u>1,020,899</u>	<u>(185,859)</u>	<u>835,040</u>	<u>976,361</u>	<u>(226,624)</u>	<u>749,737</u>

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15. Deferred tax assets / (liabilities)

15.1 Recognised deferred tax assets / (liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Property, plant and equipment						
- Capital allowance	-	-	(2,304)	(5,210)	(2,304)	(5,210)
- Revaluation reserve	-	-	(2,027)	(1,241)	(2,027)	(1,241)
- Impairment	250	260	-	-	250	260
Intangible assets	-	-	(354)	(461)	(354)	(461)
Investment properties	-	-	-	-	-	-
Provisions	19,228	18,266	-	-	19,228	18,266
Investments						
- Fair value reserve	-	4,340	(198)	-	(198)	4,340
- Impairment	1,778	1,853	-	-	1,778	1,853
Other items	2,677	3,515	-	-	2,677	3,515
Net tax assets/(liabilities)	<u>23,933</u>	<u>28,234</u>	<u>(4,883)</u>	<u>(6,912)</u>	<u>19,050</u>	<u>21,322</u>

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15. Deferred tax assets / (liabilities) (continued)

15.2 Movement in temporary differences during the year

	Note	At 1 January 2014 RM'000	Recognised in profit or loss (Note 27.1) RM'000	Recognised in other comprehen- sive income (Note 27.3) RM'000	At 31 December 2014 / At 1 January 2015 RM'000	Recognised in profit or loss (Note 27.1) RM'000	Recognised in other comprehen- sive income (Note 27.3) RM'000	At 31 December 2015 RM'000
Property, plant and equipment								
- Capital allowance		(3,923)	(1,287)	-	(5,210)	2,906	-	(2,304)
- Revaluation reserve		(1,245)	4	-	(1,241)	-	(786)	(2,027)
- Impairment		260	-	-	260	(10)	-	250
Investment properties		(390)	390	-	-	-	-	-
Intangible assets		(369)	(92)	-	(461)	107	-	(354)
Provisions		21,078	(2,812)	-	18,266	962	-	19,228
Investments								
- Fair value reserve		3,861	-	479	4,340	-	(4,538)	(198)
- Impairment		1,853	-	-	1,853	(75)	-	1,778
Other items		(3,044)	6,559	-	3,515	(838)	-	2,677
		18,081	2,762	479	21,322	3,052	(5,324)	19,050

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16. Other financial liabilities

	2015 RM'000	2014 RM'000
Current		
Deposits received from reinsurers	-	145

The carrying amounts disclosed above for previous year reasonably approximate their fair values at the end of the reporting period due to the relatively short term nature of these financial instruments.

17. Insurance payables

	Note	2015 RM'000	2014 RM'000
Non-current			
Performance bond deposits	17.1	15,709	17,997
Current			
Due to reinsurers and cedants		78,744	82,363
Due to agents and intermediaries		42,736	44,433
Performance bond deposits	17.1	51,883	45,327
Due to related companies	17.2	42,076	38,519
		215,439	210,642
		231,148	228,639

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting period due to relatively short term nature of these financial instruments.

17.1 Performance bond deposits

Performance bond deposits are collateral deposits received from policyholders for guarantees issued on behalf of policyholders.

17.2 Amounts due to related companies

The amounts due to related companies are unsecured.

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19. Operating revenue

	Note	2015 RM'000	2014 RM'000
Gross earned premiums	20	2,135,958	2,167,035
Investment income	21	142,040	125,188
		<u>2,277,998</u>	<u>2,292,223</u>

20. Net earned premiums

	Note	2015 RM'000	2014 RM'000
Gross premiums	14.2	2,180,496	2,134,307
Change in unearned premiums provision		(44,538)	32,728
	14.2,		
Gross earned premiums	19	<u>2,135,958</u>	<u>2,167,035</u>
Gross premiums ceded	14.2	(379,036)	(502,451)
Change in unearned premiums provision		(40,765)	(108,881)
Premiums ceded to reinsurers	14.2	<u>(419,801)</u>	<u>(611,332)</u>
Net earned premiums	14.2	<u>1,716,157</u>	<u>1,555,703</u>

21. Investment income

	Note	2015 RM'000	2014 RM'000
Rental income		781	93
Available-for-sale financial investments:			
Interest/profit income			
Malaysian government securities		59,947	52,863
Malaysian government guaranteed bonds and loans		26,052	22,812
Ringgit denominated bonds by foreign issuers in Malaysia		-	1,800
Unquoted bonds of corporations in Malaysia		42,561	38,849
Structured deposits and negotiable instruments of deposit with licensed financial institutions		5,374	4,443
Dividend income		-	31

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21. Investment income (continued)

		2015	2014
	Note	RM'000	RM'000
Loans and receivables financial investments:			
Interest/profit income			
Fixed deposits		2,731	-
Loans and other receivables and cash and cash equivalents		4,594	4,297
	19	<u>142,040</u>	<u>125,188</u>

22. Realised gains and losses

		2015	2014
		RM'000	RM'000
Property, plant and equipment			
Realised gain/(loss)		3	(39)
		3	(39)
Investment property			
Realised loss		-	(67)
		-	(67)
Available-for-sale financial investments			
Realised gains:			
Malaysian government securities		20	182
		20	182
Realised losses:			
Malaysian government guaranteed bonds		-	(13)
		-	(13)
Total realised gains for available-for-sale financial investments		20	169
		<u>23</u>	<u>63</u>

23. Fee and commission income

		2015	2014
	Note	RM'000	RM'000
Reinsurance commission income		40,433	68,810
Deferred acquisition costs	10	6,381	391
Service charges		16,592	16,792
		<u>63,406</u>	<u>85,993</u>

24. Net claims incurred

	Note	2015 RM'000	2014 RM'000
Gross claims paid less salvage	14.1	1,026,526	986,853
Claims ceded to reinsurers	14.1	<u>(237,676)</u>	<u>(154,696)</u>
Net claims paid	14.1	<u>788,850</u>	<u>832,157</u>
Gross change in claims liabilities:			
At 31 December	14.1	2,460,011	2,350,882
At 1 January	14.1	<u>(2,350,882)</u>	<u>(2,093,092)</u>
		<u>109,129</u>	<u>257,790</u>
Change in claims liabilities ceded to reinsurers:			
At 31 December	14.1	(878,371)	(1,021,609)
At 1 January	14.1	<u>1,021,609</u>	<u>853,658</u>
		<u>143,238</u>	<u>(167,951)</u>
		<u>1,041,217</u>	<u>921,996</u>

25. Fee and commission expense

	Note	2015 RM'000	2014 RM'000
Gross direct commission		258,927	255,302
Deferred acquisition costs	10	<u>1,608</u>	<u>(8,154)</u>
		<u>260,535</u>	<u>247,148</u>

26. Management expenses

	Note	2015 RM'000	2014 RM'000
Employee benefit expenses	26.1	151,218	138,848
Executive directors' emoluments	26.2	1,508	330
Non-executive directors' emoluments	26.2	734	675
Auditors' remuneration:			
- Audit fees			
KPMG Malaysia		330	315
- Non-Audit fees			
KPMG Malaysia		61	58
Depreciation of property, plant and equipment	3	12,271	11,696
Amortisation of intangible assets	5	1,564	1,138
(Reversal of)/Allowance for impairment loss on insurance receivables		(2,219)	2,277
(Reversal of)/Allowance for impairment loss on other receivables		(4,963)	2,329
Bad debts recovered		(144)	(204)
Bad debts written off on receivables		4,242	937
Bad debts written off on other receivables		2,643	-
Bank charges		89	88
Advertising expenses		9,967	9,754
Rental of office equipment		111	130
Rental of premises		8,397	7,424
Other expenses		103,643	96,749
		<u>289,452</u>	<u>272,544</u>

26.1 Employee benefit expenses

	2015 RM'000	2014 RM'000
Wages and salaries	84,565	78,787
Bonus	48,354	42,764
Social security contributions	820	756
Contribution to Employees' Provident Fund	17,004	15,945
Other benefits	475	596
	<u>151,218</u>	<u>138,848</u>

26. Management expenses (continued)**26.2 Key management personnel compensation**

	Note	2015 RM'000	2014 RM'000
Executive directors:			
Salaries and other emoluments		1,002	289
Bonus		506	41
Estimated monetary value of benefits-in-kind		17	5
		1,525	335
Non-executive directors:			
Fees		465	390
Other emoluments		269	285
Estimated monetary value of benefits-in-kind		9	15
		743	690
Other key management personnel*			
Short-term employee benefits		3,091	4,249
		5,359	5,274

* Other key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

The details of remuneration receivable by the Chief Executive Officer during the year are as follows:

	2015 RM'000	2014 RM'000
Salaries and other emoluments	1,002	821
Bonus	506	420
Estimated monetary value of benefits-in-kind	17	15
	1,525	1,256
Amount included in employee benefit expenses	1,508	1,241

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26. Management expenses (continued)

26.2 Key management personnel compensation (continued)

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors are as follows:

2015	Fees RM'000	Salaries RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Executive Director/Chief Executive Officer - Zakri Bin Mohd Khir	-	828	506	174	17	1,525
Non-Executive Directors						
- Tan Sri Razali Bin Ismail	117	-	-	245	9	371
- Foo San Kan	121	-	-	8	-	129
- Dato' Dr. Thillainathan A/L Ramasamy	109	-	-	8	-	117
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	118	-	-	8	-	126
	465	-	-	269	9	743
Total Directors' Remuneration (including benefits-in-kind)	465	828	506	443	26	2,268

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26. Management expenses (continued)

26.2 Key management personnel compensation (continued)

2014	Fees RM'000	Salaries RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Chief Executive Officer - Zakri Bin Mohd Khir	-	677	420	144	15	1,256
Executive Director (with effect from 3 September 2014) - Zakri Bin Mohd Khir	-	247	41	42	5	335
Non-Executive Directors						
- Tan Sri Razali Bin Ismail	97	-	-	255	15	367
- Foo San Kan	101	-	-	10	-	111
- Dato' Dr. Thillainathan A/L Ramasamy	90	-	-	10	-	100
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	102	-	-	10	-	112
	390	-	-	285	15	690
Total Directors' Remuneration (including benefits-in-kind)	390	247	41	327	20	1,025

27. Tax expense**27.1 Recognised in profit or loss**

	Note	2015 RM'000	2014 RM'000
Current tax expense			
Current year		93,325	85,129
Double taxation relief		(1,753)	-
(Over) /Under provision in prior year		(2,443)	3,306
		<u>89,129</u>	<u>88,435</u>
Deferred tax expense			
Origination and reversal of temporary differences		(1,952)	2,263
Effect of changes in tax rates		883	-
Over provision in prior year		(1,983)	(5,025)
	15.2	<u>(3,052)</u>	<u>(2,762)</u>
Tax expense		<u>86,077</u>	<u>85,673</u>

27.2 Reconciliation of tax expense

	2015 RM'000	2014 RM'000
Profit before tax	<u>331,281</u>	<u>325,702</u>
Tax at Malaysian tax rate of 25%	82,820	81,425
Non-deductible expenses	8,625	9,068
Double taxation relief	(1,753)	-
Effect of change in tax rates	883	-
Other items	(72)	(3,101)
	<u>90,503</u>	<u>87,392</u>
Over provision in prior year	(4,426)	(1,719)
Tax expense	<u>86,077</u>	<u>85,673</u>

27.3 Income tax recognised directly in other comprehensive income

	Note	2015 RM'000	2014 RM'000
Available-for-sale fair value reserve			
At 1 January		(4,340)	(3,861)
Net gain/(loss) arising from change in fair value	15.2	4,538	(479)
At 31 December		<u>198</u>	<u>(4,340)</u>

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27. Tax expense (continued)

27.3 Income tax recognised directly in other comprehensive income (continued)

	Note	2015 RM'000	2014 RM'000
Asset revaluation reserve			
At 1 January		1,241	1,245
Net gain arising from change in fair value	15.2	786	-
Reversal arising from disposal		-	(4)
At 31 December		<u>2,027</u>	<u>1,241</u>

28. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year calculated as follows:

	2015 RM'000	2014 RM'000
Profit for the year attributable to ordinary shareholders	<u>245,204</u>	<u>240,029</u>
	2015 '000	2014 '000
Weighted average number of ordinary shares during the year	<u>379,168</u>	<u>338,500</u>
	2015 Sen	2014 Sen
Basic earnings per ordinary share	<u>64.7</u>	<u>70.9</u>

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the end of the reporting period.

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

29. Dividends

Subsequent to the end of the reporting period the following dividend was proposed by the Directors. This dividend will be recognised in subsequent financial year upon approval by the owners of the Company.

	Sen per share (single tier)	Total amount RM'000	Date of payment
2015			
Final 2015 ordinary	6.60	<u>25,025</u>	To be confirmed

Dividend paid in financial year 2015 by the Company as appropriation of profits for the financial year 2014 is as follows:

	Sen per share (single tier)	Total amount RM'000	Date of payment
2014			
Interim 2014 ordinary	3.98	<u>15,091</u>	14 January 2015

30. Operating leases**30.1 Leases as lessee**

Total future minimum lease payments under operating leases are as follows:

	2015 RM'000	2014 RM'000
Less than one year	13,122	12,404
Between one and five years	6,473	16,751
	<u>19,595</u>	<u>29,155</u>

The leases typically run for an initial period of three years, with an option to renew the leases. None of the leases included contingent rentals.

31. Capital expenditure commitments

	2015 RM'000	2014 RM'000
Property, plant and equipment		
Approved but not contracted for	9,265	31,107
Contracted but not provided for	1,397	3,505
	<u>10,662</u>	<u>34,612</u>
Intangible assets		
Approved but not contracted for	20,301	17,239
Contracted but not provided for	1,373	3,550
	<u>21,674</u>	<u>20,789</u>

32. Related parties**Identity of related parties**

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company and certain members of senior management of the Company. Compensation of key management personnel have been disclosed in Note 26.2. Apart from this, there are no other transactions with key management personnel.

The significant related party transactions of the Company are as follows:

	Amount transacted for the year ended 31 December 2015 RM'000	Amount transacted for the year ended 31 December 2014 RM'000
Non-trade		
Ultimate holding company		
Payment of global marketing costs	(1,055)	(600)
Payment of advertisement cost	(226)	(520)
Payment of expenses made on behalf	-	(129)
Reimbursement of payment made on behalf	10	-
Payment of training and other fees	(84)	-
Payment of technical support fee	(57)	-
Immediate holding company		
Expenses related to common resources	(8,017)	(7,710)
Rental of office premises received	-	11
Payment of expenses made on behalf	(233)	(374)
Proceed from disposal of property, plant and equipment	1	-

32. Related parties (continued)

	Amount transacted for the year ended 31 December 2015 RM'000	Amount transacted for the year ended 31 December 2014 RM'000
Non-trade		
Related companies*		
Payment of expenses related to common resources	(2,553)	(804)
Reimbursement of/(Payment of) expenses made on behalf	1,619	(144)
Rental of office premises received	809	447
Insurance payment	(170)	(1,127)
Payment of investment advisory fees	(1,035)	(818)
Payment of intranet portal network cost	-	(145)
Payment of service fees	(7,877)	(7,706)
Payment of software licenses and maintenance fees	-	(49)
Payment of investment database expenses	-	(115)
Reimbursement of investment management service fees	-	160
Payment of risk management service fees	-	(383)
Payment of legal fees	-	(108)
Payment of E-HR success factor fees	(18)	(27)
Payment of training and other fees	(109)	-
Proceed from disposal of property, plant and equipment	111	-
Trade		
Related companies*		
Reinsurance premiums	(183,353)	(235,734)
Reinsurance commission	21,875	33,141

* Related companies are companies within the Allianz SE group.

Related party transactions have been entered into the normal course of business under normal trade term.

Significant related party balances related to the above transactions are disclosed in Notes 8, 9, 17 and 18.

33. Risk management framework

As a provider of insurance services, the Company considers risk management to be one of its core competencies. It is an integral part of the Company's business process. In order to protect its assets, the Company has established a risk management framework to promote a strong risk management culture supported by a robust risk governance structure.

This framework ensures that risks are identified, analysed and evaluated. Risk appetite is defined by the Company's risk strategy and limit structure. Close monitoring and reporting allows the Company to detect deviations from its risk tolerance limits at an early stage.

The Allianz risk management framework consists of the following four primary components:

Risk underwriting and identification

A sound risk underwriting and identification framework including risk assessment, risk standards, and clear targets form the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, strategic or tactical asset allocation.

Risk reporting and monitoring

The Company's qualitative and quantitative risk reporting and controlling framework provides transparency and risk indicators to senior management with regards to its overall risk profile and whether the profile is within the delegated limits and authorities.

Risk strategy and risk appetite

The Company's risk strategy clearly defines its risk appetite. It ensures that returns are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into management and decision making process. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within its risk appetite.

Communication and transparency

Finally, a transparent and robust risk disclosure provides a basis for communicating this strategy to the Company's internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

33. Risk management framework (continued)

Risk governance structure

The Board of Directors of the Company ("the Board") assumes the ultimate responsibility over the effectiveness of the Company's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the responsibility to establish and supervise the operation of the risk management framework to the Risk Management Committee ("RMC") to discharge its oversight function effectively.

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Company. RMC also oversees the Senior Management's activities in managing the key risk areas of the Company and to ensure that risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of Allianz Malaysia Berhad Group of companies ("AMB Group") and to report to the Board on its recommendations and/or decisions. Through structured reporting from the Risk Management Working Committee ("RMWC"), RMC will consolidate the status of the risks and present them to the Board for consideration.

RMWC serves as and provides a platform for two way communications between the management and the Board on matters of the AMB Group's risk management framework and its strategies. RMWC is responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendations to the Board. RMWC determines the allocation of risks by cascading and/or escalating to the relevant owners. RMWC also oversees the compliance of all risk management process by all departments of the Company and provides pre-emptive recommendations to ensure timely action is taken in managing and mitigating the identified risks.

Governance and regulatory framework

The Company is required to comply with the requirements of the Financial Services Act, 2013, relevant laws and guidelines from BNM and Persatuan Insurans Am Malaysia ("PIAM").

The Company is also required to comply with all Allianz SE Group's policies and standards. If there is any conflict with the local laws or regulations, the stricter will apply.

34. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims, frequency and severity and risk of change in the legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks through a formalised reinsurance arrangement with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines, limits and standards.

The insurance risk of general insurance contracts consists of premium and reserve risks. Premium risk represents the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Reserve risks represent the risk of loss resulting from deviations between payments for incurred losses that have not yet been settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves.

The table below sets out the concentration of the general insurance risk based on the provision for outstanding claims as at the end of the reporting period by type of contract.

	2015			2014		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Fire	279,854	(158,616)	121,238	229,593	(135,251)	94,342
Motor	1,465,497	(211,285)	1,254,212	1,306,195	(281,993)	1,024,202
Marine, aviation, cargo and transit	130,651	(110,459)	20,192	126,180	(103,637)	22,543
Miscellaneous	584,009	(398,011)	185,998	688,914	(500,728)	188,186
Total	2,460,011	(878,371)	1,581,640	2,350,882	(1,021,609)	1,329,273

34. Insurance risk (continued)**Key assumptions**

The principal assumption underlying the liability estimates 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 claims costs, claims handling cost and claims numbers 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 one-off occurrence as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

No discounting is made to the recommended claims and premium liability provisions as a prudent measure. In addition, no explicit inflation adjustment has been made to claims amount payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development. It is worthwhile to note that discounting is unlikely to result in any material impact due to the short tail nature of almost all classes, coupled with the low prevailing interest rate environment.

The Company has based its risk margin for adverse deviation ("PRAD") for the provisions for unexpired risks and insurance claims at the minimum 75% of sufficiency, according to the requirement set by BNM under the RBC Framework.

Sensitivities

Analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its insurance contracts. The table presented below demonstrates the sensitivity of the insurance contract liabilities estimates to particular movements in assumptions used in the estimation process.

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

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34. Insurance risk (continued)

Sensitivities (continued)

	Change in assumptions	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000	Impact on Profit before Tax RM'000	Impact on Equity* RM'000
31 December 2015					
Average claim cost	+10%	227,927	153,104	(153,104)	(114,828)
Average number of claims	+10%	234,096	187,923	(187,923)	(140,942)
Average claim settlement period	Increased by 6 months	31,464	21,926	(21,926)	(16,445)
31 December 2014					
Average claim cost	+10%	216,503	136,030	(136,030)	(102,022)
Average number of claims	+10%	259,911	163,415	(163,415)	(122,561)
Average claim settlement period	Increased by 6 months	36,507	23,431	(23,431)	(17,573)

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

The method used for deriving sensitivity information and significant assumptions did not change from the previous year except for method used for deriving the average number of claims. The results of sensitivities as at 31 December 2014 are restated accordingly.

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34. 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 the end of each reporting period, together with cumulative payments to date.

While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The management of the Company believes that the estimate of total claims outstanding as of 31 December 2015 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

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34. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2015:

Accident year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
At end of accident year		600,933	800,472	808,271	863,518	951,235	1,145,412	1,251,433	1,349,116	
One year later		581,075	819,547	828,768	784,221	848,149	1,182,773	1,193,164	-	
Two years later		587,257	827,424	810,356	754,244	835,047	1,119,096	-	-	
Three years later		593,676	829,042	800,033	749,694	834,615	-	-	-	
Four years later		584,185	805,420	805,627	739,601	-	-	-	-	
Five years later		573,592	799,475	796,137	-	-	-	-	-	
Six years later		562,792	780,736	-	-	-	-	-	-	
Seven years later		572,095	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		572,095	780,736	796,137	739,601	834,615	1,119,096	1,193,164	1,349,116	

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34. Insurance risk (continued)**Claims development table (continued)****Gross general insurance claims liabilities as at 31 December 2015: (continued)**

Accident year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
At end of accident year		183,848	250,248	214,460	244,889	259,072	344,439	375,685	387,586	
One year later		366,451	565,497	454,277	520,198	544,612	729,326	771,098	-	
Two years later		445,223	683,192	580,037	620,775	648,982	857,382	-	-	
Three years later		482,302	721,408	612,202	656,267	711,572	-	-	-	
Four years later		495,924	733,797	650,174	668,021	-	-	-	-	
Five years later		504,364	736,592	654,652	-	-	-	-	-	
Six years later		510,120	739,949	-	-	-	-	-	-	
Seven years later		511,836	-	-	-	-	-	-	-	
Cumulative payments to-date		511,836	739,949	654,652	668,021	711,572	857,382	771,098	387,586	
Gross general insurance claims liabilities (direct and facultative)	40,424	60,259	40,787	141,485	71,580	123,043	261,714	422,066	961,530	2,122,888
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia and MMIP)										82,598
Best estimate of claims liabilities										2,205,486
Claims handling expenses										17,973
PRAD at 75% confidence level										236,552
Gross general insurance claims liabilities										<u>2,460,011</u>

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34. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2014:

Accident year	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year		696,740	600,933	800,472	808,271	863,518	951,235	1,145,412	1,251,433	
One year later		704,712	581,075	819,547	828,768	784,221	848,149	1,182,773	-	
Two years later		661,421	587,257	827,424	810,356	754,244	835,047	-	-	
Three years later		664,919	593,676	829,042	800,033	749,694	-	-	-	
Four years later		650,794	584,185	805,420	805,627	-	-	-	-	
Five years later		644,409	573,592	799,475	-	-	-	-	-	
Six years later		632,905	562,792	-	-	-	-	-	-	
Seven years later		568,583	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		568,583	562,792	799,475	805,627	749,694	835,047	1,182,773	1,251,433	

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34. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2014: (continued)

Accident year	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year		202,481	183,848	250,248	214,460	244,889	259,072	344,439	375,685	
One year later		378,908	366,451	565,497	454,277	520,198	544,612	729,326	-	
Two years later		447,535	445,223	683,192	580,037	620,775	648,982	-	-	
Three years later		482,778	482,302	721,408	612,202	656,267	-	-	-	
Four years later		502,784	495,924	733,797	650,174	-	-	-	-	
Five years later		508,106	504,364	736,592	-	-	-	-	-	
Six years later		510,689	510,120	-	-	-	-	-	-	
Seven years later		530,436	-	-	-	-	-	-	-	
Cumulative payments to-date		530,436	510,120	736,592	650,174	656,267	648,982	729,326	375,685	
Gross general insurance claims liabilities (direct and facultative)	119,014	38,147	52,672	62,883	155,453	93,427	186,065	453,447	875,748	2,036,856
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia and MMIP)										74,912
Best estimate of claims liabilities										2,111,768
Claims handling expenses										14,377
PRAD at 75% confidence level										224,737
Gross general insurance claims liabilities										<u>2,350,882</u>

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34. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2015:

Accident year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
At end of accident year		419,318	472,716	517,803	622,921	675,017	875,651	971,457	1,101,454	
One year later		422,319	479,710	494,994	570,921	616,026	779,429	932,778	-	
Two years later		431,658	493,315	502,000	558,132	593,496	790,197	-	-	
Three years later		441,584	498,099	498,434	545,582	601,511	-	-	-	
Four years later		441,534	494,929	492,329	540,200	-	-	-	-	
Five years later		435,122	486,958	488,023	-	-	-	-	-	
Six years later		424,295	478,346	-	-	-	-	-	-	
Seven years later		421,681	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		421,681	478,346	488,023	540,200	601,511	790,197	932,778	1,101,454	

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34. Insurance risk (continued)**Claims development table (continued)****Net general insurance claims liabilities as at 31 December 2015: (continued)**

Accident year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
At end of accident year		165,070	191,803	188,247	201,756	216,325	294,253	326,831	356,733	
One year later		305,313	343,484	352,308	390,265	424,771	572,157	638,954	-	
Two years later		350,112	408,146	418,534	462,811	497,895	667,310	-	-	
Three years later		376,842	438,664	444,732	487,223	533,335	-	-	-	
Four years later		384,686	447,322	455,224	496,026	-	-	-	-	
Five years later		389,404	449,931	458,162	-	-	-	-	-	
Six years later		391,967	452,156	-	-	-	-	-	-	
Seven years later		393,166	-	-	-	-	-	-	-	
Cumulative payments to-date		393,166	452,156	458,162	496,026	533,335	667,310	638,954	356,733	
Net general insurance claims liabilities (direct and facultative)	18,645	28,515	26,190	29,861	44,174	68,176	122,887	293,824	744,721	1,376,993
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia and MMIP)										68,184
Best estimate of claims liabilities										1,445,177
Claims handling expenses										17,973
PRAD at 75% confidence level										118,490
Net general insurance claims liabilities										1,581,640

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34. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2014:

Accident year	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year		397,343	419,318	472,716	517,803	622,921	675,017	875,651	971,457	
One year later		401,498	422,319	479,710	494,994	570,921	616,026	779,429	-	
Two years later		395,653	431,658	493,315	502,000	558,132	593,496	-	-	
Three years later		398,007	441,584	498,099	498,434	545,582	-	-	-	
Four years later		394,074	441,534	494,929	492,329	-	-	-	-	
Five years later		390,037	435,122	486,958	-	-	-	-	-	
Six years later		384,892	424,295	-	-	-	-	-	-	
Seven years later		368,030	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		368,030	424,295	486,958	492,329	545,582	593,496	779,429	971,457	

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34. Insurance risk (continued)**Claims development table (continued)****Net general insurance claims liabilities as at 31 December 2014: (continued)**

Accident year	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year		150,994	165,070	191,803	188,247	201,756	216,325	294,253	326,831	
One year later		275,172	305,313	343,484	352,308	390,265	424,771	572,157	-	
Two years later		306,459	350,112	408,146	418,534	462,811	497,895	-	-	
Three years later		333,465	376,842	438,664	444,732	487,223	-	-	-	
Four years later		346,469	384,686	447,322	455,224	-	-	-	-	
Five years later		350,016	389,404	449,931	-	-	-	-	-	
Six years later		351,630	391,967	-	-	-	-	-	-	
Seven years later		354,548	-	-	-	-	-	-	-	
Cumulative payments to-date		354,548	391,967	449,931	455,224	487,223	497,895	572,157	326,831	
Net general insurance claims liabilities (direct and facultative)	30,491	13,482	32,328	37,027	37,105	58,359	95,601	207,272	644,626	1,156,291
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia and MMIP)										62,045
Best estimate of claims liabilities										1,218,336
Claims handling expenses										14,377
PRAD at 75% confidence level										96,560
Net general insurance claims liabilities										1,329,273

35. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate risk, equity price risk) and operational risk arises in the normal course of the Company's business. The Company is guided by its risk management framework as well as policies and guidelines from the ultimate holding company, Allianz SE which sets out its general risk management philosophy. Through financial risk management, business strategies are evaluated to ensure their appropriateness to the strategic, operational and financial risks tolerance.

35.1 Credit risk

Credit risk involves the potential losses that may result from the default of counterparties to meet their contractual obligations. The Company is exposed to credit risk from the underwriting of general insurance business and investment in fixed income instruments. Financial losses may materialise when the counterparties failed to meet payment obligations for various reasons.

The Company has policies in place to mitigate the credit risk from underwriting of insurance business and it is monitored on an ongoing basis. Reinsurance is prioritised to local insurers or reinsurers, and if the Company has to place overseas, only counterparties that have a credit rating that is acceptable based on Allianz Group Reinsurance Security Principles and Guidelines are used.

With effect from 12 September 2008, all new bond investments must carry a minimum rating of AA- or P1 by rating agencies established in Malaysia or minimum rating of BBB- by any internationally recognised rating agency as outlined in the Company's Investment Mandate which is approved by the Board of Directors.

The Company considers ratings BBB and above as investment grades and ratings below BBB as non-investment grades. Assets which are not rated by rating agencies are classified as non-rated.

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35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure

The tables below provide information regarding the credit risk exposure of the Company by classifying financial assets according to the Company's credit ratings of counterparties.

	Neither past-due nor impaired			Past-due but not impaired RM'000	Total RM'000
	Investment grade RM'000	Non-investment grade RM'000	Non-rated RM'000		
31 December 2015					
Loans and receivables					
Loans and other receivables	-	-	134,222	-	134,222
Fixed deposits	120,000	-	-	-	120,000
Cash and cash equivalents	157,009	-	5,548	-	162,557
Available-for-sale financial investments					
Malaysian government securities	-	-	1,688,746	-	1,688,746
Malaysian government guaranteed bonds and loans	15,094	-	672,186	-	687,280
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-	-
Unquoted debt securities	1,037,607	-	-	-	1,037,607
Structured deposits and negotiable instruments of deposit with licensed financial institutions	152,299	-	-	-	152,299
Reinsurance assets (reported claims)	483,185	13	147,055	-	630,253
Insurance receivables	1,193	-	180,327	9,085	190,605
	1,966,387	13	2,828,084	9,085	4,803,569

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35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

	Neither past-due nor impaired			Past-due but not impaired RM'000	Total RM'000
	Investment grade RM'000	Non-investment grade RM'000	Non-rated RM'000		
31 December 2014					
Loans and receivables					
Loans and other receivables	-	-	112,613	-	112,613
Fixed deposits	-	-	-	-	-
Cash and cash equivalents	107,775	-	5,364	-	113,139
Available-for-sale financial investments					
Malaysian government securities	-	-	1,488,523	-	1,488,523
Malaysian government guaranteed bonds and loans	90,253	-	547,829	-	638,082
Ringgit denominated bonds by foreign issuers in Malaysia	40,055	-	-	-	40,055
Unquoted debt securities	940,730	-	-	-	940,730
Structured deposits and negotiable instruments of deposit with licensed financial institutions	121,072	-	-	-	121,072
Reinsurance assets (reported claims)	549,510	13	187,965	-	737,488
Insurance receivables	1,366	-	132,380	6,229	139,975
	<u>1,850,761</u>	<u>13</u>	<u>2,474,674</u>	<u>6,229</u>	<u>4,331,677</u>

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35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company by classifying financial assets according to rating agencies' credit ratings of counterparties. AAA is the highest possible rating. Financial assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	BBB	BB and below	Non-rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2015							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	134,222	134,222
Fixed deposits	55,000	65,000	-	-	-	-	120,000
Cash and cash equivalents	134,582	20,333	2,094	-	-	5,548	162,557
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,688,746	1,688,746
Malaysian government guaranteed bonds and loans	15,094	-	-	-	-	672,186	687,280
Ringgit denominated bonds by foreign issuers in Malaysia	-	-	-	-	-	-	-
Unquoted debt securities	430,720	603,138	-	3,749	-	-	1,037,607
Structured deposits and negotiable instruments of deposit with licensed financial institutions	152,299	-	-	-	-	-	152,299
Reinsurance assets (reported claims)	-	322,510	160,674	1	13	147,055	630,253
Insurance receivables	-	266	927	-	-	189,412	190,605
	<u>787,695</u>	<u>1,011,247</u>	<u>163,695</u>	<u>3,750</u>	<u>13</u>	<u>2,837,169</u>	<u>4,803,569</u>

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35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2014							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	112,613	112,613
Fixed deposits	-	-	-	-	-	-	-
Cash and cash equivalents	80,568	25,340	1,867	-	-	5,364	113,139
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,488,523	1,488,523
Malaysian government guaranteed bonds and loans	90,253	-	-	-	-	547,829	638,082
Ringgit denominated bonds by foreign issuers in Malaysia	40,055	-	-	-	-	-	40,055
Unquoted debt securities	325,491	611,490	-	3,749	-	-	940,730
Structured deposits and negotiable instruments of deposit with licensed financial institutions	121,072	-	-	-	-	-	121,072
Reinsurance assets (reported claims)	-	354,347	195,048	115	13	187,965	737,488
Insurance receivables	-	163	1,203	-	-	138,609	139,975
	657,439	991,340	198,118	3,864	13	2,480,903	4,331,677

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35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company according to the Company's categorisation of counterparties by credit rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2015							
Investment grade	787,695	1,011,247	163,695	3,750	-	-	1,966,387
Non-investment grade	-	-	-	-	13	-	13
Non-rated	-	-	-	-	-	2,828,084	2,828,084
Past-due but not impaired	-	-	-	-	-	9,085	9,085
	<u>787,695</u>	<u>1,011,247</u>	<u>163,695</u>	<u>3,750</u>	<u>13</u>	<u>2,837,169</u>	<u>4,803,569</u>

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2014							
Investment grade	657,439	991,340	198,118	3,864	-	-	1,850,761
Non-investment grade	-	-	-	-	13	-	13
Non-rated	-	-	-	-	-	2,474,674	2,474,674
Past-due but not impaired	-	-	-	-	-	6,229	6,229
	<u>657,439</u>	<u>991,340</u>	<u>198,118</u>	<u>3,864</u>	<u>13</u>	<u>2,480,903</u>	<u>4,331,677</u>

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35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.2 Age analysis of financial assets past-due but not impaired

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past-due but not impaired as at the reporting date is as follows:

	<30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	More than 90 days RM'000	Total RM'000
31 December 2015					
Insurance receivables	1,745	1,537	2,129	3,674	9,085
31 December 2014					
Insurance receivables	976	1,433	1,085	2,735	6,229

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35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.3 Impaired financial assets

At 31 December 2015, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM16,455,000 (2014: RM18,674,000). No collateral is held as security for any past-due or impaired assets. The Company records impairment allowance for loans and other receivables and insurance receivables in separate 'Allowance for Impairment' accounts. A reconciliation of the allowance for impairment losses for loans and other receivables and insurance receivable is as follows:

	Insurance receivables		Loans and other receivables	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January	18,674	16,397	5,705	3,376
Impairment loss (reversed)/recognised	(2,219)	2,277	(4,963)	2,329
At 31 December	<u>16,455</u>	<u>18,674</u>	<u>742</u>	<u>5,705</u>

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35. Financial risks (continued)

35.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Company, refinancing is only possible at higher interest rates or assets may have to be liquidated at a discount.

Besides monitoring the liquidity position of the Company on a daily basis, the investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets in the portfolio. Some other tools used by the Company include ensuring that its assets and liabilities are adequately matched and drawing down of funds to meet claims payment should the claims event exceed a certain amount as provided for in the reinsurance contracts.

35.2.1 Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Company at the end of the reporting period based on remaining undiscounted contractual obligations, including interest/profit payable.

For provision for claims, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

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35. Financial risks (continued)

35.2 Liquidity risk (continued)

35.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2015								
Provision for claims (reported claims)	1,723,804	1,081,323	544,898	85,082	12,501	-	-	1,723,804
Other financial liabilities	-	-	-	-	-	-	-	-
Insurance payables	231,148	215,439	15,660	49	-	-	-	231,148
Other payables and accruals	123,769	123,769	-	-	-	-	-	123,769
Total liabilities	2,078,721	1,420,531	560,558	85,131	12,501	-	-	2,078,721

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35. Financial risks (continued)

35.2 Liquidity risk (continued)

35.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2014								
Provision for claims (reported claims)	1,713,357	921,766	559,185	121,911	110,495	-	-	1,713,357
Other financial liabilities	145	145	-	-	-	-	-	145
Insurance payables	228,639	210,642	16,614	1,383	-	-	-	228,639
Other payables and accruals	125,189	125,189	-	-	-	-	-	125,189
Total liabilities	2,067,330	1,257,742	575,799	123,294	110,495	-	-	2,067,330

35. Financial risks (continued)

35.3 Market risk

Market risk is the risk of loss arising due to changes in market prices or parameters influencing market prices. This includes changes in market prices due to a worsening of market liquidity. Market risk comprises of currency risk, interest rate risk and equity price risk.

The following risk mitigation actions are in place to control and monitor such risk:

- Investment Committee actively monitors the investment activities undertaken by the Company;
- The Investment Policy and Mandate which formulated the single counter limits, group limits and sector limits are in place. Compliance to such limits is monitored closely and reported to RMWC/RMC on a quarterly basis;
- Stress tests are performed as and when needed;
- Stop loss policy is in place.

35.3.1 Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act, 2013 and hence, primarily denominated in the same currency as its insurance contract liabilities. Thus, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

As the Company's main foreign exchange risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

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35. Financial risks (continued)

35.3 Market risk (continued)

35.3.2 Interest rate risk

The Company is affected by changes in market interest rates due to the impact of such changes on fair value and will incur an economic loss when the interest rates increase.

Interest rate sensitivity analysis

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

	Change in variables	Impact on Profit before Tax RM'000	Impact on Equity* RM'000
31 December 2015			
Interest rate	+ 100 basis points	-	(88,105)
Interest rate	+ 50 basis points	-	(44,053)
31 December 2014			
Interest rate	+ 100 basis points	-	(79,394)
Interest rate	+ 50 basis points	-	(39,697)

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

The above sensitivity test would yield proxy results if interest rates were to move in the opposite direction.

The method used for deriving sensitivity information and significant variables did not change from the previous year.

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35. Financial risks (continued)

35.3 Market risk (continued)

35.3.3 Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market prices (other than those arising from changes in interest rates or foreign exchange rates), whether those changes are caused by factors specific to individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk policy requires it to prioritise capital preservation besides setting limits on overall portfolio, single security and sector holdings. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of equity price risk.

35.4 Operational risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives resulting from inadequate or failed internal processes and systems, human factors or external events.

Relevant operational risks and control weaknesses are identified and evaluated via a structured self-assessment. Besides, operational risk events are collected so that significant losses can be used to analyse and provide measures aimed at avoiding or reducing future losses.

The Company puts in place the following controls to monitor and mitigate such risk:

- Effective segregation of duties;
- Access controls, authorisation and reconciliation procedures;
- Automation of processes where possible;
- Staff training; and
- Evaluation procedures such as internal audit.

35. Financial risks (continued)

35.5 Fair value of financial instruments

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

- (a) The fair values of structured deposits and negotiable instruments of deposit are based on the indicative market prices from the issuing banks.
- (b) The fair values of Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers in Malaysia and unquoted debt securities are based on the indicative market yields obtained from three financial institutions.
- (c) The carrying amounts of government guaranteed loans and fixed deposits are assumed to reasonably approximate their fair values.
- (d) The carrying amounts of cash and cash equivalents, insurance receivables and other receivables, other financial liabilities, insurance payables, and other payables and accruals reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

Estimating the fair values of Malaysian government securities, Malaysian government guaranteed bonds and loans, Ringgit denominated bonds by foreign issuers in Malaysia and unquoted debt securities are based on the average indicative market yields obtained from three financial institutions.

It was not practicable to estimate the fair value of the Company's investment in unquoted equity securities due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

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35. Financial risks (continued)

35.5 Fair value of financial instruments (continued)

35.5.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

2015	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Financial assets										
Malaysian government securities	-	1,688,746	-	1,688,746	-	-	-	-	1,688,746	1,688,746
Malaysian government guaranteed bonds and loans	-	687,280	-	687,280	-	-	-	-	687,280	687,280
Unquoted debt securities	-	1,037,607	-	1,037,607	-	-	-	-	1,037,607	1,037,607
Fixed deposits	-	-	-	-	-	120,000	-	120,000	120,000	120,000
Structured deposits and negotiable instruments of deposit with licensed financial institutions	-	152,299	-	152,299	-	-	-	-	152,299	152,299
	-	3,565,932	-	3,565,932	-	120,000	-	120,000	3,685,932	3,685,932

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35. Financial risks (continued)

35.5 Fair value of financial instruments (continued)

35.5.1 Fair value hierarchy (continued)

2014	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Financial assets										
Malaysian government securities	-	1,488,523	-	1,488,523	-	-	-	-	1,488,523	1,488,523
Malaysian government guaranteed bonds and loans	-	638,082	-	638,082	-	-	-	-	638,082	638,082
Ringgit denominated bonds by foreign issuers in Malaysia	-	40,055	-	40,055	-	-	-	-	40,055	40,055
Unquoted debt securities	-	940,730	-	940,730	-	-	-	-	940,730	940,730
Fixed deposits	-	-	-	-	-	-	-	-	-	-
Structured deposits and negotiable instruments of deposit with licensed financial institutions	-	121,072	-	121,072	-	-	-	-	121,072	121,072
	-	3,228,462	-	3,228,462	-	-	-	-	3,228,462	3,228,462

35. Financial risks (continued)**35.5 Fair value of financial instruments (continued)****35.5.1 Fair value hierarchy (continued)****Transfers between Level 1 and Level 2 fair values**

There has been no transfer between Level 1 and Level 2 fair values during the financial year. (2014: no transfer in either directions)

36. Capital management

The RBC Framework came into effect on 1 January 2009. Under the RBC Framework, insurance companies need to maintain a capital adequacy level that commensurate with their risk profiles. All insurance companies are required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130% and an internal target capital level required by BNM or level determined under the Internal Capital Adequacy Assessment Process. The internal target will include additional capacity to absorb unexpected losses beyond those that are covered under the minimum required CAR.

The Company has been in compliance with the said requirement.

Regulatory capital requirements

The capital structure of the Company as at 31 December 2015, as prescribed under the RBC Framework is provided below:

	2015 RM'000	2014 RM'000
Tier 1 Capital		
Paid up share capital	379,168	379,168
Retained earnings	1,218,058	972,854
	<u>1,597,226</u>	<u>1,352,022</u>
Tier 2 Capital		
Reserves	12,817	(3,524)
	<u>12,817</u>	<u>(3,524)</u>
Amounts deducted from capital	(23,935)	(23,166)
Total capital available	<u>1,586,108</u>	<u>1,325,332</u>

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 30 to 132 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tan Sri Razali Ismail

Zakri Bin Mohd Khir

Kuala Lumpur,

Date: 26 February 2016

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Zakri Bin Mohd Khir**, the Director primarily responsible for the financial management of Allianz General Insurance Company (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 30 to 132 are, to the best of my knowledge and belief, 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.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Wilayah Persekutuan on 26 February 2016.

Zakri Bin Mohd Khir

Before me:

Independent Auditors' Report to the members of Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Allianz General Insurance Company (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 30 to 132.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Company No. 735426-V

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matter

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

KPMG

Firm Number: AF 0758
Chartered Accountants

Chin Shoon Chong

Approval Number: 2823/04/17(J)
Chartered Accountant

Petaling Jaya

Date: 26 February 2016