

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

**Financial statements for the year ended  
31 December 2016**  
(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 2016

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

#### 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

	<b>RM'000</b>
Profit for the year	<u>243,504</u>

#### Dividends

Since the end of the previous financial year, the Company paid:

- (i) a first and final dividend of 6.6 sen per ordinary share under single tier system totalling RM25,025,100.74 in respect of the financial year ended 31 December 2015 on 7 June 2016; and
- (ii) an interim dividend of 15.9 sen per ordinary share under single tier system totalling RM60,287,742.70 in respect of the financial year ended 31 December 2016 on 18 January 2017.

No final dividend has been proposed or declared for the financial year ended 31 December 2016.

#### 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.

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## **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”).

## **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.

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## **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, other than those disclosed in Note 38 of the financial statements.

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.

## **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 2016 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.

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## Corporate governance disclosure

### A. Board of Directors

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 detailed responsibilities of the Board is set out in the Board Charter, which is available at Allianz website, [allianz.com.my](http://allianz.com.my).

#### A1. Composition of the Board

The Board is made up of 6 Non-Executive Directors and 1 Executive Director. There are 4 Independent Non-Executive Directors on the Board.

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 Bank Negara Malaysia (“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 (“FSA 2013”).

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

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

The profiles of the Board members are as follows:-

<b>Tan Sri Razali Bin Ismail</b> Chairman – Non-Independent Non-Executive Director	
Working experience	<p>Tan Sri Razali was in the diplomatic service of the Government of Malaysia for 36 years (1962-1998) serving the last 10 years as Malaysia's Permanent Representative to the United Nations in New York. Y. Bhg. Tan Sri Razali was the President of the 53rd United Nations General Assembly from 1996 to 1997. He was involved in articulating and developing positions in various bodies on issues such as development and sustainability, poverty and marginalisation, political reforms in the United Nations and issues of human rights and the environment. He continues to keep abreast on these subjects at home and abroad, through participation at seminars and interacting with personalities and bodies, ties established earlier. He was the United Nations Secretary-General's Special Envoy for Myanmar for more than 5 years (2000-2005).</p> <p>In Malaysia, he has built a small position on issues relating to environment and is a self-styled environmental entrepreneur. He is an on the ground environmentalist especially over the protection and replanting of mangrove and dealing with environmental degradation due to urbanisation, pushing for recovery efforts such as sanitary landfills and the promotion of renewable energy and solar.</p>
Shareholding in the Company	Nil

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Foo San Kan</b> Non-Independent Non-Executive Director	
Working experience	Foo San Kan was the Country Managing Partner of Ernst & Young Malaysia from 1997 to 2002 before he retired as a practising accountant. He has 35 years of experience in the accounting profession, of which the last 30 years were spent in various positions in Ernst & Young. During the course of his career, he was involved in various industry sectors including financial services, energy, manufacturing, plantations, property, construction, leisure and entertainment and almost all aspects of the accounting profession.
Shareholding in the Company	Nil

<b>Dato' Dr. Thillainathan A/L Ramasamy</b> Independent Non-Executive Director	
Working experience	Dato' Dr. Thillainathan has been with the Genting Group since 1989 and held positions as Director of Finance (1989-2002), Chief Operating Officer (2002-2006) and Executive Director (2003-2007) and was subsequently redesignated as an Independent Director in 2009. Prior to his employment with the Genting Group, he was the Chief Executive of Bank Buruh Malaysia Berhad (1984-1989), Joint Managing Director of Bank Pusat Kerjasama (1983-1984), General Manager, Treasury and Investment Services of Arab Malaysian Merchant Bank (1980-1983) and Lecturer and Associate Professor, Faculty of Economics and Administration of University of Malaya (1970-1979). He is currently a Member of Advisory Board of School of Business and Economics, Monash University and a council member of the Malaysian Quality Agency.

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Dato' Dr. Thillainathan A/L Ramasamy (continued)</b> Independent Non-Executive Director	
Working experience	Dato' Dr. Thillainathan has extensive years of experience in finance and banking. He is the past President of Malaysian Economic Association and past Chairman and council member of the Federation of Asean Economic Associations. He has served on the National Economic Panel, the Anti-Recession Task Force, the Task Force on Capital Market Development, the Investment Panel of Employees Provident Fund, the National Economic Consultative Council, the Tax Review Panel of the Ministry of Finance, the Economic Council and Majlis Perundingan Ekonomi Negara Kedua.
Shareholding in the Company	Nil

<b>Tan Sri Datuk (Dr.) Rafiah Binti Salim</b> Independent Non-Executive Director	
Working experience	<p>Tan Sri Datuk (Dr.) Rafiah started her career as a lecturer at the Faculty of Law, University of Malaya in 1974. In 1988, she ended her service with the University as the Dean of the Faculty. She then moved on to become the Head of the Legal Department of the Malayan Banking Berhad ("Maybank"). In 1991, she was promoted to the post of General Manager of the Human Resource Department at Maybank. She was then invited to serve in BNM as the Assistant Governor for the Security Department, Legal Department and Property and Service Department.</p> <p>Tan Sri Datuk (Dr.) Rafiah's international experience includes holding the position of Assistant Secretary General for Human Resource Management, United Nations, New York, from 1997 to 2002 and was the first Malaysian to be appointed to such a high ranking post in the United Nations system. From 2003 to 2006, she was the Executive Director of the International Centre for Leadership in Finance, now known as The ICLIF Leadership And Governance Centre. In 2006, she was appointed as the Vice-Chancellor/President of the University of Malaya.</p>

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Tan Sri Datuk (Dr.) Rafiah Binti Salim (continued)</b> Independent Non-Executive Director	
Working experience	<p>She was the Executive Director of NAM Institute for the Empowerment of Women from 2009 to 2013.</p> <p>Tan Sri Datuk (Dr.) Rafiah has been awarded the “Darjah Kebesaran Panglima Jasa Negara (PJN)” and the “Panglima Setia Mahkota (PSM)” from His Majesty The Yang di-Pertuan Agong.</p>
Shareholding in the Company	Nil

<b>Tunku Zain Al-Abidin Ibni Tuanku Muhriz</b> Independent Non-Executive Director	
Working experience	<p>Tunku Zain Al-Abidin worked in the UK Houses of Parliament before moving to Washington DC to join the World Bank as a Public Sector Consultant. Upon returning to Malaysia in 2008, he worked at the United Nations Development Programme, a regional public affairs consulting firm before becoming a Research Fellow at the Lee Kuan Yew School of Public Policy at the National University of Singapore.</p> <p>Tunku Zain Al-Abidin is Founding President of the Institute for Democracy and Economic Affairs Berhad and Research Fellow of CIMB ASEAN Research Institute. He is also a columnist and maintained his weekly columns in the Malaysian press, out of which three books have compiled. He also authored a book for the Installation of the Yang di-Pertuan Besar of Negeri Sembilan and led a major project to revitalise the State Anthem.</p> <p>Tunku Zain Al-Abidin has been selected for various leadership programmes by the governments of Australia, France and the European Union, and was an Eisenhower Fellow in 2013.</p>
Shareholding in the Company	Nil

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Goh Ching Yin</b> Independent Non-Executive Director	
Working experience	<p>Goh Ching Yin holds an MBA from the Cranfield University, and has held various leadership and management positions in capital market regulations, investment banking, regional business development, strategic consultancy, corporate recovery and insolvency, and auditing. He started his professional career with Peat Marwick Mitchell (now known as KPMG), and then moved on to consultancy at Price Waterhouse Associates.</p> <p>Goh Ching Yin commenced his foray into the investment banking industry when he was with RHB Sakura Merchant Bankers Berhad as a General Manager for Corporate Finance. Subsequently, he assumed the roles as the Managing Director of Corporate Finance with the BNP Paribas Group in Malaysia, and as Chief Executive Officer of Southern Investment Bank of the Southern Bank Group. He then held positions as Executive Director in the Chairman's Office, Strategy and Development, and Market Oversight Divisions during his stint with the Securities Commission of Malaysia.</p> <p>At the Securities Commission of Malaysia, Goh Ching Yin had led landmark initiatives such as financial technology, sustainability and inclusiveness, Trans Pacific Partnership Agreement, the Capital Market Masterplan 2, the Corporate Governance Blueprint and Code of Corporate Governance 2012, and setting up the Audit Oversight Board in 2010 of which he was a founding Board Member. He was also the Head of the Continuing Professional Education Advisory Group and represents the Securities Commission of Malaysia on the Audit Licensing Committee within the Accountant General's office of the Ministry of Finance, and was a member of the Cluster Working Group on Funding Support for the Biotechnology Industry under the Malaysian Biotechnology Corporation (a Ministry of Finance incorporated company).</p>

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Goh Ching Yin (continued)</b> Independent Non-Executive Director	
Working experience	He was also a member of the National Cyber Security Advisory Committee, Ministry of Science, Technology and Innovation Malaysia, and the Intellectual Capital Development Committee, Innovation Agency Malaysia.
Shareholding in the Company	Nil

<b>Zakri Bin Mohd Khir</b> Chief Executive Officer – Executive Director	
Working experience	Zakri Bin Mohd Khir has over 29 years of experience in the insurance industry. He joined the Company in 2000 as the Head of Industrial Business and subsequently appointed as the Head of Technical Division in 2004. He was the Head of Operations Division of the Company before he assumed his current position as the Chief Executive Officer (“CEO”) of the Company in December 2010. Zakri Bin Mohd Khir is also the CEO of AMB since September 2014. Prior to his employment with Allianz Malaysia Berhad Group, he was the General Manager of The American Malaysian Insurance Berhad.
Shareholding in the Company	Nil

During the financial year, the following training courses were provided to the Board of Directors by the Company:-

- (a) Malaysian Financial Reporting Standards 9, Financial Instruments
- (b) Intensive Course in Insurance
- (c) Training on General Insurance Financial Condition Acumen
- (d) Companies Act 2016

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## Corporate governance disclosure (continued)

### A. Board of Directors (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 2016 and the attendance of the Directors as at 31 December 2016 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	6
Dato' Dr. Thillainathan A/L Ramasamy	6	6
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	6	5
Goh Ching Yin	6	Not applicable *
Zakri Bin Mohd Khir	6	6

Note :-

\*Mr. Goh Ching Yin was appointed as member of the Board on 3 January 2017.

#### 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; and
- (d) Remuneration Committee.

On 1 January 2017, the Nominating Committee of AMB Board and the Remuneration Committee of AMB Board was combined and renamed as Nominating and Remuneration Committee of AMB Board.

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## **Corporate governance disclosure (continued)**

### **A. Board of Directors (continued)**

#### **A3. Board Committees (continued)**

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.

##### **A3.1 Audit Committee of AMB Board ("AC")**

The composition of the AC as at the date of this report are as follows:-

Foo San Kan (Chairman-Non-Independent Non-Executive Director)  
Tan Sri Razali Bin Ismail (Non-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)

Note:-

1. The designation of the AC members are in accordance with the BNM's Corporate Governance Policy and Financial Services Act 2013.
2. Mr. Foo San Kan was re-appointed and re-designated from an Independent Non-Executive Director to a Non-Independent Non-Executive Director of the Company on 22 September 2016 following BNM's approval. However, approval is given by BNM to Mr. Foo San Kan for him to continue as Chairman of the AC until 31 March 2017.

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A3. Board Committees (continued)

##### A3.1 Audit Committee of AMB Board ("AC") (continued)

There were 5 AC Meetings held during the financial year ended 31 December 2016 and the attendance of the abovementioned AC members was as follows:-

Name of Members	No. of AC Meetings Held	No. of AC Meetings Attended
Foo San Kan	5	5
Tan Sri Razali Bin Ismail	5	5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5
Dato' Dr. Thillainathan A/L Ramasamy	5	5

The AC is charged with the responsibilities of assisting the Board of AMB and its subsidiaries ("AMB Group" or "Group") in its oversight, amongst others, as follows:-

- support the Board in ensuring that there is a reliable and transparent financial reporting process;
- performance and effectiveness of the external and internal audit functions; and
- conflict of interest situations and related party transactions.

The detailed terms of reference of the AC is set out in the Board Charter, which is available at Allianz website, [allianz.com.my](http://allianz.com.my).

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A3. Board Committees (continued)

##### A3.2 Risk Management Committee of AMB Board ("RMC")

The composition of the RMC as at the date of this report are as follows:-

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

Foo San Kan (Non-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)

Goh Ching Yin (Independent Non-Executive Director)

Note:-

The designation of the RMC members are in accordance with the BNM's Corporate Governance Policy and Financial Services Act 2013.

There were 4 RMC Meetings held during the financial year ended 31 December 2016 and the attendance of the abovementioned RMC members was as follows:-

<b>Name of Members</b>	<b>No. of RMC Meetings Held</b>	<b>No. of RMC Meetings Attended</b>
Dato' Dr. Thillainathan A/L Ramasamy	4	4
Foo San Kan	4	4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	4
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	4	4
Goh Ching Yin	4	Not applicable*

Note :-

\*Mr. Goh Ching Yin was appointed as member of the RMC on 12 January 2017.

The RMC is responsible for driving the risk management framework of AMB Group and to report to the Boards of the respective companies within the AMB Group on its recommendations and/or decisions.

The detailed terms of reference of the RMC is set out in the Board Charter, which is available at Allianz website, [allianz.com.my](http://allianz.com.my).

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A3. Board Committees (continued)

##### A3.3 Nominating and Remuneration Committee of AMB Board ("NRC")

The NRC was formed on 1 January 2017. The composition of the NRC 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 (Non-Independent Non-Executive Director)

Foo San Kan (Non-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)

Note:-

The designation of the NRC members are in accordance with the BNM's Corporate Governance Policy and Financial Services Act 2013.

During the financial year ended 31 December 2016, there were 5 Nominating Committee Meetings held and the attendance of the Nominating Committee members was as follows:-

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

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A3. Board Committees (continued)

##### A3.3 Nominating and Remuneration Committee of AMB Board ("NRC") (continued)

There were 2 Remuneration Committee Meetings held during the financial year ended 31 December 2016 and the attendance of the 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	2	2
Tan Sri Razali Bin Ismail	2	2
Foo San Kan	2	2

The primary objectives of the NRC are:-

- (a) to establish a documented formal and transparent procedure for the appointment and removals of Directors, CEOs and Key Responsible Persons ["KRP(s)"] of AMB Group;
- (b) to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), CEOs and KRPs of AMB Group on an on-going basis;
- (c) to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEOs and KRPs of AMB Group; and
- (d) to ensure that the compensation is competitive and consistent with the culture, objective and strategy of AMB Group.

The detailed terms of reference of the NRC is set out in the Board Charter, which is available at Allianz website, [allianz.com.my](http://allianz.com.my).

## Corporate governance disclosure (continued)

### B. Internal Control Framework

#### B1. Risk Management Framework

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's 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, authority 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 as well as 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 and control across the organisation.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B1. Risk Management Framework (continued)**

- Both the Compliance and Risk Management functions report to the RMC 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 it reports to the Board and Senior Management. Its scope of work includes coordination and calculation of technical reserves, product pricing and profitability oversight and contribution to the effective implementation of the risk management system. An appropriate control framework has been established to avoid any potential conflict of interest to fulfil its role as the second line of defence.

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

#### **B2. Internal Audit**

Internal Audit forms the "third line of defence". The Internal Audit function, which reports to the AC, undertakes independent reviews or assessments of the Company's operations and its system of internal controls. It 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 financial operations, product development, pricing operations, underwriting and claims operation, agency operations, regulatory compliance and information technology ("IT") systems. An annual audit plan is developed based on annual risk assessment and approved by the AC.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B2. Internal Audit (continued)**

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 AC. The AC deliberates on the key audit findings and management actions to address these findings during the AC meetings. The internal auditors will provide quarterly/bi-yearly updates to the AC on the progress of the management action plans as well as progress of the audit plan.

#### **B3. Other Key Internal Control Process**

The other key processes that the Board has established to provide effective internal control include:-

##### **Clear and Define Organisational Structure**

The Company has established an organisational structure with clearly defined lines of responsibility, authority limits and accountability aligned to its business and operation requirements and control environment. Relevant Board Committees with specific responsibilities delegated by the Board are established to provide oversight governance over the Company's activities.

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.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Management Authority Limit**

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 covers 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.

##### **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.

##### **Annual Business Plan and Performance Review**

Annual business plans are reviewed by the Senior Management Committee before submitting to the Board for approval. Financial condition and business performance reports are also submitted to the Board for review during the 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.

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## Corporate governance disclosure (continued)

### B. Internal Control Framework (continued)

#### B3. Other Key Internal Control Process (continued)

##### 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:-

- (i) they are undertaken on arm's length basis;
- (ii) they are 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) they 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 AC for consideration. The AC will subsequently review the related party transactions and submit its recommendation to the Board for consideration.

The AC 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.

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **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.

##### **Investment**

The Investment Committee of the Company is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department. 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.

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Internal Capital Adequacy Assessment Process (“ICAAP”)**

ICAAP is an overall process where the Company is required to adopt to ensure that it has adequate capital to meet its capital requirements that reflects its own risk profile on an on-going basis. This formal assessment will be conducted at least on an annual basis based on its annual business plans, business strategy and appetite. Its results will be reported to the Board.

##### **Code of Conduct for Business Ethics and Compliance (“COC”)**

Every employee is required to attest on an annual basis that they understand and comply with the Allianz SE Group’s COC. The COC among others, is essential in promoting ethical conduct within the Group and encompasses non-disclosure of the Group’s information, accountability and areas on potential conflict of interest.

##### **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.

##### **Product Development**

The Company has in place a Product Development Management Policy (“PDM Policy”) which sets out the policies and procedures on product development 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.

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

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **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 COC, 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.

The InC reports its findings and recommendations to the AC.

##### **Anti-Corruption**

The Company has adopted 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.

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Employees**

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) IT Security Policy and Guideline e-Awareness Declaration;
- (vi) Anti-Corruption Policy;
- (vii) Anti-Fraud Awareness Declaration; and
- (viii) Dealing with Government Client (for employees under Sales Department only).

##### **Sales Policy and Sales Agent Code of Conduct**

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

In addition, agents of the Company are also required to comply with the Code of Ethics and Conduct imposed by General Insurance Association of Malaysia ("PIAM").

All internal control deficiencies or breaches related to Sales Policy and Sales Agent Code of Conduct are reported to the Senior Management Committee together with corrective measures.

##### **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.

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **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.

The testing for Business Continuity Plan for all critical business functions is conducted at least once a year whilst the testing for Disaster Recovery Plan test for all main application systems is conducted at least twice a year.

##### **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.

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Data Privacy**

The Allianz Standard for Data Protection and Privacy (“ASDP”) adopted by the Company ensures compliance with the Personal Data Protection Act, 2010. The Data Privacy Management System (“DPMS”), a requirement under the ASDP, includes conducting Privacy Impact Assessments (“PIA”) for new processes that involve handling of personal data. 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.

##### **Reputation Risk Management**

The Company has adopted Allianz SE Group’s Allianz Standard for Reputational Risk and Issues Management 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 Company’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 and development, performance management and employee benefits. These policies and procedures are reviewed as and when the need arises and changes effected are communicated to relevant employees via-email. The policies and procedures are also made available via the Company’s staff e-portal for easy access by the employees.

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Human Resources Policies and Procedures (continued)**

The Company aims to equip employees with the relevant knowledge, skills and competencies required for their roles and responsibilities through structured learning and development programmes. These include a combination of classroom training, on-the-job attachment, professional examinations, project assignments and mentorship programme. 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. Key talent and high potentials are invited to attend a Development Centre to better gauge their strengths, areas for development and career aspiration. Through the Career Development Conference, the Management is updated on the career and development progress of these individuals.

### **C. Remuneration**

The remuneration components of staff are fixed and variable compensation. The fixed component of base salary is dependent on position responsibility as well as the experience and qualification of incumbent. The variable compensation is largely determined by individual performance against expectations and increases along level of accountability.

Company No. 735426-V
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## **Corporate governance disclosure (continued)**

### **C. Remuneration (continued)**

The Company adopts the 'pay-for-performance' philosophy and strives to ensure that staff are equitably remunerated for their contribution to overall business objectives. Based on targets set out at the start of each year, staff are evaluated on their performance against these targets. To ensure a fair standard of assessment, an overall performance calibration is undertaken by the Company. The quantum of remuneration is decided based on the outcome of the performance calibration. At the same time, it is accepted policy that all remuneration are subject to staff's compliance to all relevant internal and external codes of conduct, regulations and guidelines.

In addition, the remuneration of key senior officers ("Key Responsible Persons") of the Company is subject to approval by the Board. The remuneration decision by the Board is not only determined by performance against business objectives but include other factors such as prudent risk-taking and actions affecting the long-term interests of the Company.

Company No. 735426-V
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## Directors of the Company

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

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

Foo San Kan (Non-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)

Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director) (Appointed on 1 March 2016)

Goh Ching Yin (Independent Non-Executive Director) (Appointed on 3 January 2017)

Zakri Bin Mohd Khir (Non-Independent Executive Director)

## 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, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

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

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**Tan Sri Razali Ismail**

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**Zakri Bin Mohd Khir**

Kuala Lumpur,

Date: 24 February 2017

# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of financial position as at 31 December 2016

	Note	2016 RM'000	2015 RM'000
<b>Assets</b>			
Property, plant and equipment	3	82,930	63,411
Investment properties	4	26,497	46,186
Intangible assets	5	10,725	4,885
Deferred tax assets	15	14,613	19,050
Investments	6		
Malaysian government securities		1,631,429	1,688,746
Malaysian government guaranteed bonds and loans		684,583	687,280
Unquoted debt securities		1,281,943	1,037,607
Unquoted equity securities		*	*
Fixed deposits		254,400	120,000
Structured deposits and negotiable instruments of deposit with licensed financial institutions		92,187	152,299
Reinsurance assets	7	920,936	1,064,230
Insurance receivables	8	219,515	190,605
Loans and other receivables	9	124,131	134,222
Deferred acquisition costs	10	86,928	82,199
Other financial assets	11	-	30
Cash and cash equivalents		174,017	162,557
<b>Total assets</b>		<b>5,604,834</b>	<b>5,453,307</b>

\* Denotes RM4

# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of financial position as at 31 December 2016 (continued)

	Note	2016 RM'000	2015 RM'000
<b>Equity and liabilities</b>			
Share capital	12	379,168	379,168
Retained earnings	13	1,376,249	1,218,058
Other reserves	13	17,747	12,817
<b>Total equity</b>		<u>1,773,164</u>	<u>1,610,043</u>
-----			
Insurance contract liabilities	14	3,420,542	3,480,910
Other financial liabilities	16	37	-
Insurance payables	17	219,576	231,148
Other payables and accruals	18	190,858	123,769
Current tax liabilities		657	7,437
<b>Total liabilities</b>		<u>3,831,670</u>	<u>3,843,264</u>
-----			
<b>Total equity and liabilities</b>		<u>5,604,834</u>	<u>5,453,307</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 2016

	Note	2016 RM'000	2015 RM'000
<b>Operating revenue</b>	19	2,242,665	2,277,998
Gross earned premiums	20	2,083,102	2,135,958
Premiums ceded to reinsurers	20	(340,090)	(419,801)
<b>Net earned premiums</b>		1,743,012	1,716,157
Investment income	21	159,563	142,040
Realised gains and losses	22	2,635	23
Fee and commission income	23	62,925	63,406
Other operating income		4,325	3,922
<b>Other income</b>		229,448	209,391
Gross claims paid		(1,251,293)	(1,026,526)
Claims ceded to reinsurers		237,460	237,676
Gross change in claims liabilities		60,189	(109,129)
Change in claims liabilities ceded to reinsurers		(124,509)	(143,238)
<b>Net claims incurred</b>	24	(1,078,153)	(1,041,217)
Fee and commission expense	25	(257,233)	(260,535)
Management expenses	26	(303,630)	(289,452)
Other operating expenses		(4,031)	(3,063)
<b>Other expenses</b>		(564,894)	(553,050)
<b>Profit before tax</b>		329,413	331,281
Tax expense	27	(85,909)	(86,077)
<b>Profit for the year</b>		243,504	245,204
<b>Profit attributable to:</b>			
Owners of the Company		243,504	245,204
<b>Basic earnings per ordinary share (sen)</b>	28	64.2	64.7

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 2016

	Note	2016 RM'000	2015 RM'000
<b>Profit for the year</b>		243,504	245,204
<b>Other comprehensive income</b>			
<b>Item that will not be reclassified subsequently to profit or loss</b>			
Asset revaluation reserve		9,342	3,481
Tax effects thereon	27.3	(1,466)	(786)
		<u>7,876</u>	<u>2,695</u>
<b>Item that may be reclassified subsequently to profit or loss</b>			
Available-for-sale reserve	6.2	(3,877)	18,184
Tax effects thereon	27.3	931	(4,538)
		<u>(2,946)</u>	<u>13,646</u>
<b>Total other comprehensive income for the year, net of tax</b>		<u>4,930</u>	<u>16,341</u>
<b>Total comprehensive income for the year</b>		<u>248,434</u>	<u>261,545</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<u>248,434</u>	<u>261,545</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 2016

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
<b>At 1 January 2015</b>	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
<b>Total other comprehensive profit for the year</b>	-	-	13,646	2,695	-	16,341
Profit for the year	-	-	-	-	245,204	245,204
<b>Total comprehensive income for the year</b>	-	-	13,646	2,695	245,204	261,545
<b>At 31 December 2015 / At 1 January 2016</b>	379,168	4,523	628	7,666	1,218,058	1,610,043

# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of changes in equity for the year ended 31 December 2016 (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
<b>At 1 January 2016</b>	379,168	4,523	628	7,666	1,218,058	1,610,043
Fair value of available-for-sale financial assets	-	-	(2,946)	-	-	(2,946)
Revaluation for property, plant and equipment	-	-	-	7,876	-	7,876
<b>Total other comprehensive income for the year</b>	-	-	(2,946)	7,876	-	4,930
Profit for the year	-	-	-	-	243,504	243,504
<b>Total comprehensive income for the year</b>	-	-	(2,946)	7,876	243,504	248,434
<i>Contributions by and distributions to owners of the Company</i>						
- Dividends payable to the owners of the Company	29	-	-	-	(60,288)	(60,288)
- Dividends paid to the owners of the Company	29	-	-	-	(25,025)	(25,025)
<b>Total transactions with owners of the Company</b>		-	-	-	(85,313)	(85,313)
<b>At 31 December 2016</b>	379,168	4,523	(2,318)	15,542	1,376,249	1,773,164
	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 2016

	2016 RM'000	2015 RM'000
<b>Operating activities</b>		
<b>Profit before tax</b>	329,413	331,281
Investment income	(159,563)	(142,040)
Realised gains recorded in profit or loss	(2,635)	(23)
Impairment loss on investment properties	2,008	-
Purchases of available-for-sale investments	(974,147)	(760,908)
Placement of fixed deposits	(164,400)	(120,000)
Proceeds from disposal of available-for-sale investments	346,185	53,012
Maturity of available-for-sale investments	504,500	390,000
Maturity of fixed deposits	30,000	-
<b>Non-cash items:</b>		
Depreciation of property, plant and equipment	12,124	12,271
Property, plant and equipment written off	22	341
Amortisation of intangible assets	2,387	1,564
Reversal of impairment loss on insurance receivables	(383)	(2,219)
Allowance for/(Reversal of) impairment loss on other receivables	1,245	(4,963)
Bad debts recovered	(160)	(144)
Bad debts written off on receivables	1,284	4,242
Bad debts written off on other receivables	-	2,643
Interest expense	511	401
<b>Changes in working capital:</b>		
Change in reinsurance assets	143,294	184,003
Change in insurance receivables	(29,651)	(52,509)
Change in loans and other receivables	15,482	(14,023)
Change in deferred acquisition costs	(4,729)	(4,773)
Change in other financial assets	30	(30)
Change in insurance contract liabilities	(60,368)	153,667
Change in other financial liabilities	37	(145)
Change in insurance payables	(11,572)	2,509
Change in other payables and accruals	6,290	13,273
Cash (used in) /generated from operating activities	(12,796)	47,430

# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of cash flows for the year ended 31 December 2016 (continued)

	2016 RM'000	2015 RM'000
Cash (used in) /generated from operating activities	(12,796)	47,430
Interest income received	150,851	134,623
Rental income received	81	781
Income tax paid	(88,787)	(92,316)
<b>Net cash flows generated from operating activities</b>	<b>49,349</b>	<b>90,518</b>
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	11	114
Purchase of property, plant and equipment	(4,648)	(21,515)
Purchase of intangible assets	(8,227)	(4,605)
<b>Net cash flows used in investing activities</b>	<b>(12,864)</b>	<b>(26,006)</b>
<b>Financing activities</b>		
Repayment of lease arrangements	-	(3)
Dividends paid to owners of the Company	(25,025)	(15,091)
<b>Net cash flows used in financing activities</b>	<b>(25,025)</b>	<b>(15,094)</b>
Net increase in cash and cash equivalents	11,460	49,418
Cash and cash equivalents at beginning of year	162,557	113,139
Cash and cash equivalents at end of year	174,017	162,557
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months)	173,240	161,935
Cash and bank balances	777	622
	174,017	162,557

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.

Included in the fixed and call deposits are RM76,029,000 (2015: RM67,592,000) 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 24 February 2017.

## 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 Companies Act, 2016 (“New Act”) was enacted to replace the Companies Act, 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representatives) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

There is no impact on the directors’ report and the financial statements the Company for financial year ended 31 December 2016 as adoption of the New Act will only be applied prospectively.

The following are accounting standards, amendments, and interpretations 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 2017**

Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*

Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*

Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

## 1. Basis of preparation (continued)

### 1.1 Statement of compliance (continued)

#### **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*

Clarifications to MFRS 15, *Revenue from Contracts with Customers*

IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*

Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*

Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*

Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*

Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019**

MFRS 16, *Leases*

#### **MFRSs, Interpretations and amendments effective from 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 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.
- 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, except for amendments to MFRS 1, amendments to MFRS 2 and amendments to MFRS 128 which are not applicable to the Company.
- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019.

## 1. Basis of preparation (continued)

### 1.1 Statement of compliance (continued)

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 Company is currently assessing the financial impact of adopting MFRS 15.

#### **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 and financial liabilities, and on hedge accounting. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of MFRS 9 will 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.

#### **MFRS 16, Leases**

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The adoption of MFRS 16 may result in a change in accounting policy for leased assets. The Company is currently assessing the financial impact that may arise from the adoption of MFRS 16.

### 1.2 Basis of measurement

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

## **1. Basis of preparation (continued)**

### **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 values 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 amounts 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
- 1/24<sup>th</sup> method (or other more accurate) method for all other classes of Malaysian general policies
- 1/8<sup>th</sup> 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.

## **2. Significant accounting policies (continued)**

### **2.23 Significant accounting judgements, estimates and assumptions (continued)**

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

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.

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
<b>Cost/Valuation</b>									
At 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 / 1 January 2016		13,920	11,347	1,459	74,281	633	24,682	5,032	131,354
Additions		-	-	-	3,741	633	274	-	4,648
Disposals		-	-	-	(17)	-	-	-	(17)
Reclassification		-	-	-	1,587	-	1,003	(2,590)	-
Transfer from investment properties	4	-	17,681	-	-	-	-	-	17,681
Written off		-	-	-	(85)	-	(28)	-	(113)
Revaluation		5,486	217	200	-	-	-	-	5,903
At 31 December 2016		19,406	29,245	1,659	79,507	1,266	25,931	2,442	159,456

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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
<b>Depreciation</b>									
At 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 / 1 January 2016		592	2,299	144	51,222	254	13,432	-	67,943
Depreciation for the year	26	122	849	18	8,725	252	2,158	-	12,124
Disposals		-	-	-	(11)	-	-	-	(11)
Written off		-	-	-	(67)	-	(24)	-	(91)
Offset of accumulated depreciation on revaluation		(688)	(2,652)	(99)	-	-	-	-	(3,439)
At 31 December 2016		26	496	63	59,869	506	15,566	-	76,526

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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
<b>Carrying amounts</b>								
At 1 January 2015	13,442	52,797	1,332	21,741	253	6,273	1,486	97,324
At 31 December 2015 / 1 January 2016	13,328	9,048	1,315	23,059	379	11,250	5,032	63,411
At 31 December 2016	19,380	28,749	1,596	19,638	760	10,365	2,442	82,930

\* 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 during the year by C H Williams Talhar & Wong Sdn Bhd and Rahim & Co International Sdn Bhd, independent professional qualified valuers using the Comparison Method.

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

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Land	9,665	9,745
Buildings	23,494	7,233
Land and buildings	1,302	1,319
	<u>34,461</u>	<u>18,297</u>

#### 3.2 Land

Included in the carrying amounts of land are:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Freehold land	8,970	5,834
Long term leasehold land with unexpired lease period of more than 50 years	10,410	7,494
	<u>19,380</u>	<u>13,328</u>

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### 3. Property, plant and equipment (continued)

#### 3.3 Fair value information

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

	2016			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
Land	-	19,380	-	19,380
Buildings	-	28,749	-	28,749
Land and buildings	-	1,596	-	1,596
	-	49,725	-	49,725

  

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

#### Level 2 fair value

Level 2 fair values of land and buildings have been generally derived using the Comparison Method. Sales prices 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, age and condition of the building, finishes and services, and other relevant characteristics.

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#### 4. Investment properties

	Note	2016 RM'000	2015 RM'000
At 1 January		46,186	-
Impairment		(2,008)	-
Transfer (to)/from property, plant and equipment	3	(17,681)	46,186
At 31 December		<u>26,497</u>	<u>46,186</u>

##### Included in the above is:

	2016 RM'000	2015 RM'000
At fair value:		
Buildings	<u>26,497</u>	<u>46,186</u>

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

##### Fair value information

Fair values of investment properties is categorised as follows:

	2016			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Buildings	-	26,497	-	<u>26,497</u>

  

	2015			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Buildings	-	46,186	-	<u>46,186</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 Comparison Method. Sales prices 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, age and condition of the building, finishes and services, and other relevant characteristics.

**5. Intangible assets**

	Note	Software development costs RM'000
<b>Cost</b>		
At 1 January 2015		14,531
Additions		4,605
At 31 December 2015/1 January 2016		19,136
Additions		8,227
At 31 December 2016		27,363
<b>Amortisation</b>		
At 1 January		12,687
Amortisation for the year	26	1,564
At 31 December 2015/1 January 2016		14,251
Amortisation for the year	26	2,387
At 31 December 2016		16,638
<b>Carrying amounts</b>		
At 1 January 2015		1,844
At 31 December 2015/1 January 2016		4,885
At 31 December 2016		10,725

The software development costs are in relation to internal development expenditures incurred for the Integrated Insurance Management System, Alternate Front End System, Open Product Underwriting 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

	2016 RM'000	2015 RM'000
Malaysian government securities	1,631,429	1,688,746
Malaysian government guaranteed bonds and loans	684,583	687,280
Unquoted debt securities	1,281,943	1,037,607
Unquoted equity securities	*	*
Fixed deposits	254,400	120,000
Structured deposits and negotiable instruments of deposit with licensed financial institutions	92,187	152,299
	<u>3,944,542</u>	<u>3,685,932</u>

\* Denotes RM4

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

	2016 RM'000	2015 RM'000
Loans and receivables ("L&R")	254,400	120,000
Available-for-sale financial assets ("AFS")	3,690,142	3,565,932
	<u>3,944,542</u>	<u>3,685,932</u>

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## 6. Investments (continued)

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

	2016		2015	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
<b>Loans and receivables</b>				
Fixed deposits	254,400	254,400	120,000	120,000
<b>Available-for-sale financial assets</b>				
Malaysian government securities	1,631,429	1,631,429	1,688,746	1,688,746
Malaysian government guaranteed bonds and loans	684,583	684,583	687,280	687,280
Unquoted debt securities	1,281,943	1,281,943	1,037,607	1,037,607
Unquoted equity securities	*	-	*	-
Structured deposits and negotiable instruments of deposit with licensed financial institutions	92,187	92,187	152,299	152,299
	<u>3,690,142</u>	<u>3,690,142</u>	<u>3,565,932</u>	<u>3,565,932</u>
Unquoted equity securities	<u>3,944,542</u>	<u>3,944,542</u>	<u>3,685,932</u>	<u>3,685,932</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
<b>At 1 January 2015</b>	-	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)
<b>At 31 December 2015 / 1 January 2016</b>	120,000	3,565,932	3,685,932
Purchases	164,400	974,147	1,138,547
Maturities	(30,000)	(504,500)	(534,500)
Disposals	-	(343,555)	(343,555)
Fair value loss recorded in other comprehensive income	-	(3,877)	(3,877)
Accretion	-	4,084	4,084
Amortisation	-	(2,089)	(2,089)
<b>At 31 December 2016</b>	254,400	3,690,142	3,944,542

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## 7. Reinsurance assets

	Note	2016 RM'000	2015 RM'000
<b>Non-current</b>			
<b>Reinsurance of insurance contracts</b>			
Claims liabilities		300,522	322,935
<b>Current</b>			
<b>Reinsurance of insurance contracts</b>			
Claims liabilities		453,340	555,436
Premium liabilities	14.2	167,074	185,859
		<u>620,414</u>	<u>741,295</u>
		<u>920,936</u>	<u>1,064,230</u>

## 8. Insurance receivables

	Note	2016 RM'000	2015 RM'000
<b>Current</b>			
Due premiums including agent, brokers and co-insurers balances		151,896	161,172
Due from reinsurers and cedants		69,970	45,016
		<u>221,866</u>	<u>206,188</u>
Allowance for impairment	35.1.3	(16,072)	(16,455)
		<u>205,794</u>	<u>189,733</u>
Due from related companies	8.1	13,721	872
		<u>219,515</u>	<u>190,605</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	2016 RM'000	2015 RM'000
<b>Non-current</b>			
<b>Staff loans</b>			
Mortgage loans		3,549	3,041
Other secured loans		712	649
		<u>4,261</u>	<u>3,690</u>
<b>Other receivables</b>			
Other receivables, deposits and prepayments		5,305	6,262
Malaysian Institute of Insurance ("MII") bonds		490	490
		<u>5,795</u>	<u>6,752</u>
		<u>10,056</u>	<u>10,442</u>
<b>Current</b>			
<b>Staff loans</b>			
Mortgage loans		436	392
Other secured loans		244	248
		<u>680</u>	<u>640</u>
<b>Other receivables</b>			
Other receivables, deposits and prepayments		70,093	84,940
Allowance for impairment	35.1.3	(1,987)	(742)
		<u>68,106</u>	<u>84,198</u>
Income due and accrued Due from ultimate holding company	9.1	43,388	36,750
Due from related companies	9.1	-	10
		<u>1,901</u>	<u>2,182</u>
		<u>113,395</u>	<u>123,140</u>
		<u>114,075</u>	<u>123,780</u>
Total loans and other receivables		<u>124,131</u>	<u>134,222</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.

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**10. Deferred acquisition costs**

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 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/ 1 January 2016		98,813	(16,614)	82,199
Movement during the year	23,25	1,170	3,559	4,729
At 31 December 2016		99,983	(13,055)	86,928

**11. Other financial assets**

	2016 RM'000	2015 RM'000
<b>Current</b>		
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**

	2016		2015	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares of RM1 each:				
<b>Authorised</b>				
At 1 January / 31 December	500,000	500,000	500,000	500,000

	2016		2015	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
<b>Issued and fully paid</b>				
At 1 January / 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:

		<b>2016</b>		<b>2015</b>			
	<b>Note</b>	<b>Gross RM'000</b>	<b>Reinsurance RM'000 (Note 7)</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>Reinsurance RM'000 (Note 7)</b>	<b>Net RM'000</b>
Provision for claims reported by policyholders		1,677,124	(544,462)	1,132,662	1,723,804	(630,253)	1,093,551
Provision for incurred but not reported claims ("IBNR")		722,698	(209,400)	513,298	736,207	(248,118)	488,089
Provision for outstanding claims	14.1	2,399,822	(753,862)	1,645,960	2,460,011	(878,371)	1,581,640
Provision for unearned premiums	14.2	1,020,720	(167,074)	853,646	1,020,899	(185,859)	835,040
		<u>3,420,542</u>	<u>(920,936)</u>	<u>2,499,606</u>	<u>3,480,910</u>	<u>(1,064,230)</u>	<u>2,416,680</u>

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#### 14. Insurance contract liabilities (continued)

##### 14.1 Provision for outstanding claims

	Note	Gross RM'000	2016 Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	2015 Reinsurance RM'000 (Note 7)	Net RM'000
At 1 January	24	2,460,011	(878,371)	1,581,640	2,350,882	(1,021,609)	1,329,273
Claims incurred in the current accident year		1,399,877	(205,960)	1,193,917	1,372,212	(239,092)	1,133,120
Other movements in claims incurred in prior accident years		(208,773)	93,009	(115,764)	(236,557)	144,654	(91,903)
Claims paid during the year	24	(1,251,293)	237,460	(1,013,833)	(1,026,526)	237,676	(788,850)
At 31 December	24	<u>2,399,822</u>	<u>(753,862)</u>	<u>1,645,960</u>	<u>2,460,011</u>	<u>(878,371)</u>	<u>1,581,640</u>

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#### 14. Insurance contract liabilities (continued)

##### 14.2 Provision for unearned premiums

		Gross RM'000	2016 Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	2015 Reinsurance RM'000 (Note 7)	Net RM'000
	Note						
At 1 January		1,020,899	(185,859)	835,040	976,361	(226,624)	749,737
Premiums written in the year	20	2,082,923	(321,305)	1,761,618	2,180,496	(379,036)	1,801,460
Premiums earned during the year	20	(2,083,102)	340,090	(1,743,012)	(2,135,958)	419,801	(1,716,157)
At 31 December		1,020,720	(167,074)	853,646	1,020,899	(185,859)	835,040

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

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

	Assets		Liabilities		Net	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Property, plant and equipment						
- Capital allowance	-	-	(2,576)	(2,304)	(2,576)	(2,304)
- Revaluation reserve	-	-	(3,493)	(2,027)	(3,493)	(2,027)
- Impairment	250	250	-	-	250	250
Intangible assets	-	-	(1,091)	(354)	(1,091)	(354)
Investment properties - impairment	482	-	-	-	482	-
Provisions	16,867	19,228	-	-	16,867	19,228
Investments						
- Fair value reserve	733	-	-	(198)	733	(198)
- Impairment	1,778	1,778	-	-	1,778	1,778
Other items	1,663	2,677	-	-	1,663	2,677
Net tax assets/(liabilities)	21,773	23,933	(7,160)	(4,883)	14,613	19,050

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

### 15.2 Movement in temporary differences during the year

	Note	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 / At 1 January 2016 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 2016 RM'000
Property, plant and equipment								
- Capital allowance		(5,210)	2,906	-	(2,304)	(272)	-	(2,576)
- Revaluation reserve		(1,241)	-	(786)	(2,027)	-	(1,466)	(3,493)
- Impairment		260	(10)	-	250	-	-	250
Investment properties - impairment		-	-	-	-	482	-	482
Intangible assets		(461)	107	-	(354)	(737)	-	(1,091)
Provisions		18,266	962	-	19,228	(2,361)	-	16,867
Investments								
- Fair value reserve		4,340	-	(4,538)	(198)	-	931	733
- Impairment		1,853	(75)	-	1,778	-	-	1,778
Other items		3,515	(838)	-	2,677	(1,014)	-	1,663
		<u>21,322</u>	<u>3,052</u>	<u>(5,324)</u>	<u>19,050</u>	<u>(3,902)</u>	<u>(535)</u>	<u>14,613</u>

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## 16. Other financial liabilities

	2016 RM'000	2015 RM'000
<b>Current</b>		
Deposits received from reinsurers	37	-

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.

## 17. Insurance payables

	Note	2016 RM'000	2015 RM'000
<b>Non-current</b>			
Performance bond deposits	17.1	32,252	15,709
<b>Current</b>			
Due to reinsurers and cedants		66,508	78,744
Due to agents and intermediaries		38,220	42,736
Performance bond deposits	17.1	43,777	51,883
Due to related companies	17.2	38,819	42,076
		187,324	215,439
		219,576	231,148

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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## 18. Other payables and accruals

	Note	2016 RM'000	2015 RM'000
<b>Current</b>			
Due to ultimate holding company	18.1	10,930	-
Due to immediate holding company	18.1	587	374
Other payables and accrued expenses		119,053	123,395
Dividend payable	29	60,288	-
		<u>190,858</u>	<u>123,769</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.

### 18.1 Amounts due to ultimate/ immediate holding company and related companies

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

## 19. Operating revenue

	Note	2016 RM'000	2015 RM'000
Gross earned premiums	20	2,083,102	2,135,958
Investment income	21	159,563	142,040
		<u>2,242,665</u>	<u>2,277,998</u>

## 20. Net earned premiums

	Note	2016 RM'000	2015 RM'000
Gross premiums	14.2	2,082,923	2,180,496
Change in unearned premiums provision		179	(44,538)
	14.2,		
Gross earned premiums	19	<u>2,083,102</u>	<u>2,135,958</u>
Gross premiums ceded	14.2	(321,305)	(379,036)
Change in unearned premiums provision		(18,785)	(40,765)
Premiums ceded to reinsurers	14.2	<u>(340,090)</u>	<u>(419,801)</u>
Net earned premiums	14.2	<u>1,743,012</u>	<u>1,716,157</u>

**21. Investment income**

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Rental income		81	781
<b>Available-for-sale financial investments:</b>			
Interest income from			
Malaysian government securities		57,758	59,947
Malaysian government guaranteed bonds and loans		28,208	26,052
Unquoted bonds of corporations in Malaysia		53,489	42,561
Structured deposits and negotiable instruments of deposit with licensed financial institutions		4,246	5,374
<b>Loans and receivables financial investments:</b>			
Interest income from			
Fixed deposits		8,620	2,731
Loans and other receivables and cash and cash equivalents		7,161	4,594
	19	159,563	142,040

**22. Realised gains and losses**

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>Property, plant and equipment</b>		
Realised gain	5	3
<b>Available-for-sale financial investments</b>		
Realised gains:		
Unquoted bonds of corporations in Malaysia	306	-
Malaysian government securities	2,734	20
	3,040	20
Realised losses:		
Malaysian government guaranteed bonds	(410)	-
	(410)	-

**22. Realised gains and losses (continued)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Available-for-sale financial investments (continued)</b>		
Total realised gains for available-for-sale financial investments	2,630	20
	<u>2,635</u>	<u>23</u>

**23. Fee and commission income**

		<b>2016</b>	<b>2015</b>
	<b>Note</b>	<b>RM'000</b>	<b>RM'000</b>
Reinsurance commission income		47,985	40,433
Deferred acquisition costs	10	3,559	6,381
Service charges		11,381	16,592
		<u>62,925</u>	<u>63,406</u>

**24. Net claims incurred**

		<b>2016</b>	<b>2015</b>
	<b>Note</b>	<b>RM'000</b>	<b>RM'000</b>
Gross claims paid less salvage	14.1	1,251,293	1,026,526
Claims ceded to reinsurers	14.1	(237,460)	(237,676)
Net claims paid	14.1	<u>1,013,833</u>	<u>788,850</u>
Gross change in claims liabilities:			
At 31 December	14.1	2,399,822	2,460,011
At 1 January	14.1	(2,460,011)	(2,350,882)
		<u>(60,189)</u>	<u>109,129</u>
Change in claims liabilities ceded to reinsurers:			
At 31 December	14.1	(753,862)	(878,371)
At 1 January	14.1	878,371	1,021,609
		<u>124,509</u>	<u>143,238</u>
		<u>1,078,153</u>	<u>1,041,217</u>

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**25. Fee and commission expense**

	Note	2016 RM'000	2015 RM'000
Gross direct commission		258,403	258,927
Deferred acquisition costs	10	(1,170)	1,608
		<u>257,233</u>	<u>260,535</u>

**26. Management expenses**

	Note	2016 RM'000	2015 RM'000
Employee benefit expenses	26.1	136,993	151,218
Executive directors' emoluments	26.2	3,070	1,508
Non-executive directors' emoluments	26.2	1,071	734
Auditors' remuneration:			
-Audit fees		351	330
-Non-Audit fees		61	61
Depreciation of property, plant and equipment	3	12,124	12,271
Amortisation of intangible assets	5	2,387	1,564
Reversal of impairment loss on insurance receivables		(383)	(2,219)
Allowance for/(Reversal of) impairment loss on other receivables		1,245	(4,963)
Bad debts recovered		(160)	(144)
Bad debts written off on receivables		1,284	4,242
Bad debts written off on other receivables		-	2,643
Advertising expenses		11,145	9,967
Rental of office equipment		162	111
Rental of premises		9,258	8,397
Other expenses		125,022	103,732
		<u>303,630</u>	<u>289,452</u>

**26.1 Employee benefit expenses**

	2016 RM'000	2015 RM'000
Wages and salaries	87,896	84,565
Bonus	31,338	48,354
Social security contributions	914	820
Contribution to Employees' Provident Fund	15,426	17,004
Other benefits	1,419	475
	<u>136,993</u>	<u>151,218</u>

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

	<b>Note</b>	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Executive directors:			
Salaries and other emoluments		1,307	1,002
Bonus		1,763	506
Estimated monetary value of benefits-in-kind		29	17
		<u>3,099</u>	<u>1,525</u>
Non-executive directors:			
Fees		798	465
Other emoluments		273	269
Estimated monetary value of benefits-in-kind		12	9
		<u>1,083</u>	<u>743</u>
Other key management personnel*			
Short-term employee benefits		3,274	3,091
		<u>7,456</u>	<u>5,359</u>

\*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:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Salaries and other emoluments	1,307	1,002
Bonus	1,763	506
Estimated monetary value of benefits-in-kind	29	17
	<u>3,099</u>	<u>1,525</u>
Amount included in employee benefit expenses	<u>3,070</u>	<u>1,508</u>

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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:

	Fees RM'000	Salaries RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
<b>2016</b>						
Executive Director/Chief Executive Officer						
- Zakri Bin Mohd Khir	-	953	1,763	354	29	3,099
<hr/>						
Non-Executive Directors						
- Tan Sri Razali Bin Ismail	176	-	-	219	12	407
- Foo San Kan	182	-	-	14	-	196
- Dato' Dr. Thillainathan A/L Ramasamy	165	-	-	14	-	179
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	174	-	-	14	-	188
- Tun Zain Al-Abidin Ibni Tuanku Muhriz	101	-	-	12	-	113
	798	-	-	273	12	1,083
<hr/>						
Total Directors' Remuneration (including benefits-in-kind)	798	953	1,763	627	41	4,182

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## 26. Management expenses (continued)

### 26.2 Key management personnel compensation (continued)

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

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

	2016	2015
Note	RM'000	RM'000
<b>Current tax expense</b>		
Current year	86,073	93,325
Double taxation relief	-	(1,753)
Overprovision in prior year	(4,066)	(2,443)
	82,007	89,129
<b>Deferred tax expense / (income)</b>		
Origination and reversal of temporary differences	2,999	(1,952)
Effect of changes in tax rates	-	883
Under / (Over) provision in prior year	903	(1,983)
15.2	3,902	(3,052)
<b>Tax expense</b>	85,909	86,077

**27.2 Reconciliation of tax expense**

	2016	2015
	RM'000	RM'000
Profit before tax	329,413	331,281
Tax at Malaysian tax rate of 24% (2015: 25%)	79,059	82,820
Non-deductible expenses	9,224	8,625
Double taxation relief	-	(1,753)
Effect of change in tax rates	-	883
Other items	789	(72)
	89,072	90,503
Over provision in prior year	(3,163)	(4,426)
Tax expense	85,909	86,077

**27. Tax expense (continued)****27.3 Income tax recognised directly in other comprehensive income**

	Note	2016 RM'000	2015 RM'000
<b>Available-for-sale fair value reserve</b>			
At 1 January		198	(4,340)
Net (loss)/gain arising from change in fair value	15.2	(931)	4,538
At 31 December		<u>(733)</u>	<u>198</u>
<b>Asset revaluation reserve</b>			
At 1 January		2,027	1,241
Net gain arising from change in fair value	15.2	1,466	786
At 31 December		<u>3,493</u>	<u>2,027</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:

	2016 RM'000	2015 RM'000
Profit for the year attributable to ordinary shareholders	<u>243,504</u>	<u>245,204</u>
	<b>2016 '000</b>	<b>2015 '000</b>
Weighted average number of ordinary shares during the year	<u>379,168</u>	<u>379,168</u>

**28. Earnings per ordinary share (continued)****Basic earnings per ordinary share (continued)**

	<b>2016</b>	<b>2015</b>
	<b>Sen</b>	<b>Sen</b>
Basic earnings per ordinary share	<u>64.2</u>	<u>64.7</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**

Dividend approved in financial year 2016 by the Company as appropriation of profits is as follows:

	<b>Sen per share (single tier)</b>	<b>Total amount RM'000</b>	<b>Date of payment</b>
<b>2016</b>			
Interim 2016 ordinary	15.90	<u>60,288</u>	18 January 2017
<b>2015</b>			
Final 2015 ordinary	6.60	<u>25,025</u>	7 June 2016

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

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

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Less than one year	7,128	13,122
Between one and five years	2,000	6,473
	<u>9,128</u>	<u>19,595</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**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Property, plant and equipment</b>		
Approved but not contracted for	11,859	9,265
Contracted but not provided for	372	1,397
	<hr/>	<hr/>
<b>Software development</b>		
Approved but not contracted for	28,211	20,301
Contracted but not provided for	372	1,373
	<hr/>	<hr/>

**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:

	<b>Amount transacted for the year ended 31 December 2016 RM'000</b>	<b>Amount transacted for the year ended 31 December 2015 RM'000</b>
<b>Non-trade</b>		
<b>Ultimate holding company</b>		
Payment of global marketing costs	(1,080)	(1,055)
Payment of advertisement cost	(448)	(226)
Payment of service fees	(147)	-
Reimbursement of payment made on behalf	-	10

**32. Related parties (continued)**

	Amount transacted for the year ended 31 December 2016 RM'000	Amount transacted for the year ended 31 December 2015 RM'000
<b>Non-trade</b>		
<b>Ultimate holding company (continued)</b>		
Payment of training and other fees	(19)	(84)
Payment of technical support fee	-	(57)
Payment of license fees	(29)	-
Payment of business building and regional investment	(10,930)	-
<b>Immediate holding company</b>		
Expenses related to common resources	(7,716)	(8,017)
Payment of expenses made on behalf	(169)	(233)
Proceed from disposal of property, plant and equipment	-	1
<b>Related companies*</b>		
Payment of expenses related to common resources	(1,013)	(2,553)
Reimbursement of expenses made on behalf	1,386	1,619
Rental of office premises received	821	809
Insurance payment	(630)	(170)
Payment of investment advisory fees	(1,016)	(1,035)
Payment of service fees	(7,940)	(7,877)
Payment of software licenses	(494)	-
Payment of professional fees	(11)	-
Payment of HR platform services	(35)	-
Payment of E-HR success factor fees	-	(18)
Payment of training and other fees	(30)	(109)
Proceed from disposal of property, plant and equipment	-	111
<b>Trade</b>		
<b>Related companies*</b>		
Reinsurance premiums	(176,991)	(183,353)
Reinsurance commission	27,884	21,875

\* 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 RMC 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.

	2016			2015		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Fire	249,449	(130,244)	119,205	279,854	(158,616)	121,238
Motor	1,496,320	(180,585)	1,315,735	1,465,497	(211,285)	1,254,212
Marine, aviation, cargo and transit	119,939	(97,186)	22,753	130,651	(110,459)	20,192
Miscellaneous	534,114	(345,847)	188,267	584,009	(398,011)	185,998
Total	2,399,822	(753,862)	1,645,960	2,460,011	(878,371)	1,581,640

**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 unexpired risks reserves 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
<b>31 December 2016</b>					
Average claim cost	+10%	227,341	160,589	(160,589)	(122,047)
Average number of claims	+10%	241,410	195,552	(195,552)	(148,620)
Average claim settlement period	Increased by 6 months	33,547	24,343	(24,343)	(18,500)
<b>31 December 2015</b>					
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)

\* 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.

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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 2016 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 2016:

Accident year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
At end of accident year		800,472	808,271	863,518	951,235	1,145,412	1,251,433	1,349,116	1,430,684	
One year later		819,547	828,768	784,221	848,149	1,182,773	1,193,164	1,278,469	-	
Two years later		827,424	810,356	754,244	835,047	1,119,096	1,154,151	-	-	
Three years later		829,042	800,033	749,694	834,615	1,096,339	-	-	-	
Four years later		805,420	805,627	739,601	824,627	-	-	-	-	
Five years later		799,475	796,137	731,371	-	-	-	-	-	
Six years later		780,736	773,413	-	-	-	-	-	-	
Seven years later		764,112	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		764,112	773,413	731,371	824,627	1,096,339	1,154,151	1,278,469	1,430,684	

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## 34. Insurance risk (continued)

## Claims development table (continued)

## Gross general insurance claims liabilities as at 31 December 2016 (continued):

Accident year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
At end of accident year		250,248	214,460	244,889	259,072	344,439	375,685	387,586	514,882	
One year later		565,497	454,277	520,198	544,612	729,326	771,098	861,538	-	
Two years later		683,192	580,037	620,775	648,982	857,382	924,768	-	-	
Three years later		721,408	612,202	656,267	711,572	916,928	-	-	-	
Four years later		733,797	650,174	668,021	731,860	-	-	-	-	
Five years later		736,592	654,652	675,224	-	-	-	-	-	
Six years later		739,949	657,660	-	-	-	-	-	-	
Seven years later		741,013	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>		741,013	657,660	675,224	731,860	916,928	924,768	861,538	514,882	
Gross general insurance claims liabilities (direct and facultative)	64,214	23,099	115,753	56,147	92,767	179,411	229,383	416,931	915,802	2,093,507
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia and MMIP)										63,217
Best estimate of claims liabilities										2,156,724
Claims handling expenses										15,270
PRAD at 75% confidence level										227,828
<b>Gross general insurance claims liabilities</b>										<b>2,399,822</b>

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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	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		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) :**

<b>Accident year</b>	<b>Before 2008 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2010 RM'000</b>	<b>2011 RM'000</b>	<b>2012 RM'000</b>	<b>2013 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>Total RM'000</b>
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	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>		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
<b>Gross general insurance claims liabilities</b>										<b>2,460,011</b>

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### 34. Insurance risk (continued)

#### Claims development table (continued)

#### Net general insurance claims liabilities as at 31 December 2016:

Accident year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
At end of accident year		472,716	517,803	622,921	675,017	875,651	971,458	1,101,454	1,200,101	
One year later		479,710	494,994	570,921	616,026	779,429	932,778	1,073,872	-	
Two years later		493,315	502,000	558,132	593,496	790,197	906,323	-	-	
Three years later		498,099	498,434	545,582	601,511	784,588	-	-	-	
Four years later		494,929	492,329	540,200	597,496	-	-	-	-	
Five years later		486,958	488,023	535,768	-	-	-	-	-	
Six years later		478,346	482,876	-	-	-	-	-	-	
Seven years later		465,698	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		465,698	482,876	535,768	597,496	784,588	906,323	1,073,872	1,200,101	

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### 34. Insurance risk (continued)

#### Claims development table (continued)

#### Net general insurance claims liabilities as at 31 December 2016 (continued) :

Accident year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
At end of accident year		191,803	188,247	201,756	216,325	294,253	326,831	356,733	468,300	
One year later		343,484	352,308	390,265	424,771	572,157	638,954	746,891	-	
Two years later		408,146	418,534	462,811	497,895	667,310	743,920	-	-	
Three years later		438,664	444,732	487,223	533,335	704,910	-	-	-	
Four years later		447,322	455,224	496,026	546,263	-	-	-	-	
Five years later		449,931	458,162	501,189	-	-	-	-	-	
Six years later		452,156	459,895	-	-	-	-	-	-	
Seven years later		452,874	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>		452,874	459,895	501,189	546,263	704,910	743,920	746,891	468,300	
Net general insurance claims liabilities (direct and facultative)	25,017	12,824	22,981	34,579	51,233	79,678	162,403	326,981	731,801	1,447,497
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia and MMIP)										59,887
Best estimate of claims liabilities										1,507,384
Claims handling expenses										15,270
PRAD at 75% confidence level										123,306
<b>Net general insurance claims liabilities</b>										<u>1,645,960</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	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		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) :**

<b>Accident year</b>	<b>Before 2008 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2010 RM'000</b>	<b>2011 RM'000</b>	<b>2012 RM'000</b>	<b>2013 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>Total RM'000</b>
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	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>		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
<b>Net general insurance claims liabilities</b>										<b>1,581,640</b>

## 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 Guideline for Reinsurance Security 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		
<b>31 December 2016</b>					
Loans and receivables					
Loans and other receivables	-	-	124,131	-	124,131
Fixed deposits	254,400	-	-	-	254,400
Cash and cash equivalents	173,730	-	287	-	174,017
Available-for-sale financial investments					
Malaysian government securities	-	-	1,631,429	-	1,631,429
Malaysian government guaranteed bonds	-	-	684,583	-	684,583
Unquoted debt securities	1,281,943	-	-	-	1,281,943
Structured deposits and negotiable instruments of deposit with licensed financial institutions	92,187	-	-	-	92,187
Reinsurance assets (reported claims)	55,524	-	488,938	-	544,462
Insurance receivables	1,461	-	192,643	25,411	219,515
	<u>1,859,245</u>	<u>-</u>	<u>3,122,011</u>	<u>25,411</u>	<u>5,006,667</u>

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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		
<b>31 December 2015</b>					
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
	<u>1,966,387</u>	<u>13</u>	<u>2,828,084</u>	<u>9,085</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)

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
<b>31 December 2016</b>							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	124,131	124,131
Fixed deposits	132,000	122,400	-	-	-	-	254,400
Cash and cash equivalents	136,342	35,534	1,854	-	-	287	174,017
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,631,429	1,631,429
Malaysian government guaranteed bonds	-	-	-	-	-	684,583	684,583
Unquoted debt securities	612,336	665,858	-	3,749	-	-	1,281,943
Structured deposits and negotiable instruments of deposit with licensed financial institutions	92,187	-	-	-	-	-	92,187
Reinsurance assets (reported claims)	-	29,659	25,843	22	-	488,938	544,462
Insurance receivables	-	399	1,062	-	-	218,054	219,515
	<b>972,865</b>	<b>853,850</b>	<b>28,759</b>	<b>3,771</b>	<b>-</b>	<b>3,147,422</b>	<b>5,006,667</b>

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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
<b>31 December 2015</b>							
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
	<b>787,695</b>	<b>1,011,247</b>	<b>163,695</b>	<b>3,750</b>	<b>13</b>	<b>2,837,169</b>	<b>4,803,569</b>

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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
<b>31 December 2016</b>							
Investment grade	972,865	853,850	28,759	3,771	-	-	1,859,245
Non-investment grade	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	3,122,011	3,122,011
Past-due but not impaired	-	-	-	-	-	25,411	25,411
	<u>972,865</u>	<u>853,850</u>	<u>28,759</u>	<u>3,771</u>	<u>-</u>	<u>3,147,422</u>	<u>5,006,667</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
<b>31 December 2015</b>							
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>

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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:

	<b>1 to 30 days RM'000</b>	<b>31 to 60 days RM'000</b>	<b>61 to 90 days RM'000</b>	<b>More than 90 days RM'000</b>	<b>Total RM'000</b>
<b>31 December 2016</b>					
Insurance receivables	19,189	1,762	2,928	1,532	25,411
<b>31 December 2015</b>					
Insurance receivables	1,745	1,537	2,129	3,674	9,085

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### 35. Financial risks (continued)

#### 35.1 Credit risk (continued)

##### 35.1.3 Impaired financial assets

At 31 December 2016, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM16,072,000 (2015: RM16,455,000). 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 receivables is as follows:

	Insurance receivables		Loans and other receivables	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	16,455	18,674	742	5,705
Impairment loss (reversed)/recognised	(383)	(2,219)	1,245	(4,963)
At 31 December	<u>16,072</u>	<u>16,455</u>	<u>1,987</u>	<u>742</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
<b>31 December 2016</b>								
Provision for claims (reported claims)	1,677,124	1,007,985	547,002	99,486	22,651	-	-	1,677,124
Other financial liabilities	37	37	-	-	-	-	-	37
Insurance payables	219,576	208,372	11,204	-	-	-	-	219,576
Other payables and accruals	190,858	190,858	-	-	-	-	-	190,858
<b>Total liabilities</b>	<b>2,087,595</b>	<b>1,407,252</b>	<b>558,206</b>	<b>99,486</b>	<b>22,651</b>	<b>-</b>	<b>-</b>	<b>2,087,595</b>

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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
<b>31 December 2015</b>								
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

## 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 of available-for-sale financial instruments 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.

	Change in variables	Impact on Profit before Tax RM'000	Impact on Equity* RM'000
<b>31 December 2016</b>			
Interest rate	+ 100 basis points	-	(100,579)
Interest rate	+ 50 basis points	-	(50,289)
<b>31 December 2015</b>			
Interest rate	+ 100 basis points	-	(88,105)
Interest rate	+ 50 basis points	-	(44,053)

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

It should be noted that movements in these variables are non-linear.

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 fair values provided by the Company's custodian bank (2015: 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.

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.

2016	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	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	RM'000	RM'000
<b>Financial assets</b>										
Malaysian government securities	-	1,631,429	-	1,631,429	-	-	-	-	1,631,429	1,631,429
Malaysian government guaranteed bonds	-	684,583	-	684,583	-	-	-	-	684,583	684,583
Unquoted debt securities	-	1,281,943	-	1,281,943	-	-	-	-	1,281,943	1,281,943
Fixed deposits	-	-	-	-	-	254,400	-	254,400	254,400	254,400
Structured deposits and negotiable instruments of deposit with licensed financial institutions	-	92,187	-	92,187	-	-	-	-	92,187	92,187
	-	3,690,142	-	3,690,142	-	254,400	-	254,400	3,944,542	3,944,542

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### 35. Financial risks (continued)

#### 35.5 Fair value of financial instruments (continued)

##### 35.5.1 Fair value hierarchy (continued)

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		
<b>Financial assets</b>										
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

#### 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 (2015: 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 by maintaining a CAR that is in excess of minimum requirement.

#### Regulatory capital requirements

The capital structure of the Company as at 31 December 2016, as prescribed under the RBC Framework is provided below:

	2016 RM'000	2015 RM'000
<b>Tier 1 Capital</b>		
Paid up share capital	379,168	379,168
Retained earnings	1,376,249	1,218,058
	<u>1,755,417</u>	<u>1,597,226</u>
<b>Tier 2 Capital</b>		
Reserves	17,747	12,817
	<u>17,747</u>	<u>12,817</u>
Amounts deducted from capital	<u>(25,338)</u>	<u>(23,935)</u>
<b>Total capital available</b>	<u>1,747,826</u>	<u>1,586,108</u>

### 37. Subsequent event

Allianz SE and Standard Chartered Bank entered into a 15-year bancaassurance agreement for the distribution of Allianz's general insurance products, including travel, personal accident, fire and motor insurance products, to Standard Chartered's Retail Banking clients in five key markets across Asia, namely Malaysia, Singapore, Indonesia, Hong Kong and China.

The new partnership arrangements in the respective countries will be implemented during the course of 2017.

### 38. Contingencies

On 10 August 2016, the Malaysia Competition Commission (“MyCC”) commenced an investigation into an alleged infringement by Persatuan Insurans Am Malaysia (“PIAM”) and all 22 general insurers including the Company of Section 4(2)(a) of the Competition Act 2010 (“CA”). The alleged infringement is in relation to the agreement reached between PIAM and the Federation Of Automobile Workshop Owners' Association Of Malaysia (“FAWOAM”) in relation to trade discount rates for parts for certain vehicle makes and labour hourly rates for PIAM Approved Repairers Scheme workshops. These rates were applied by the Company pursuant to a members’ circular issued by PIAM, which arose from Bank Negara Malaysia’s (“BNM”) directive to PIAM to engage FAWOAM to resolve the issues of parts trade discounts and labour hourly rate.

On 22 February 2017, the Company received MyCC’s notice of proposed decision (“Proposed Decision”) that the Company and all the other 21 general insurers who are members of PIAM have infringed one of the prohibitions under Part II of the CA. The Proposed Decision includes a proposed financial penalty of RM213,454,814 on all the 22 general insurers. The Company, as one of the members of PIAM, will have a share of RM27,480,883 of the proposed penalty. The Proposed Decision is not final as at the date of this report, and the Company in consultation with its legal advisers will take such appropriate actions to defend its position that it has not been in infringement of Section 4(2)(a) of the CA.

# **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 32 to 135 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 2016 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:

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**Tan Sri Razali Ismail**

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**Zakri Bin Mohd Khir**

Kuala Lumpur,

Date: 24 February 2017

# **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 32 to 135 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Zakri Bin Mohd Khir, I/C No: 631004-08-6325, at Kuala Lumpur in the Federal Territory on 24 February 2017.

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**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 Audit of the Financial Statements**

### ***Opinion***

We have audited the financial statements of Allianz General Insurance Company (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2016, 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 32 to 135.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### ***Basis of Opinion***

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence and Other Ethical Responsibilities***

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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***Information Other than the Financial Statements and Auditors' Report Thereon***

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the Directors' report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the Directors' report and, in doing so, consider whether the Directors' report is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' report, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of Directors for the Financial Statements***

The Directors of the Company are responsible for the preparation of financial statements of the Company 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 of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

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

***Report on Other Legal and Regulatory Requirements***

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report 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 PLT**  
(LLP0010081-LCA & AF0758)  
Chartered Accountants

**Chin Shoon Chong**  
Approval Number: 2823/04/17(J)  
Chartered Accountant

Petaling Jaya

Date: 24 February 2017