



AIG MALAYSIA INSURANCE BERHAD

(795492-W)
(Incorporated in Malaysia)

**REPORTS AND STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

CONTENTS

DIRECTORS' REPORT	1 - 12
STATEMENT BY DIRECTORS	13
STATUTORY DECLARATION	14
INDEPENDENT AUDITORS' REPORT	15 - 18
STATEMENT OF FINANCIAL POSITION	19
STATEMENT OF INCOME	20
STATEMENT OF COMPREHENSIVE INCOME	21
STATEMENT OF CHANGES IN EQUITY	22
STATEMENT OF CASH FLOWS	23 - 24
NOTES TO THE FINANCIAL STATEMENTS	25 - 94

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

Net profit for the financial year

RM'000

38,649

DIVIDENDS

A final single-tier dividend of 32.18% (RM0.3218 per share) on ordinary shares declared and paid in respect of financial year ended 31 December 2015 amounting to RM100 million was paid on 27 June 2016.

The Directors have not recommended any final dividend to be paid for the financial year under review.

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework for Insurers.

BAD AND DOUBTFUL DEBTS

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

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS (CONTINUED)

At the date of this report, the Directors of the Company are not aware of any circumstances which would render the amount written off for bad debts or the amounts of the allowance 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 ensure that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values 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 and liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secure the liabilities of any other person, or
- (b) any contingent liability in respect of the Company which has arisen since the end of the financial year except for Note 31 of the financial statements.

In the opinion of Directors, no contingent 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 when they fall due.

For the purpose of this paragraph, contingent or other liabilities 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 which would render any amount stated in the financial statements misleading.

DIRECTORS' REPORT (CONTINUED)

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Dato' Thomas Mun Lung Lee
Mohd Daruis Bin Zainuddin
Ou Shian Waei
Matthew James Harris
Antony Fook Weng Lee
Stephen Charles Snell (resigned on 01 November 2016)

DIRECTORS' BENEFIT

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object or objects 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 other than the Employee Share Option Scheme over ordinary shares of American International Group, Inc.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefits (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors and professional fees paid to company in which a Director has interest as disclosed in Note 21(b) to the financial statements, and employee benefits of full-time employees of the Company and its related corporations) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options over shares in its ultimate holding company during the financial year were as follows:

<u>American International Group, Inc</u>	<u>Number of warrants of US\$2.50 each</u>		
	As at 01.01.2016	Exercised	As at 31.12.2016
Direct Interest			
Antony Fook Weng Lee	9	-	9

<u>American International Group, Inc</u>	<u>Number of stock options over ordinary shares of US\$2.50 each</u>			
	As at 01.01.2016	Granted	Exercised	As at 31.12.2016
Employee Stock Options				
Matthew James Harris	-	1,553	-	1,553
Antony Fook Weng Lee	28	388	-	416

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

DIRECTORS' REMUNERATION

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

	2016	2015
	RM'000	RM'000
Directors fees	500	500
Directors other emoluments*	1,662	1,891
Professional fees paid to Directors or any firms of which the Directors are members for service rendered	-	9
Amount paid to or receivable by any third party for services provided by Directors	-	-
Indemnity given or insurance effected for any Director	56	62
	<u>2,218</u>	<u>2,462</u>

* Included in directors' emoluments are benefits-in-kind (based on estimated monetary value) of RM31,674 (2015: RM149,882).

IMMEDIATE AND ULTIMATE HOLDING CORPORATIONS

The immediate holding company is AIG Asia Pacific Insurance Pte Ltd, a company incorporated in Singapore and the Directors regard American International Group, Inc, a company incorporated in the State of Delaware, USA as the Company's ultimate holding corporation.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE

The Company has taken concerted steps to ensure compliance with Bank Negara Malaysia's ("BNM") Prudential Framework of Corporate Governance for insurers (BNM/RH/GL/003-2) and its best practice applications at all times.

(A) BOARD RESPONSIBILITY AND OVERSIGHT

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate governance practices in conformity with BNM Guidelines, BNM/RH/GL/003-1 on Minimum Standards for Prudential Management of Insurers (Consolidated) and BNM/RH/GL/003-2 on Prudential Framework of Corporate Governance for Insurers. The Company has complied with the prescriptive applications and adopted management practices that are consistent with these guidelines.

The Board has an overall responsibility to lead the Company, include setting the strategic future direction, review viability of the corporate objective and overseeing the conduct and performance of business.

The Board comprises 3 Independent Non-Executive Directors, 1 Non-Independent Non-Executive Director and 1 Executive Director. The Board is qualified and has wide business and financial experience to effectively provide directions in terms of corporate objectives and business strategies.

There were 10 meetings held during the financial year. All Directors in office at the end financial year complied with the 75% minimum attendance requirement at such meeting.

The details of attendance of each Director at Board meetings held during the financial year are set out below:

<u>Name of Directors</u>	<u>(Status of Directorship)</u>	<u>Total Meetings Attended</u>
Dato' Thomas Mun Lung Lee	(Independent Non-Executive Director)	10/10
Mohd Daruis Bin Zainuddin	(Independent Non-Executive Director)	10/10
Ou Shian Waei	(Independent Non-Executive Director)	10/10
Matthew James Harris	(Non-Independent Non-Executive Director)	9/10
Antony Fook Weng Lee	(Non-Independent Executive Director)	10/10
Stephen Charles Snell (resigned on 01 November 2016)	(Non-Independent Non-Executive Director)	4/7

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

To support sound corporate governance and processes, the Board formed various Board Committees namely Nominating Committee, Remuneration Committee, Risk Management Committee and Audit Committee in accordance with the requirements of BNM Guidelines, BNM/RH/GL/003-1 on Minimum Standards for Prudential Management of Insurers (Consolidated). The guideline requires full compliance with the Terms of Reference of these Committees. The Board had adopted the terms of reference of these Committees.

The roles and members of the above Committees are as provided below.

Nominating Committee

The Nominating Committee ("NC") comprises 4 members, appointed from the Board.

The current members are as follows:

Ou Shian Waei	Chairman (Independent Non-Executive)
Mohd Daruis Bin Zainuddin	Member (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Matthew James Harris	Member (Non-Independent Non-Executive)
Stephen Charles Snell (resigned on 01 November 2016)	(Non-Independent Non-Executive Director)

The objective of the NC is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officer ("CEO") and Key Senior Officers ("KSOs") and to assess the effectiveness of individual Directors, the Board as a whole (including various committees of the Board), CEO and KSOs on an on-going basis.

The principal duties and responsibilities of NC are:

- (a) establishing minimum requirements for the Board and the CEO to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between executive, non-executive and independent Directors, and other core competencies required;
- (b) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the CEO position. This includes assessing Directors and the CEO proposed for reappointment before an application for approval submitted to BNM;
- (c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO. The assessments should also include ascertaining that the Director is not disqualified under the relevant law and fulfill the 'fit and proper' criteria;

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Nominating Committee (continued)

- (d) recommending to the Board the removal of a Director or CEO if he is ineffective, errant or negligent in discharging his responsibilities;
- (e) ensuring that all Directors undergo appropriate induction programmes and receive continuous training; and
- (f) overseeing the appointment, management succession planning and performance evaluation of KSO, and recommending to the Board the removal of KSOs if they are ineffective, errant and negligent in discharging their responsibilities.

There was 8 NC meeting held during the financial year ended 31 December 2016. All members of the NC at the end of financial year complied with the minimum attendance requirement at such meeting.

Remuneration Committee

The Remuneration Committee ("RC") comprises 4 Non-Executive Directors, appointed from the Board.

The current members are as follows:

Ou Shian Waei	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Matthew James Harris	Member (Non-Independent Non-Executive)

The objective of the RC is to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and KSOs and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

The principal duties and responsibilities of RC are:

- (a) recommending a framework for the remuneration of Directors, the CEO and KSOs. The remuneration policy should:-
 - be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - reflect the experience and level of responsibility borne by individual Directors, the CEO and KSOs;
 - be sufficient to attract and retain Directors, CEO and KSOs of calibre needed to manage the company successfully; and
 - be balanced against the need to ensure that the funds of the insurers are not used to subsidise excessive remuneration packages and should not create incentives for irresponsible behaviour or insider excesses.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Remuneration Committee (continued)

(b) recommending specific remuneration packages for Directors, CEO and KSOs. The remuneration packages should:-

- be based on objective considerations and approved by the full Board;
- take due consideration of the assessments of the nominating committee of the effectiveness and contribution of the Directors, CEO or KSOs concerned;
- not be decided by the exercise of sole discretion by any one individual or restricted group of individuals; and
- be competitive and consistent with the Company's culture, objectives and strategy.

There were 2 RC meetings held during the financial year ended 31 December 2016. All members of the RC at the end of financial year complied with the minimum attendance requirement at such meeting.

Risk Management Committee

The Risk Management Committee ("RMC") comprises 3 Non-Executive Directors, appointed from the Board. The current members are as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Ou Shian Waei	Member (Independent Non-Executive)

The objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that an appropriate risk management process is in place and functioning effectively.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Risk Management Committee (continued)

The principal duties and responsibilities of RMC are:

- (a) reviewing and recommending risk management strategies, policies and risk tolerance levels for the Board's approval;
- (b) reviewing and assessing the adequacy of the risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
- (c) ensuring that adequate infrastructure, resources and systems are in place for effective risk management; e.g. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities; and
- (d) reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

There were 4 RMC meetings held during the financial year ended 31 December 2016. All members of the RMC at the end of financial year complied with the minimum attendance requirement at such meeting.

Audit Committee

The composition of the Audit Committee ("AC") is as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Ou Shian Waei	Member (Independent Non-Executive)

The primary objective of the AC is to ensure the integrity and transparency of the financial reporting process.

The principal duties and responsibilities of the AC are:

- (a) To ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their objectives;
- (b) To review and concur the annual audit plan, audit charter and annual budget of the internal audit department and the appointment of the external auditors;

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Audit Committee (continued)

- (c) To ensure that internal audit staff have free and unrestricted access to the Company's records, assets, personnel or processes relevant to and within the scope of the audits;
- (d) To review various relationships between the external auditors and the Company or any other entity that may impair or appear to impair the external auditors' judgment or independence in respect of the Company;
- (e) To review with the external auditors that appropriate audit plans are in place and the scope of the audit plans reflect the terms of the engagement letter;
- (f) To review with the external auditors the financial statements, audit reports, including reports to BNM and discuss the findings and issues arising from the external audit;
- (g) To ensure that management's remediation efforts with respect to internal and external audit findings and recommendations are resolved effectively and in a timely manner;
- (h) To approve the provision of non-audit services by the external auditor and ensure that the level of provision of non-audit services is compatible with maintaining auditor independence;
- (i) To review the Chairman's statement, interim financial reports, preliminary announcements and corporate governance disclosures in the Directors' Report;
- (j) To review any related-party transactions and conflict of interest situations that may arise including any transaction, procedure or conduct that raises questions of management integrity;
- (k) To ensure that the Company's accounts are prepared and published in a timely and accurate manner for regulatory, management and general reporting purposes; and
- (l) To report to BNM annually, on the material weaknesses in the internal control environment and the measures taken to address those weaknesses.

The AC has the authority to investigate any matter within its terms of reference and has unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Company.

There were 4 AC meetings held during the financial year ended 31 December 2016. All members of the AC at the end of financial year complied with the minimum attendance requirement at such meeting.

AUDITOR REMUNERATION

External auditors remuneration for statutory audit for the financial year amounts to RM 380,000, as set out in Note 21 to the financial statements. There were no indemnity given or insurance effected for the external auditors of the Company

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(B) MANAGEMENT ACCOUNTABILITY

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing policy on executive remuneration. None of the Directors and senior management of the Company have, in any circumstances, conflict of interest in accordance to the provisions of the Financial Services Act, 2013.

The management meets all prescriptive requirements under these sections, and have already adopted best practices in the areas of organisational structure and allocation of responsibilities, conflict of interest, goal setting and the area of communication.

(C) CORPORATE INDEPENDENCE

All material related party transactions are conducted on the agreed terms as specified under BNM Guidelines, BNM/RH/GL/018-6 on Related-Party Transactions and BNM Guidelines, BNM/RH/GL/003-2 on Prudential Framework of Corporate Governance for Insurers. Related parties transactions and balances have been disclosed in the financial statements in accordance with MFRS 124 Related Party Disclosure.

(D) INTERNAL CONTROLS AND OPERATIONAL RISK MANAGEMENT

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which includes the setting of operational risk limits for all core activities. The Company has established internal controls which cover all levels of personnel that are capable of recognising and continually assessing material risks, including underwriting risk, reinsurance risk, investment risk, operational and legal risk, that could affect its performance and financial condition.

Continuous review and assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner.

(E) INTERNAL AUDIT

The internal audit function is provided by the ultimate holding company, AIG. While the Group Internal Audit ("GIA") reports directly to AIG's Audit Committee, it will assist the Company's Audit Committee in discharging its duties and responsibilities.

The main function of the GIA includes assessment of effectiveness and adequacy of internal controls, which includes an independent examination of controls and ensure corrective actions, where necessary, are taken in a timely manner.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(F) PUBLIC ACCOUNTABILITY

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company meets all prescriptive and best practice requirements under this section relating to unfair practices.

(G) FINANCIAL REPORTING

The Board has the overall responsibilities to ensure that accounting records are properly kept and that the Company's financial statements are prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards, the provisions of the Companies Act, 1965 in Malaysia and relevant regulatory requirements. In addition, the Company also meets the best practice requirements relating to management reporting, where the key performance indicators are reported on a monthly basis.

AUDITORS

The external auditors, PricewaterhouseCoopers, retired and have expressed their willingness to accept re- appointment.

Signed on behalf of the Board of Directors in accordance with their resolution dated 28 March 2017.

ANTONY FOOK WENG LEE
DIRECTOR

OU SHIAN WAEI
DIRECTOR

Kuala Lumpur
28 March 2017

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Antony Fook Weng Lee and Ou Shian Waei, two of the Directors of AIG Malaysia Insurance Berhad, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 19 to 94 are drawn up so as to show a true and fair view of the financial position of the Company as at 31 December 2016 and financial performance of the Company for the financial year ended 31 December 2016 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 28 March 2017.

ANTONY FOOK WENG LEE
DIRECTOR

OU SHIAN WAEI
DIRECTOR

Kuala Lumpur
28 March 2017

STATUTORY DECLARATION

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

I, Zawinah Bte Ismail, the Officer primarily responsible for the financial management of AIG Malaysia Insurance Berhad, do solemnly and sincerely declare that the financial statements for the financial year ended 31 December 2016 set out on pages 19 to 94 are drawn up in accordance with Malaysia Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 and in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

ZAWINAH BTE ISMAIL

Subscribed and solemnly declared by the above named at Kuala Lumpur in the Federal Territory on 28 March 2017.

Before me,

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF AIG MALAYSIA INSURANCE BERHAD

(Incorporated in Malaysia)

(Company No. 795492-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of AIG Malaysia Insurance Berhad ("the Company") 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.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 19 to 94.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF AIG MALAYSIA INSURANCE BERHAD (CONTINUED)

(Incorporated in Malaysia)

(Company No. 795492-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF AIG MALAYSIA INSURANCE BERHAD (CONTINUED)

(Incorporated in Malaysia)

(Company No. 795492-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF AIG MALAYSIA INSURANCE BERHAD (CONTINUED)

(Incorporated in Malaysia)

(Company No. 795492-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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 that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/17(J))
Chartered Accountant

Kuala Lumpur
28 March 2017

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Assets			
Property and equipment	4	4,066	6,127
Intangible assets	5	2,240	4,332
Available-for-sale financial assets	6	740,491	787,529
Reinsurance assets	7	180,677	183,333
Loans and receivables, excluding insurance receivables	8	251,804	232,902
Insurance receivables	9	111,990	126,958
Deferred acquisition costs	10	38,356	40,679
Tax recoverable		10,823	8,113
Cash and bank balances		44,540	52,925
Total assets		<u>1,384,987</u>	<u>1,442,898</u>
Equity and liabilities			
Share capital	11(a)	310,800	310,800
Retained earnings	11(b)	83,187	144,538
Available-for-sale reserve	11(c)	9,594	11,435
Total equity		<u>403,581</u>	<u>466,773</u>
Insurance contract liabilities	12	775,120	844,172
Deferred tax liabilities	13	2,543	1,920
Insurance payables	14	111,315	88,716
Other payables	15	92,428	41,317
Total liabilities		<u>981,406</u>	<u>976,125</u>
Total equity and liabilities		<u>1,384,987</u>	<u>1,442,898</u>

The accompanying notes form an integral part of the financial statements

STATEMENT OF INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Gross earned premiums	16(a)	723,605	709,906
Premiums ceded to reinsurers	16(b)	(174,288)	(189,179)
Net earned premiums		<u>549,317</u>	<u>520,727</u>
Investment income	17	38,076	39,323
Realised gains and losses	18	17	1,240
Commission income	19(a)	49,444	46,360
Other operating revenue		(2,866)	2,250
Total revenue		<u>633,988</u>	<u>609,900</u>
Gross claims paid	20(a)	(350,509)	(287,851)
Claims ceded to reinsurers	20(b)	53,982	37,258
Gross changes in contract liabilities	20(c)	58,355	22,995
Changes in contract liabilities ceded to reinsurers	20(d)	(23,838)	(25,947)
Net claims incurred		<u>(262,010)</u>	<u>(253,545)</u>
Commission expense	19(b)	(88,846)	(87,081)
Management expenses	21	(220,273)	(172,182)
Other expenses		<u>(309,119)</u>	<u>(259,263)</u>
Profit before taxation		62,859	97,092
Income tax expense	22	(24,210)	(17,167)
Profit for the financial year		<u>38,649</u>	<u>79,925</u>
Earnings per share			
Basic	23	<u>12 sen</u>	<u>26 sen</u>

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Profit for the financial year		38,649	79,925
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Changes in available-for-sale reserves:			
- Fair value (loss)/gain arise during the financial year	6(b)	(2,406)	2,989
- Fair value realised gain transferred to Statement of Income	18	(17)	(1,240)
- Tax effect on changes in fair value reserves		582	(287)
		<u>(1,841)</u>	<u>1,462</u>
Total comprehensive income for the financial year		<u>36,808</u>	<u>81,387</u>

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	— Non Distributable —		Distributable	Total
	Share capital	Available-for-sale reserves	Retained earnings	
	RM'000	RM'000	RM'000	
At 1 January 2015	310,800	9,973	94,613	415,386
Profit for the financial year	-	-	79,925	79,925
Other comprehensive income for the financial year	-	1,462	-	1,462
Total comprehensive income for the financial year	-	1,462	79,925	81,387
Dividend paid during the financial year (Note 24)	-	-	(30,000)	(30,000)
At 31 December 2015	<u>310,800</u>	<u>11,435</u>	<u>144,538</u>	<u>466,773</u>
At 1 January 2016	310,800	11,435	144,538	466,773
Profit for the financial year	-	-	38,649	38,649
Other comprehensive income for the financial year	-	(1,841)	-	(1,841)
Total comprehensive income for the financial year	-	(1,841)	38,649	36,808
Dividend paid during the financial year (Note 24)	-	-	(100,000)	(100,000)
At 31 December 2016	<u>310,800</u>	<u>9,594</u>	<u>83,187</u>	<u>403,581</u>
	Note 11(a)	Note 11(c)	Note 11(b)	

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	38,649	79,925
Adjustments for:		
Loss on written off of property and equipment	824	112
Loss on written off of intangible assets	2,453	-
Depreciation of property and equipment	1,998	1,851
Amortisation of intangible assets	390	148
Investment income	(38,076)	(39,323)
Reversal of impairment loss on LAR	(294)	-
Impairment loss on AFS financial assets	693	1,431
Fair value gains on AFS recorded in Statement of Income	(17)	(1,240)
Income tax expense	24,210	17,167
Bad debts written off on insurance receivables	3,189	235
Bad debts recovery on insurance receivables	(177)	-
Allowance for impairment on insurance receivables	(513)	2,813
	<hr/> 33,329	<hr/> 63,119
Changes in working capital:		
Decrease in reinsurance assets	2,656	6,361
Decrease/(increase) in insurance receivables	12,469	(51,934)
Decrease in deferred acquisition costs	2,323	752
Decrease in insurance contract liabilities	(69,052)	(11,787)
Increase in insurance payables	22,599	48,101
Increase in other payables	51,111	103
Increase in loans and receivables, excluding insurance receivables	(18,503)	(100,263)
	<hr/> 36,932	<hr/> (45,548)
Cash generated from operations	36,932	(45,548)
Tax paid	(25,715)	(17,000)
	<hr/> 11,217	<hr/> (62,548)
Net cash inflows from operating activities	11,217	(62,548)

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	2016	2015
	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(761)	(2,572)
Purchase of intangible assets	(751)	(3,728)
Interest income received	38,246	38,073
Dividend income received	1,635	1,696
Purchases of AFS financial assets	(123,054)	(160,530)
Proceeds from disposal and maturity of AFS financial assets	165,083	192,089
Net cash outflows from investing activities	80,398	65,028
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(100,000)	(30,000)
Net cash outflows from financing activities	(100,000)	(30,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,385)	(27,520)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	52,925	80,445
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>44,540</u>	<u>52,925</u>
Cash and cash equivalents comprise:		
Cash and bank balances	560	6,925
Fixed and call deposits with maturity of less than 3 months	43,980	46,000
	<u>44,540</u>	<u>52,925</u>

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company is located at Level 18, Menara Worldwide, 198 Jalan Bukit Bintang, 55100 Kuala Lumpur.

The Company is principally engaged in underwriting 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 AIG Asia Pacific Insurance Pte Ltd, a company incorporated in Singapore and the directors regard American International Group, Inc, a company incorporated in State of Delaware, USA as the Company's ultimate holding corporation.

These financial statements were authorised for issue by the Board of Directors in accordance with their resolution on 28 March 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Company have been prepared under the historical cost convention, except for items specified in the summary of significant accounting policies.

The Company has met the minimum capital requirements as prescribed by the framework as at the statement of financial position date.

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2016:

- Amendments to MFRS 101 "Presentation of financial statements" - Disclosure initiative
- Annual Improvements to MFRSs 2012 – 2014 Cycle

There is no significant impact on the adoption of the amendments except for enhanced disclosures to the financial statements.

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective.

The Company will apply the new standards, amendments to standards and interpretation in the following period:

Financial year beginning on/after 1 January 2017

- Amendments to MFRS 107 "Statement of Cash Flows" - Disclosure initiative
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

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

The amendments shall be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

The Company will apply the new standards, amendments to standards and interpretation in the following period:

Financial year beginning on/after 1 January 2018

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

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

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

The Company is still assessing the impact of MFRS 9 and will complete the process prior to the reporting requirement deadline.

All other new amendments to the published standards and interpretations to existing standards issue by the MASB effective for financial period subsequent to 1 January 2017 are not relevant to the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the original assessed standard of performance of the existing asset will flow to the Company.

Property and equipment are depreciated on the straight line basis to write off the cost of assets to their residual values over the estimated useful lives, summarised as follows:

Furniture and equipment	5 years
Computer equipment	2 years
Motor vehicles	5 years
Renovation	5 years

Residual values and useful lives of assets are reviewed and adjusted, if applicable, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(d) to the financial statements on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Intangible assets – computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives not exceeding 3 years.

(d) Impairment of non-financial assets

The carrying values of assets are reviewed for impairment at each reporting date and when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the asset's fair value less cost of sell and the value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Assets

The Company classifies its financial assets into loans and receivables ("LAR") and available-for-sale ("AFS"). The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired or originated.

All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial assets. All transaction costs directly attributable to the acquisition are also included in the cost of the financial assets. After initial measurement, LAR are measured at amortised cost, using the effective yield method, less impairment losses.

Gains and losses are recognised in the statement of income when the LAR are derecognised or impaired, as well as through the amortisation process.

AFS

AFS securities are non-derivative financial assets that are designated as available for sale or are not classified as LAR. AFS securities are initially recorded at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS securities are remeasured at fair value.

Fair value gains or losses of AFS securities are reported as a separate component of equity until the AFS securities are derecognised or determined to be impaired. Fair value gains and losses on AFS securities denominated in foreign currency are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

The translation differences on monetary securities are recognised in the statement of income; translation differences on non-monetary securities are reported as a separate component of equity until the AFS securities are derecognised.

On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Determination of fair value

The Company's basis of estimation of fair value for financial instruments is as follows:

<u>Component</u>	<u>Method of determining fair values</u>
(i) Malaysian Government Securities	Indicative market prices
(ii) Unquoted corporate debt securities	Price quoted by pricing agencies and brokers
(iii) Quoted equity securities	Quoted market prices
(iv) Loans receivables	Discounted future cash flows based on the contracted maturity period. Discount rates are based on current market interest rates.
(v) Other financial assets and liabilities with a maturity period of less than one year	Carrying values assumed to approximate their fair value

(g) Impairments of financial assets

Assets carried at amortised cost

The Company assess whether objective evidence if impairment exist individually for the financial assets. If there is objective evidence that an impairment loss on financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income.

When a financial assets is uncollectible, it is written off against the related allowance for impairment losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

AFS

The Company assess at each date of the statement of financial position whether there is objective evidence that financial asset is impaired. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairments of financial assets (continued)

AFS (continued)

If there is objective evidence that an impairment loss on financial asset classified as AFS has been incurred, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity change is removed from equity and recognised in the statement of income.

For debt securities, the Company uses criteria and measurement of impairment loss applicable to "assets carried at amortised cost" above. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income. Impairment losses previously recognised in the statement of income on equity instruments are not reversed through the statement of income.

(h) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

(i) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as liabilities in the financial year in which they declared.

(j) Product classification

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 as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are more than the benefits payable if the insured event did not occur.

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

The recognition and measurement of insurance contracts are set out in Note 2 (l) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Reinsurance

The Company cedes insurance risk to reinsurance companies in the normal course of business for all of its businesses.

Reinsurance premium ceded and claims reimbursed are recognised in the same accounting period as the original policy to which the reinsurance relates, and are presented on a gross basis in the statement of income in the financial year in which they are earned.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

Reinsurance assets consist of 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.

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 statement of income.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the balance sheet. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Insurance contracts

Premium from insurance contract

Premium of insurance contracts is recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from insurance contracts are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the date of the statement of financial position are accrued at the date.

Insurance contracts liabilities

Insurance contracts liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise premium liabilities and claim liabilities.

(i) Premium liabilities

Premium liabilities refer to the higher of:

- (a) the aggregate of the unearned premium reserves ("UPR"); or
- (b) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.

PRAD is an additional component of liability value aimed at ensuring the value of insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the liability will ultimately be sufficient. For the purpose of URR valuation and claim liabilities, the level of confidence is set at 75% at an overall Company level.

UPR represent the portion of the gross premiums of insurance policies written net of the related reinsurance premiums ceded to qualified reinsurers, that relate to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at the statement of financial position date, the method that most accurately reflects the actual unearned premium is used. UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) 1/24th method for all other classes of Malaysian general policies; and
- (iii) Time apportionment method for non-annual policies.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Insurance contracts (continued)

(ii) Claims liabilities

Claims and loss adjustment expenses are charged to statement of income as incurred based on the estimated liability for compensations owed to contract holders or their parties damaged by the contract holders.

Claims liabilities (or outstanding claims provision) are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the statement of financial position date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that include a PRAD which is calculated at the overall Company level and includes provision for incurred but not reported ("IBNR") losses. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

(iii) Liability adequacy test on insurance contract liabilities

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in statement of income initially by writing off DAC and by subsequently establishing a provision for liability adequacy.

Acquisition costs and Deferred Acquisition Cost ("DAC")

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Insurance contracts (continued)

Acquisition costs and Deferred Acquisition Cost ("DAC") (continued)

Commission 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, these costs are amortised/allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in statement of income.

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 statement of income. 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 off.

(m) 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 statement of income. 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 (g) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2 (h) to the financial statement have been met.

(n) Other revenue recognition

Interest income for all interest bearing financial instruments including AFS securities, are recognised in the statement of income using effective interest rate method.

Dividend income is recognised in the statement of income as investment income when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to statement of income on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

(p) Income taxes

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

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

Deferred and income tax assets and liabilities are offset when there is a legal enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on net.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(r) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(s) Employee benefits

(i) Short-term employees benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

The Company's contributions to the Employees' Provident Fund, the national defined contribution plan, are charged to the statement of income in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

(iii) Share-based compensation

The eligible employees of the Company participate in an equity-settled, share-based compensation plan offered by its ultimate holding company, American International Group Inc. Employee services received in exchange for the grant of the shares and share options are recognised as an expense in the statement of income over the vesting periods of the grant with a corresponding increase equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting condition (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each date of the statement of financial position, the Company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of income with a corresponding adjustment to equity.

(t) Foreign currencies

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

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

All financial assets and liabilities as at statement of financial position date were denominated in Ringgit Malaysia unless otherwise indicated.

(u) Other Financial Liabilities and Insurance Payables

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

(v) Cash and cash equivalent

Cash and cash equivalents consist of cash in hand, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

The Company classified the cash flows for the purchase and disposal of investment in financial assets in its operating cash flows as the purchase are funded from the cash flow associated with the origination of insurance contracts, net of the cash flows for payments of insurance and claims benefits.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Events after the statement of financial position date

Any post year-end event that provides additional information about the Company's position at the date of the statement of financial position (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, 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. The factors could include:

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual result. The estimates and assumptions that have a significant risk of causing a material judgment to the carrying amounts of assets and liabilities within the financial year are outlined below.

Claims liabilities arising from insurance contracts

Estimates have to be made for both the expected ultimate cost of claims reported at the date of the statement of financial position and for the expected ultimate cost of the IBNR claims at the date of the statement of financial position. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the claims liabilities as at the date of the statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior financial year claims estimates are assessed for adequacy and changes made are charged to statement of income. Claims liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims liabilities is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analysed by accident years as well as by business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

Claims liabilities arising from insurance contracts (continued)

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

The key assumptions used in estimates claims liabilities and sensitivity of those assumptions are set out in Note 28 to the financial statements.

(b) Critical judgments in applying the entity accounting policies

In determining and applying accounting policies, judgment is often required in respect of items where choice of specific policy could materially affect the reported result and financial position of the Company. However the Directors are of the opinion that there are currently no accounting policies which require significant judgment to be exercised.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

4. PROPERTY AND EQUIPMENT

	Furniture and equipment RM'000	Computer equipment RM'000	Renovation RM'000	Total RM'000
Cost				
At 1 January 2015	12,934	743	18,863	32,540
Additions	395	171	1,894	2,460
Written off	-	(112)	-	(112)
At 31 December 2015	13,329	802	20,757	34,888
Additions	562	130	69	761
Written off	-	-	(824)	(824)
At 31 December 2016	13,891	932	20,002	34,825
Accumulated Depreciation				
At 1 January 2015	11,082	603	15,337	27,022
Charge for financial year	624	166	1,061	1,851
Written off	-	(112)	-	(112)
At 31 December 2015	11,706	657	16,398	28,761
Charge for financial year	748	138	1,112	1,998
At 31 December 2016	12,454	795	17,510	30,759
Net book value				
At 31 December 2015	1,623	145	4,359	6,127
At 31 December 2016	1,437	137	2,492	4,066

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

5. INTANGIBLE ASSETS

Cost	Intangible RM'000	WIP RM'000	Total RM'000
At 1 January 2015	18,579	-	18,579
Additions	9	3,719	3,728
At 31 December 2015	18,588	3,719	22,307
Additions	34	717	751
Reclassification	1,983	(1,983)	-
Written off	-	(2,453)	(2,453)
At 31 December 2016	20,605	-	20,605
Accumulated amortisation			
At 1 January 2015	17,827	-	17,827
Amortisation for the financial year	148	-	148
At 31 December 2015	17,975	-	17,975
Amortisation for the financial year	390	-	390
At 31 December 2016	18,365	-	18,365
Net book value			
At 31 December 2015	613	3,719	4,332
At 31 December 2016	2,240	-	2,240

Intangible assets comprise computer application software which were acquired to meet the unique requirements of the Company.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RM'000	2015 RM'000
(a) At fair value		
Quoted:		
Equity securities of corporations	35,408	32,540
Real estate investment trust	9,772	8,680
	<u>45,180</u>	<u>41,220</u>
Unquoted:		
Malaysian government securities	243,343	195,307
Cagamas papers	86,635	92,484
Corporate debt securities	365,333	458,518
	<u>695,311</u>	<u>746,309</u>
	<u>740,491</u>	<u>787,529</u>
Maturity within 12 months	157,211	137,459
Maturity after 12 months	538,100	608,850
	<u>695,311</u>	<u>746,309</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

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

(b) Available-for-sale financial assets	RM'000
At 1 January 2015	819,723
Purchases	160,530
Maturities	(180,000)
Disposals	(10,849)
Fair value gains transferred to statement of income	(1,240)
Fair value losses recorded in other comprehensive income	2,989
Amortisation of premium, net of accretion of discounts	(1,610)
Movement in impairment allowance	(1,431)
Movement in interest income due and accrued	(583)
	<hr/>
At 31 December 2015 / 1 January 2016	787,529
Purchases	123,054
Maturities	(165,000)
Disposals	(66)
Fair value gains transferred to statement of income	(17)
Fair value gains recorded in other comprehensive income	(2,406)
Amortisation of premium, net of accretion of discounts	(793)
Movement in impairment allowance	(693)
Movement in interest income due and accrued	(1,117)
	<hr/>
At 31 December 2016	<u>740,491</u>

7. REINSURANCE ASSETS

	Note	2016	2015
		RM'000	RM'000
Reinsurance of insurance contracts:	12		
Claims liabilities		127,377	151,216
Premium liabilities		53,300	32,117
		<hr/>	<hr/>
		180,677	183,333
		<hr/>	<hr/>
Current		96,020	94,102
Non current		84,657	89,231
		<hr/>	<hr/>
		180,677	183,333
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

8. LOANS AND RECEIVABLES, EXCLUDING INSURANCE RECEIVABLES

	2016	2015
	RM'000	RM'000
Fixed deposits with licensed banks in Malaysia	186,415	156,284
Staff loans	501	805
	<u>186,916</u>	<u>157,089</u>
Less: Allowance for impairment	(462)	(756)
	<u>186,454</u>	<u>156,333</u>
Other receivables:		
Amount due from Malaysian Motor Insurance pool ("MMIP")	59,226	71,253
- Assets held under MMIP	33,867	36,893
- Cash contribution to MMIP	25,359	34,360
Other receivables, deposits and prepayments	3,900	3,951
Amount due from related corporations (Note 26)	2,224	1,365
	<u>65,350</u>	<u>76,569</u>
Total loans and receivables	<u>251,804</u>	<u>232,902</u>
Current	169,447	178,894
Non-current	82,357	54,008
	<u>251,804</u>	<u>232,902</u>

MMIP balance as at 31 December 2016 is a net receivable of RM8,765,695 (2015: net payable of RM6,085,206) after setting off the amounts due from MMIP against the Company's share of MMIP's claims and premium liabilities amounting to RM50,461,120 (2015: RM77,337,872) included in Note 12 to the financial statements.

The amount due from related corporations is non-trade in nature, interest-free, unsecured and repayable on demand.

9. INSURANCE RECEIVABLES

	2016	2015
	RM'000	RM'000
Due premiums including agents/brokers and co-insurers balance	89,743	110,702
Due from reinsurers and cedants	25,715	20,237
	115,458	130,939
Less: Allowance for impairment	(3,468)	(3,981)
	<u>111,990</u>	<u>126,958</u>
Current	<u>111,990</u>	<u>126,958</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

10. DEFERRED ACQUISITION COSTS

	Note	2016 RM'000	2015 RM'000
Gross of reinsurance			
At 1 January		42,048	42,538
Commission expense paid	19(b)	86,493	86,591
Amortisation	19(b)	(88,846)	(87,081)
		<u>39,695</u>	<u>42,048</u>
Reinsurance			
At 1 January		1,369	1,107
Commission income received	19(a)	49,414	46,622
Amortisation	19(a)	(49,444)	(46,360)
		<u>1,339</u>	<u>1,369</u>
Net of reinsurance			
At 1 January		40,679	41,431
Net commission expense		37,079	39,969
Amortisation		(39,402)	(40,721)
At 31 December		<u>38,356</u>	<u>40,679</u>
Current		<u>38,356</u>	<u>40,679</u>

11. EQUITY

(a) Share capital

	2016		2015	
	No of Shares '000	Amount RM'000	No of Shares '000	Amount RM'000
Authorised:				
Ordinary shares of RM1.00 each				
At beginning and end of financial year	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and paid-up:				
Ordinary shares of RM1.00 each				
At beginning and end of financial year	<u>310,800</u>	<u>310,800</u>	<u>310,800</u>	<u>310,800</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

11. EQUITY (CONTINUED)

(b) Retained earnings

The Company is under single-tier tax system, tax paid on the Company's income is a final tax and any dividend distributed will be exempted from tax in the hands of shareholders.

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

(c) Available-for-sale reserves

The available-for-sale reserves comprises of unrealised gain or loss on financial assets classified as available-for-sale, net of deferred taxation.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

12. INSURANCE CONTRACT LIABILITIES

	Gross RM'000	Reinsurance RM'000	Net RM'000
2016			
Provision for claims reported by policyholders	280,625	(91,571)	189,054
Provision for incurred but not reported claims ("IBNR")	139,402	(35,806)	103,596
	<hr/>	<hr/>	<hr/>
Claims liabilities (i)	420,027	(127,377)	292,650
Premiums liabilities (ii)	355,093	(53,300)	301,793
	<hr/>	<hr/>	<hr/>
	775,120	(180,677)	594,443
	<hr/>	<hr/>	<hr/>
2015			
Provision for claims reported by policyholders	327,742	(118,259)	209,483
Provision for incurred but not reported claims ("IBNR")	150,639	(32,957)	117,682
	<hr/>	<hr/>	<hr/>
Claims liabilities (i)	478,381	(151,216)	327,165
Premiums liabilities (ii)	365,791	(32,117)	333,674
	<hr/>	<hr/>	<hr/>
	844,172	(183,333)	660,839
	<hr/>	<hr/>	<hr/>

(i) Claims Liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2016	478,381	(151,216)	327,165
Claims incurred in current accident year	272,196	(35,625)	236,571
Adjustment to claims incurred in prior accident year	31,196	8,332	39,528
Effect of changes in key assumptions	(11,237)	(2,850)	(14,087)
Claims paid during the financial year	(350,509)	53,982	(296,527)
	<hr/>	<hr/>	<hr/>
At 31 December 2016	420,027	(127,377)	292,650
	<hr/>	<hr/>	<hr/>
At 1 January 2015	501,375	(177,162)	324,213
Claims incurred in current accident year	251,965	(28,235)	223,730
Adjustment to claims incurred in prior accident year	24,900	5,346	30,246
Effect of changes in key assumptions	(12,008)	11,577	(431)
Claims paid during the financial year	(287,851)	37,258	(250,593)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	478,381	(151,216)	327,165
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

12. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premiums Liabilities

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2016		365,791	(32,117)	333,674
Premiums written in the financial year	16	712,907	(195,471)	517,436
Premiums earned during the financial year	16	(723,605)	174,288	(549,317)
At 31 December 2016		<u>355,093</u>	<u>(53,300)</u>	<u>301,793</u>
At 1 January 2015		354,584	(12,532)	342,052
Premiums written in the financial year	16	721,113	(208,764)	512,349
Premiums earned during the financial year	16	(709,906)	189,179	(520,727)
At 31 December 2015		<u>365,791</u>	<u>(32,117)</u>	<u>333,674</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

13. DEFERRED TAXATION

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

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

	2016	2015
	RM'000	RM'000
Subject to income tax:		
Deferred tax liabilities	(2,543)	(1,920)
At 1 January	(1,920)	(2,362)
(Charged)/credited to statement of income:		
- property and equipment	(357)	80
- available-for-sale financial assets	(159)	(276)
- premium liabilities	(689)	925
	(1,205)	729
Charged to other comprehensive income	582	(287)
At 31 December	(2,543)	(1,920)
<u>Subject to income tax:</u>		
Deferred tax assets (before offsetting)		
- premium liabilities	308	997
- others	707	853
	1,015	1,850
Offsetting	(1,015)	(1,850)
Deferred tax assets (after offsetting)	-	-
Deferred tax liabilities (before offsetting)		
- property and equipment	(393)	(37)
- fair value changes on available-for-sale financial assets	(3,030)	(3,611)
- others	(135)	(122)
	(3,558)	(3,770)
Offsetting	1,015	1,850
Deferred tax liabilities (after offsetting)	(2,543)	(1,920)
Current	(2,543)	(1,920)

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

14. INSURANCE PAYABLES

	2016 RM'000	2015 RM'000
Due to agents and intermediaries	20,854	22,708
Due to reinsurers and cedants	51,066	49,181
Deposits received from reinsurers	39,395	16,827
	<u>111,315</u>	<u>88,716</u>

All amounts are payable within one year.

15. OTHER PAYABLES

	2016 RM'000	2015 RM'000
Amount due to related corporations (Note 26)	56,032	5,657
Other payables	36,396	35,660
	<u>92,428</u>	<u>41,317</u>

All amounts are payable within one year.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

16. NET EARNED PREMIUMS

	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscellaneous RM'000	Total RM'000
2016					
(a) Gross premiums earned					
Gross premiums	128,009	258,676	40,007	286,215	712,907
Changes in premium liabilities	(57)	11,795	(230)	(810)	10,698
	<u>127,952</u>	<u>270,471</u>	<u>39,777</u>	<u>285,405</u>	<u>723,605</u>
(b) Premiums ceded					
Reinsurance	(81,809)	(10,580)	(33,163)	(69,919)	(195,471)
Changes in premium liabilities	1,593	10,622	246	8,722	21,183
	<u>(80,216)</u>	<u>42</u>	<u>(32,917)</u>	<u>(61,197)</u>	<u>(174,288)</u>
Net earned premiums	<u>47,736</u>	<u>270,513</u>	<u>6,860</u>	<u>224,208</u>	<u>549,317</u>
2015					
(a) Gross premiums earned					
Gross premiums	130,547	279,641	33,663	277,262	721,113
Changes in premium liabilities	(6,125)	(1,444)	(3,507)	(131)	(11,207)
	<u>124,422</u>	<u>278,197</u>	<u>30,156</u>	<u>277,131</u>	<u>709,906</u>
(b) Premiums ceded					
Reinsurance	(80,997)	(20,409)	(28,932)	(78,426)	(208,764)
Changes in premium liabilities	10,945	809	3,137	4,694	19,585
	<u>(70,052)</u>	<u>(19,600)</u>	<u>(25,795)</u>	<u>(73,732)</u>	<u>(189,179)</u>
Net earned premiums	<u>54,370</u>	<u>258,597</u>	<u>4,361</u>	<u>203,399</u>	<u>520,727</u>

17. INVESTMENT INCOME

	2016 RM'000	2015 RM'000
AFS financial assets:		
Interest income	28,278	31,296
Dividend income	1,631	1,687
LAR interest income	8,960	7,949
Amortisation of premiums, net of accretion of discounts	(793)	(1,609)
	<u>38,076</u>	<u>39,323</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

18. REALISED GAINS AND LOSSES

	2016 RM'000	2015 RM'000
Realised gains/(losses) for:		
AFS financial assets:		
Equity securities	17	1,240
	<u>17</u>	<u>1,240</u>

19. COMMISSION INCOME/EXPENSE

	2016 RM'000	2015 RM'000
(a) Commission income		
Commission income received	49,414	46,622
Movement in deferred acquisition costs	30	(262)
	<u>49,444</u>	<u>46,360</u>
(b) Commission expense		
Commission expense paid	(86,493)	(86,591)
Movement in deferred acquisition costs	(2,353)	(490)
	<u>(88,846)</u>	<u>(87,081)</u>

20. NET CLAIMS INCURRED

	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscellaneous RM'000	Total RM'000
2016					
(a) Gross claims paid	(46,738)	(214,963)	(7,858)	(80,950)	(350,509)
(b) Claims ceded to reinsurers	35,224	4,956	5,721	8,081	53,982
(c) Gross changes in contract liabilities	37,030	43,377	(4,435)	(17,617)	58,355
(d) Changes in contract liabilities ceded to reinsurers	(33,545)	(374)	2,829	7,252	(23,838)
Net claims incurred	<u>(8,029)</u>	<u>(167,004)</u>	<u>(3,743)</u>	<u>(83,234)</u>	<u>(262,010)</u>
2015					
(a) Gross claims paid	(29,758)	(171,140)	(7,286)	(79,667)	(287,851)
(b) Claims ceded to reinsurers	16,463	4,092	5,070	11,633	37,258
(c) Gross changes in contract liabilities	16,101	(39,342)	8,610	37,626	22,995
(d) Changes in contract liabilities ceded to reinsurers	(11,415)	(513)	(4,802)	(9,217)	(25,947)
Net claims incurred	<u>(8,609)</u>	<u>(206,903)</u>	<u>1,592</u>	<u>(39,625)</u>	<u>(253,545)</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

21. MANAGEMENT EXPENSES

	Note	2016 RM'000	2015 RM'000
Employee benefits expense	21(a)	48,246	45,426
Non-executive Directors' remuneration	21(b)	500	500
Auditors' remuneration:			
- Statutory audit		380	368
- Others		9	34
Traveling expenses		1,188	1,318
Motor vehicle expenses		423	408
Legal expenses		12	55
Advertising		11,238	7,792
Printing and stationery		2,959	3,032
Rent and rates		3,035	2,945
Electricity and water		406	425
Postage, telephone and telefax		29,022	32,002
Office maintenance		568	715
Entertainment		998	1,357
Training expenses		3,860	3,284
Electronic Data Processing expenses		30,328	30,204
Depreciation of property and equipment		1,998	1,851
Amortisation of intangible assets		390	148
(Reversal)/allowance for impairment on insurance receivables	29(a)	(513)	2,813
Reversal of impairment of LAR, excluding insurance receivables	29(a)	(294)	-
Impairment of AFS financial assets		693	1,431
Write-off of bad debts		3,189	235
Other expenses		81,638	35,839
		<u>220,273</u>	<u>172,182</u>
(a) Employee benefits expense			
Wages and salaries		38,658	37,489
Contributions to defined contribution plan		4,673	4,378
Other benefits		4,915	3,559
		<u>48,246</u>	<u>45,426</u>

There are no indemnity given or insurance effected for auditor for the current financial year (2015: Nil)

(b) Directors' Remuneration

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

Executive:

Salaries and other emoluments	1,497	1,705
Contribution to defined contribution plan	165	187
	<u>1,662</u>	<u>1,892</u>

Non-executive:

Fees	500	500
	<u>500</u>	<u>500</u>
	<u>2,162</u>	<u>2,392</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

21. MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' Remuneration (continued)

The amount paid to a firm in which a Director is a Senior Partner for professional services rendered during the financial year is nil (2015: RM8,806).

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

	Fees/ Salary RM'000	Bonus & LTIP* RM'000	EPF RM'000	Benefits- in-kind/ others** RM'000	Total RM'000
2016					
Chief Executive Officer					
- Antony Fook Weng Lee	1,013	452	165	32	1,662
Non-Executive Director					
- Dato' Thomas Mun Lung Lee	150	-	-	-	150
- Mohd Daruis bin Zainuddin	150	-	-	4	154
- Ou Shian Waei	200	-	-	-	200
- Matthew James Harris	-	-	-	-	-
Total Directors' Remuneration	500	-	-	4	504
Total Chief Executive Officer and Director Remuneration (including benefits-in-kind)	1,513	452	165	36	2,166
2015					
Chief Executive Officer					
- Antony Fook Weng Lee	1,012	543	187	150	1,892
Non-Executive Director					
- Dato' Thomas Mun Lung Lee	150	-	-	-	150
- Mohd Daruis bin Zainuddin	150	-	-	-	150
- Ou Shian Waei	200	-	-	-	200
- Matthew James Harris	-	-	-	-	-
- Stephen Charles Snell	-	-	-	-	-
Total Directors' Remuneration	500	-	-	-	500
Total Chief Executive Officer and Director Remuneration (including benefits-in-kind)	1,512	543	187	150	2,392

*Long Term Incentive Plan (Share based)

**Travelling allowance

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

22. INCOME TAX EXPENSE

	2016	2015
	RM'000	RM'000
<u>Current tax</u>		
Current financial year	17,337	18,815
Under/(over) accrual in prior financial years	5,668	(919)
	<u>23,005</u>	<u>17,896</u>
<u>Deferred tax</u>		
Origination and reversal of temporary differences	1,205	(729)
	<u>24,210</u>	<u>17,167</u>

An explanation of relationship between tax expense and profit before taxation is as follows:

	2016	2015
	RM'000	RM'000
Profit before taxation	<u>62,859</u>	<u>97,092</u>
Tax calculated at Malaysian tax rate of 24% (2015: 25%)	15,086	24,273
Tax effects of expenses not deductible for tax purposes	3,265	4,820
Income not subject to tax	(324)	(288)
Double tax deduction on MMIP	-	(1,753)
Under/(over) provision in respect of prior years	5,668	(919)
Under provision of deferred tax	515	-
Deferred tax arising from change in accounting policy	-	(8,966)
Tax expense	<u>24,210</u>	<u>17,167</u>

23. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2016	2015
	RM'000	RM'000
Profit attributable to ordinary equity holders	38,649	79,925
Weighted average number of shares in issue	310,800	310,800
Basic earnings per share (sen)	<u>12</u>	<u>26</u>

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

24. DIVIDENDS

A final single-tier dividend of 32.18% (RM0.3218 per share) on ordinary shares declared and paid in respect of financial year ended 31 December 2015 amounting to RM100 million was paid on 27 June 2016.

The Directors have not recommended any final dividend to be paid for the financial year under review.

25. COMMITMENTS

Non-cancelable operating lease commitment

As at the date of the statement of financial position, the Company has rental commitments under non-cancellable operating leases:

	2016	2015
	RM'000	RM'000
Not later than 1 year	2,744	2,587
Later than 1 year but not later than 5 years	2,401	4,856
	<u>5,145</u>	<u>7,443</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

26. RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company, are as follows:

<u>Company</u>	<u>Country of incorporation</u>	<u>Relationship</u>
American International Group, Inc.	State of Delaware, USA	Ultimate holding company
AIG Asia Pacific Insurance Pte Ltd	Singapore	Immediate holding company
AIG Shared Services Corp (Philippine)	Philippine	Fellow subsidiaries
AIG Travel Asia Pacific Pte Ltd	Singapore	Fellow subsidiaries
AIG Global Service Inc	State of New Jersey, USA	Fellow subsidiaries
AIG Global Service Inc (Malaysia) Sdn Bhd	Malaysia	Fellow subsidiaries
AIG Bermuda Ltd.	Bermuda	Fellow subsidiaries
AIG Shared Services (M) Sdn Bhd	Malaysia	Fellow subsidiaries
AIG Claims, Inc	State of New York, USA	Fellow subsidiaries

In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with the ultimate holding company and other related corporations deemed related parties by virtue of them being members of American International Group, Inc. group of companies ("AIG Group").

(a) Details of significant related party transactions during the financial year between the Company and AIG group are as follows:

	2016	2015
	RM'000	RM'000
Inward reinsurance premium received	(29)	262
Reinsurance premium ceded	(115,436)	(120,883)
Claims paid	(13,547)	(542)
Reinsurance claims recoveries	31,723	22,822
Commission earned	44,989	38,949
Commission paid	1	24
System related costs paid to related corporations	(25,735)	(27,680)
Personnel and related costs received from related corporations	4,087	3,934
Claims handling fee received from related corporation	30	100
Loss adjustment expenses	(3,065)	(2,075)
Policy processing and related administration costs	(14,316)	(16,210)
Global service fees	(51,067)	-

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

26. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Compensation of key management personnel

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

	2016	2015
	RM'000	RM'000
Short-term employee benefits	5,724	9,072
Post-employment benefits:		
- Defined contribution plan	660	1,000
	<u>6,384</u>	<u>10,072</u>
Included in the total key management personnel are:		
Executive Directors' remuneration (Note 21(b))	<u>1,662</u>	<u>1,891</u>

Members of key management comprise those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

(c) The significant outstanding balances of the Company with its related parties as at 31 December are as follows:

	2016	2015
	RM'000	RM'000
Amount due from/(to) related parties		
Trade related:		
- Insurance receivables	26,709	26,535
- Insurance payables	(31,344)	(36,604)
Amount due from related corporations (Note 8)	2,224	1,365
Amount due to related corporations (Note 15)	<u>(56,032)</u>	<u>(5,657)</u>

27. RISK MANAGEMENT FRAMEWORK

(a) Governance and Regulatory Framework

The Board has oversight responsibility for the management of risk within the Company through the Risk Management Committee. It monitors the implementation of the Company's Risk Management Framework, including:

- Management of risk consistent with the risk management strategy and risk governance structure;
- Ensuring the proper functioning of the Enterprise Risk Management ("ERM") function in meeting its responsibilities within the framework;
- Setting and adhering to risk appetite consistent with the Company's risk appetite; and
- Systematically identifying, measuring and managing the various types of risk inherent within the operations.

The successful execution of the risk management strategy will require the combined and coordinated responsibility of leadership of all business units and corporate functions.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Management Framework

The ultimate objective for managing risks is to maximise the likelihood of meeting the Company's strategic objectives. Strategic objectives are developed to ensure long-term viability and value creation. They are realised through the coordinated management of: (i) risk, (ii) profitability and (iii) growth. The specific objective for risk management is to manage the risk profile (i.e., distribution of outcomes of short-term and long-term financial performance) consistent with strategic objectives.

The Management through oversight of the Board implemented the risk management processes within the Company that sets out the overall business strategies and the general risk management philosophy. The major areas of risk that the activities of the Company are exposed to are, operational risk, liquidity risk, insurance risk, market risk and credit risk.

The risk management infrastructure of the Company sets out clear accountability and responsibility for the risk management process which underlines the principal risk management and control responsibilities.

Processes	Parties responsible
Establishment of risk management regime and Company's risk appetite and policy	Board of Directors Risk Management Committee ("RMC")
Implementation of Company's risk policy and compliance	Dedicated Committees <ul style="list-style-type: none"> • Risk & Capital Committee ("RCC") • Investment Committee Independent Risk Management and Control Unit <ul style="list-style-type: none"> • Internal Audit Department • Compliance Department • Risk Management Department
Implementation and compliance with the Company risk policy	Business Units <ul style="list-style-type: none"> • Agency Branch Channel Management Department • Claims Department • Finance & Accounting Department • Human Resource Department • Management Information Systems (MIS) Department • Operations Department • Underwriting Departments: <ul style="list-style-type: none"> ◦ Commercial Lines Division ◦ Consumer Lines Division • Service Centres covering: <ul style="list-style-type: none"> ◦ Administration ◦ Compliance ◦ Legal ◦ Communications & Branding ◦ Risk Management

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Management Framework (continued)

The formal risk management framework of the Company is as follows:

- A RMC was established at Board level to drive the risk management processes in identifying principal business risks and the implementation of appropriate systems to manage these risks.
- The RMC, co-chaired by the Chief Executive Officer and the Risk Officer was established with the responsibility to identify and communicate to the RMC on critical risks (present and potential) in terms of likelihood of exposures and impact on the Company's business and the management action plans to manage these risks on a continuing basis.
- The independent risk management and control functions under the Internal Audit Department provides support to the Audit Committee and RMC and are responsible to ascertain that the risk policies are implemented and complied with.
- The Business Units are responsible for identifying, mitigating and managing risks within their lines of business and to ensure that their day-to-day business activities are carried out in accordance with established risk policies, procedures and limits.
- The role of the Audit Committee, supported by the Internal Audit Department, is to provide an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls and compliance with risk policies, laws, internal and regulatory guidelines.
- The risk management policies are subject to review to ensure that they remain applicable and effective in managing the associated risks due to changes in the market and regulatory environments.
- The consolidated risk profile of the Company and the risk management manual are being developed and will follow the structure set out by American International Group, Inc, ultimate holding company of the Company.

(c) Risk-based Capital Framework

Bank Negara Malaysia ("BNM") introduced a Risk Based Capital ("RBC") Framework, with effect from 1 January 2009. This Framework applies to all insurers licensed under the Insurance Act 1996. Under this Framework, an insurer is required to hold capital at a level that commensurate with its risk profile, taking into account credit, market, insurance and operational risks. Under this Framework, the Company is required to set an individual target capital level ("ITCL") with clearance from BNM and the minimum statutory capital adequacy ratio ("CAR") is 130%.

The Company has established adequate capital position for both of its ITCL and CAR at all times.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Risk-based Capital Framework (continued)

RBC approach

The RBC Framework uses a standardised approach, with prescribed capital risk charge applicable against each of the identified risk areas. Capital is equal to the difference between assets and liabilities of the insurer. The RBC Framework specifies the method of valuation for both assets and liabilities - and essential first step in establishing a base level of risk in the level of adequacy of the capital itself.

Assets are generally required to be valued at fair market value. Insurance liabilities (claims and premium liabilities) are required to be valued by an actuary.

The prescribed capital risk charges are then applied against the values of each of the asset and liability classes, in order to bring the base level of adequacy up to a level considered to provide regulatory security.

(d) Capital Management Plan

With clearance from BNM, the Board approved and adopted the Capital Management Plan ("CMP") for the Company in line with the requirements set out in the RBC Framework.

The objective of the CMP is to optimize the efficient and effective use of resources in order to maximise the return on equity and to provide an appropriate level of capital to protect the policyholders while taking into account events that can impact the operations and financial resilience of the Company directly or indirectly.

The CMP guides the management of capital in accordance with by the Company's business strategies and organisational requisites that take into account the business and regulatory environment that the Company operates in. In this respect, the Company sets capital targets for both Tier 1 and Tier 2 as defined under the RBC Framework that is above the minimum regulatory requirements.

The management committee responsible for the oversight of the Company's capital management is the Risk & Capital Committee. All proposals on any deviation from capital targets or capital raising exercise must be addressed to and approved by the RMC prior to recommendation to the Board for approval and implementation.

The RBC Framework and Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for the insurance industry came into effect on 1 January 2009 and 1 September 2012 respectively. Under the frameworks, the Company has to maintain a capital adequacy level that commensurate with its risk profiles. The minimum capital requirement under the Risk-Based Capital Framework regulated by Bank Negara Malaysia is 130% .

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(d) Capital Management Plan (continued)

Stress Testing

The RBC framework also includes a Stress Policy. Stress Tests will be conducted twice a year and as and when required to systematically evaluate the extent by which the Company's capital could withstand market shocks and by which capital will be eroded by the principal risks identified due to exceptional but adverse plausible events and to determine the impact on the performance and financial conditions. The stress tests results together with the counter measures are tabled to the RMC for deliberation and recommendation to the Board for approval. The Stress Tests Result will be submitted to BNM upon request from time to time.

This is consistent with the Company to review and study ITCL every half-year which is consistent to the stress test guidelines.

(e) Asset-Liability Management ("ALM") Framework

The primary objective of the Company's ALM policy is to ensure that adequate liquid assets are held at all times and to provide satisfactory and consistent earnings on these assets. The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance. The Company's Investment Committee is primarily responsible for the asset/liability management based on guidelines approved by the Board.

ALM Philosophy

The primary investment objective of the fixed income portfolios is long-term preservation of capital and to ensure adequate liquidity to meet claims and other expense liabilities as they occur. A secondary investment objective of the fixed income portfolios is yield and return performance while controlling risk.

With respect to the general insurance business where the average duration of the liabilities ranges mostly between two and five years, the fixed income portfolios shall normally be constructed on a laddered basis with a duration target of between two and seven years and a spread of bond maturities out to around 10 years. In normal general insurance market circumstances, the insurance cash flows together with investment income and bond maturities are likely to be sufficient to meet claims payments. When this is not the case, then the fixed income holdings need to be in liquid bonds which can be easily sold to meet such insurance claim payments.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the timing and the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of claims are greater than estimated. Insurance events are random, and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and type of business covered. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claim handling.

Underwriting policy

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company's basic underwriting policy is that each line of business is expected to make an underwriting profit on a stand-alone basis. Each product or line of business has its own detailed underwriting guidelines approved locally and regionally in New York. Underwriting authorities are clearly stipulated for each line of business within each profit center, and audited regularly by the profit center. Underwriting authorities and referral levels relate to both amounts and selection of risks to be covered.

Brief details of the Company's underwriting policy for the main classes of business are as follows:

Motor	Almost all business written consists of comprehensive insurance for private cars, generally sold through agents. The remainder consists of comprehensive cover for light commercial vehicles (C permit) and a very small amount of third party cover for private cars. Motor cycles are not accepted, other than on an accommodation basis. Cover is declined for vehicle models subject to high theft rates. A list of such vehicles (based on the Company's own experience) is monitored monthly and updated for underwriters at regular intervals. Rating is strictly in accordance with the BNM tariff and guidelines. Loadings are not generally applied, other than on risks which require referral (eg. young drivers, high value vehicles).
Accident & Health ("A&H")	The Company's A&H business comprises travel insurance, personal accident policies (both group and individual), and a relatively small amount of health cover, which are generally packaged products.
Commercial Lines	All accounts are individually underwritten, other than combined packages which are available on a pre-underwritten basis. Rating for property business is on a tariff basis.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Reinsurance

Reinsurance is used to limit the Company's exposure to losses by ceding risk with reinsurers providing high security.

AIG, Inc. formed the American International Overseas Association (the "Association"), a Bermuda unincorporated association, in 1976 as the pooling mechanism for AIG Inc.'s international general insurance operations. At the time of forming the Association, the member companies entered into a reinsurance agreement governing the insurance business pooled in the Association. The member companies of the Association are National Union Fire Insurance Company of Pittsburgh, Pa., American Home Assurance Company, and New Hampshire Insurance Company. The member companies of the Association act as the Company's immediate reinsurer for all of the Company's treaty reinsurance contracts.

In the ordinary course of business, the Company also cedes facultative reinsurance to other insurance companies in order to further limit the Company's exposure to losses.

Claims management

Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.

The Company's claims reserving policy is to promptly establish a realistic case reserve based on all available factual information in order to produce a best estimate of the total ultimate payment of the claim. In addition, emphasis is placed on the need for consistency and stability of the reserving process, as case estimates are used in the Incurred but not reported ("IBNR") projections. The IBNR estimates are assessed by the external actuary appointed by the management.

Where there is insufficient information to set a case reserve when the claim file is first opened, a nominal initial reserve is established, equal to the average claim payment in the previous year for that class of business. As soon as additional information is received, the initial reserve is then updated.

Open claim files are reviewed at regular intervals, and reserves are adjusted whenever additional information is received. In addition, all open files are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Diversification

Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The Company has an objective to control and minimise insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- * The use and maintenance of sophisticated management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.
- * Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- * Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of fraudulent claims.
- * Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.

The concentration of insurance risk before and after reinsurance (based on insurance contract liabilities) in relation to the type of risk accepted is summarised below:

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
2016				
Motor		361,379	(9,259)	352,120
Fire		124,522	(74,312)	50,210
Marine Cargo, Aviation Cargo & Transit		34,196	(23,670)	10,526
Miscellaneous		255,023	(73,436)	181,587
	12	775,120	(180,677)	594,443
2015				
Motor		416,551	989	417,540
Fire		161,494	(106,263)	55,231
Marine Cargo, Aviation Cargo & Transit		29,532	(20,595)	8,937
Miscellaneous		236,595	(57,464)	179,131
	12	844,172	(183,333)	660,839

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Key Assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of loss development pattern and loss ratio movement.

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

Sensitivities

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

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before taxation 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 on these assumptions are non-linear.

2016	Changes in assumptions	Impact of gross liabilities RM'000	Impact of net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
Loss Development	+1.5%	36,131	29,540	(29,540)	(22,155)
	+1.0%	24,088	19,693	(19,693)	(14,770)
	+0.5%	12,044	9,847	(9,847)	(7,385)
Loss Ratio	+1.5%	83,948	61,014	(61,014)	(45,760)
	+1.0%	55,965	40,676	(40,676)	(30,507)
	+0.5%	27,983	20,338	(20,338)	(15,253)
2015	Changes in assumptions	Impact of gross liabilities RM'000	Impact of net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
Loss Development	+1.5%	35,241	28,025	(28,025)	(21,019)
	+1.0%	23,494	18,683	(18,683)	(14,012)
	+0.5%	11,747	9,342	(9,342)	(7,007)
Loss Ratio	+1.5%	79,849	58,329	(58,329)	(43,747)
	+1.0%	53,233	38,886	(38,886)	(29,165)
	+0.5%	26,616	19,443	(19,443)	(14,582)

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims development table

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

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development. As claims develop and the ultimate cost of claims becomes more certain.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Gross Insurance Contract Liabilities for 31 December 2016:

Accident year	Before 2011	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		288,038	245,880	272,410	294,280	302,706	326,777	
One year later		305,213	227,422	280,338	275,204	295,284		
Two years later		297,379	221,669	263,951	274,143			
Three years later		288,918	215,223	263,810				
Four years later		287,369	215,877					
Five years later		278,762						
Current estimate of cumulative claims incurred		278,762	215,877	263,810	274,143	295,284	326,777	
At end of accident year		116,452	1,731	104,612	120,718	137,751	171,274	
One year later		205,578	167,398	190,096	210,940	236,291		
Two years later		222,863	187,962	214,179	238,259			
Three years later		249,661	203,987	230,366				
Four years later		253,168	208,236					
Five years later		268,592						
Cumulative payments to-date		268,592	208,236	230,366	238,259	236,291	171,274	
Gross general insurance outstanding liabilities (direct and facultative)	33,509	10,170	7,641	33,444	35,884	58,993	155,503	335,144
Gross general insurance outstanding liabilities (treaty & MMIP)								38,459
Best estimate of claims liabilities								373,603
Claims handling expenses								8,327
Fund PRAD at 75% confidence level								38,097
Gross insurance contract liabilities per statement of financial position (Note 12(i))								420,027

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Net Insurance Contract Liabilities for 31 December 2016:

Accident year	Before 2011 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		182,330	186,484	212,788	246,427	263,953	282,890	
One year later		180,309	185,385	228,044	245,611	260,547		
Two years later		176,999	183,942	210,866	239,833			
Three years later		171,292	181,342	211,747				
Four years later		171,126	181,464					
Five years later		170,162						
Current estimate of cumulative claims incurred		170,162	181,464	211,747	239,833	260,547	282,890	
At end of accident year		86,381	83,462	96,627	112,722	128,764	162,509	
One year later		139,493	147,130	171,835	190,950	211,204		
Two years later		152,823	163,274	190,421	215,304			
Three years later		161,283	174,428	197,243				
Four years later		164,144	177,965					
Five years later		167,012						
Cumulative payments to-date		167,012	177,965	197,243	215,304	211,204	162,509	
Net general insurance outstanding liabilities (direct and facultative)	6,089	3,150	3,499	14,504	24,529	49,343	120,381	221,495
Net general insurance outstanding liabilities (treaty & MMIP)								38,459
Best estimate of claims liabilities								259,954
Claims handling expenses								8,327
Fund PRAD at 75% confidence level								24,369
Net insurance contract liabilities per statement of financial position (Note 12(i))								292,650

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Gross Insurance Contract Liabilities for 31 December 2015:

Accident year	Before 2010 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		238,975	288,038	245,880	272,410	294,280	302,706	
One year later		241,423	305,213	227,422	280,338	275,204		
Two years later		232,272	297,379	221,669	263,951			
Three years later		229,684	288,918	215,223				
Four years later		225,337	287,369					
Five years later		224,298						
Current estimate of cumulative claims incurred		224,298	287,369	215,223	263,951	275,204	302,706	
At end of accident year		95,257	116,452	91,731	104,612	120,718	137,751	
One year later		168,761	205,578	167,398	190,096	210,940		
Two years later		184,531	222,863	187,962	214,179			
Three years later		191,618	249,661	203,987				
Four years later		198,188	253,168					
Five years later		201,498						
Cumulative payments to-date		201,498	253,168	203,987	214,179	210,940	137,751	
Gross general insurance outstanding liabilities (direct and facultative)	20,708	22,800	34,201	11,236	49,772	64,264	164,955	367,936
Gross general insurance outstanding liabilities (treaty & MMIP)								61,109
Best estimate of claims liabilities								429,045
Claims handling expenses								8,828
Fund PRAD at 75% confidence level								40,508
Gross insurance contract liabilities per statement of financial position (Note 12(i))								478,381

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Net Insurance Contract Liabilities for 31 December 2015:

Accident year	Before 2010 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		176,975	182,330	186,484	212,788	246,427	263,953	
One year later		177,439	180,309	185,385	228,044	245,611		
Two years later		170,687	176,999	183,942	210,865			
Three years later		170,470	171,292	181,342				
Four years later		168,776	171,125					
Five years later		168,009						
Current estimate of cumulative claims incurred		168,009	171,125	181,342	210,865	245,611	263,953	
At end of accident year		89,040	86,381	83,462	96,627	112,722	128,764	
One year later		145,164	139,493	147,130	171,835	190,950		
Two years later		157,232	152,823	163,274	190,421			
Three years later		162,146	161,283	174,428				
Four years later		163,989	164,144					
Five years later		164,889						
Cumulative payments to-date		164,889	164,144	174,428	190,421	190,950	128,764	
Net general insurance outstanding liabilities (direct and facultative)	5,673	3,120	6,981	6,914	20,444	54,661	135,189	232,982
Net general insurance outstanding liabilities (treaty & MMIP)								61,109
Best estimate of claims liabilities								294,091
Claims handling expenses								8,828
Fund PRAD at 75% confidence level								24,246
Net insurance contract liabilities per statement of financial position (Note 12(i))								327,165

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is the proceeds from its financial assets are not sufficient to fund the obligation arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements.

(a) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk includes credit risks in investments and insurance portfolios and counterparty risks. Key areas where the Company is exposed to credit risk are:

- reinsurer's share of insurance liabilities
- amounts due from reinsurer in respect of claims already paid
- amounts due from insurance contract holders
- amounts due from insurance intermediaries
- amounts due from loans and receivables
- amounts due from debt securities
- amounts due from money market and cash position

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound.

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. The Company also puts in place policies on credit terms extended to its producers and cancellation of insurance contracts with unpaid premiums beyond the agreed credit terms.

The Company manages the level of risk it accepts by putting in place policies on credit terms. Strict cash before cover and premium warranty endorsement of 60 days are enforced on all policies to prevent capital being tied up in receivables. Upon default, agents will be suspended and policies will be terminated or cancelled unless an appropriate proposal to settle is satisfactory to the management. Thereafter, management keeps a close monitoring on such defaulters by imposing cash terms until debts are completely settled.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Significant credit risk management expertise and resources are available at the regional and corporate offices of the ultimate parent company. The Company adopted policies and procedures developed internally and those mandated by its regional, its ultimate parent company.

The Company has put in place various monitoring and control measures depending on the types of financial assets for which the credit risk arises. For cash and cash equivalents, the Company monitors credit risk through the use of exposure limits. The level of bank exposure is monitored by the Company on a daily basis vis-a-vis the exposure limits. They are reported to the AIG New York office on a monthly basis.

For receivables, the Company prepares aging reports for each creditor type which management reviews on a monthly basis.

Credit exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Note	2016 RM'000	2015 RM'000
Loans and receivables			
excluding insurance receivables	8	251,804	232,902
Available-for-sale financial assets	6	695,311	746,309
Reinsurance assets	7	180,677	183,333
Insurance receivables	9	111,990	126,958
Cash and bank balances		44,540	52,925
		1,284,322	1,342,427

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit quality of financial assets of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past due nor impaired	Past-due but not impaired	Past-due and impaired	Total
	RM'000	RM'000	RM'000	RM'000
2016				
Loans and receivables				
excluding insurance receivables	251,804	-	462	252,266
Available-for-sale financial assets	695,311	-	2,776	698,087
Reinsurance assets	180,677	-	-	180,677
Insurance receivables	68,823	43,167	3,468	115,458
Cash and bank balances	44,540	-	-	44,540
	<u>1,241,155</u>	<u>43,167</u>	<u>6,706</u>	<u>1,291,028</u>
Allowance for impairment	-	-	(6,706)	(6,706)
	<u>1,241,155</u>	<u>43,167</u>	<u>-</u>	<u>1,284,322</u>
	Neither past due nor impaired	Past-due but not impaired	Past-due and impaired	Total
	RM'000	RM'000	RM'000	RM'000
2015				
Loans and receivables				
excluding insurance receivables	232,902	-	756	233,658
Available-for-sale financial assets	746,309	-	2,083	748,392
Reinsurance assets	183,333	-	-	183,333
Insurance receivables	56,394	70,564	3,981	130,939
Cash and bank balances	52,925	-	-	52,925
	<u>1,271,863</u>	<u>70,564</u>	<u>6,820</u>	<u>1,349,247</u>
Allowance for impairment	-	-	(6,820)	(6,820)
	<u>1,271,863</u>	<u>70,564</u>	<u>-</u>	<u>1,342,427</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's ("RAM") and Malaysian Rating Corporation Berhad ("MARC") credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA RM'000	AA RM'000	A RM'000	Not rated RM'000	Total RM'000
2016					
Loans and receivables excluding insurance receivables	160,027	16,254	-	75,523	251,804
Available-for-sale financial assets*	274,362	71,233	-	349,716	695,311
Reinsurance assets	-	-	114,147	66,530	180,677
Insurance receivables	-	-	5,907	106,083	111,990
Cash and bank balances	41,590	3	-	2,947	44,540
	<u>475,979</u>	<u>87,490</u>	<u>120,054</u>	<u>600,799</u>	<u>1,284,322</u>

* The unrated available-for-sale financial assets includes RM349,714,672 in Malaysia Government Securities.

	AAA RM'000	AA RM'000	A RM'000	Not rated RM'000	Total RM'000
2015					
Loans and receivables excluding insurance receivables	113,102	-	-	119,800	232,902
Available-for-sale financial assets*	479,596	71,406	-	195,307	746,309
Reinsurance assets	-	-	131,151	52,182	183,333
Insurance receivables	-	-	5,324	121,634	126,958
Cash and bank balances	38,086	3	-	14,836	52,925
	<u>630,784</u>	<u>71,409</u>	<u>136,475</u>	<u>503,759</u>	<u>1,342,427</u>

* The unrated available-for-sale financial assets includes RM195,306,677 in Malaysia Government Securities.

Amount due from insurance receivables and reinsurance assets that are neither past due nor impaired are contracted with corporations with good collection track records with the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

Age analysis of financial assets past-due but not impaired

As of 31 December 2016, insurance receivables of RM43,166,951 (2015: RM70,564,450) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default and historically indicate that these specific debtors will settle within 1 year. The ageing analysis of these insurance receivables is as follows:

	< 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	> 91 days RM'000	Total RM'000
2016					
Insurance receivables	3,744	161	4,849	34,413	43,167
	<u>3,744</u>	<u>161</u>	<u>4,849</u>	<u>34,413</u>	<u>43,167</u>
2015					
Insurance receivables	4,653	244	4,759	60,908	70,564
	<u>4,653</u>	<u>244</u>	<u>4,759</u>	<u>60,908</u>	<u>70,564</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

Impaired financial assets

At 31 December 2016, based on a individual assessment of receivables, there are impaired insurance receivables of **RM3,468,220 (2015: RM3,980,638)**. For assets to be classified as "past-due and impaired", contractual payments must be in arrears for more than two (2) months. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate allowance for doubtful debts accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivables is as follows:

	Note	2016 RM'000	2015 RM'000
<u>Insurance receivables</u>			
At 1 January		3,981	1,167
Movement for the financial year	21	(513)	2,814
At 31 December	9	<u>3,468</u>	<u>3,981</u>
<u>Available-for-sale financial assets</u>			
At 1 January		2,083	652
Movement for the financial year	21	693	1,431
At 31 December		<u>2,776</u>	<u>2,083</u>
<u>LAR, excluding insurance receivables</u>			
At 1 January		756	756
Movement for the financial year	21	(294)	-
At 31 December	8	<u>462</u>	<u>756</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial instruments. The Company's liquidity is primarily derived from the operating cash flows which are derived from two sources i.e. underwriting operations and investment operations.

The Company's strong capital position is integral to managing this liquidity. Directors believe that the Company's liquid assets and its net cash provided by operations will enable it to meet any foreseeable cash requirements. In addition, being a 100%-owned subsidiary, the Company relies on the funding capability of its immediate parent company. The major liquidity risk confronting the Company is the day-to-day cash requirements for claims arising from insurance contracts. This risk is addressed by an effective cash management function and ensuring that liquidity is a major consideration for selecting long-term investment securities.

A daily cash position report is prepared and reviewed by management on daily bank balances. The report takes into account projections for settlement of major claims and other liabilities based on the input provided by the different departments executing the transactions.

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

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate using information that develops during the course of the loss adjustment process.

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(b) Liquidity Risk (continued)

	Carrying Value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
2016							
Financial investments:							
Loans and receivables, excluding insurance receivables	251,804	113,478	82,357	-	-	62,275	258,110
Available-for-sale financial assets	740,491	211,458	459,677	40,409	38,014	45,180	794,738
Reinsurance assets on claims liabilities	127,377	67,248	43,989	11,111	5,029	-	127,377
Insurance receivables	111,990	111,990	-	-	-	-	111,990
Cash and bank balances	44,540	44,540	-	-	-	-	44,540
Total assets	1,276,202	548,714	586,023	51,520	43,043	107,455	1,336,755
Insurance contract liabilities on claims liabilities	420,027	221,752	145,054	36,639	16,582	-	420,027
Insurance payables	111,315	111,315	-	-	-	-	111,315
Other payables	92,428	92,428	-	-	-	-	92,428
Total liabilities	623,770	425,495	145,054	36,639	16,582	-	623,770

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(b) Liquidity Risk (continued)

	Carrying Value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
2015							
Financial investments:							
Loans and receivables, excluding insurance receivables	232,902	111,317	54,008	-	-	74,378	239,703
Available-for-sale financial assets	787,529	193,290	562,350	46,500	-	41,220	843,360
Reinsurance assets on claims liabilities	151,216	77,616	49,336	18,337	5,925	-	151,214
Insurance receivables	126,958	126,958	-	-	-	-	126,958
Cash and bank balances	52,925	52,925	-	-	-	-	52,925
Total assets	1,351,530	562,106	665,694	64,837	5,925	115,598	1,414,160
Insurance contract liabilities on claims liabilities	478,381	245,545	156,078	58,012	18,745	-	478,380
Insurance payables	88,716	88,716	-	-	-	-	88,716
Other payables	41,317	41,317	-	-	-	-	41,317
Total liabilities	608,414	375,578	156,078	58,012	18,745	-	608,413

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(c) Currency risk

Currency risk is the risk that fair value of the financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's primary transactions are carried out in Ringgit and its exposure to foreign exchange risk arises principally with respect to US Dollar. The Company faces foreign currency risk, primarily because of its intra-company operating activities and some of its fixed deposit are held in US Dollar.

The following are the carrying amounts of the financial instrument that are denominated in currency other than the functional currency of the Company:

	2016	2015
	RM'000	RM'000
Financial assets		
US Dollar	21,533	6,011
Financial liabilities		
US Dollar	54,108	2,958

The following table demonstrates the sensitivity to a reasonably possible change in currency rates for all currencies other than the functional currency stated above, with all other variables held constant showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Change in variable	2016		2015	
		Impact on profit before tax	Impact on equity *	Impact on profit before tax	Impact on equity *
Foreign Currency	+15%	(4,886)	(3,665)	458	344
Foreign Currency	-15%	4,886	3,665	(458)	(344)

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, interest rates or market prices, whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company makes moderate term investments primarily in Malaysian Government Securities and investment graded corporate bonds to support the general insurance policy liabilities.

Generally, insurance regulations restrict the types of assets in which an insurance company may invest. Investment risk represents the exposure to loss resulting from the cash flows from the invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary returns on investments.

To minimise its exposure to investment risk, the Company adopts fundamental research and active management to seek a balanced portfolio to meet the investment objectives for income, security of principal and diversification in terms of size, issuers and types of industry.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(d) Market risk (continued)

Equity price risk (continued)

The Company's equity price risk exposure at financial year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally available-for-sale equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.

The Company currently maintains low exposure to listed equity securities at less than 10% of its total portfolio to limit equity price risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair value or recorded in Income Statement) and Equity (that reflects changes in fair value of available-for-sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on equity risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Change in variable	2016		2015	
		Impact on profit before tax	Impact on equity *	Impact on profit before tax	Impact on equity *
Bursa Malaysia	+15%	5,311	3,983	4,881	3,661
Bursa Malaysia	-15%	(5,311)	(3,983)	(4,881)	(3,661)

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(d) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Company's available-for-sale debt securities bear fixed interest rates and therefore the Company is exposed to fair value interest rate risk, but not to cash flow interest rate risk.

In dealing with this risk, the Company adopts an approach of focusing on achieving a desired overall interest rate profile, which may change over time, based on management's longer term view of interest rates and economic conditions.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity that reflects re-valuing fixed rate available-for-sale debt securities. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		2016		2015	
	Change in variable	Impact on profit before tax	Impact on equity *	Impact on profit before tax	Impact on equity *
Interest rate	+100 basis point	(11,070)	(8,303)	(14,142)	(10,607)
Interest rate	-100 basis point	11,500	8,625	14,667	11,001

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(e) Business and operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and evaluation procedures. Internal Audit, supported by Legal and Compliance Departments, review the effectiveness of internal controls on a regular basis.

(f) Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and items not recognised in the statement of financial position. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(f) Fair value of financial instruments (continued)

The Company classifies all financial assets as either available-for-sale, which are carried at fair value, or as loan and receivables, which are carried at amortised cost. Financial liabilities are classified at amortised cost.

The following table present the estimated fair value of the Company's financial assets and financial liabilities.

	2016			
	Amortised cost RM'000	Market value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Available-for-sale financial assets	-	740,491	740,491	740,491
Loans and receivables, excluding insurance receivables*	251,804	-	251,804	251,804
Insurance receivables*	111,990	-	111,990	111,990
	<u>363,794</u>	<u>740,491</u>	<u>1,104,285</u>	<u>1,104,285</u>
Financial liabilities				
Insurance payables*	111,315	-	111,315	111,315
Other payables*	92,428	-	92,428	92,428
	<u>203,743</u>	<u>-</u>	<u>203,743</u>	<u>203,743</u>

* The carrying amounts approximate the fair value as at the date of the statement of financial position due to the relatively short-term maturity of these balances.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(f) Fair value of financial instruments (continued)

	2015			
	Amortised cost RM'000	Market value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Available-for-sale financial assets	-	787,529	787,529	787,529
Loans and receivables, excluding insurance receivables*	232,902	-	232,902	232,902
Insurance receivables*	126,958	-	126,958	126,958
	<u>359,860</u>	<u>787,529</u>	<u>1,147,389</u>	<u>1,147,389</u>
Financial liabilities				
Insurance payables*	88,716	-	88,716	88,716
Other payables*	41,317	-	41,317	41,317
	<u>130,033</u>	<u>-</u>	<u>130,033</u>	<u>130,033</u>

* The carrying amounts approximate the fair value as at the date of the statement of financial position due to the relatively short-term maturity of these balances.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)**(g) Fair value hierarchy****Recurring for value measurement**

The following table present information about assets carried at fair value by their valuation method.

	Level 1 RM'000	Level 2 RM'000	Total RM'000
2016			
Financial assets			
Available-for-sale financial assets			
- Equity securities of corporations	35,408	-	35,408
- Real estate investment trust	9,772	-	9,772
- Malaysian government securities	-	243,343	243,343
- Cagamas papers	-	86,635	86,635
- Corporate debt securities	-	365,333	365,333
	<u>45,180</u>	<u>695,311</u>	<u>740,491</u>
2015			
Financial assets			
Available-for-sale financial assets			
- Equity securities of corporations	32,540	-	32,540
- Real estate investment trust	8,680	-	8,680
- Malaysian government securities	-	195,307	195,307
- Cagamas papers	-	92,484	92,484
- Corporate debt securities	-	458,518	458,518
	<u>41,220</u>	<u>746,309</u>	<u>787,529</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(g) Fair value hierarchy (continued)

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Company then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain bonds, government bonds, corporate debt securities, repurchase and reverse purchase agreements, loans.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There is no transfer between Level 1 and Level 2 of the fair value hierarchy during the current financial year.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(h) Regulatory capital requirements

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

	2016	2015
	RM'000	RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	310,800	310,800
Retained earnings	83,187	144,538
	<u>393,987</u>	<u>455,338</u>
Tier 2 Capital		
Eligible reserves	9,594	11,436
	<u>9,594</u>	<u>11,436</u>
*Amount deducted from Capital	(2,239)	(4,332)
Total Capital Available	<u>401,342</u>	<u>462,442</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

30. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar arrangements.

2016

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial liabilities set off in the balance sheet RM'000	Net amounts of recognised financial assets presented in the balance sheet RM'000	Net amount RM'000
Insurance receivables	151,244	(39,254)	111,990	111,990
	<u>151,244</u>	<u>(39,254)</u>	<u>111,990</u>	<u>111,990</u>

2015

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial liabilities set off in the balance sheet RM'000	Net amounts of recognised financial assets presented in the balance sheet RM'000	Net amount RM'000
Insurance receivables	175,649	(48,691)	126,958	126,958
	<u>175,649</u>	<u>(48,691)</u>	<u>126,958</u>	<u>126,958</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

30. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar arrangements.

2016

	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial assets set off in the balance sheet RM'000	Net amounts of recognised financial liabilities presented in the balance sheet RM'000	Net amount RM'000
Insurance payables	(150,569)	39,254	(111,315)	(111,315)
	<u>(150,569)</u>	<u>39,254</u>	<u>(111,315)</u>	<u>(111,315)</u>

2015

	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial assets set off in the balance sheet RM'000	Net amounts of recognised financial liabilities presented in the balance sheet RM'000	Net amount RM'000
Insurance payables	(137,407)	48,691	(88,716)	(88,716)
	<u>(137,407)</u>	<u>48,691</u>	<u>(88,716)</u>	<u>(88,716)</u>

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party; or bankruptcy.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2016 (CONTINUED)

31. CONTINGENT LIABILITY

In August 2016, Malaysia Competition Commission (MYCC) had commenced investigation under Section 15(1) of the Competition Act 2010 ("the Act") against PIAM (Malaysian General Insurance Association) and 22 member companies with regards to an alleged infringement of Section 4(2)(a) of the Act in relation to an agreement to fix parts trade discount and labour rates for 6 vehicle makes. On 22 February 2017, MYCC issued a proposed decision to all 22 member companies, proposing to impose collective penalty of RM213 million on the general insurance industry. The Company has until 5 April 2017 to submit written and/or oral representations to MYCC before any final decision is made and shall defend the allegation as an 'industry collective action'.