



PACIFIC & ORIENT INSURANCE CO. BHD
(12557-W)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
30 September 2016

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

CONTENTS

	<u>PAGE</u>
DIRECTORS' REPORT	1 - 28
STATEMENT BY DIRECTORS	29
STATUTORY DECLARATION	29
INDEPENDENT AUDITORS' REPORT	30 - 31
STATEMENT OF FINANCIAL POSITION	32
STATEMENT OF CHANGES IN EQUITY	33
INCOME STATEMENT	34
STATEMENT OF COMPREHENSIVE INCOME	35
STATEMENT OF CASH FLOWS	36 - 37
NOTES TO THE FINANCIAL STATEMENTS	38 - 119

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 September 2016.

PRINCIPAL ACTIVITY

The Company is engaged principally in the underwriting of all classes of general insurance business.

There have been no significant changes in the nature of this principal activity during the financial year.

RESULTS

	RM'000
Net profit for the year	<u>50,375</u>

DIVIDENDS

The amount of dividends paid or declared by the Company since 30 September 2015 were as follows:

	RM'000
<u>In respect of the financial year ended 30 September 2015</u>	
Final single tier dividend of 10.00 sen per share, declared on 18 February 2016 and paid on 22 February 2016	10,000
<u>In respect of the financial year ended 30 September 2016</u>	
1st interim single tier dividend of 15.00 sen per share, declared on 21 July 2016 and paid on 25 July 2016	15,000
	<u>25,000</u>

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

Before the income statement, statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for insurance contract liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for insurers issued by Bank Negara Malaysia ("BNM").

BAD AND DOUBTFUL DEBTS

Before the income statement, statement of comprehensive income and statement of financial position 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.

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

CURRENT ASSETS

Before the income statement, statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business at 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 methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability of the Company which has arisen since the end of the financial year.

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 as and 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.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors, the results of operations of the Company during the financial year were not 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.

Company No: 12557 W

DIRECTORS

The Directors in office since the date of the last report are:

En. Mohammad Nizar bin Idris

Mr. Chan Thye Seng

Mr. Prasheem Seebran (Appointed on 25 April 2016)

Dato' Dr. Zaha Rina binti Zahari

Pn. Norazian binti Ahmad Tajuddin

Madam Sum Leng Kuang

Mr. Michael Yee Kim Shing

Mr. William Robertson Dommissie (Resigned on 25 April 2016)

En. Abdul Rahman bin Talib (Resigned on 29 January 2016)

In accordance with Section 129(6) of the Companies Act, 1965, En. Mohammad Nizar bin Idris and Mr. Michael Yee Kim Shing retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment.

In accordance with Article 74 of the Company's Articles of Association, Dato' Dr. Zaha Rina binti Zahari retires from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election.

In accordance with Article 80 of the Company's Articles of Association, Mr. Prasheem Seebran retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement subsisted to which the Company is a party with the object 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.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary as a full-time employee of the Company as shown in Notes 29 and 30 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares of the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares of RM1.00 Each			At 30 September 2016
	At 1 October 2015	Acquired	Disposed	
<u>Pacific & Orient Berhad</u> (Holding Company)				
Mr. Chan Thye Seng				
- Direct interest	32,873,068	870,252	(100,000)	33,643,320
- Indirect interest	109,045,418	-	-	109,045,418
Mr. Michael Yee Kim Shing				
- Direct interest	200,000	-	-	200,000
- Indirect interest	411,018	-	-	411,018
Dato' Dr. Zaha Rina binti Zahari				
- Direct interest	650,000	-	-	650,000

Mr. Chan Thye Seng, by virtue of his interest in the holding company, is deemed to have an interest in the shares of all the subsidiary companies within the Pacific & Orient Berhad Group to the extent the holding company has an interest.

Other than as stated above, none of the Directors who were in office at the end of the financial year had any interest in the shares of the Company or its related corporations during the financial year.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of the Company (“Board”) acknowledges the importance of adopting good corporate governance practices in discharging its duties and responsibilities to safeguard the Company’s assets and to enhance shareholders’ value and financial performance of the Company.

Towards this, the Board and management have considered Bank Negara Malaysia’s policy document on Corporate Governance [ref. BNM/RH/PD 029-9], which was issued on 3 August 2016 and reviewed the state of the Company’s corporate governance structures and procedures. The Board and management are of the opinion that the Company has generally complied with all the prescriptive requirements of the policy document.

BOARD OF DIRECTORS

Composition and Size of Board

With the resignation of the Chief Executive Officer from the Board on 29 January 2016, the Board currently comprises seven (7) Directors. There is a balance in the Board represented by the presence of four (4) Independent Directors and three (3) Non-Independent Non-Executive Directors.

The Independent Directors have complied with the requirements of Independent Director prescribed by Bank Negara Malaysia. Further, all Directors have complied with the Company’s policy on maximum number of external professional commitments, which restricts each Director from being on the board of not more than twelve (12) companies. The Directors have also fulfilled the minimum criteria of ‘fit and proper person’ as prescribed under the Financial Services Act 2013 and Bank Negara Malaysia’s policy document on Fit and Proper Criteria [ref. BNM/RH/GL 018-5].

Board Balance

All Board appointments are made on merit, first and foremost, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective. Nevertheless, the Company recognises the benefits of having a diverse Board, which will make good use of the differences in skills, industry experience, background, race, gender, ethnicity and other distinctions amongst the Directors. These differences will be considered in determining Board balance and composition.

The Board possesses a complementary blend of expertise with professionals drawn from varied backgrounds, such as legal, accounting, insurance, actuarial, banking, treasury, civil service, business administration and risk management, bringing with them in-depth and diversity in experience, expertise and perspectives to the Company’s business operations. Women Directors currently form more than forty percent (40%) of the Board.

The Board had conducted an assessment of its composition during the financial year and was satisfied that the Board composition in terms of size, the balance between Independent, Non-Independent Non-Executive and Executive Directors and mix of skills was adequate.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Board Balance (Cont'd.)

The roles of the Chairman and Chief Executive Officer are distinct and separate, each has a clearly accepted division of responsibilities to ensure a balance of power and authority. The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Chief Executive Officer is responsible for the day-to-day running of the business and implementation of the policies and decisions of the Board.

The presence of the four (4) Independent Directors on the Board provides the necessary checks and balances in the effective functioning of the Board. The Independent Directors do not participate in the day-to-day operations of the Company. They are all independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. Their expertise and independence allow them to provide unbiased and independent view, advice and judgment to take into account the interest, not only of the Company but also of shareholders, employees, agencies, insureds and communities in which the Company conducts business. The Independent Directors are also actively involved in the Board Committees of the Company.

Board Roles and Responsibilities

The Board is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Financial Services Act 2013, Bank Negara Malaysia's policy document on Corporate Governance [ref. BNM/RH/PD 029-9] and other policy documents and directives, in addition to adopting other best practices on corporate governance.

In order to facilitate the effective discharge of its duties, the Board is guided by a Board Charter. The Board Charter lays down, amongst others, the Board's and Director's responsibilities, division of power and responsibilities between the Board and Management and between the Chairman and the Chief Executive Officer, the terms of reference of the various Board Committees and the proper conduct of Board meetings. The Board Charter serves to ensure that all Board members who act on the Company's behalf are aware of their roles and responsibilities to ensure accountability.

The roles and responsibilities of the Board, as clearly set out in a Board Charter, are as follows:

- (i) Adopting and reviewing a strategic plan for the Company – the Board sets the strategic direction, which forms the basis for management's preparation of the strategic plan that identifies business opportunities and business risks. The Board then oversees the risk management framework for managing business risks and periodically monitor the strategic environment with management;
- (ii) Overseeing the conduct of the Company's business to evaluate whether the business is being properly managed and sustained – the Board reviews the progress of management in meeting the strategic plan at half-year intervals, as well as the quarterly management reports and accounts;

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Board Roles and Responsibilities (Cont'd.)

- (iii) Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;
- (iv) Succession planning, including appointing, training, fixing the remuneration of and where appropriate, replacing key senior management of the Company – the Board views succession planning as important in contributing to the long-term success of the Company and has adopted a policy on succession planning. Good succession planning ensures continuous supply of suitable people who are ready to take over when Directors, senior management and other key employees leave the Company in a range of situations; continuity in delivering strategic plans by aligning the Company's human resources and business planning; and demonstrates the Company's commitment to developing careers for employees which will enable the Company to recruit, retain and promote high-performing staff.
- (v) Developing and implementing an investor relations programme or communications policy for the Company; and
- (vi) Reviewing the adequacy and integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board has delegated to Management certain matters in the day-to-day operations of the Company, which include running the Company in line with Board's direction, recommending strategies and policies supported by background information, keeping the Board educated and informed and seeking the Board's counsel on significant matters.

Whilst the Board has delegated day-to-day responsibility for the management of the Company to the Chief Executive Officer, certain matters are formally reserved for the Board's collective decision. The purpose of this is to ensure that the Board and management are clearly aware of where the limits of responsibility lie and that due consideration is given to issues at the appropriate level.

Matters reserved for the Board's decision comprise the following:

- (i) Acquisitions and disposals of assets exceeding RM250,000.
- (ii) Related party transactions of a material nature.
- (iii) Various guidelines formalized for the core functions of the Company namely underwriting, claims, investment and reinsurance.
- (iv) Corporate policies on investment, underwriting, reinsurance, claims management and risk management.
- (v) Outsourcing of core business functions.
- (vi) Setting of management limits.
- (vii) Strategy setting, implementation and supervisory.
- (viii) Board meetings and agenda setting.
- (ix) Board processes in meetings.
- (x) Monitoring of financial performance.
- (xi) Monitoring of effectiveness of the internal control system.
- (xii) Succession planning, self-evaluation and appointments.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Appointments to the Board

The Nominating Committee, comprising a majority of Independent Directors, is responsible for identifying, assessing and recommending to the Board, suitable nominees for appointment to the Board and Board Committees. Nominees are normally sourced through recommendations by Board members.

In making its recommendation, the Nominating Committee is guided by a comprehensive Procedures for Appointment of New Directors, Chief Executive Officer and Key Responsible Persons, which it had previously adopted. In selecting a suitable candidate, the Nominating Committee takes into consideration the candidate's qualification, experience and the candidate's directorship in other companies, having regard to the size of the Board, with a view of determining the impact of the number upon its effectiveness, and the required mix of skills, expertise, experience and diversity required for an effective Board. The final decision on the appointment of a candidate recommended by the Nominating Committee rests with the whole Board before the application is submitted to Bank Negara Malaysia for approval. Bank Negara Malaysia's approval will be for a specified term of appointment.

On appointment of new Directors, the management would facilitate the Directors' induction by providing the Directors with relevant information about the Company.

Re-appointment and Re-election

The re-appointment of a Director upon expiry of his current term of office as approved by Bank Negara Malaysia is also subject to the prior approval of Bank Negara Malaysia.

In accordance with the Articles of Association of the Company, at least one-third (1/3) of the Directors shall retire from office by rotation at each Annual General Meeting. A retiring Director is eligible for re-election at the Annual General Meeting. A Director over seventy (70) years of age is required to submit himself for re-election annually in accordance with Section 129(6) of the Companies Act, 1965.

The Nominating Committee is responsible for assessing the performance of Directors whose term of appointment as approved by Bank Negara Malaysia is due to expire, as well as those Directors who are subject to re-appointment and re-election at the Annual General Meeting of the Company, and submitting their recommendation to the Board for decision.

Board Meetings and Attendance

Board meetings for each financial year are scheduled in advance prior to the end of the current financial year and circulated to Directors and Senior Management before the beginning of each financial year. The Board holds regular meetings of no less than six (6) times annually to receive, deliberate and decide on matters reserved for its decision. Additional meetings are convened as and when necessary to consider urgent matters that require the Board's expeditious review and consideration.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Board Meetings and Attendance (Cont'd.)

The Directors have been informed of the expectations of time commitment during their appointments to the Board. This takes the form of the minimum number of Board and Board Committee meetings to be held in a financial year. All Directors are aware of their responsibilities and have devoted sufficient time to discharge their duties and responsibilities and this is evidenced by their attendance at Board meetings. The Board is thus satisfied with the level of time commitment by each of the Directors towards fulfilling their roles on the Board and Board Committees. The Board met seven (7) times during the financial year ended 30 September 2016 to review and deliberate on various matters, including the Company's performance, the strategic plan of the Company, the Company's quarterly financial results and annual financial statements, the Company's unaudited interim financial statement, appointment of the Company's appointed actuary and strategic issues that affect the Company's business operation.

The details of attendance by each of the Director of the meetings are as follows:

<u>Board member</u>	<u>Attendance</u>
En. Mohammad Nizar bin Idris (Chairman) Independent Director	7/7
Mr. Chan Thye Seng Non-Independent, Non-Executive Director	7/7
Mr. Prasheem Seebran Non-Independent, Non-Executive Director (Appointed on 25 April 2016)	2/2
Dato' Dr. Zaha Rina binti Zahari Independent Director	7/7
Pn. Norazian binti Ahmad Tajuddin Independent Director	7/7
Madam Sum Leng Kuang Independent Director	6/7
Mr. Michael Yee Kim Shing Non-Independent, Non-Executive Director	6/7
Mr. William Robertson Dommissie Non-Independent, Non-Executive Director (Resigned on 25 April 2016)	5/5
En. Abdul Rahman bin Talib Executive Director, Chief Executive Officer (Resigned on 29 January 2016)	4/4

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Board Meetings and Attendance (Cont'd.)

All the Directors had complied with the 75% minimum attendance requirement.

The proceedings of all meetings, including all issues raised, deliberations, decisions and conclusions made at the Board of Directors' and Board Committees' meetings were recorded in the minutes of the Board of Directors' and Board Committees' meetings respectively.

Supply of Information

The Board has unrestricted access to timely and accurate information. The Directors are provided with the relevant agenda and Board papers containing management and financial information in advance of each Board meeting for their perusal and consideration and to enable them to obtain further clarification and information on the matters to be deliberated, in order to facilitate informed decision making. A Director who has a direct or deemed interest in the subject matter presented at the Board meeting shall declare his interest and step out of the room when the subject matter is being deliberated to ensure the fairness of the deliberated matter at hand.

The Board is also informed of the decision and significant issues deliberated by the Board Committees via the reporting of the Chairman of the respective Board Committees and the minutes of the Board Committees tabled at the Board meetings. In between Board meetings, the Board is also informed or updated on important issues and/or major developments of matters discussed in the Board meetings by the management and/or the Company Secretary.

Furthermore, the Board is regularly kept updated and apprised of any regulations and guidelines as well as amendments thereto issued by regulators, particularly the effects of such new or amended regulations and guidelines on directors specifically, and the Company generally.

All Directors have access to Senior Management personnel in the Company and may invite any employees to be in attendance at Board meetings to assist in its deliberations, if and when relevant. The Directors may seek independent professional advice at the Company's expense in furtherance of their duties, should the need ever arise.

Company Secretary

In compliance with the new requirements under Bank Negara Malaysia's policy document on Corporate Governance [ref. BNM/RH/PD 029-9] issued on 3 August 2016, which required a company secretary to have no competing time commitments that may impair his ability to discharge his duties effectively, the Board had, on 25 August 2016, appointed a new Company Secretary. The Company Secretary is an associate member of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) and has six (6) years working experience in company secretarial services. With the new appointment, the previous two (2) Company Secretaries had resigned with effect from 25 August 2016.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Company Secretary (Cont'd.)

The Company Secretary advises the Board on any updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of Directors. Additionally, the Company Secretary organises and attends all Board meetings and ensure meetings are properly convened and that accurate and proper records of the proceedings and resolutions passed are taken and maintained at the Registered Office of the Company.

Directors' Remuneration

The remuneration of Non-Executive Directors reflects the need to attract, motivate and retain directors with the relevant experience, qualifications and expertise required to assist in managing the Company effectively. The remuneration levels commensurate with the competitive market and business environment in which the Company operates whilst being reflective of the person's experience and level of responsibilities undertaken by them and consistent with the Company's culture, objective and strategy, in particular. Directors do not participate in decisions regarding their own remuneration packages.

Directors' Training

The Company recognises the importance of continuous professional development and training for its Directors. The Directors are mindful of the need for continuous training to keep abreast of new developments and are encouraged to attend forums and seminars facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

The Board identifies the training needs of the Board as a whole whilst the individual Directors are given a free hand to identify their own training needs, taking into consideration their memberships on the boards of other companies as well.

All new Non-Executive Directors are required to attend an orientation programme to familiarise themselves with the insurance industry and the Company in order to ensure that the Directors are equipped to discharge their responsibilities.

Six (6) of the Directors of the Company have attended the high level Finance Institutions Directors' Education ("FIDE") programme developed by Bank Negara Malaysia and Perbadanan Insurans Deposit Malaysia ("PIDM") in collaboration with the International Centre for Leadership in Finance. The remaining one (1) Director, who was appointed to the Board during the financial year, is required to attend the FIDE programme by April 2017. During the financial year ended 30 September 2016, the Directors had also attended training covering corporate governance, investment, insurance and statutory regulations.

In addition, the Directors continuously receive briefings and updates on the Company's business and operations, risk management activities, corporate governance, finance, developments in the business environment, new regulations and statutory requirements which included Bank Negara Malaysia and PIDM policy documents and circulars as well as Persatuan Insurans Am Malaysia circulars. The Board will continue to evaluate and determine the training needs of its members as a whole to enhance their skills and knowledge.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES

The Board has established Board Committees to assist the Board in performing its duties and discharging its responsibilities more efficiently and effectively. The Board Committees operate on Terms of Reference approved by the Board and have the authority to examine pertinent issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters lies with the entire Board.

The details of the Board Committees are as follows:

1. Nominating Committee

The Nominating Committee was set up by the Board on 30 January 2002 to establish a documented, formal and transparent procedure for the appointment of Directors, Chief Executive Officer and other Key Responsible Persons and to assess the effectiveness of Directors, the Board as a whole and the various committees of the Board, the Chief Executive Officer and other Key Responsible Persons.

As at 30 September 2016, the Nominating Committee comprises seven (7) Directors, with a majority of them being Independent Directors.

The principal duties and functions of the Nominating Committee are as follows:

- (i) To assist the Board in an annual review of the overall composition of the Board in terms of appropriate size and required mix of skills, the balance between Executive, Non-Executive and Independent Directors, mix of expertise and experience, and other core competencies required.
- (ii) To assess and recommend to the Board the nominees for directorships, the Directors to fill Board Committees as well as nominees for the Board Chairman and Chief Executive Officer.
- (iii) To establish a mechanism for the formal assessment of the effectiveness of the Board as a whole, the contribution of each Director to the effectiveness of the Board, as well as the contribution of the various Board Committees and the performance of the Chief Executive Officer. These assessments are to be carried out on an annual basis.
- (iv) To make recommendation to the Board on the removal of a Director/Chief Executive Officer if he/she is ineffective, errant or negligent in discharging his or her responsibilities.
- (v) To identify and recommend suitable programmes to ensure all Directors receive continuous training or enhancement of knowledge particularly pertaining to regulatory developments from time to time.
- (vi) To oversee the appointment, management succession planning and performance evaluation of other Key Responsible Persons, and recommend to the Board the removal of Key Responsible Persons if they are ineffective, errant and negligent in discharging their responsibilities.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

1. Nominating Committee (Cont'd.)

The Nominating Committee held seven (7) meetings during the financial year. Attendance of the members at the meetings are as follows:

<u>Committee member</u>	<u>Attendance</u>
Pn. Norazian binti Ahmad Tajuddin (Chairman)	7/7
En. Mohammad Nizar bin Idris	7/7
Mr. Chan Thye Seng	7/7
Mr. Prasheem Seebran (Appointed on 25 April 2016)	2/2
Dato' Dr. Zaha Rina binti Zahari	7/7
Madam Sum Leng Kuang (Appointed on 30 October 2015)	5/6
Mr. Michael Yee Kim Shing	6/7
Mr. William Robertson Dommissie (Resigned on 25 April 2016)	5/5
En. Abdul Rahman bin Talib (Resigned on 29 January 2016)	4/4

During the financial year, the Nominating Committee had conducted an annual assessment of the performance of the Board as a whole, the Board Committees and the individual Directors including the Chief Executive Officer. The Nominating Committee has also assessed the performance of existing Directors prior to their re-appointment, subject to Bank Negara Malaysia's approval.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

1. Nominating Committee (Cont'd.)

Procedures for New Appointment, Re-appointment of Directors, Assessment of Effectiveness of the Board, Board Committees and Individual Directors and Assessment of Fitness and Propriety

In making recommendations for the nominees for Directorships, the Nominating Committee will consider the candidates' skills, knowledge, expertise and experience, professionalism, integrity and possible representation of interest groups. Further, in the case of candidates for the position of Independent Directors, the candidates' ability to discharge such responsibilities/functions as expected from Independent Directors will be evaluated.

The Nominating Committee has established procedures for assessment of the effectiveness of individual Directors, the Board as a whole, the Board Committees, the Chief Executive Officer and other Key Responsible Persons.

Assessment of the effectiveness of individual Directors, Board and Board Committees are conducted on a peer review basis, facilitated by the use of assessment forms. Each individual Director is assessed on the person's contribution to interaction, quality of input at meetings, and the person's understanding of a Director's role. In the case of Board assessment, the criteria considered include Board structure, Board meetings, Board's roles and responsibilities, and planning and objectives. When assessing Board Committees, each Committee is assessed as to whether it has carried out its responsibilities under its terms of reference, the skills and competencies of the committee members, meeting conduct and administration and Board communication.

In respect of the assessment conducted during the financial year, the Board was satisfied that the Board, Board Committees and the individual Directors have discharged their duties and responsibilities effectively.

In addition to the assessment of performance, the Nominating Committee also performs fit and proper assessments of the Directors, Chief Executive Officer and other Key Responsible Persons, which include Senior Managers and heads of department, prior to initial appointment and annually thereafter. The fit and proper assessment covers the person's probity; personal integrity and reputation; competence and capability; and financial integrity. Any Director, Chief Executive Officer or other Key Responsible Person who fails to meet the fit and proper requirements shall cease to hold office and act in such capacity.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

2. Remuneration Committee

The Remuneration Committee was established by the Board on 3 October 2001 to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officer and other Key Responsible Persons and ensuring their compensation is competitive and consistent with the Company's culture, objectives and strategy.

As at 30 September 2016, the Remuneration Committee comprises seven (7) Directors, with a majority being Independent Directors.

The principle duties and functions of the Remuneration Committee are as follows:

- (i) To determine and recommend for approval of the Board, the framework or broad policies relating to terms of employment and remuneration of the Non-Executive Directors, Chief Executive Officer and Chief Operating Officer. The framework/policies are consistent with the requirements of BNM/RH/PD 029-9.
- (ii) To recommend to the Board the remuneration packages of the Chief Executive Officer and Chief Operating Officer. The remuneration packages for the Chief Executive Officer and Chief Operating Officer are structured such that they link rewards to corporate and individual performances to encourage high performance standards.
- (iii) To review and recommend to the Board the remuneration of the Non-Executive Directors within the limits set by the shareholders. A Non-Executive Director shall abstain from discussions relating to his remuneration. The remuneration of a Non-Executive Director should reflect the level of responsibilities undertaken and contributions to the effectiveness of the Board.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

2. Remuneration Committee (Cont'd.)

The Remuneration Committee held two (2) meetings during the financial year. Attendance of the members at the meetings are as follows:

<u>Committee member</u>	<u>Attendance</u>
Pn. Norazian binti Ahmad Tajuddin (Chairman)	2/2
En. Mohammad Nizar bin Idris	2/2
Mr. Chan Thye Seng	2/2
Mr. Prasheem Seebran (Appointed on 25 April 2016)	1/1
Dato' Dr. Zaha Rina binti Zahari	2/2
Madam Sum Leng Kuang (Appointed on 30 October 2015)	2/2
Mr. Michael Yee Kim Shing	2/2
Mr. William Robertson Dommissie (Resigned on 25 April 2016)	1/1

In the meeting of the Remuneration Committee during the financial year, the Remuneration Committee had reviewed and recommended to the Board the remuneration of the Chief Executive Officer. Directors do not participate in decisions regarding their own remuneration.

Remuneration Policy

A Remuneration Policy has been established to govern the remuneration of the Chief Executive Officer, Non-Executive Directors, Key Responsible Persons (which comprise the Chief Operating Officer, heads of departments and Branch Managers) and employees in control functions (which comprise Internal Audit, Risk Management and Compliance functions).

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

3. Audit Committee

The Audit Committee was established by the Board on 22 May 1995 to review the Company's processes for producing financial data, its internal control, the independence of the Company's External Auditors and maintain an open line of communication and consultation between the Board, the Internal Auditors, the External Auditors and Management.

As at 30 September 2016, the Audit Committee comprises six (6) Directors, all of whom are Non-Executive Directors, with a majority being Independent Directors.

The principal duties and functions of the Audit Committee are as follows:

- (i) To review and recommend for the Board's approval, the Internal Audit Charter which defines the independence, purpose, authority, scope and responsibility of the Internal Audit function in the Company.
- (ii) To review the following and report to the Board:
 - (a) Co-ordination with the External Auditors, including matters pertaining to their audit plan, fees, auditors' reports, management letters and liaison with Internal Audit.
 - (b) The suitability for nomination, appointment and re-appointment of the External Auditors, including assessment of the various relationships between the External Auditors and the Company or any other entity that may impair or appear to impair the External Auditors' objectivity, performance and independence.
 - (c) The internal audit plan of work programme, including the appropriateness of the risk management methodology employed to determine the frequency and scope of audit.
 - (d) Independence and reporting relationships of the internal audit function as well as the adequacy and relevance of the scope, functions, competency and resources and the necessary authority to carry out its work.
 - (e) The quarterly and annual results of the Company prior to presentation for approval to the Board of Directors. The Audit Committee also reviews the disclosure in the Directors' Report on the manner standards specified in BNM/RH/PD 029-9 are complied with and the extent guidance stated therein are adopted.
 - (f) The propriety of any related party transaction and conflict of interest situation that may arise within the Company, including any transaction, procedure or course of conduct that may raise questions of management integrity.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

3. Audit Committee (Cont'd.)

- (iii) To prepare the Report of the Audit Committee for submission to Bank Negara Malaysia, not later than 31 January of each year covering the composition of the Committee, number of meetings held and attendance thereon, as well as the activities undertaken by the Audit Committee and Internal Audit function during the year.
- (iv) To perform any other work required or empowered by statutory legislation or guidelines issued by the relevant government or regulatory authorities.

The Audit Committee held four (4) meetings during the financial year. Attendance of the members at the meetings are as follows:

<u>Committee member</u>	<u>Attendance</u>
Dato' Dr. Zaha Rina binti Zahari (Chairman)	4/4
En. Mohammad Nizar bin Idris	4/4
Mr. Prasheem Seebran (Appointed on 25 April 2016)	2/2
Pn. Norazian binti Ahmad Tajuddin	4/4
Madam Sum Leng Kuang (Appointed on 30 October 2015)	4/4
Mr. Michael Yee Kim Shing	4/4
Mr. William Robertson Dommissie (Resigned on 25 April 2016)	2/2

During the financial year, the Audit Committee had reviewed internal audit (including risk management) and corporate governance reports as well as the unaudited quarterly and half yearly financial results and the results of the annual audit, including the External Auditor's audit report and management letter.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

3. Audit Committee (Cont'd.)

Internal Control Framework

Management has established an Internal Control Framework, which main features are control environment, risk assessment, control activities, information and communication, and monitoring activities. Control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. Risk assessment is the process of setting objectives, identifying and evaluating risks that can threaten the objectives. Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Information and communication is the process of obtaining or generating and using relevant and quality information from both internal and external sources to support the functioning of internal control. Monitoring activities are the ongoing evaluations, separate evaluations, or a combination of the two which are used to ascertain whether internal controls are present and functioning.

The Company uses the three lines of defence model to review and assess the Internal Control Framework. The first line of defence comprises business units, who are responsible for ensuring that a risk and control environment is established as part of day-to-day operations. The second line of defence comprises the Risk Management and Compliance Departments, which provide oversight over business processes and risks on an ongoing basis. The Internal Audit Department is the third line of defence, providing independent assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives. Such assurance is provided regularly upon completion of governance and internal control assignments undertaken by Internal Audit.

4. Risk Management Committee

The Risk Management Committee was established by the Board on 17 June 2003 to oversee the senior management's activities in managing the key risk areas of the Company and ensuring that the risk management process is in place and functioning effectively.

As at 30 September 2016, the Risk Management Committee comprises seven (7) Directors, with a majority being Independent Directors.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

4. Risk Management Committee (Cont'd.)

The principle duties and functions of the Risk Management Committee are as follows:

- (i) To review and recommend risk management strategies, policies and risk tolerance limits for the Board's approval.
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which the framework is operating effectively.
- (iii) To ensure adequate infrastructure, resources and systems are in place for an effective risk management, i.e. ensuring that the staff responsible for implementing risk management perform those duties independently of the Company's risk taking activities.
- (iv) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The Risk Management Committee held four (4) meetings during the financial year. Attendance of the members at the meetings are as follows:

<u>Committee member</u>	<u>Attendance</u>
Dato' Dr. Zaha Rina binti Zahari (Chairman)	4/4
En. Mohammad Nizar bin Idris	4/4
Mr. Chan Thye Seng	4/4
Mr. Prasheem Seebran (Appointed on 25 April 2016)	2/2
Pn. Norazian binti Ahmad Tajuddin	4/4
Madam Sum Leng Kuang (Appointed on 30 October 2015)	3/3
Mr. Michael Yee Kim Shing	4/4
Mr. William Robertson Dommissie (Resigned on 25 April 2016)	2/2

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

BOARD COMMITTEES (CONT'D.)

4. Risk Management Committee (Cont'd.)

During the financial year, the Risk Management Committee had conducted a review of the strategic risks of the Company, all known risks identified by the individual business units as well as risks pertaining to internet insurance.

Risk Management Framework

The Risk Management Committee was established to oversee the formulation of an effective enterprise risk management framework and to monitor risk management activities. In accordance with the risk management framework, a Risk Management Department was established to assist the Risk Management Committee in implementing the risk management policy, developing and monitoring risk management procedures and measurement methodologies as well as monitoring the progress of risk mitigation plans.

ACCOUNTABILITY AND AUDIT

Promoting Sustainability and Diversity

The Company is committed to operating in a sustainable manner and seek to contribute positively to the well-being of stakeholders. The Board strongly believes that sustainable development means combining long-term economic value creation with a holistic approach to environmental stewardship, social responsibility and corporate governance (“ESG”). Efforts undertaken to recycle paper waste and printing double-sided wherever possible to reduce paper wastage, donations to the poor and the needy, waiver of all loadings on private car insurance purchased by disabled persons and waiver of all riders and loadings for motorcycle insurance purchased by such persons are some of the initiatives undertaken by the Company.

The Company recognises the value of a diversified and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the Company into the future. The Company is committed to leveraging the diverse backgrounds in terms of gender, ethnicity, age, experiences and perspectives of our workforce to provide good customer service to an equally diverse customer base. The Company’s commitment to recognising the importance of diversity extends to all areas of our business including recruitment, skills enhancement, appointment to roles, retention of employees, succession planning and training and development.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

ACCOUNTABILITY AND AUDIT (CONT'D.)

Code of Ethics

The Board has adopted a Directors' Code of Ethics ("Code") which outlines the standards of ethical behaviour which the Directors should possess in discharging their duties and responsibilities. The Code was formulated based on four (4) principles, i.e. compliance with legal and regulatory requirements, observance of the Board Charter, no conflict of interest, and duty to act in the best interest of the Company at all times. The Code's aim is to enhance the standard of corporate governance and behaviour by establishing a standard of ethical behaviour for Directors as well as upholding the spirit of responsibility and social responsibility in line with legislation, regulations and guidelines.

The Company has also adopted the Guidelines on the Code of Conduct for the General Insurance Industry for guidance of its employees. In addition, expectations of employee conduct to maintain high moral and ethical standards are included in the Employee Handbook and embedded in the policies, procedures and practices of the Company.

Conflict of Interest Situations

The Board is alert to the possibility of potential conflict of interest situations involving the Directors and the Company and affirms its commitment to ensuring that such situations of conflict are avoided. The Directors' Code of Ethics requires Board members to notify the Company Secretary of any change in the shareholding in the Company and its related corporations, whether direct or indirect, as well as directorships or interests in any other corporations. In addition, members of the Board who has a material interest, either directly or indirectly, in matters being considered by, or likely to be considered by the Board is required to declare that interest. Where a material related party transaction or contract is concerned, such Director shall also abstain from deliberation and voting on the matter and leave the meeting room when the decision on the contract or transaction is being deliberated and approved, in accordance with requirements of the Financial Services Act 2013.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

ACCOUNTABILITY AND AUDIT (CONT'D.)

Whistleblowing Policy

A formal Whistleblowing Policy has been established to assist in ensuring that the Company's business and operations are conducted in an ethical, moral and legal manner. The Whistleblowing Policy is designed to encourage employees or external parties to disclose any malpractice or misconduct which they become aware of and to provide protection to employees or external parties who report allegations of such malpractice or misconduct.

Any whistleblowing employee is protected against adverse employment actions (discharge, demotion, suspension, harassment, or other forms of discrimination) for raising allegations of malpractice or misconduct. Employees who participate or assist in an investigation will also be protected. Every effort will be made to protect the anonymity of the whistleblower.

An employee who reasonably believes that inappropriate practices or conduct are occurring should raise the issue with his or her Head of Department or to a Designated Executive which is either the Chief Operating Officer or the Chief Audit Executive, who would be responsible to initiate the enquiry. If the employee believes that there are inappropriate practices or conduct involving the Chief Executive Officer, he or she should report such matter to the Board directly. The Chief Executive Officer will report to the Board all incidences of whistleblowing reported to the Designated Executive.

Once the claim of malpractice or misconduct is made, the Designated Executive will respond to the whistleblower within ten (10) working days, setting out the intended investigation plan. Once the investigation is completed, the Designated Executive will inform the whistleblower of the results of the investigation as well as any corrective steps that are being taken.

If allegations made by the whistleblower turn out to be false, an investigation would be carried out thoroughly to explore the validity of the accusation. Both the accused and the whistleblower must cooperate with the investigation regardless of what may occur.

The Company did not receive any allegations or complaints from whistleblowers during the financial year.

Financial Reporting

In presenting the annual financial statements, quarterly reports and unaudited interim financial statements to shareholders, relevant authorities and other stakeholders, the Board is committed to provide a balanced, fair and comprehensive assessment of the Company's position and prospect and that the financial statements comply with regulatory reporting requirements. The Audit Committee assists the Board in reviewing all the information disclosed to ensure its adequacy, accuracy and integrity, focusing particularly on changes in or implementation of major accounting policy changes, significant and unusual events, corrected material misstatements related to the year-end accounts, and compliance with accounting standards and other legal requirements, prior to recommendation to the Board for approval. The ultimate objective of such review is to ensure that the External Auditors express an unqualified opinion on the financial statements of the Company.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

ACCOUNTABILITY AND AUDIT (CONT'D.)

Directors' Responsibility Statement

The Directors are required by the Companies Act, 1965 to prepare financial statements for each year which have been made out in accordance with the Malaysian Financial Reporting Standards and give a true and fair view of the financial position of the Company as at 30 September 2016 and of the results and cash flows of the Company for the year then ended.

The Directors have the responsibility for ensuring that the Company keeps accounting records that disclose with reasonable accuracy their financial position and which enable them to ensure that the financial statements comply with the Companies Act, 1965, the Financial Services Act 2013 and the guidelines/circulars issued by Bank Negara Malaysia.

The Directors have the overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Management Accountability

The Company has in place a documented and updated organisation structure with clear reporting lines and job description for management and executive employees. In allocating job duties and responsibilities to staff, the Company takes into consideration appropriate segregation of duties and that potentially conflicting responsibilities are not assigned to the same staff. In addition, there are also well documented policies and procedures in the operating manuals for all major functions within the Company.

Corporate Independence

At least two (2) Directors, with at least one (1) Director each nominated by the respective shareholders, shall constitute a quorum at Board meetings of the Company. The presence of representatives from the two (2) shareholders of almost equivalent shareholdings ensures that some degree of corporate independence is maintained. Moreover, certain matters have been reserved for shareholders' approval. These include financial strategies, change in nature of business, as well as any change in authorised or issued share capital of the Company.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

ACCOUNTABILITY AND AUDIT (CONT'D.)

Internal Control and Enterprise Risk Management

The Board maintains a sound system of internal control, covering not only financial controls but also operational and compliance controls. The system of internal controls is designed to provide reasonable assurance of effectiveness and efficiency of operations and programs, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, regulations, policies, procedures and contracts. Nevertheless, the system of internal control, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Board is assisted by an Audit Committee to review audit issues concerning internal controls identified by the Internal Auditors and regulatory examiners. The Internal Audit function is provided by the Internal Audit Department of the holding company, Pacific & Orient Berhad, based on the Audit Planning Memorandum approved by the Company's Audit Committee. The activities of this Department, which reports regularly to the Audit Committee, provides the Board with much of the assurance it requires regarding the adequacy and integrity of the risk management and internal control system.

The Board further regards risk management as an integral part of the Company's business operations and has accordingly implemented an enterprise risk management across the Company. In this respect, the Company has established a risk management framework and has in place an ongoing process of identifying, evaluating, managing and reporting of significant risks that may affect the achievement of its business objectives throughout the financial year under review and up to the date of this report.

The Board is assisted by a Risk Management Committee, which meets regularly to oversee the development of risk management policies and procedures, monitor and evaluate the numerous risks that may arise from the business activities. A Risk Management Department has also been established to assist the Risk Management Committee to discharge its duties. The Risk Management Committee receives regular reports from the Risk Management Department, which in turn receives regular information on risks from the respective risk owners.

To assist the Board in its risk management and internal control responsibilities, the Board also receives periodic reports from the Chief Executive Officer on the scope and performance of the risk management and internal control system. The periodic reports from the Chief Executive Officer are prepared based on an assessment process derived from a system of direct and indirect assessment of the risk management and internal control system implemented. For the current year under review, the Chief Executive Officer has intimated that the Company's risk management and internal control system was adequate and generally effective in addressing the identified risks of the Company. Although minor lapses were noted, these did not have a significant impact on the Company.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

ACCOUNTABILITY AND AUDIT (CONT'D.)

Internal Control and Enterprise Risk Management (Cont'd.)

Such reporting is intended to aid the Board in discharging its responsibilities for the risk management and internal control system of the Company and serves to provide additional comfort in addition to the Internal and External Auditors' and regulatory examiner's reports received regularly.

Compliance

A Compliance Department was established by the Company during the financial year under review. Its main responsibilities include providing regulatory and compliance advice to the Company and its business units on an ongoing basis, assisting management in the development of policies, procedures and guidelines to facilitate compliance with applicable laws and regulations, proactively reviewing business activities to identify potential regulatory, compliance and reputational risks and designing ways to minimize such risks and promoting a culture of compliance in the Company.

Relationship with External Auditors

The Audit Committee's terms of reference formalises the relationship with the External Auditors. In the course of the audit of the Company's financial statements, the External Auditors have highlighted to the Audit Committee and the Board, matters that require the Board's attention. It is the policy of the Audit Committee to meet with the External Auditors at least twice a year to discuss their audit plan, audit findings and the Company's annual financial statements. The Audit Committee also meets with the External Auditors without the presence of the Executive Director and the management whenever it has been deemed necessary. In the financial year ended 30 September 2016, the Audit Committee had met with the External Auditors twice without the presence of the Executive Director and management.

The Audit Committee has assessed and reviewed the suitability and independence of the External Auditors and recommended their re-appointment for the financial year ending 30 September 2017. The Audit Committee's assessment had included a review of the curriculum vitae of the audit team as well as completed its own assessment, which covered the following considerations – minimum qualifying criteria for External Auditors, the scope of audit and auditors' performance, their independence and objectivity, audit fees, their insurance audit experience, as well as the nature, scope and fee of non-audit services. The Audit Committee had also received feedback from management on the professional working relationship with the External Auditors. The External Auditors had provided a confirmation of their independence to the Audit Committee that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

Company No: 12557 W

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

HOLDING AND ULTIMATE HOLDING COMPANY

The Directors regard Pacific & Orient Berhad, a company incorporated in Malaysia, as the holding and ultimate holding company.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 November 2016.



MOHAMMAD NIZAR BIN IDRIS



CHAN THYE SENG

Kuala Lumpur

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, MOHAMMAD NIZAR BIN IDRIS and CHAN THYE SENG, being two of the Directors of PACIFIC & ORIENT INSURANCE CO. BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 32 to 119, are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 September 2016 and of the results and cash flows of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 November 2016.



MOHAMMAD NIZAR BIN IDRIS



CHAN THYE SENG

STATUTORY DECLARATION

I, ABDUL RAHMAN BIN TALIB, being the Officer primarily responsible for the financial management of PACIFIC & ORIENT INSURANCE CO. BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 32 to 119 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

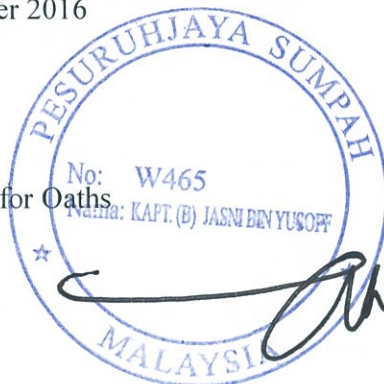
Subscribed and solemnly declared by)
the abovenamed ABDUL RAHMAN BIN TALIB)
at Kuala Lumpur in Wilayah Persekutuan)
on 29 November 2016)



ABDUL RAHMAN BIN TALIB

Before me,

Commissioner for Oaths



Lot 1.08, Tingkat 1,
Bangunan KWSA, Jln Raja Laut
50350 Kuala Lumpur.
Tel: 019 6680715

12557-W

**Independent auditors' report to the members of
Pacific & Orient Insurance Co. Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Pacific & Orient Insurance Co. Bhd ("the Company"), which comprise the statement of financial position as at 30 September 2016 of the Company, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Company for the year ended 30 September 2016, and a summary of significant accounting policies and other explanatory information, as set out on pages 32 to 119.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

12557-W

Independent auditors' report to the members of
Pacific & Orient Insurance Co. Berhad (Cont'd.)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 30 September 2016 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

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

Other 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.



Ernst & Young
AF: 0039
Chartered Accountants



Megat Iskandar Shah Bin Mohamad Nor
No. 3087/07/17(J)
Chartered Accountant

Kuala Lumpur, Malaysia
29 November 2016

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
ASSETS			
Property, plant and equipment	5	18,824	19,423
Investment properties	6	1,030	1,020
Prepaid land lease payments	7	302	306
Intangible assets	8	987	259
Investments	9	694,998	723,869
Reinsurance assets	10	223,012	214,914
Insurance receivables	11	17,776	25,110
Other receivables	12	76,197	81,934
Cash and cash equivalents	13	11,274	25,011
TOTAL ASSETS		<u>1,044,400</u>	<u>1,091,846</u>
EQUITY AND LIABILITIES			
Share capital	14	100,000	100,000
Revaluation reserve		8,914	8,914
Available-for-sale reserve		2,910	2,126
Retained profits	15	142,668	117,293
TOTAL EQUITY		<u>254,492</u>	<u>228,333</u>
Insurance contract liabilities	16	689,090	771,398
Deferred tax liabilities	17	1,092	680
Insurance payables	18	17,055	15,227
Hire purchase creditors	19	930	845
Tax payable		5,597	-
Borrowings	20	68,725	68,546
Other payables	21	7,419	6,817
TOTAL LIABILITIES		<u>789,908</u>	<u>863,513</u>
TOTAL LIABILITIES AND EQUITY		<u>1,044,400</u>	<u>1,091,846</u>

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2016

		←----- Non-Distributable -----→	-----→ Distributable			
	Note	Share capital	Revaluation reserve	Available -for-sale reserve	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2015		100,000	8,914	2,126	117,293	228,333
Net profit for the year		-	-	-	50,375	50,375
Other comprehensive income for the year	34	-	-	784	-	784
Total comprehensive income for the year		-	-	784	50,375	51,159
Dividends	33	-	-	-	(25,000)	(25,000)
At 30 September 2016		100,000	8,914	2,910	142,668	254,492
At 1 October 2014		100,000	8,799	5,238	144,473	258,510
Net profit for the year		-	-	-	21,720	21,720
Other comprehensive income/ (loss) for the year	34	-	115	(3,112)	-	(2,997)
Total comprehensive income/ (loss) for the year		-	115	(3,112)	21,720	18,723
Dividends	33	-	-	-	(48,900)	(48,900)
At 30 September 2015		100,000	8,914	2,126	117,293	228,333

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
Operating revenue	22	357,395	449,099
Gross earned premiums	23(a)	324,347	415,429
Premiums ceded to reinsurers	23(b)	(108,184)	(125,059)
Net earned premiums		216,163	290,370
Investment income	24	33,048	33,670
Realised (losses)/gains	25	(76)	660
Commission income		23,051	24,113
Fair value losses	26	(48)	(1,945)
Other operating expenses	27	(261)	(282)
Other revenue		55,714	56,216
Gross claims paid	28	(243,932)	(249,595)
Claims ceded to reinsurers	28	72,873	71,936
Gross decrease/(increase) in insurance contract liabilities	28	61,318	(51,600)
Change in insurance contract liabilities ceded to reinsurers	28	6,463	15,327
Net claims incurred		(103,278)	(213,932)
Commission expense		(34,337)	(39,148)
Management expenses	29	(60,199)	(57,998)
Finance costs	35	(5,558)	(5,502)
Other expenses		(100,094)	(102,648)
Profit before taxation		68,505	30,006
Taxation	31	(18,130)	(8,286)
Net profit for the year		50,375	21,720
Basic earnings per share (sen)	32	50.38	21.72

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
Net profit for the year		<u>50,375</u>	<u>21,720</u>
Other comprehensive income:			
<u>Items that will not be reclassified to income statement in subsequent periods:</u>			
Deferred tax in respect of revaluation reserve		-	115
Net gain		-	115
<u>Items that may be reclassified to income statement in subsequent periods:</u>			
Fair value changes on available-for-sale ("AFS") financial assets		1,032	(4,187)
Deferred tax		(248)	1,075
Net gain/(loss)		784	(3,112)
Other comprehensive income/(loss) for the year, net of tax	34	784	(2,997)
Total comprehensive income for the year		<u>51,159</u>	<u>18,723</u>

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	68,505	30,006
Adjustments for:		
Depreciation of property, plant and equipment	1,078	1,106
Amortisation:		
- prepaid land lease payments	4	4
- intangible assets	198	437
Transaction costs of borrowing	179	151
Loss on disposal of property, plant and equipment	71	66
Impairment loss of AFS financial assets	58	2,125
Gain on disposal of investments	-	(716)
Gain from fair value adjustments of investment properties	(10)	(180)
Write off of property, plant and equipment	1	5
Allowance for unutilised leave	(22)	108
Dividend income	(3,932)	(1,555)
Interest income	(21,413)	(27,523)
Interest income from islamic fixed deposits	(4,123)	(1,114)
Allowance for impairment of:		
- insurance receivables	5	752
- other receivables	-	991
- reinsurance assets	-	1,839
Write back in allowance for impairment of:		
- insurance receivables	(314)	(990)
- other receivables	(1)	-
Interest expense	5,376	5,348
Operating profit before working capital changes	45,660	10,860
Changes in working capital:		
Purchase of investments	(186,857)	(57,000)
Disposal of investments	156,000	1,016
Decrease in deposits and placements with financial institutions	60,702	118,128
Decrease/(increase) in insurance receivables	7,643	(627)
Decrease/(increase) in other receivables	3,910	(13,792)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2016 (CONT'D.)

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd.)			
Changes in working capital: (Cont'd.)			
Increase in reinsurance assets		(8,098)	(904)
Decrease in insurance contract liabilities		(82,308)	(1,259)
Increase in insurance payables		1,828	3,740
Decrease in other payables		(4,710)	(5,306)
Cash (used in)/ generated from operations		(6,230)	54,856
Net tax paid		(11,940)	(11,661)
Dividends received		3,932	897
Interest received		22,811	25,436
Interest received from islamic fixed deposits		4,123	1,114
Interest paid		(42)	(28)
Net cash generated from operating activities		<u>12,654</u>	<u>70,614</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		169	197
Purchase of property, plant and equipment		(359)	(157)
Purchase of intangible assets		(926)	(375)
Net cash used in investing activities		<u>(1,116)</u>	<u>(335)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(25,000)	(48,900)
Decrease in hire purchase creditors		(275)	(361)
Net cash used in financing activities		<u>(25,275)</u>	<u>(49,261)</u>
Net (decrease)/increase in cash and cash equivalents		(13,737)	21,018
Cash and cash equivalents at beginning of year		25,011	3,993
Cash and cash equivalents at end of year	13	<u>11,274</u>	<u>25,011</u>

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 SEPTEMBER 2016

1. CORPORATE INFORMATION

The Company is engaged principally in the underwriting of all classes of general insurance business.

There have been no significant changes in the nature of this principal activity during the financial year.

The Company is a public company, incorporated and domiciled in Malaysia. The registered office of the Company is located at 11th Floor, Wisma Bumi Raya, No. 10, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding company is Pacific & Orient Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements of the Company were authorised for issue on 29 November 2016 pursuant to a resolution by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

The financial statements of the Company have been prepared under the historical basis unless disclosed otherwise in the significant accounting policies.

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 expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the assumption that the transaction to sell asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Company uses valuation techniques that are appropriate in the circumstances for which different data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised into one of the three different levels of the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Fair Value Measurement (Cont'd.)

The Company analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs in the latest valuation by agreeing the information to the relevant valuation reports and other related documents.

(c) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land and buildings and leasehold buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and buildings and leasehold buildings are stated at revalued amounts, which are the fair values at the date of the revaluation less subsequent accumulated depreciation (except for freehold land which has an unlimited useful life and therefore is not depreciated) and any subsequent accumulated impairment losses. Fair values are determined from market-based evidence by appraisals that are undertaken by professionally qualified valuers. Revaluations are performed once in every five years or earlier if the carrying values of the revalued properties are materially different from their market values. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same property previously recognised in income statement, in which case the increase is recognised in income statement to the extent of the decrease previously recognised.

A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same property and the balance is thereafter recognised in income statement.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount of the property. Upon disposal or retirement of a property, any revaluation reserve relating to the particular property is transferred directly to retained profits.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over its estimated useful life.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Property, Plant and Equipment and Depreciation (Cont'd.)

The principal annual rates of depreciation are:

Buildings	2%
Computer equipment	10%
Motor vehicles	20%
Office equipment	10%
Furniture, fixtures and fittings	10%

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

(d) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is determined by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Revaluations are performed once in every three years or earlier if the carrying values of the revalued properties are materially different from their market values.

Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rental or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

The useful lives of computer software and licences are considered to be finite because computer software and licences are susceptible to technological obsolescence.

The acquired computer software and licences are amortised using the straight line method over their estimated useful lives not exceeding 10 years. Impairment is assessed whenever there is indication of impairment and the amortisation period and method are also reviewed at least at each reporting date.

(f) Financial Instruments

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are categorised and measured using accounting policies as mentioned below:

(i) Financial assets

Financial assets are categorised and measured as follows:

(a) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd.)

(a) Financial assets at fair value through profit or loss ("FVTPL") (Cont'd.)

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statement. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in the income statement as part of other losses or other income.

(b) Held-to-maturity ("HTM") investments

HTM investments are non-derivative securities with fixed or determinable payments and fixed maturities that the Company's management has positive intention and ability to hold until maturity.

HTM investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial recognition, HTM investments are measured at amortised cost, using the effective interest method less impairment loss. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

(c) Loans and receivables

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

Loans and receivables are initially measured at cost plus transaction costs and subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

(d) Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivative financial assets not classified in any of the above categories.

AFS financial assets are initially measured at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently measured at their fair values.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd.)

(d) Available-for-sale ("AFS") financial assets (Cont'd.)

Fair value gains or losses of AFS financial assets are recognised in AFS reserve the statement of changes in equity, except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in the income statement accordingly. The cumulative gain or loss previously recognised in equity is reclassified into the income statement when the AFS financial assets is derecognised.

Investments in equity instruments that are classified as AFS financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment as described in Note 2(g)(i).

(ii) Financial liabilities

Financial liabilities are classified as either (a) financial liabilities at fair value through profit or loss or (b) other financial liabilities.

(a) Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses on derivatives recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Company has not designated any financial liabilities as at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(ii) Financial liabilities (Cont'd.)

(b) Other financial liabilities

The Company's financial liabilities comprise insurance payables, other payables and borrowings.

Insurance payables, other payables and borrowings are recognised initially at their respective fair value net of directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised and through the amortisation process.

(iii) Regular way purchase or sale of financial assets

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

All the financial assets of the Company are recognised using trade date, the date that the Company commits to purchase or sell the asset except for debt instruments which are recognised using settlement date, the date the Company receives or delivers the asset.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment

(i) Financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence that a financial asset is impaired includes observable data about loss events such as significant financial difficulty of the issuer or obligor; significant adverse changes in the business environment in which the issuer or obligor operates; and the disappearance of an active market for that financial asset because of financial difficulties, which indicate that there is a measurable decrease in the estimated future cash flows.

(a) Financial assets carried at amortised cost

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

The Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in income statement, to the extent that the carrying value of asset does not exceed its amortised cost at the reversal date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

(b) AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, is transferred to the income statement.

Impairment loss in respect of an equity instrument classified as AFS financial asset is not reversed through the income statement in subsequent periods.

Impairment loss on debt instruments classified as AFS financial asset is reversed through the income statement if the increase in the fair value of the debt instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(ii) Non - financial assets

The carrying amounts of non-financial assets, other than investment properties and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGU are allocated to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in the income statement in the period in which it arises.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(ii) Non - financial assets (Cont'd.)

The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(h) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and at banks, and 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 statement of cash flow is prepared using the indirect method.

(i) Insurance Payables

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

(j) Borrowings

Borrowings (including subordinated notes) are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. Any difference between initial recognised amount and redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

(k) Product Classification

The Company issues contracts that transfer insurance risk.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Product Classification (Cont'd.)

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 expired.

When insurance contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

(l) Reinsurance

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

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

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

The Company also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Reinsurance (Cont'd.)

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

(m) Insurance Receivables

Insurance receivables are amounts receivable under the contractual terms of an insurance contract. On initial recognition, insurance receivables are measured at fair value based on the consideration given. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method.

Insurance receivables are assessed at each reporting date for objective evidence of impairment. If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the insurance receivable's original effective interest rate. The impairment loss is recognised in the income statement. The basis for recognition of such impairment loss is as described in Note 2(g)(i)(a).

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

(n) Commission Expenses and Commission Income

Gross commission expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the income statement in the period in which they are incurred.

(o) Equity Instruments

Ordinary shares are recorded at nominal value and are classified as equity. Dividends on ordinary shares are recognised in equity in the periods in which they are declared.

Costs incurred directly attributable to the issuance of shares are accounted for as deduction from equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) General Insurance Underwriting Results

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

(i) Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

(ii) Insurance contract liabilities

Insurance contract liabilities comprise premium liabilities and claims liabilities.

Premium liabilities

Premium liabilities represent the future obligation on insurance contracts, as represented by premiums received for unexpired risks.

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall level of the Company.

- UPR

UPR represents the portion of premium income not yet earned at reporting date. UPR is computed on the following bases:

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method for fire, engineering, and marine hull with a deduction of 15%, bonds and motor with a deduction of 10%, medical with a deduction of 10% - 15% and all other classes of business with a deduction of 25% or actual commission incurred, whichever is lower
- 1/8th method for overseas inward treaty business with a deduction of 20% for acquisition costs
- Non-annual policies with a duration of cover extending beyond one year is time apportioned over the period of the risks.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) General Insurance Underwriting Results (Cont'd.)

(ii) Insurance contract liabilities (Cont'd.)

Premium liabilities (Cont'd.)

- URR

URR is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year and also includes allowance for expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

Claims liabilities

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

(q) Liability Adequacy Test

At each reporting date, the Company reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Company, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Company compares all contractual cash flows against the carrying value of insurance contract liabilities. Any deficiency is recognised in the income statement.

The estimation of claim and premium liabilities performed at reporting date is part of the liability adequacy tests performed by the Company. Based on this, all insurance contract liabilities as at the reporting date are deemed to be adequate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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 reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(s) Other Revenue Recognition

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

- (i) Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.
- (ii) Interest income from money market instruments and deposits and placements with financial institutions are recognised using the effective interest rate method.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Income from Islamic corporate bond is recognised using the effective interest method.

(t) Foreign Currencies

(i) Functional and presentation currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(t) Foreign Currencies (Cont'd.)

(ii) Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated using the exchange rates prevailing at the dates of transactions. Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in the income statement for the period in which they arise.

(u) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income tax payable in respect of the taxable profit for the year and is measured using the tax rate as 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, unused capital allowances 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, unused capital allowances and unused tax credits can be utilised.

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 enacted or substantively enacted at the reporting date.

Deferred tax is recognised in the income statement as income or expense, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

All leases that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases, with the following exceptions:

- A property held under an operating lease that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease, and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance leases - the Company as lessee

Assets acquired by way of hire purchase agreements are stated at an amount equal to the lower of their fair values and the present value of the minimum payments at the inception of the agreements, less accumulated depreciation and impairment losses.

The corresponding liability is included in the statement of financial position as hire purchase creditors. In calculating the present value of the minimum payments, the discount factor used is the interest rate implicit in the agreements, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are charged to income statement.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are recognised in the income statements over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(c).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Leases (Cont'd.)

(iii) Operating leases - the Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(w) Employee Benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Allowance for unutilised leave such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences.

Allowance for unutilised leave such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, the Company makes contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(x) Contingent Liabilities and Contingent Assets

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Company.

Contingent liabilities and assets are not recognised in the statements of financial position of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(y) Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and 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.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs

(a) The significant accounting policies adopted in preparing these audited financial statements are consistent with those of the audited financial statements for the financial year ended 30 September 2015.

(b) MFRSs and Amendments to MFRSs yet to be effective

The Company have not adopted the following MFRSs and Amendments to MFRSs which have been issued but are not yet effective. The Company intends to adopt these amendments, if applicable, when they become effective.

Effective for financial periods beginning on or after 1 January 2016

MFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012 – 2014 Cycle)
MFRS 7	Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012 – 2014 Cycle)
MFRS 14	Regulatory Deferral Accounts
MFRS 119	Employee Benefits (Annual Improvements to MFRSs 2012 – 2014 Cycle)
MFRS 134	Interim Financial Reporting (Annual Improvements to MFRSs 2012 – 2014 Cycle)
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 101	Disclosure Initiative
Amendments to MFRS 127	Equity Method in Separate Financial Statements
Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 10, MFRS 12 and MFRS 128)	
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138)	
Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141)	

The adoption of the above MFRSs and Amendments to MFRSs did not have any significant impact on the financial statements of the Company.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(b) MFRSs and Amendments to MFRSs yet to be effective (Cont'd.)

Effective for financial periods beginning on or after 1 January 2017

Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses
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Amendments to MFRS 107	Disclosure Initiative
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Effective for financial periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments (International Financial Reporting Standard ("IFRS") 9 Financial Instruments issued by International Accounting Standards Board ("IASB") in July 2014)
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MFRS 15	Revenue from Contracts with Customers
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Clarifications to MFRS 15 Revenue from Contracts with Customer

Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

Effective for financial periods beginning on or after 1 January 2019

MFRS 16	Leases
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Effective date to be announced by Malaysian Accounting Standard Board

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)

The adoption of the above MFRSs and Amendments to MFRSs stated above are not expected to result in significant financial impact to the Company, except as disclosed below:

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(b) MFRSs and Amendments to MFRSs yet to be effective (Cont'd.)

MFRS 9: Financial Instruments

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces earlier versions of MFRS 9 and introduces a package of improvements which includes a classification and measurement model, a single forward looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. MFRS 9 when effective will replace MFRS 139.

The initial application of MFRS 9 in the future may have an impact on the financial statements of the Company. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

MFRS 15: Revenue from Contracts with Customers

Under MFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when the 'control' of the goods and services underlying the particular performance obligation is transferred to the customers.

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

MFRS 16: Leases

MFRS 16 replaces the existing standard on leases, MFRS 117.

MFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under MFRS 16, lessees are required to recognise all leases in their balance sheets in the form of an asset (for the right of use) and a lease liability (for the payment obligation). Exception is granted for leases which are for a term of 12 months or less or where the underlying lease assets are of low value. For such leases, lessees may elect to expense off the lease payments on a straight line basis over the lease term or using another systematic method.

MFRS 16 has substantially retained the lessor accounting model in MFRS 117. A lessor still has to classify leases as either finance or operating leases, depending on whether substantially all of the risks and rewards incidental to ownership of the underlying asset have been transferred to the lessee.

The Company is currently assessing the financial impact of adopting MFRS 16.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

(a) Critical Judgment Made in Applying Accounting Policies

The following is the judgment made by management in the process of applying the Company's accounting policies that have the most significant effect on the amount recognised in the financial statements.

(i) Classification between Investment Properties and Property, Plant and Equipment

The Company has developed certain criteria based on MFRS 140 in making judgment whether a property qualifies as an investment property. Investment property is a property held to earn rental or for capital appreciation or both.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Company would account for the portions separately.

If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

(b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation and amortisation

Depreciation and amortisation are based on management's estimates of the future estimated average useful lives and residual values of property, plant and equipment and intangible assets. Estimates may change due to technological developments, expected level of usage, competition, market conditions and other factors, and could impact the estimated average useful lives and the residual values of these assets. This may result in future changes in the estimated useful lives and in the depreciation or amortisation expenses.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTD.)

(b) Key Sources of Estimation Uncertainty (Cont'd.)

(ii) Impairment of AFS financial assets

The Company reviews its financial assets classified as AFS financial assets at each reporting date to assess whether they are impaired. The Company also records impairment charges on AFS financial assets when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements and the duration and extent to which fair value of the financial assets is less than its carrying amount. The Company impairs quoted and unquoted financial assets with significant decline in fair value greater than 30%, based on the historical or expected volatility of fair values of its respective investments or prolonged period of decline in fair value greater than 12 months.

(iii) Impairment of loans and receivables

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers among other factors, the probability of insolvency and significant financial difficulties of the debtors.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(iv) Impairment of non-financial assets

Non-financial assets are tested for impairment when indications of potential impairment exist. Indicators of impairment which could trigger an impairment review include evidence of obsolescence or physical damage, significant fall in market values, significant underperformance relative to historical or projected future operating results, significant changes in the use of assets or the strategy of the business, significant adverse industry or economic changes.

Recoverable amounts of assets are based on management's estimates and assumptions of the net realisable value, cash flows arising from the future operating performance and revenue generating capacity of the assets and CGUs and future market conditions. Changes in circumstances may lead to revision in estimates and assumptions. This may result in changes to the recoverable amounts of assets and impairment losses.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D.)

(b) Key Sources of Estimation Uncertainty (Cont'd.)

(v) Uncertainty in accounting estimates in the general insurance business

The principal uncertainty in the general insurance business arises from technical provisions for premium and claims liabilities.

Premium liabilities comprise the higher of UPR or URR while claims liabilities comprise outstanding claims case estimates and Incurred But Not Reported ("IBNR") claims.

UPR is determined based on estimates of the portion of premium income not yet earned at each reporting date whilst URR is determined based on estimates of expected future payments arising from future events insured under policies in force at each reporting date, including expected future premium refunds.

Generally, claims liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretation, legislative changes, and claims handling procedures.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium and claims liabilities may vary from the initial estimates.

The estimates of premium and claims liabilities are therefore sensitive to various factors and uncertainties.

(vi) Deferred tax assets

Deferred tax assets are recognized for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the benefits can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Details of deferred tax assets are disclosed in Note 17.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D.)

(b) Key Sources of Estimation Uncertainty (Cont'd.)

(vii) Fair value measurement of financial instruments

When the fair values of financial assets recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using relevant reports and related documents. A degree of judgment is required in establishing their fair values which include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. PROPERTY, PLANT AND EQUIPMENT

	Valuation				Cost				Total RM'000
	Freehold land RM'000	Buildings Freehold RM'000	Leasehold RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture, fixtures and fittings RM'000		
2016									
<u>Valuation/Cost:</u>									
At 1 October 2015	1,860	681	16,559	5,951	2,280	1,674	3,700	32,705	
Additions	-	-	222	25	412	22	38	719	
Disposals	-	-	-	-	(504)	-	-	(504)	
Write-offs	-	-	-	(143)	-	(5)	(3)	(151)	
At 30 September 2016	1,860	681	16,781	5,833	2,188	1,691	3,735	32,769	
<u>Accumulated depreciation:</u>									
At 1 October 2015	-	60	2,139	5,931	641	1,410	3,101	13,282	
Charge for the year	-	20	713	7	194	50	94	1,078	
Disposals	-	-	-	-	(265)	-	-	(265)	
Write-offs	-	-	-	(142)	-	(5)	(3)	(150)	
At 30 September 2016	-	80	2,852	5,796	570	1,455	3,192	13,945	
<u>Net carrying value:</u>									
At 30 September 2016	1,860	601	13,929	37	1,618	236	543	18,824	

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Valuation			Cost				Total RM'000
	Freehold land RM'000	Buildings Freehold RM'000	Buildings Leasehold RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture, fixtures and fittings RM'000	
2015								
<u>Valuation/Cost:</u>								
At 1 October 2014	1,860	681	16,559	5,953	2,237	1,692	3,672	32,654
Additions	-	-	-	4	581	28	34	647
Disposals	-	-	-	-	(538)	(30)	-	(568)
Write-offs	-	-	-	(6)	-	(16)	(6)	(28)
At 30 September 2015	1,860	681	16,559	5,951	2,280	1,674	3,700	32,705
<u>Accumulated depreciation:</u>								
At 1 October 2014	-	40	1,426	5,932	700	1,399	3,007	12,504
Charge for the year	-	20	713	5	216	52	100	1,106
Disposals	-	-	-	-	(275)	(30)	-	(305)
Write-offs	-	-	-	(6)	-	(11)	(6)	(23)
At 30 September 2015	-	60	2,139	5,931	641	1,410	3,101	13,282
<u>Net carrying value:</u>								
At 30 September 2015	1,860	621	14,420	20	1,639	264	599	19,423

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

- (a) The freehold land and buildings and leasehold buildings were revalued as at 30 September 2012 based on valuation carried out by independent valuers of Messrs. Rahim & Co. on an open market value basis using the comparison method.
- (b) The net carrying values of the freehold land and buildings and leasehold buildings of the Company had the cost model been applied, compared to the revaluation model as at 30 September 2016 are as follows:

	<u>Net Carrying Value</u> <u>2016</u>		<u>Net Carrying Value</u> <u>2015</u>	
	Under Revaluation Model Note	Under Cost Model RM'000	Under Revaluation Model RM'000	Under Cost Model RM'000
Freehold land	1,860	380	1,860	380
Freehold buildings	601	255	621	263
Leasehold buildings	13,929	6,627	14,420	6,947
	42	<u>16,390</u>	<u>16,901</u>	<u>7,590</u>

- (c) The net book value of motor vehicles held under hire purchase arrangements are RM1,472,000 (2015: RM1,287,000).
- (d) During the year, the Company acquired property, plant and equipment by:

	<u>2016</u> RM'000	<u>2015</u> RM'000
Cash	359	157
Hire purchase	360	490
	<u>719</u>	<u>647</u>

6. INVESTMENT PROPERTIES

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
At 1 October 2015/2014		1,020	840
Gain on fair value adjustments	26	10	180
At 30 September		<u>1,030</u>	<u>1,020</u>
Analysed as:			
Freehold buildings		695	695
Leasehold buildings		335	325
	42	<u>1,030</u>	<u>1,020</u>

Investment properties were revalued as at 30 September 2016 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

The Company has assessed that the existing use of its investment properties to be the most appropriate.

7. PREPAID LAND LEASE PAYMENTS

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Long term leasehold land:			
At 1 October 2015/2014		306	310
Amortisation	29	(4)	(4)
At 30 September		<u>302</u>	<u>306</u>

8. INTANGIBLE ASSETS

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Computer software and licences:			
<u>Cost</u>			
At 1 October 2015/2014		2,207	1,832
Additions		926	375
At 30 September		<u>3,133</u>	<u>2,207</u>
<u>Accumulated amortisation</u>			
At 1 October 2015/2014		1,948	1,511
Amortisation	29	198	437
At 30 September		<u>2,146</u>	<u>1,948</u>
Net book value		<u>987</u>	<u>259</u>

9. INVESTMENTS

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
(a) Available-for-sale ("AFS") financial assets:			
<u>At fair value:</u>			
Quoted shares		16,474	15,925
Unit trusts		101,477	70,195
Total available-for-sale financial assets	42	<u>117,951</u>	<u>86,120</u>
(b) Loans and receivables ("L&R"):			
<u>At amortised cost:</u>			
Deposits and placements with licensed financial institutions:			
Commercial banks		411,369	430,775
Investment banks		165,678	206,974
Total loans and receivables		<u>577,047</u>	<u>637,749</u>
Total investments		<u>694,998</u>	<u>723,869</u>

9. INVESTMENTS (CONT'D.)

(c) Carrying value of investments

	Note	<u>AFS</u> RM'000	<u>L&R</u> RM'000	<u>Total</u> RM'000
<u>2016</u>				
At 1 October 2015		86,120	637,749	723,869
Additions		186,857	-	186,857
Placements		-	565,814	565,814
Disposals		(156,000)	-	(156,000)
Maturities		-	(626,516)	(626,516)
Fair value gain recorded in other comprehensive income	34	1,032	-	1,032
Impairment loss of AFS financial assets	26	(58)	-	(58)
At 30 September 2016		<u>117,951</u>	<u>577,047</u>	<u>694,998</u>
<u>2015</u>				
At 1 October 2014		35,074	755,877	790,951
Additions		57,658	-	57,658
Placements		-	685,066	685,066
Disposals		(300)	-	(300)
Maturities		-	(803,194)	(803,194)
Fair value loss recorded in other comprehensive income	34	(4,187)	-	(4,187)
Impairment loss of AFS financial assets	26	(2,125)	-	(2,125)
At 30 September 2015		<u>86,120</u>	<u>637,749</u>	<u>723,869</u>

Included in deposits and placements of the Company is an amount of RM95,492 (2015: RM92,453) representing placements of deposits received from insureds as collateral for bond guarantees granted to third parties.

10. REINSURANCE ASSETS

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Reinsurance of insurance contracts			
Claims liabilities	16.1	184,253	177,790
Premium liabilities	16.2	39,836	38,963
		<u>224,089</u>	<u>216,753</u>
Allowance for impairment		<u>(1,077)</u>	<u>(1,839)</u>
		<u>223,012</u>	<u>214,914</u>

11. INSURANCE RECEIVABLES

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Outstanding premiums including agents', brokers' and co-insurers' balance	11.1	4,656	5,160
Due from reinsurers and ceding companies	11.2	14,568	21,707
		<u>19,224</u>	<u>26,867</u>
Allowance for impairment	40 (a)	<u>(1,448)</u>	<u>(1,757)</u>
		<u>17,776</u>	<u>25,110</u>

The Company's insurance receivables that have been offset against insurance payables are as follows:

	<u>Gross</u> <u>carrying</u> <u>amount</u> RM'000	<u>Gross</u> <u>amount</u> <u>offset</u> RM'000	<u>Net</u> <u>amount</u> <u>presented</u> RM'000
11.1 <u>Outstanding premiums including agents', brokers' and co-insurers' balance</u>			
<u>2016</u>			
Premiums	5,918	-	5,918
Commission payables	-	(1,901)	(1,901)
Claims recoveries	639	-	639
	<u>6,557</u>	<u>(1,901)</u>	<u>4,656</u>
<u>2015</u>			
Premiums	6,678	-	6,678
Commission payables	-	(2,157)	(2,157)
Claims recoveries	639	-	639
	<u>7,317</u>	<u>(2,157)</u>	<u>5,160</u>

11. INSURANCE RECEIVABLES (CONT'D.)

The Company's insurance receivables that have been offset against insurance payables are as follows: (Cont'd.)

	<u>Gross carrying amount</u>	<u>Gross amount offset</u>	<u>Net amount presented</u>
	RM'000	RM'000	RM'000
<u>11.2 Due from reinsurers and ceding companies</u>			
<u>2016</u>			
Premiums ceded	864	-	864
Commission receivables	8,448	-	8,448
Claims recoveries	5,256	-	5,256
	<u>14,568</u>	<u>-</u>	<u>14,568</u>
<u>2015</u>			
Premiums ceded	-	(2,134)	(2,134)
Commission receivables	11,601	-	11,601
Claims recoveries	12,240	-	12,240
	<u>23,841</u>	<u>(2,134)</u>	<u>21,707</u>

12. OTHER RECEIVABLES

	Note	<u>2016 RM'000</u>	<u>2015 RM'000</u>
Due from fellow subsidiary company	(a)	90	220
Accrued income		6,512	7,910
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	(b)	62,482	67,772
Deposits and prepayments		1,114	1,147
Tax recoverable	(c)	3,420	3,849
Goods and services tax receivable		287	-
Others		2,292	1,036
		<u>76,197</u>	<u>81,934</u>

(a) The amount due from fellow subsidiary company is unsecured, interest free and repayable on demand.

12. OTHER RECEIVABLES (CONT'D.)

- (b) This includes the Company's contribution of RM7,011,576 and RM27,347,770 to MMIP following cash calls made by the Pool during the current and previous financial years respectively. The contributions were made in respect of the Company's share of MMIP's accumulated losses up to 31 December 2014.

On 29 August 2016, the Company have received a surplus distribution of RM9,000,000 for the year ended 31 December 2015 from MMIP.

- (c) This includes the allowable double tax deduction of the contribution made in respect of MMIP's first cash call of RM1,420,579 (2015: RM5,682,315).

The Company's normal trade credit term is up to 60 days. Other credit terms are assessed and approved on a case by case basis.

13. CASH AND CASH EQUIVALENTS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Deposits and placements with licensed commercial bank (with maturity of less than three months)	7,478	21,409
Cash and bank balances	3,796	3,602
	<u>11,274</u>	<u>25,011</u>

14. SHARE CAPITAL

	Number of shares		Amount	
	<u>2016</u> '000	<u>2015</u> '000	<u>2016</u> RM'000	<u>2015</u> RM'000
Authorised shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid ordinary shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

15. RETAINED PROFITS

The Company is required to distribute dividends to its shareholders under the single tier system.

Pursuant to Section 51(1) of the Financial Services Act 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend.

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position below its internal target.

As at 30 September 2016, the Company has a Capital Adequacy Ratio in excess of the minimum requirement as stipulated in the RBC Framework.

16. INSURANCE CONTRACT LIABILITIES

	2016		2015	
	Gross RM'000	Reinsurance RM'000 (Note 10)	Net RM'000	Gross RM'000
General insurance	689,090	(224,089)	465,001	771,398
				(216,753)
				554,645

The general insurance contract liabilities and its movements are further analysed as follows:

Note	2016		2015	
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000
Provisions for claims reported	356,225	(113,429)	242,796	414,724
Provision for Incurred But Not Reported ("IBNR")	159,958	(56,162)	103,796	160,354
Provision of Risk Margin for Adverse Deviation ("PRAD")	38,096	(14,662)	23,434	40,519
Claims Liabilities	554,279	(184,253)	370,026	615,597
Premium Liabilities	134,811	(39,836)	94,975	155,801
	689,090	(224,089)	465,001	771,398
				(216,753)
				554,645

16. INSURANCE CONTRACT LIABILITIES (CONT'D.)

16.1 Claims Liabilities

Note	2016			2015		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 October 2015/2014	615,597	(177,790)	437,807	563,997	(162,463)	401,534
Claims incurred in the current accident year (direct and facultative)	103,235	(29,458)	73,777	220,720	(51,284)	169,436
Adjustment to claims incurred in prior accident year (direct and facultative)	120,799	(35,833)	84,966	144,666	(36,892)	107,774
Claims incurred during the year (treaty inwards claims)	(39,744)	(20,962)	(60,706)	(53,474)	-	(53,474)
Movement in Provision of Risk Margin for Adverse Deviation ("PRAD") claims liabilities at 75% confidence level	(386)	5,310	4,924	(5,055)	(314)	(5,369)
Movement in claims handling expenses	(1,290)	1,607	317	(5,662)	1,227	(4,435)
Claims paid during the year	(243,932)	72,873	(171,059)	(249,595)	71,936	(177,659)
At 30 September	554,279	(184,253)	370,026	615,597	(177,790)	437,807

16. INSURANCE CONTRACT LIABILITIES (CONTD.)

16.2 Premium Liabilities

Note	2016			2015		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 October 2015/2014	155,801	(38,963)	116,838	208,660	(53,386)	155,274
Premiums written during the year	303,357	(109,057)	194,300	362,570	(110,636)	251,934
Premiums earned during the year	(324,347)	108,184	(216,163)	(415,429)	125,059	(290,370)
At 30 September	134,811	(39,836)	94,975	155,801	(38,963)	116,838

17. DEFERRED TAX (LIABILITIES)/ASSETS

	Note	2016 RM'000	2015 RM'000
At 1 October 2015/2014		(680)	(884)
Transfer from income statement	31	(164)	(986)
- Deferred tax assets		14	(1,084)
- Deferred tax liabilities		(178)	98
Transfer (from)/to AFS reserve	34	(248)	1,075
- Deferred tax assets		-	1,746
- Deferred tax liabilities		(248)	(671)
Transfer to revaluation reserve	34	-	115
- Deferred tax assets		-	(2)
- Deferred tax liabilities		-	117
At 30 September		<u>(1,092)</u>	<u>(680)</u>

Reflected in the statement of financial position as follows:

Deferred tax assets	17.1	2,997	2,983
Deferred tax liabilities	17.2	(4,089)	(3,663)
Net deferred tax liabilities		<u>(1,092)</u>	<u>(680)</u>

17. DEFERRED TAX (LIABILITIES)/ASSETS (CONT'D.)

17.1 Deferred tax assets

The components and movements of deferred tax assets during the financial year prior to offsetting are as follows:

	Revaluation deficit RM'000	Premium liabilities RM'000	Changes in fair value of AFS financial assets		Accumulated impairment loss RM'000	Others RM'000	Total RM'000
			RM'000	RM'000			
2016							
At 1 October 2015	58	-	-	-	2,925	-	2,983
Recognised in the income statement	-	-	-	-	14	-	14
At 30 September 2016	58	-	-	-	2,939	-	2,997
2015							
At 1 October 2014	60	5	(1,746)	2,214	1,790	2,323	
Recognised in the income statement	-	(5)	-	711	(1,790)	(1,084)	
- Arising during the year	-	(5)	-	800	(1,790)	(995)	
- Arising from change in tax rate	-	-	-	(89)	-	(89)	
Recognised in the AFS reserve	-	-	1,746	-	-	1,746	
Recognised in the revaluation reserves	(2)	-	-	-	-	(2)	
- Arising from change in tax rate	(2)	-	-	-	-	(2)	
At 30 September 2015	58	-	-	2,925	-	2,983	

17. DEFERRED TAX (LIABILITIES)/ASSETS (CONT'D.)17.2 Deferred tax liabilities

The components and movements of deferred tax liabilities during the financial year and previous year prior to offsetting are as follows:

	Changes in				Total
	Premium liabilities	fair value of AFS financial assets	Revaluation surplus	Accelerated capital allowances	
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2016</u>					
At 1 October 2015	(18)	(671)	(2,816)	(158)	(3,663)
Recognised in the income statement	(4)	-	-	(174)	(178)
Recognised in the AFS reserve	-	(248)	-	-	(248)
At 30 September 2016	<u>(22)</u>	<u>(919)</u>	<u>(2,816)</u>	<u>(332)</u>	<u>(4,089)</u>
<u>2015</u>					
At 1 October 2014	-	-	(2,933)	(274)	(3,207)
Recognised in the income statement	(18)	-	-	116	98
Recognised in the AFS reserve	-	(671)	-	-	(671)
Recognised in the revaluation reserve	-	-	117	-	117
At 30 September 2015	<u>(18)</u>	<u>(671)</u>	<u>(2,816)</u>	<u>(158)</u>	<u>(3,663)</u>

18. INSURANCE PAYABLES

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Due to reinsurers and ceding companies	18.1	14,344	12,142
Due to agents, brokers, co-insurers and insureds	18.2	<u>2,711</u>	<u>3,085</u>
		<u>17,055</u>	<u>15,227</u>

The Company's insurance payables that have been offset against insurance receivables are as follows:

	<u>Gross carrying amount</u> RM'000	<u>Gross amount offset</u> RM'000	<u>Net amount presented</u> RM'000
<u>18.1 Due to reinsurers and ceding companies</u>			
<u>2016</u>			
Premiums ceded	36,909	-	36,909
Commission receivables	-	(4,170)	(4,170)
Claims recoveries	-	(18,395)	(18,395)
	<u>36,909</u>	<u>(22,565)</u>	<u>14,344</u>
<u>2015</u>			
Premiums ceded	20,581	-	20,581
Commission receivables	-	(454)	(454)
Claims recoveries	-	(7,985)	(7,985)
	<u>20,581</u>	<u>(8,439)</u>	<u>12,142</u>
<u>18.2 Due to agents, brokers, co-insurers and insureds</u>			
<u>2016</u>			
Premiums	3,759	-	3,759
Commission payables	-	(1,048)	(1,048)
	<u>3,759</u>	<u>(1,048)</u>	<u>2,711</u>
<u>2015</u>			
Premiums	4,048	-	4,048
Commission payables	-	(963)	(963)
	<u>4,048</u>	<u>(963)</u>	<u>3,085</u>

19. HIRE PURCHASE CREDITORS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Future minimum payments:		
Not later than 1 year	315	271
Later than 1 year and not later than 2 years	285	404
Later than 2 years and not later than 5 years	416	254
Total future minimum payments	<u>1,016</u>	<u>929</u>
Less: Future finance charges	<u>(86)</u>	<u>(84)</u>
Present value of hire purchase liabilities	<u>930</u>	<u>845</u>
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	277	236
Later than 1 year and not later than 2 years	259	365
Later than 2 years and not later than 5 years	394	244
	<u>930</u>	<u>845</u>

The hire purchase arrangements at the reporting date bore interest between 2.78% and 4.64% (2015: 2.89% and 4.47%) per annum.

20. BORROWINGS

	Effective interest rate per annum	<u>Maturity</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Unsecured</u>				
Subordinated Notes	7.74%	2022	<u>68,725</u>	<u>68,546</u>
Amount due more than 5 years			<u>68,725</u>	<u>68,546</u>

During the financial year ended 30 September 2012, the Company established a Subordinated Notes ("Sub Notes") Programme with an aggregate nominal value of RM150,000,000 issuable in tranches.

The first tranche of Sub Notes was issued on 27 June 2012 with a nominal value of RM70,000,000 at a discounted subscription price of RM99.05. The Sub Notes were issued for a tenure of 10 years on a 10 non-callable 5 basis, with a coupon rate of 7.60% per annum.

Of the RM70,000,000 Sub Notes, RM35,000,000 were subscribed by the holding company whilst the remaining RM35,000,000 were subscribed by a third party.

21. OTHER PAYABLES

	<u>2016</u> RM'000	<u>2015</u> RM'000
Due to holding company*	40	38
Due to fellow subsidiary companies*	-	3
Accruals	2,439	902
Collateral deposits	100	96
Refund premiums	42	136
Goods and services tax payable	-	177
Allowance for unutilised leave	592	614
Stamp duty payable	834	1,020
Unclaimed monies	93	213
Accrual of directors' fees	408	329
Sundry creditors	659	1,080
Interest payable on Subordinated Notes**	1,399	1,370
Others	813	839
	<u>7,419</u>	<u>6,817</u>

* The amount due to holding company and amount due to fellow subsidiary companies are unsecured, interest free and repayable on demand.

Carrying value of amount due to holding company and amount due to fellow subsidiary companies approximate fair value as the amount is repayable on demand.

** Interest payable on Subordinated Notes represents interest accrued for three months.

The normal trade credit terms granted to the Company is up to 90 days.

22. OPERATING REVENUE

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Insurance fund</u>			
Gross earned premiums	23(a)	324,347	415,429
Investment income	24	33,048	33,670
		<u>357,395</u>	<u>449,099</u>

23. NET EARNED PREMIUMS

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
(a) Gross premiums	16.2	303,357	362,570
Change in premium liabilities		20,990	52,859
Gross earned premiums		<u>324,347</u>	<u>415,429</u>
(b) Gross premiums ceded to reinsurers	16.2	(109,057)	(110,636)
Change in premium liabilities		873	(14,423)
Premiums ceded to reinsurers		<u>(108,184)</u>	<u>(125,059)</u>
Net earned premiums		<u>216,163</u>	<u>290,370</u>

24. INVESTMENT INCOME

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Dividend income:			
- shares quoted in Malaysia		403	897
- unit trusts		3,529	658
Interest income:			
- deposits and placements with financial institutions		21,413	27,523
Income from islamic fixed deposits		4,123	1,114
Rental of properties:			
- third parties		14	14
- fellow subsidiary company	37	29	29
- holding company	37	256	256
Investment income from:			
- MMIP		3,216	3,179
- Malaysian Reinsurance Berhad ("MRB")		65	-
	22	<u>33,048</u>	<u>33,670</u>

25. REALISED (LOSSES)/GAINS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Realised (losses)/gains:		
- Property, plant and equipment	(71)	(66)
- AFS financial assets:		
Quoted in Malaysia	-	716
- Foreign exchange	(5)	10
	<u>(76)</u>	<u>660</u>

26. FAIR VALUE LOSSES

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Fair value (losses)/gains:			
Investment properties	6	10	180
Impairment loss of AFS financial assets	9	(58)	(2,125)
		<u>(48)</u>	<u>(1,945)</u>

27. OTHER OPERATING EXPENSES

	<u>2016</u> RM'000	<u>2015</u> RM'000
Other operating revenue/(expenses):		
Sundry income	108	584
Property, plant and equipment written off	(1)	(5)
GST charged on unexpired premium	-	(629)
Other expenses	(368)	(232)
	<u>(261)</u>	<u>(282)</u>

28. NET CLAIMS INCURRED

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Gross claims paid	16.1	(243,932)	(249,595)
Claims ceded to reinsurers	16.1	72,873	71,936
Gross decrease/(increase) in insurance contract liabilities		61,318	(51,600)
Change in insurance contract liabilities ceded to reinsurers		6,463	15,327
		<u>(103,278)</u>	<u>(213,932)</u>

29. MANAGEMENT EXPENSES

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Chief executive officer' remuneration	30	956	953
Staff salaries and bonus		18,594	18,032
Allowance for unutilised leave		(4)	90
Pension costs - defined contribution plan		2,349	2,280
Other staff benefits		1,448	1,650
Depreciation of property, plant and equipment	5	1,078	1,106
Amortisation:			
- prepaid land lease payments	7	4	4
- intangible assets	8	198	437
Auditors' remuneration			
- Statutory audit		185	191
- Other regulatory related services		170	30
Non-Executive Directors' remuneration	30	408	329
Directors' training		54	50
Allowance for impairment of:			
- insurance receivables	40 (a)	5	752
- other receivables		-	991
- reinsurance assets		-	1,839
Write back in allowance for impairment of:			
- insurance receivables	40 (a)	(314)	(990)
- other receivables		(1)	-
Bad debts recovered		-	(28)
Rental of properties:			
- third parties		572	563
- fellow subsidiary company	37	199	171
Management fees to holding company	37	1,071	1,026
Call centre service charges to:			
- third parties		106	287
- fellow subsidiary company	37	536	522
Rental of equipment:			
- third parties		68	139
- fellow subsidiary company	37	4,366	4,076
Printing and information system expenses:			
- third parties		5,790	4,111
- fellow subsidiary company	37	7,981	7,354
Business development		4,371	1,234
Bank charges		25	22
Credit card charges		3,049	3,717
Office administration and utilities		1,706	2,000
MMIP expenses		631	592
Professional fees		1,285	1,391

29. MANAGEMENT EXPENSES (CONT'D.)

	<u>2016</u> RM'000	<u>2015</u> RM'000
Motor vehicle expenses	634	685
Travelling and transport expenses	218	194
Road Transport Department access fees	388	581
Goods and services tax expense	117	194
Other expenses	1,956	1,423
	<u>60,199</u>	<u>57,998</u>

30. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
(a) Chief Executive Officer *			
Salary		676	612
Bonus		157	187
Pension costs - defined contribution plan		105	100
Benefits-in-kind		35	34
Allowance for unutilised leave		(18)	18
Allowance		36	36
		<u>991</u>	<u>987</u>
Total Chief Executive Officer's remuneration excluding benefits-in-kind	29	<u>956</u>	<u>953</u>

* Chief Executive Officer resigned as a Executive Director effective from 29 January 2016.

(b) Non-Executive Directors

Fees	29	408	329
Benefits-in-kind		7	5
		<u>415</u>	<u>334</u>

30. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION (CONT'D.)

(b) Non-Executive Directors (Cont'd.)

The total remuneration received by the Individual, Non-Executive Directors during the year was as follows:

	Fees	Benefits-in- Kind	Total
	RM'000	RM'000	RM'000
<u>2016</u>			
En. Mohammad Nizar bin Idris	70	4	74
Mr. Chan Thye Seng	40	-	40
Mr. Prasheem Seebran (Appointed on 25 April 2016)	26	-	26
Dato' Dr. Zaha Rina binti Zahari	60	3	63
Pn. Norazian binti Ahmad Tajuddin	60	-	60
Madam Sum Leng Kuang	58	-	58
Mr. Michael Yee Kim Shing	60	-	60
Mr. William Robertson Dommissie (Resigned on 25 April 2016)	34	-	34
	<u>408</u>	<u>7</u>	<u>415</u>
<u>2015</u>			
En. Mohammad Nizar Bin Idris	70	5	75
Mr. Chan Thye Seng	40	-	40
Mr. William Robertson Dommissie	60	-	60
Dato' Dr. Zaha Rina Binti Zahari	60	-	60
Pn. Norazian Binti Ahmad Tajuddin (Appointed on 1 April 2015)	28	-	28
Madam Sum Leng Kuang (Appointed on 26 June 2015)	11	-	11
Mr. Michael Yee Kim Shing	60	-	60
	<u>329</u>	<u>5</u>	<u>334</u>

30. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION (CONT'D.)

(c) The number of Executive and Non-Executive Directors whose total remuneration received during the year falls within the following bands is:

	<u>2016</u>	<u>2015</u>
<u>Executive Director:</u>		
RM800,001 - RM1,000,000	1	1
<u>Non-Executive Directors:</u>		
Below RM40,000	3	3
RM40,001 - RM50,000	-	-
RM50,001 - RM60,000	3	3
RM60,001 - RM70,000	<u>2</u>	<u>1</u>

31. INCOME TAX EXPENSE

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Current income tax:		
Malaysian		
- Current	17,537	7,763
- Under/(Over) provision in prior years	429	(1,749)
- Under provision in respect of MMIP losses	-	1,286
	<u>17,966</u>	<u>7,300</u>
Deferred tax:		
Relating to timing differences		
- Current	164	(359)
- Under provision in prior years	-	1,345
Transfer to deferred taxation (Note 17)*	<u>164</u>	<u>986</u>
	<u>18,130</u>	<u>8,286</u>
* Amount transferred to deferred taxation		
- Deferred tax assets	14	(1,084)
- Deferred tax liabilities	(178)	98
	<u>(164)</u>	<u>(986)</u>

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

31. INCOME TAX EXPENSE (CONT'D.)

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

	<u>2016</u> RM'000	<u>2015</u> RM'000
Profit before taxation	<u>68,505</u>	<u>30,006</u>
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	16,441	7,502
Under/(over) provision of income tax in prior years	429	(1,749)
Under provision of income tax in respect of MMIP losses	-	1,286
Under provision of deferred tax in prior years	-	1,345
Effect on change in tax rate on deferred tax	-	35
Income not subject to tax	(943)	(341)
Expenses not deductible for tax purposes	2,203	2,547
Double tax deduction in respect of cash contribution to MMIP	-	(2,339)
Tax expense for the year	<u>18,130</u>	<u>8,286</u>

32. BASIC EARNINGS PER SHARE (SEN)

Basic earnings per share of the Company is calculated by dividing the net profit of RM50,375,000 (2015: RM21,720,000) for the financial year by 100,000,000 ordinary shares.

33. DIVIDENDS

The amount of dividends paid or declared by the Company on ordinary shares of RM1.00 each are as follows:

	<u>Sen per share (net of tax)</u>	<u>Total amount RM'000</u>	<u>Date of payment</u>
<u>2016</u>			
Final single tier dividend of 10.00 sen per share, declared on 18 February 2016.	10.00	10,000	22 February 2016
1st interim single tier dividends of 15.00 sen per share, declared on 21 July 2016.	15.00	15,000	25 July 2016
		<u>25,000</u>	
<u>2015</u>			
1st interim single tier dividends of 48.90 sen per share, declared on 30 January 2015.	48.90	48,900	5 February 2015
		<u>48,900</u>	

34. OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Fair value changes on Available-for-Sale ("AFS") financial assets:			
- Gross gain/(loss) on fair value changes		1,032	(3,627)
- Transferred to income statement upon disposal		-	(560)
		1,032	(4,187)
- Deferred tax	17	(248)	1,075
Arising from current year		(248)	1,005
Arising from change in tax rate		-	70
Revaluation reserve			
- Deferred tax			
Arising from change in tax rate	17	-	115
Other comprehensive income/(loss) for the year, net of tax		<u>784</u>	<u>(2,997)</u>

35. FINANCE COSTS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Hire purchase interest	42	28
Interest expense on borrowings	5,513	5,471
Others	3	3
	<u>5,558</u>	<u>5,502</u>

36. COMMITMENTS AND CONTINGENCIES

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Non-cancellable operating lease commitments</u>		
Future minimum lease payments are as follows:		
Not later than 1 year	2,773	2,931
Later than 1 year and not later than 5 years	3,118	2,142
	<u>5,891</u>	<u>5,073</u>

These represent operating lease commitments for computer and office equipment of the Company.

37. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The significant transactions of the Company with its related parties are as follows:

<u>(Income)/ expense:</u>	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Holding company:</u>			
Rental income	24	(256)	(256)
Management fees	29	1,071	1,026
Interest expenses on Subordinated Notes		2,667	2,660
Other income		(19)	-
<u>Fellow subsidiaries of Pacific & Orient Berhad Group:</u>			
Rental income	24	(29)	(29)
Office rental	29	199	171
Call centre service charges	29	536	522
Printing and information system expenses	29	7,981	7,354
Repair and maintenance		265	260
Rental of equipment	29	4,366	4,076
Purchase of intangible assets		926	-
Printing and stationery		56	-
Staff training		6	6
<u>Substantial shareholder of Sanlam Emerging Markets (Pty) Ltd:</u>			
Actuarial fee		<u>185</u>	<u>184</u>

Information regarding outstanding balances arising from related party transactions as at 30 September 2016 are disclosed in Notes 12, 20 and 21.

The Directors are of the opinion that the related party transactions above have been entered into in the normal course of business on terms and conditions which are not materially different from that obtainable in transactions with unrelated parties.

37. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(b) Key Management Personnel Compensation:

The key management personnel is defined as the Chief Executive Officer.

The remuneration of key management personnel during the year are as follows:

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
Short-term employee benefits:			
Salary and other remuneration		676	612
Bonus		157	187
Allowances		36	36
Allowance for unutilised leave		(18)	18
Benefits-in-kind		35	34
Post-employment benefits:			
Pension cost-defined contribution plan		105	100
	30	<u>991</u>	<u>987</u>

38. RISK MANAGEMENT FRAMEWORK

(a) Risk Management Framework

The Board of Directors, with the assistance of the Management, had implemented a risk management framework within the Company in June 2004. The primary goal of the framework are to provide a consistent approach to risks and to support the overall business objectives of the Company. The Framework was drawn up in line with the Joint Australian/New Zealand Standard AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines and was last updated in September 2014.

The Board is supported in its role by a Risk Management Committee ("RMC"), which was set up with clear terms of reference from the Board. The RMC is assisted by a Risk Management Department ("RMD").

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

The responsibilities of the various parties for risk management within the Company are summarised below:

Parties responsible	Processes
Board of Directors	<ul style="list-style-type: none"> - Approving the Risk Management Framework and risk philosophy/policy. - Concurring with risk appetite. - Ensuring adequate resources and knowledge of management and staff involved in the risk management process. - Reviewing risk portfolio and being apprised of most significant risks.
Risk Management Committee ("RMC")	<ul style="list-style-type: none"> - Overseeing risk management activities. - Approving risk management procedures and measurement methodologies. - Ensuring effective implementation of objectives outlined in risk management framework. - Reporting higher risk exposures to the Board. - Providing critical challenge to management on the appropriateness of the risk strategy. - Promoting a culture of risk awareness and risk management within the Company.
Risk Management Department ("RMD")	<ul style="list-style-type: none"> - Ensuring effective implementation and maintenance of Risk Management Framework. - Implementing risk management philosophy/policy. - Acting as central contact and guide to Enterprise Risk Management ("ERM") issues. - Coordinating ERM among the various business units. - Monitoring progress of risk mitigation plans. - Preparing quarterly reports to RMC. - Maintaining documentation of ERM process. - Communicating ERM information to create risk awareness within the Company.
Management	<ul style="list-style-type: none"> - Directly responsible for all ERM activities of the Company. - Ensuring presence of positive internal environment.
Business Units / Risk Owners	<ul style="list-style-type: none"> - Performing operational risk management, monitoring and reporting risk exposures in areas/activities within their control.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

Parties responsible	Processes
Staff	<ul style="list-style-type: none"> - Taking cognisance of operational risks. - Reporting any new or escalating risks identified to the risk owners.
Internal Audit Department	<ul style="list-style-type: none"> - Providing independent assurance on adequacy and effectiveness of risk management process established by the Company and recommending improvements thereto.

The Company's Risk Management Framework requires that all of its businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Company. The Framework is based on the concept of 'three lines of defence' i.e. day-to-day risk management by the risk owners, risk oversight by the RMD and RMC and independent assurance by the Audit Committee, supported by the Internal Audit function.

Regular reports on key risks identified and the management of such risks are presented regularly to the RMC for its review and endorsement. Periodically, the RMC also reviews the adequacy and continued relevance of the Risk Management Framework, particularly in relation to mechanisms for principal risks identification, assessment, treatment, monitoring and review and communication.

Twice a year, the Chief Executive Officer ("CEO") presents reports to the Board of Directors on the scope and performance of the risk management and internal control system, to assist the Board in its risk management and internal control responsibilities. For the current year under review, the CEO has intimated that the Company's risk management and internal control system was adequate and generally effective in addressing the identified risks of the Company. Although minor lapses were noted, these did not have a significant impact on the Company.

(b) Capital Management

The Company is subject to the capital adequacy requirements of the Risk Based Capital ("RBC") Framework as implemented by Bank Negara Malaysia to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The RBC capital adequacy requirements involves the Company maintaining an adequate level of capital based on the risk exposures of the Company. This externally imposed capital requirement has been complied with by the Company to-date.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(b) Capital Management (Cont'd.)

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The Company's capital management policy for its insurance business is to hold sufficient capital to cover the statutory requirements based on the RBC Framework, including any additional amounts required by the regulator.

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach to manage capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds and borrowings. The Company also utilises, where efficient to do so, sources of capital such as reinsurance and securitisation in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis, and assessed against both the forecast available capital and the expected internal rate of return including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Board is provided with regular updates on the Company's capital adequacy position.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(c) Internal Capital Adequacy Assessment Process ("ICAAP")

The ICAAP is a process that is created to identify, assess, monitor, manage and report the short and long terms risks an insurance undertaking faces or may face and determine the own funds necessary to ensure that the undertaking's solvency needs are met at all times.

It includes the Capital Management Plan which is a detailed plan that outlines measures that management will take in the event that the Individual Target Capital Level ("ITCL") is breached. These measures include:

- Management's effort in reducing risk by continually enhancing the internal processes of the company.
- The disposal of equity and high capital charge investments.
- The use of proportional reinsurance that has been pre-arranged by the company.
- The use of the subordinated debt programme which will increase Tier 2 capital.
- Injection of shareholder funds.

The ICAAP has undergone independent review by an external consultancy. The review focused on many of the favourable aspects of the company's ICAAP and has outlined (in conjunction with management) a few recommendations that will enhance the process even further.

(d) Governance and Regulatory Framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or national disasters.

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

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

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk.

The Company manages these positions within an ALM Framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principle technique of the Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

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 and investment liabilities; and
- Forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

39. INSURANCE RISK

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities.

Insurance contracts transfer risk to the Company by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events.

The Company underwrites various general insurance contracts which are mostly on an annual coverage and annual premium basis with the exception of short term policies such as Marine Cargo which covers the duration in which the cargo is being transported.

The Company also underwrites some non-annual policies with coverage period more than one year such as Contractor's All Risks and Engineering, Bonds and Workmen Compensation.

The majority of the insurance business written by the Company is Motor and Personal Accident insurance. Other insurance business includes Fire, Contractor's All Risks and Engineering, Workmen Compensation, Professional Indemnity and other miscellaneous classes of insurance.

39. INSURANCE RISK (CONT'D.)

The principal insurance risks faced by the Company include risks of actual claims and benefit payments differing from expectation, risks arising from natural disasters, risks arising from the fluctuations in timing, frequency and severity of claims, as well as the adequacy of premiums and reserves. For longer tail claims that take some years to settle, there is also inflation risk.

The Company's objectives of managing insurance risks are to enhance the long-term financial performance of the business to achieve sustainable growth in profitability, strong asset quality and to continually optimise shareholders' value. The Company seeks to write those risks that it understands and that provide a reasonable opportunity to earn an acceptable profit.

The Company has the following policies and processes to manage its insurance risks:

- An underwriting policy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility to ensure underwriting profitability. Acceptance of risk is guided by a set of underwriting guidelines with set limits on underwriting capacity, and authority to individuals based on their specific expertise.
- A claim management and control system to pay claims and control claim wastage or fraud.
- Claim review policies to assess all new and ongoing claims and possible fraudulent claims are investigated to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.
- The Company purchases reinsurance as part of its risks mitigation programme. The objectives for purchasing reinsurance are to control exposure to insurance losses, reduce volatility and optimise the Company's capital efficiency. Reinsurance is ceded on proportional and non-proportional basis. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

39. INSURANCE RISK (CONT'D.)

The table below sets out the concentration of the Company's business by type of insurance products:

<u>General insurance business</u>	<u>2016</u>			<u>2015</u>		
	<u>Gross earned premium</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000	<u>Gross earned premium</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
Motor	259,509	(60,589)	198,920	355,780	(88,156)	267,624
Personal Accident	18,643	(795)	17,848	21,153	(1,291)	19,862
Fire	2,227	(993)	1,234	1,811	(810)	1,001
Miscellaneous	43,968	(45,807)	(1,839)	36,685	(34,802)	1,883
	<u>324,347</u>	<u>(108,184)</u>	<u>216,163</u>	<u>415,429</u>	<u>(125,059)</u>	<u>290,370</u>

The table below sets out the concentration of the Company's insurance contract liabilities by type of insurance products:

<u>Premium liabilities</u>	<u>2016</u>			<u>2015</u>		
	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
Motor	117,367	(32,355)	85,012	136,437	(28,252)	108,185
Personal Accident	1,249	(239)	1,010	5,414	(119)	5,295
Fire	98	(21)	77	761	(303)	458
Miscellaneous	16,097	(7,221)	8,876	13,189	(10,289)	2,900
	<u>134,811</u>	<u>(39,836)</u>	<u>94,975</u>	<u>155,801</u>	<u>(38,963)</u>	<u>116,838</u>

<u>Claims liabilities</u>	<u>2016</u>			<u>2015</u>		
	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
Motor	482,718	(122,741)	359,977	556,847	(130,859)	425,988
Personal Accident	3,279	(137)	3,142	4,432	(123)	4,309
Fire	277	(115)	162	853	(337)	516
Miscellaneous	68,005	(61,260)	6,745	53,465	(46,471)	6,994
	<u>554,279</u>	<u>(184,253)</u>	<u>370,026</u>	<u>615,597</u>	<u>(177,790)</u>	<u>437,807</u>

39. INSURANCE RISK (CONT'D.)

Key Assumptions

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

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

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

Sensitivities

The independent actuarial firm engaged by the Company re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its insurance contracts.

The 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 Tax and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

39. INSURANCE RISK (CONT'D.)Sensitivities (Cont'd.)

	Change in <u>assumptions</u>	Impact on gross <u>liabilities</u> RM'000	Impact on net <u>liabilities</u> RM'000	Impact on profit <u>before tax</u> RM'000	Impact on <u>equity*</u> RM'000
		←----- Increase/(Decrease) ----->			
<u>2016</u>					
Average claim cost	+ 1%	5,026	3,183	(3,183)	(2,419)
Average number of claims	+ 1%	5,026	3,183	(3,183)	(2,419)
Average claim settlement period	decreased by 6 months	9,053	6,043	(6,043)	(4,593)
<u>2015</u>					
Average claim cost	+ 1%	6,156	4,378	(4,378)	(3,284)
Average number of claims	+ 1%	6,156	4,378	(4,378)	(3,284)
Average claim settlement period	decreased by 6 months	9,390	6,254	(6,254)	(4,691)

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

Claims development table

The following tables show the Company's estimated cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date.

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

The management of the Company believes that the estimate of total claims outstanding as of 30 September 2016 is adequate. However, the possibility of inadequacy of such balance should not be ruled out as the actual experience is likely to differ from the projected results to different degrees, depending on the level of uncertainty. This is primarily due to the nature of the reserving process and the elements of uncertainty inherent in the exercise.

39. INSURANCE RISK (CONT'D.)Claims development table (Cont'd.)Gross general insurance contract liabilities for 2016:

<u>Accident year</u>	Before								Total RM'000
	2010 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	
At end of accident year		244,459	248,638	258,790	253,244	241,788	235,691	223,370	
One year later		224,613	258,486	262,480	256,276	280,037	208,308	-	
Two years later		248,128	281,919	282,396	294,416	262,636	-	-	
Three years later		256,861	293,549	308,747	286,821	-	-	-	
Four years later		262,994	309,098	295,232	-	-	-	-	
Five years later		269,245	295,180	-	-	-	-	-	
Six years later		260,814	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>260,814</u>	<u>295,180</u>	<u>295,232</u>	<u>286,821</u>	<u>262,636</u>	<u>208,308</u>	<u>223,370</u>	
At end of accident year		(53,559)	(56,892)	(59,518)	(52,326)	(47,235)	(36,239)	(32,100)	
One year later		(128,273)	(139,326)	(142,024)	(136,129)	(121,759)	(91,019)	-	
Two years later		(176,648)	(205,996)	(209,829)	(197,270)	(176,978)	-	-	
Three years later		(217,237)	(249,908)	(249,427)	(242,006)	-	-	-	
Four years later		(238,251)	(269,248)	(269,004)	-	-	-	-	
Five years later		(245,950)	(277,947)	-	-	-	-	-	
Six years later		(250,116)	-	-	-	-	-	-	
Cumulative payments to date		<u>(250,116)</u>	<u>(277,947)</u>	<u>(269,004)</u>	<u>(242,006)</u>	<u>(176,978)</u>	<u>(91,019)</u>	<u>(32,100)</u>	
Gross general insurance outstanding liability (direct and facultative)	39,481	10,698	17,233	26,228	44,815	85,658	117,289	191,270	532,672
Gross general insurance outstanding liability (treaty inward)									1,870
Best estimate of claims liabilities									534,542
Claims handling expenses									5,793
PRAD at 75% confidence level									40,110
Effects of discounting									(26,166)
Gross general insurance contract liabilities per statement of financial position									<u>554,279</u>

39. INSURANCE RISK (CONT'D.)Claims development table (Cont'd.)Net general insurance contract liabilities for 2016:

<u>Accident year</u>	Before 2010 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
At end of accident year		200,596	173,248	168,193	168,742	174,718	178,631	172,639	
One year later		191,470	177,930	178,771	174,031	207,249	152,783	-	
Two years later		209,032	189,370	186,995	196,815	183,247	-	-	
Three years later		217,861	196,436	205,905	185,345	-	-	-	
Four years later		222,440	206,294	191,100	-	-	-	-	
Five years later		227,766	189,923	-	-	-	-	-	
Six years later		215,993	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>215,993</u>	<u>189,923</u>	<u>191,100</u>	<u>185,345</u>	<u>183,247</u>	<u>152,783</u>	<u>172,639</u>	
At end of accident year		(47,979)	(41,748)	(42,761)	(36,504)	(36,192)	(28,124)	(25,086)	
One year later		(111,233)	(99,202)	(99,449)	(94,298)	(89,377)	(69,408)	-	
Two years later		(153,500)	(143,286)	(143,610)	(135,787)	(129,214)	-	-	
Three years later		(186,845)	(170,062)	(169,660)	(160,090)	-	-	-	
Four years later		(203,916)	(183,153)	(180,600)	-	-	-	-	
Five years later		(210,536)	(188,266)	-	-	-	-	-	
Six years later		(213,083)	-	-	-	-	-	-	
Cumulative payments to date		<u>(213,083)</u>	<u>(188,266)</u>	<u>(180,600)</u>	<u>(160,090)</u>	<u>(129,214)</u>	<u>(69,408)</u>	<u>(25,086)</u>	
Net general insurance outstanding liability (direct and facultative)	<u>31,634</u>	<u>2,910</u>	<u>1,657</u>	<u>10,500</u>	<u>25,255</u>	<u>54,033</u>	<u>83,375</u>	<u>147,553</u>	<u>356,917</u>
Net general insurance outstanding liability (treaty inward)									<u>293</u>
Best estimate of claims liabilities									<u>357,210</u>
Claims handling expenses									<u>3,668</u>
PRAD at 75% confidence level									<u>24,584</u>
Effects of discounting									<u>(15,436)</u>
Net general insurance contract liabilities per statement of financial position									<u><u>370,026</u></u>

39. INSURANCE RISK (CONT'D.)Claims development table (Cont'd.)Gross general insurance contract liabilities for 2015:

<u>Accident year</u>	Before								Total	
	2009	2009	2010	2011	2012	2013	2014	2015	RM'000	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At end of accident year		196,979	244,459	248,638	258,790	253,244	241,788	235,691		
One year later		219,140	224,613	258,486	262,480	256,276	280,037	-		
Two years later		229,690	248,128	281,919	282,396	294,416	-	-		
Three years later		240,169	256,861	293,549	308,747	-	-	-		
Four years later		243,320	262,994	309,098	-	-	-	-		
Five years later		242,235	269,245	-	-	-	-	-		
Six years later		242,298	-	-	-	-	-	-		
Current estimate of cumulative claims incurred		<u>242,298</u>	<u>269,245</u>	<u>309,098</u>	<u>308,747</u>	<u>294,416</u>	<u>280,037</u>	<u>235,691</u>		
At end of accident year		(50,154)	(53,559)	(56,892)	(59,518)	(52,326)	(47,235)	(36,239)		
One year later		(115,161)	(128,273)	(139,326)	(142,024)	(136,129)	(121,759)	-		
Two years later		(167,843)	(176,648)	(205,996)	(209,829)	(197,270)	-	-		
Three years later		(198,971)	(217,237)	(249,908)	(249,427)	-	-	-		
Four years later		(216,653)	(238,251)	(269,248)	-	-	-	-		
Five years later		(224,775)	(245,950)	-	-	-	-	-		
Six years later		(230,905)	-	-	-	-	-	-		
Cumulative payments to date		<u>(230,905)</u>	<u>(245,950)</u>	<u>(269,248)</u>	<u>(249,427)</u>	<u>(197,270)</u>	<u>(121,759)</u>	<u>(36,239)</u>		
Gross general insurance outstanding liability (direct and facultative)		<u>21,295</u>	<u>11,393</u>	<u>23,295</u>	<u>39,850</u>	<u>59,320</u>	<u>97,146</u>	<u>158,278</u>	<u>199,452</u>	610,029
Gross general insurance outstanding liability (treaty inward)										<u>863</u>
Best estimate of claims liabilities										610,892
Claims handling expenses										4,503
PRAD at 75% confidence level										43,795
Effects of discounting										(43,593)
Gross general insurance contract liabilities per statement of financial position										<u><u>615,597</u></u>

39. INSURANCE RISK (CONT'D.)Claims development table (Cont'd.)Net general insurance contract liabilities for 2015:

<u>Accident year</u>	Before	2009	2010	2011	2012	2013	2014	2015	Total	
	2009									
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At end of accident year		181,995	200,596	173,248	168,193	168,742	174,718	178,631		
One year later		191,742	191,470	177,930	178,771	174,031	207,249	-		
Two years later		206,975	209,032	189,370	186,995	196,815	-	-		
Three years later		215,442	217,861	196,436	205,905	-	-	-		
Four years later		218,001	222,440	206,294	-	-	-	-		
Five years later		216,255	227,766	-	-	-	-	-		
Six years later		218,645	-	-	-	-	-	-		
Current estimate of cumulative claims incurred		<u>218,645</u>	<u>227,766</u>	<u>206,294</u>	<u>205,905</u>	<u>196,815</u>	<u>207,249</u>	<u>178,631</u>		
At end of accident year		(47,147)	(47,979)	(41,748)	(42,761)	(36,504)	(36,192)	(28,124)		
One year later		(107,204)	(111,233)	(99,202)	(99,449)	(94,298)	(89,377)	-		
Two years later		(155,194)	(153,500)	(143,286)	(143,610)	(135,787)	-	-		
Three years later		(183,493)	(186,845)	(170,062)	(169,660)	-	-	-		
Four years later		(197,967)	(203,916)	(183,153)	-	-	-	-		
Five years later		(204,712)	(210,536)	-	-	-	-	-		
Six years later		(210,313)	-	-	-	-	-	-		
Cumulative payments to date		<u>(210,313)</u>	<u>(210,536)</u>	<u>(183,153)</u>	<u>(169,660)</u>	<u>(135,787)</u>	<u>(89,377)</u>	<u>(28,124)</u>		
Net general insurance outstanding liability (direct and facultative)		<u>15,926</u>	<u>8,332</u>	<u>17,230</u>	<u>23,141</u>	<u>36,245</u>	<u>61,028</u>	<u>117,872</u>	<u>150,507</u>	430,281
Net general insurance outstanding liability (treaty inward)										<u>863</u>
Best estimate of claims liabilities										431,144
Claims handling expenses										4,503
PRAD at 75% confidence level										28,961
Effects of discounting										(26,801)
Net general insurance contract liabilities per statement of financial position										<u><u>437,807</u></u>

40. FINANCIAL RISKS

The Company is exposed to a variety of financial risks arising from their operations. The key financial risks are credit risk, liquidity risk, and market risk.

The Company's overall financial risk management objective is to ensure that the Company creates value for its shareholders whilst minimising potential exposure to adverse effects on its financial performance and positions.

The policies and processes taken by the Company to manage these risks are set out below:

(a) Credit risk

Credit risk is the risk of financial loss that may arise from the failure of intermediary or counterparties in meeting their financial and contractual obligations to the Company as and when they fall due.

The Company's primary exposure to credit risk arises through its investments in debt instruments, receivables arising from sales of insurance policies and obligations of reinsurers through reinsurance contracts.

The Company has the following policies and processes to manage and mitigate its credit risks:

- Financial loss from an investment in debt instrument may arise from a change in the value of the investment due to a rating downgrade or default. Before acquiring a debt instrument from an issuer, an evaluation of the issuer's credit risk is undertaken by the Company. Ratings assigned by external rating agencies are also used in the evaluation to ensure optimal credit quality of the individual debt instrument concerned. The Company also has an Investment Policy which sets out the limits on which the Company may invest in each counterparty so as to ensure that there is no concentration of credit risk.
- Insurance receivables which arise mainly from premiums collected on behalf of the Company by appointed agents, brokers and other intermediaries are monitored on a daily basis to ensure adherence to the Company's Credit Policy. Internal guidelines are also established to evaluate the Company's intermediaries before their appointment as well as setting credit terms/limits to the appointees concerned.
- Receivables from reinsurance contracts are monitored on a monthly basis to ensure compliance with payment terms. The Company also monitors the credit quality and financial conditions of its reinsurers on an ongoing basis to reduce the risk exposure. When selecting its reinsurers, the Company considers their relative financial security which is assessed based on public rating information, annual reports and other financial data.

40. FINANCIAL RISKS (CONT'D.)(a) Credit risk (Cont'd.)Credit exposure

The table below shows the maximum exposure to credit risk for the financial assets components of the statement of financial position.

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Reinsurance assets	223,012	214,914
Insurance receivables	17,776	25,110
Deposits and placements with financial institutions	577,047	637,749
Other receivables	76,197	81,934
Cash and cash equivalents	11,274	25,011
	<u>905,306</u>	<u>984,718</u>

The above financial assets are not secured by any collaterals or credit enhancements.

Credit exposure by credit quality

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties. AAA is the highest possible rating.

	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2016</u>					
Reinsurance assets	-	87	211,335	11,590	223,012
Insurance receivables	-	13,553	-	4,223	17,776
Other receivables	807	3,296	637	71,457	76,197
Deposits and placements with financial institutions	121,776	320,093	56,646	78,532	577,047
Cash and cash equivalents	10,637	601	-	36	11,274
	<u>133,220</u>	<u>337,630</u>	<u>268,618</u>	<u>165,838</u>	<u>905,306</u>

40. FINANCIAL RISKS (CONT'D.)(a) Credit risk (Cont'd.)Credit exposure by credit quality (Cont'd.)

	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2015</u>					
Reinsurance assets	-	1,768	160,020	53,126	214,914
Insurance receivables	-	12	20,303	4,795	25,110
Other receivables	3,056	2,586	81	76,211	81,934
Deposits and placements					
with financial institutions	234,784	274,869	17,800	110,296	637,749
Cash and cash equivalents	24,354	652	-	5	25,011
	<u>262,194</u>	<u>279,887</u>	<u>198,204</u>	<u>244,433</u>	<u>984,718</u>

Age analysis of financial assets that are past due but not impaired

The Company undertakes an ageing analysis on insurance receivables. The ageing of insurance receivables that are past due, but not impaired, as at the reporting date, is as follows:

	Note	<u>< 30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>91-180 days</u>	<u>> 180 days</u>	<u>Total</u>
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2016</u>							
Insurance receivables	11	<u>3,811</u>	<u>137</u>	<u>24</u>	<u>1,732</u>	<u>433</u>	<u>6,137</u>
<u>2015</u>							
Insurance receivables	11	<u>4,410</u>	<u>48</u>	<u>-</u>	<u>2,977</u>	<u>28</u>	<u>7,463</u>

Financial assets that are neither past due nor impaired

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Insurance receivables	<u>11,639</u>	<u>17,647</u>

Insurance receivables that are past due but not impaired are creditworthy debtors.

Insurance receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Company.

The insurance receivables are not secured by any collaterals or credit enhancements.

40. FINANCIAL RISKS (CONT'D.)(a) Credit risk (Cont'd.)Impaired

The Company's insurance receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Note	Individually impaired RM'000	Collectively impaired RM'000	Total RM'000
Movement in allowance accounts:-				
<u>2016</u>				
At 1 October 2015		1,396	361	1,757
Allowance for impairment loss	29	3	2	5
Write back of impairment loss	29	(63)	(251)	(314)
At 30 September 2016		<u>1,336</u>	<u>112</u>	<u>1,448</u>
<u>2015</u>				
At 1 October 2014		2,005	179	2,184
Allowance for impairment loss	29	570	182	752
Write back of impairment loss	29	(990)	-	(990)
Write off		(189)	-	(189)
At 30 September 2015		<u>1,396</u>	<u>361</u>	<u>1,757</u>

Insurance receivables that are individually impaired at the reporting date relate to debtors that are in significant financial difficulties or have defaulted on payments. These insurance receivables are not secured by any collaterals or credit enhancements.

40. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Company's policy is to maintain adequate liquidity to meet its liquidity needs under normal and stressed conditions.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A Company-wide liquidity risk management policy setting out the assessment and determination of what constitutes liquidity risk for the Company is established. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Risk Management Committee.
- Guidelines on asset allocations, portfolio limit structures and maturity profiles of assets are implemented in order to ensure sufficient funding is available to meet insurance, investment contract and other payment obligations. As part of its liquidity management, the Company maintains sufficient level of cash and cash equivalents to meet expected and to a lesser extent unexpected outflows.
- Contingency funding plans are established to mitigate funding requirements arising from emergency and other unforeseen cash calls. Such funding plans include the arrangement of credit line with banks and funding from the holding company.
- The Company has entered into treaty reinsurance contracts that contain a "cash call" clause which permits the Company to make cash call on claims and receive immediate payments for large losses without waiting for usual periodic payment procedures to occur.

40. FINANCIAL RISKS (CONT'D.)(b) Liquidity risk (Cont'd.)Maturity analysis

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

For insurance contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as these are not contractual obligations.

	Carrying value RM'000	Up to a year* RM'000	1 - 2 years RM'000	2 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	Total RM'000
<u>2016</u>							
Insurance contract liabilities	554,279	269,983	164,322	145,490	650	-	580,445
Insurance payables	17,055	17,055	-	-	-	-	17,055
Hire purchase creditors	930	315	285	416	-	-	1,016
Borrowings	68,725	5,320	10,640	14,590	70,000	-	100,550
Other payables	7,419	7,419	-	-	-	-	7,419
Total liabilities	648,408	300,092	175,247	160,496	70,650	-	706,485
<u>2015</u>							
Insurance contract liabilities	615,597	244,903	158,937	186,009	69,340	-	659,189
Insurance payables	15,227	15,227	-	-	-	-	15,227
Hire purchase creditors	845	271	404	254	-	-	929
Borrowings	68,546	5,334	10,640	15,982	73,928	-	105,884
Other payables	6,817	6,817	-	-	-	-	6,817
Total liabilities	707,032	272,552	169,981	202,245	143,268	-	788,046

* Expected settlement is within 12 months from the reporting date.

40. FINANCIAL RISKS (CONT'D.)

(c) 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 market prices. Market risk comprises three types of exposures: foreign exchange rates (currency risk), market interest rates (interest rate/profit yield risk) and market prices (price risk).

The key features of the Company's market risk management practices and policies are as follows:

- A Company wide market-risk policy setting out the evaluation and determination of what constitutes market risk for the Company is established.
- Policies and limits have been established to manage market risk. Market risk is managed through portfolio diversification and changes in asset allocation. The Company's policies on asset allocation, portfolio limit structure and diversification benchmark have been set in line with the Company's risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets

(i) Currency risk

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

As the Company's business is conducted primarily in Malaysia, the Company's functional and presentation currency is Malaysian Ringgit. The Company's main foreign exchange risk arises from its reinsurance activities and overseas claims settlements which are normally settled and realised within 12 months and accordingly the impact arising from sensitivity in changes in foreign exchange rates is deemed to be minimal.

(ii) Interest rate/profit yield risk

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

The Company is exposed to interest rate risk primarily through its investments in fixed income securities and deposits placements. Interest rate risk is managed by the Company on an ongoing basis.

The Company has no significant concentration of interest rate/profit yield risk.

The impact on profit before tax at +/- 25 basis points change in the interest rate, with all other variables held consistent, is insignificant to the Company given that it has minimal floating rate financial instruments.

40. FINANCIAL RISKS (CONT'D.)

(c) Market risk (Cont'd.)

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), regardless whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting similar financial instruments traded in the market.

The Company's exposure to price risk arises mainly from its investments in quoted shares and unit trusts whose values will fluctuate as a result of changes in market prices.

The Company manages its price risk by ensuring that its investments in quoted shares and unit trusts are within the limits set out in the Company's Investment Policy. The Company does not have any major concentration of price risk related to such investments.

The analysis below is performed for reasonably possible movements in equity price with all other variables held constant, showing the impact on equity (due to changes in fair value of available-for-sale financial assets).

		<u>2016</u>	<u>2015</u>
	<u>Changes</u>	<u>Impact on</u>	<u>Impact on</u>
	<u>in variables</u>	<u>equity*</u>	<u>equity*</u>
		RM'000	RM'000
		← Increase/(Decrease) →	
Market price	+ 10%	8,964	6,459
Market price	- 10%	(8,964)	(6,459)

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

40. FINANCIAL RISKS (CONT'D.)

(d) 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 mitigates them by establishing a control framework and by monitoring and responding to potential risks. Controls include segregation of duties, access controls, authorisation, reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit. Business risk, such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

41. REGULATORY CAPITAL REQUIREMENTS

The Company's capital management policy is to optimise the efficient and effective use of resources to maximise the return on equity and provide an appropriate level of capital to protect policyholders and meet regulatory requirements.

The Company is required to comply with the regulatory capital requirement prescribed in the RBC Framework which is imposed by the Minister of Finance as a licensing condition for insurers. Under the RBC Framework guidelines issued by BNM, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. The Company has a capital adequacy ratio in excess of the minimum requirement.

The capital structure of the Company as at 30 September 2016, as prescribed under the RBC Framework is provided below:

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
<u>Eligible Tier 1 Capital</u>		
Share capital (paid-up)	100,000	100,000
Retained profits	142,668	117,293
	<u>242,668</u>	<u>217,293</u>
<u>Tier 2 Capital</u>		
Capital instruments which qualify as Tier 2 Capital	68,725	68,546
Revaluation reserve	8,914	8,914
AFS reserve	2,910	2,126
	<u>80,549</u>	<u>79,586</u>
Amounts deducted from Capital	<u>(987)</u>	<u>(259)</u>
Total Capital Available	<u>322,230</u>	<u>296,620</u>

42. FAIR VALUE

- (a) The financial instruments are categorised into the following levels of fair value hierarchy:

<u>AFS financial assets</u>	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>2016</u>				
Quoted shares	16,474	-	-	16,474
Unit trusts	101,477	-	-	101,477
	<u>117,951</u>	<u>-</u>	<u>-</u>	<u>117,951</u>
<u>2015</u>				
Quoted shares	15,925	-	-	15,925
Unit trusts	70,195	-	-	70,195
	<u>86,120</u>	<u>-</u>	<u>-</u>	<u>86,120</u>

- (b) The carrying amounts of financial assets approximated their fair values and therefore no disclosure is required.
- (c) The carrying amounts of financial liabilities of the general business and shareholder's fund at the reporting date approximated their fair values except as set out below:

	<u>2016</u> Carrying amount RM'000	<u>2015</u> Carrying amount RM'000	<u>2016</u> Fair value RM'000	<u>2015</u> Fair value RM'000
<u>Financial liabilities</u>				
Hire purchase creditors	930	845	949	849

- (d) Determination of fair value

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

- (i) Cash and bank balances, deposits and placements with financial institutions, insurance receivables/payables, and other receivables/payables:
- The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.
 - The carrying value of amount due from/to holding and fellow subsidiary companies approximate their fair values as the amounts are recoverable/repayable

42. FAIR VALUE (CONT'D.)

(d) Determination of fair value (Cont'd.)

(ii) AFS financial assets

- Quoted shares

The fair values of quoted shares are determined by reference to the stock exchange quoted market closing prices at the close of the business at the reporting date.

- Unit trusts

The fair value of quoted units in the unit trust funds are determined by reference to market quotations by the manager of the unit trust funds.

(iii) Hire purchase creditors

The fair value of hire purchase creditors is estimated by discounting the expected future cash flows using the current interest rates for liabilities with similar risk profiles.

The carrying amounts of hire purchase creditors approximate their fair values.

(iv) Subordinated Notes

The fair value of Subordinated Notes is determined based on the present value of the estimated future cash flows at the end of the tenure of the Subordinated Notes.

The carrying amount of Subordinated Notes approximates its fair value.

(e) Fair value

	Note	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>2016</u>					
Property, plant and equipment					
Freehold land		-	-	1,860	1,860
Freehold buildings		-	-	601	601
Leasehold buildings		-	-	13,929	13,929
	5	-	-	16,390	16,390
Investment properties					
Freehold buildings		-	-	695	695
Leasehold buildings		-	-	335	335
	6	-	-	1,030	1,030

42. FAIR VALUE (CONT'D.)

(e) Fair value (Cont'd.)

	Note	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>2015</u>					
Property, plant and equipment					
Freehold land		-	-	1,860	1,860
Freehold buildings		-	-	621	621
Leasehold buildings		-	-	14,420	14,420
	5	-	-	16,901	16,901
Investment properties					
Freehold buildings		-	-	695	695
Leasehold buildings		-	-	325	325
	6	-	-	1,020	1,020

The fair value of the property, plant and equipment and investment properties of the Company are categorised as Level 3. The investment properties have been revalued based on valuations performed by an accredited independent valuer. The valuations are based on comparison method. In arriving at the fair value of the assets, the valuer had taken into account the sales of similar properties and related market data, and established a value estimate by processes involving comparisons. In general, the properties being valued is compared with sales of similar properties that have been transacted in the open market. Listing and offering may also be considered. Valuation under this method may be significantly affected by the timing and the characteristics (such as location, accessibility, design, size and location) of the property transaction used for comparison.

43. SUBSEQUENT EVENT

On 17 May 2007, the Company invested in Islamic Corporate Bonds issued by Malaysian International Tuna Port Sdn. Bhd. ("MITP") totalling RM10,000,000. The bonds were purportedly guaranteed by a letter of support issued by the Ministry of Agriculture ("MOA"). On 19 February 2010, the Company received a partial repayment of RM6,020,000.

Arising from MITP's default in its obligation to repay the interest and principal amount owing to bondholders, the Company had impaired the remaining balance of RM3,980,000 in the previous financial years.

On 6 October 2016, the Company received a notice from the trustee of MITP that a final and full settlement of amount owing to bondholders would be remitted on 10 October 2016.

On 10 October 2016, the Company received the redemption payment as full and final settlement amounting to RM2,291,000 from the trustee of MITP bonds. Consequently a write back of impairment of RM2,291,000 will be reflected in the next financial year ending 30 September 2017.