

PACIFIC & ORIENT INSURANCE CO. BERHAD
Company No. 12557 W
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
30 September 2018

Company No: 12557 W

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

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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 2018.

PRINCIPAL ACTIVITY

The Company is principally engaged 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>27,618</u>

DIVIDENDS

The amount of dividends paid or declared by the Company since 30 September 2017 were as follows:

	RM'000
<u>In respect of the financial year ended 30 September 2017</u>	
Final single tier dividend of 36.50 sen per share, declared on 20 February 2018 and paid on 28 February 2018	<u>36,500</u>

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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.

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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.

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DIRECTORS

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

Pn. Norazian binti Ahmad Tajuddin
Mr. Chan Thye Seng
Mr. Prasheem Seebran
Dato' Dr. Zaha Rina binti Zahari
Mdm. Sum Leng Kuang
Mr. Michael Yee Kim Shing
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)

In accordance with Article 74 of the Company's Constitution, Dato' Dr. Zaha Rina binti Zahari and Madam Sum Leng Kuang retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves 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.

INDEMNITY AND INSURANCE FOR DIRECTORS, OFFICERS AND AUDITORS

The Directors and officers of the Company are covered by Directors and Officers liability insurance for any liability incurred in the discharge of their duties, provided that they have not acted fraudulently or dishonestly or derived any personal profit or advantage. The insurance premium paid during the financial year amounted to RM30,800.

There were no indemnity given to or insurance effected for the auditors of the Company during the financial year.

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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				At 30 September 2018
	At 1 October 2017	<u>Bonus Issue</u>	<u>Acquired</u>	<u>Disposed</u>	
<u>Pacific & Orient Berhad</u> <u>(Holding Company)</u>					
Mr. Chan Thye Seng					
- Direct interest	33,643,320	5,607,218	-	-	39,250,538
- Indirect interest	109,045,418	18,174,232	-	-	127,219,650
Mr. Michael Yee Kim Shing					
- Direct interest	200,000	33,333	-	-	233,333
- Indirect interest	411,018	68,501	-	-	479,519
Dato' Dr. Zaha Rina binti Zahari					
- Direct interest	850,000	141,666	8,400	-	1,000,066

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.

AUDITORS' REMUNERATION

Total amounts paid or receivable by the auditors as remunerations for their statutory audit services is disclosed in Note 29 to the financial statements.

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 LEADERSHIP AND EFFECTIVENESS

1. BOARD RESPONSIBILITIES

1.1 Board Roles and Responsibilities

The Board assumes responsibility for effective stewardship and control 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.

The roles and responsibilities of the Board, as clearly set out in a Board Charter, and which have been carried out by the Board during the financial year, are as follows:

- (i) Adopting and reviewing a strategic plan for the Company.

The Board has reviewed and adopted the Strategic Plan 2017/2018, which lays down the short term and long term plans for the Company to achieve. The Board then oversees the risk management framework for managing business risks and periodically monitors 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 has reviewed the unaudited quarterly management report and accounts of the Company prior to submission of the management report and accounts to the holding company for purposes of preparation of the consolidated financial statements. Additionally, the Board has reviewed the unaudited interim financial statement for the six months ended 31 March 2018 and the audited financial statements of the Company for the financial year ended 30th September 2018 for purposes of filing with the relevant authorities. The Board has also conducted a mid-year review of the Strategic Plan 2017/2018 to evaluate the progress of the

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.1 Board Roles and Responsibilities (Cont'd)

Company in meeting the strategic plan, ascertain the need to reallocate resources to better achieve the goals or to take corrective actions to keep the Company on track, as well as updating the plan for the remainder year, where necessary.

- (iii) Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks.

The Company has established a Risk Management Framework and internal controls, which covers the process for identification of principal risks and assessment of the risks identified, and ensuring implementation of appropriate systems of internal controls to manage the risks identified.

- (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. 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. In this respect, among others, the Company has ensured that all key positions were identified, competencies were well-defined and job descriptions were developed that explains the general duties and responsibilities of the positions so that vacancies could be effectively and promptly refilled. The staff are evaluated on an annual basis, which included referencing to the job descriptions and any performance goals set. Staff who have shown good potential are identified and provided with sufficient training and empowerment so that their performance could be assessed and their potential enhanced. The identified staff are also suitably compensated for the roles as part of retention of key staff.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.1 Board Roles and Responsibilities (Cont'd)

- (v) Developing and implementing an investor relations programme or communications policy for the Company.

As there are only two (2) shareholders presently, the Board was of the opinion that a shareholders communication policy is not necessary at this point in time. The Board will evaluate the need for such a policy should the number of shareholders increase significantly in the future. The Company communicates with shareholders mainly through the Company's annual reports, quarterly management report and accounts, annual general meetings and extraordinary general meetings that may be convened, and other corporate publications on the Company's website at <http://www.poi2u.com> with the objective of ensuring fair, timely, effective, transparent, accurate and open communication with the shareholders of the Company.

- (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 established 4 Board Committees to assist the Board in performing its duties and discharging its responsibilities more efficiently and effectively. They are the Nominating Committee, Remuneration Committee, Audit Committee and Risk Management Committee. 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 Board has delegated to the Chief Executive Officer certain matters in the day-to-day operations of the Company, which include running the Company in line with the Board's direction, recommending strategies and policies to the Board supported by background information, keeping the Board educated and informed and seeking the Board's counsel on significant matters. The delegated authority comprises specific authorities delegated to the Chief Executive Officer and those authorities which the Chief Executive Officer is permitted to delegate to his direct reports. From time to time, the Board may establish limits on Management's authority depending on the nature and size of proposed transactions. These limits permit some flexibility but otherwise must not be exceeded without Board approval.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.1 Board Roles and Responsibilities (Cont'd)

While 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.

The presence of the 3 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.

1.2 Separation of Chairman and Chief Executive Officer Positions

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. In this respect, the Chairman provides overall leadership in the process of reviewing and deciding upon strategic matters that influences the manner in which the Company's business is conducted, such as strategic planning and policy formulation, and enhancing Board effectiveness by leading activities and meetings of the Board such that the Board exercises appropriate oversight of Management and adopts appropriate practices in corporate governance and chairing of meetings of the Board. The Chairman also provides liaison between the Board and Management and acts as an advisor to and sounding board for the Chief Executive Officer. Last but not least, the Chairman ensures that timely and relevant information and other resources, including adequate and regular updates from the Chief Executive Officer on all issues important to the welfare and future of the Company, are available to the Board to adequately support its work.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.2 Separation of Chairman and Chief Executive Officer Positions (Cont'd)

The Board has delegated day-to-day responsibility for the management of the Company to the Chief Executive Officer. The Chief Executive Officer recommends strategies and policies to the Board supported by background information, implements the policies and strategies adopted by the Board, runs the Company in line with the Board's direction, oversees the overall business performance and ensures that matters that have been delegated to Management are efficiently executed. The Chief Executive Officer also establishes and achieves performance targets, implements corporate governance, risk management and internal controls and ensures compliance with legal requirements, keeps the Board educated and informed as well as seeks the Board's counsel on significant matters affecting the industry and the Company in general towards achieving long term goals of the Company.

1.3 Company Secretary

The Board is supported by a qualified, experienced and competent Company Secretary. The Company Secretary is an associate member of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) and has more than 10 years working experience in company secretarial services. Thus, the personnel has the appropriate qualifications and experience to hold the position.

The Company Secretary advises the Board on any updates relating to statutory and regulatory requirements pertaining to the duties and responsibilities of Directors and corporate governance matters and liaises with external parties and regulatory bodies on compliance matters. Additionally, the Company Secretary organises and attends all Board meetings and ensures 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.

1.4 Board Meetings

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 6 times annually. The scheduled Board meetings are held to receive, deliberate and decide on matters reserved for its decision, 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.4 Board Meetings (Cont'd)

Additional meetings are convened as and when necessary to consider urgent matters that require the Board's expeditious review and consideration.

The Board met 6 times during the financial year ended 30 September 2018. The details of attendance by each of the Director of the meetings are as follows:

Name of Board member	Designation	Number of meetings
Puan Norazian binti Ahmad Tajuddin (Appointed Chairman on 1 August 2018)	Chairman, Independent Director	6/6
Mr. Chan Thye Seng	Executive Director	6/6
Mr. Michael Yee Kim Shing	Non-Independent Non-Executive Director	6/6
Dato' Dr. Zaha Rina binti Zahari	Independent Director	6/6
Madam Sum Leng Kuang	Independent Director	5/6
Mr. Prasheem Seebran	Non-Independent Non-Executive Director	6/6
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	Independent Director	5/5

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.

1.5 Supply of Information

The Board has unrestricted access to timely and accurate information. The Board members are provided with the relevant agenda and Board papers containing management and financial information in advance at least 7 working days prior to 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.5 Supply of Information (Cont'd)

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. 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 policy documents as well as amendments thereto issued by regulators, particularly the effects of such new or amended regulations and policy documents 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.

1.6 Board Charter

The Company has established a Board Charter to facilitate the effective discharge of the Board's and Director's duties. The Board Charter covers the following key areas, among others, roles of the Chairman and Chief Executive Officer; Board composition; Board appointment; size of the Board; time period of office; reward system; induction of new Director; Director's training; Board responsibilities; Board Committees and their terms of references; Board meetings; and schedule of matters reserved for collective decision of the Board.

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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.6 Board Charter (Cont'd)

- (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.

1.7 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 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.8 Conflict of Interest Situations

The Board is alert to the possibility of potential conflict of interest situations involving the Directors and the Company and has adopted a conflict of interest policy for the Company. The Board 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.

1.9 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 who is either the Chief Operating Officer or the Chief Audit Executive. The Designated Executive 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

1. BOARD RESPONSIBILITIES (CONT'D)

1.9 Whistleblowing Policy (Cont'd)

Once a claim of malpractice or misconduct is made, the Designated Executive will respond to the whistleblower within 10 working days, setting out the intended investigation plan. Upon completion of investigation, 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 co-operate with the investigation regardless of what may occur.

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

2. BOARD COMPOSITION

2.1 Board Composition and Size

With the resignation of En. Mohammad Nizar bin Idris as Chairman and Independent Director on 20 June 2018 after completing a tenure of 9 years with the Company, the Board currently comprises 6 Directors, made up of 3 Independent Directors and 3 Non-Independent Non-Executive Directors. In order to meet the majority of Independent Directors requirement of Bank Negara Malaysia's policy document on Corporate Governance [ref. BNM/RH/PD 029-9], the Board is actively looking for a suitable candidate for appointment as Independent Director. All Independent Directors on the Board have met the independence criteria prescribed by Bank Negara Malaysia.

All Directors have 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]. 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION

2.2 Board Diversity

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, age, cultural background, gender and other distinctions among the Directors. These differences will be considered in determining Board balance and composition.

In this respect, the Board is focused on ensuring that its composition reflects gender diversity without compromising quality. Accordingly, the Board, when making appointments, will consider gender balance as well as the skills and experience needed to expand the perspective and capability of the Board as a whole. Women Directors currently form 50% 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 once a new Independent Director is identified and appointed. Taken as a whole, the Board represents many years' experience in legal, accounting, insurance, actuarial, banking, treasury, fund management, business administration and risk management and support services, and is therefore suited to the oversight of the Company.

The same applies for appointments to Senior Management and the Company's workforce. The Company recognises the value of a diverse 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.3 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 2018, the Nominating Committee comprises 6 Directors, with half 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 or 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.3 Nominating Committee (Cont'd)

The Nominating Committee held 6 meetings during the financial year. The details of attendance by each of the members at the meetings are as follows:

Name of Committee member	Number of meetings attended
Dato' Dr. Zaha Rina binti Zahari (Appointed Chairman on 1 August 2018)	6/6
Puan Norazian binti Ahmad Tajuddin	6/6
Mr. Chan Thye Seng	6/6
Mr. Michael Yee Kim Shing	6/6
Madam Sum Leng Kuang	5/6
Mr. Prasheem Seebran	6/6
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	5/5

During the financial year, the Nominating Committee had carried out the following activities:

- (i) Assessed the performance of the Board as a whole, the Board Committees, the individual Directors, and the Chief Executive Officer;
- (ii) Assessed the performance of the expatriate Manager – Specialist Business, Underwriting Department prior to his re-appointment, subject to Bank Negara Malaysia's approval;
- (iii) Reviewed and recommended to the Board the appointment of the Chief Executive Officer and proposed Independent Director; and
- (iv) Review and recommended the appointment of the Appointed Actuary, subject to Bank Negara Malaysia's approval.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.3 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 the Board as a whole, Board Committees and individual Directors are conducted on a peer review basis, facilitated by the use of assessment forms. 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. As for individual Directors, each individual Director is assessed on the person's contribution to interaction, quality of input at meetings, the person's understanding of a Director's role and whether he or she has fulfilled his or her specific roles.

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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.4 Appointments to the Board

The Nominating Committee 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 existing Board members. Nevertheless, the Nominating Committee is open to utilizing independent sources to identify suitably qualified candidates where suitable nominees could not be sourced through the normal channel.

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 character, experience, integrity, competence, expertise and time commitment, as well as 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 skill 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.

2.5 Re-appointment and Re-election

In accordance with the Constitution of the Company, at least 1/3 of the Directors shall retire from the office by rotation at each Annual General Meeting but shall be eligible for re-election at the Annual General Meeting. A retiring Director is eligible for re-election at the Annual General Meeting.

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

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 LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.5 Re-appointment and Re-election (Cont'd)

At the 46th Annual General Meeting of the Company held on 20 February 2018, shareholders' approval were obtained to re-elect Mr. Chan Thye Seng and Puan Norazian binti Ahmad Tajuddin, who had retired as Directors of the Company pursuant to Article 74 of the Constitution of the Company. Resolutions were also passed to reappoint En. Mohammad Nizar bin Idris and Mr. Michael Yee Kim Shing, who were all above 70 years old, to continue to act as Directors of the Company following the repeal of the Companies Act 1965.

The Directors who will be seeking re-election at this forthcoming Annual General Meeting are Dato' Dr. Zaha Rina binti Zahari and Madam Sum Leng Kuang.

2.6 Fostering Commitment

The Directors have been informed of the expectations of time commitment during their appointments to the Board. This takes the form of the number of Board and Board Committee meetings scheduled to be held in a financial year. All the Directors are aware of their responsibilities and are required to devote sufficient time to discharge their duties and responsibilities, which included attendance at meetings of the Board and Board Committees, preparatory work ahead of such meetings, keeping abreast of relevant business developments and legislations, contribution to the strategic development of the business, providing counsel and guidance to the Management team and meeting with professional advisers and external auditors, where necessary. The Directors' commitment is evidenced by their attendance at all Board and Board Committee 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.

2.7 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 while 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.7 Directors' Training (Cont'd)

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 with necessary skills to discharge their duties and responsibilities.

All 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. During the financial year ended 30 September 2018, the Directors had also attended training covering a broad range of areas, such as statutory regulations, corporate governance, risk management, financial reporting standards, financial planning and information technology.

The details of training attended by each individual Director are as follows:

Name of Director	Training Course
Puan Norazian binti Ahmad Tajuddin	<ul style="list-style-type: none"> • MFRS 9 and MFRS 17, Companies Act 2016 and Cybersecurity • 2nd Securities Commission – FIDE Forum Dialogue: Leveraging Technology for Growth • BNM-FIDE Forum Dialogue: Managing Cyber Risks in Financial Institution • Mandatory Accreditation Programme by ICLIF • Navigating the VUCA World • Capital Market Director Programme – Module 1: Directors as Gatekeepers of Market Participants • CMDP Module 2A: Business Challenges and Regulatory Expectations – What Directors Need to Know (Equities and Futures Broking) • CMDP Module 3: Risk Oversight and Compliance – Action Plan for Board of Directors • CMDP Module 4: Current and Emerging Regulatory Issues in the Capital Market

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.7 Directors' Training (Cont'd)

Name of Director	Training Course
	<ul style="list-style-type: none"> • Corporate Governance Briefing Sessions: MSSG Reporting & CG Guide by Bursa • Governance, Risk and Control – Embracing the Future • Blockchain in Financial Services Industry by IBM – FIDE Forum • IBM Think Malaysia – FIDE Forum
Chan Thye Seng	<ul style="list-style-type: none"> • MFRS 9 and MFRS 17, Companies Act 2016 and Cybersecurity
Michael Yee Kim Shing	<ul style="list-style-type: none"> • MFRS 9 and MFRS 17, Companies Act 2016 and Cybersecurity
Dato' Dr. Zaha Rina binti Zahari	<ul style="list-style-type: none"> • MFRS 9 and MFRS 17, Companies Act 2016 and Cybersecurity • Rethinking – Independent Director: A New Frontier • Malaysian Code on Corporate Governance Reporting & Corporate Governance Guide • Financial Master Class, A Simple Yet Practical Financial Plan Tool • Offshore Technology Conference Asia 2018 • Digital Economy & Capital Market Series
Madam Sum Leng Kuang	<ul style="list-style-type: none"> • MFRS 9, MFRS 17, Companies Act 2016 and Cybersecurity • BNM-FIDE Forum Board Conversations (Banks & DFIs) • 5th BNM-FIDE Forum Annual Dialogue • Win the Innovation Race: Unlocking the Creative Power of Asians • FIDE FORUM Dinner Talk: “The Director as Coach”: An exclusive dialogue with Dr. Marshall Goldsmith and Launch of FIDE Forum’s “DNA of a Board Leader”
Mr. Prasheem Seebran	<ul style="list-style-type: none"> • FIDE Core Program – Module B • MFRS 9, MFRS 17, Companies Act 2016 and Cybersecurity

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

2. BOARD COMPOSITION (CONT'D)

2.7 Directors' Training (Cont'd)

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 Perbadanan Insurans Deposit Malaysia policy documents and circulars as well as Persatuan Insurans Am Malaysia circulars. The Board will continue to evaluate and determine the training needs of the Board members as a whole to enhance their skills and knowledge.

3. REMUNERATION

3.1 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 2018, the Remuneration Committee comprises 5 Directors with a majority of members 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 the terms of employment and remuneration of the Non-Executive Directors, Chief Executive Officer and any other person deemed necessary. 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 any other person deemed necessary. The remuneration packages for the Chief Executive Officer and any other person deemed necessary shall be structured to link rewards to corporate and individual performance to encourage high performance standards.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

3. REMUNERATION (CONT'D)

3.1 Remuneration Committee (Cont'd)

- (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 or her remuneration. The remuneration of a Non-Executive Director should reflect the level of responsibilities undertaken and contributions to the effectiveness of the Board.

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

Name of Committee member	Number of meetings attended
Dato' Dr. Zaha Rina binti Zahari (Appointed Chairman on 1 August 2018)	2/2
Puan Norazian binti Ahmad Tajuddin	2/2
Mr. Michael Yee Kim Shing	2/2
Madam Sum Leng Kuang	1/2
Mr. Prasheem Seebran	2/2
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	2/2

During the financial year, the Remuneration Committee had carried out the following activities:

- (i) Reviewed and recommended to the Board the remuneration of the Chief Executive Officer; and
- (ii) Reviewed and recommended to the Board the payment of gratuity to En. Abdul Rahman bin Talib, who resigned as Chief Executive Officer of the Company.

3.2 Remuneration Policy

A Remuneration Policy has been established to govern the remuneration of the Executive Director, Non-Executive Directors, Chief Executive Officer, 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).

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

3. REMUNERATION (CONT'D)

3.2 Remuneration Policy (Cont'd)

The remuneration of Executive Director and Chief Executive Officer is structured to link reward to corporate and individual performance to encourage high performance standards without creating incentives for irresponsible behaviour and insider excesses. The remuneration is decided by the full Board on the recommendation of the Remuneration Committee based on a performance evaluation by the Nominating Committee. The employment conditions and benefits attributable to the Group and the relevant and competitive employment market are taken into account when determining a fair and equitable reward.

The remuneration of the Non-Executive Directors shall be a fixed sum and reflects the level of responsibilities undertaken and contribution to the effective functioning of the Board and Board Committees. The remuneration is deliberated upon by the full Board before recommendation is made to the shareholders who shall decide by resolution in general meeting. Directors do not participate in decisions regarding their own remuneration packages.

The remuneration payable to Key Responsible Persons is linked to the achievement of the individual's areas of responsibility, project success and performance targets while engendering responsible risk behaviours.

The remuneration payable to employees in control functions are principally based on the Company's overall performance as well as achievement of their overall control objectives without compromising their independence. The remuneration is set at sufficient levels to ensure that competent and experienced professionals can be attracted and retained.

4. AUDIT COMMITTEE

4.1 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 2018, the Audit Committee comprises 5 Directors, all of whom are Non-Executive Directors, with a majority being Independent Directors.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

4. AUDIT COMMITTEE (CONT'D)

4.1 Audit Committee (Cont'd)

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 function.
 - (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.
- (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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

4. AUDIT COMMITTEE (CONT'D)

4.1 Audit Committee (Cont'd)

- (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 4 meetings during the financial year. Attendance of the members at the meetings are as follows:

Name of Committee member	Number of meetings attended
Dato' Dr. Zaha Rina binti Zahari (Appointed Chairman on 1 August 2018)	4/4
Puan Norazian binti Ahmad Tajuddin	4/4
Mr. Michael Yee Kim Shing	4/4
Madam Sum Leng Kuang	3/4
Mr. Prasheem Seebran	4/4
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	3/3

During the financial year, the Audit Committee had reviewed 23 internal audit 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.

4.2 Relationship with External Auditors

The Audit Committee's terms of reference formalises the relationship with the External Auditors. It is the policy of the Audit Committee to meet with the External Auditors at least twice a year, the first during presentation of their Audit Plan, and the second when the External Auditors present their report on the Company's financial statements for the financial year as well as other information in the Company's annual report, and their Report to the Audit Committee. The Audit Committee also meets twice with the External Auditors without the presence of the Management. In the financial year ended 30 September 2018, the Audit Committee had met with the External Auditors twice without the presence of Management, the first meeting to discuss any matters which the External Auditors noted in the course of preparation of their 2018 Audit Plan which they wish to discuss with the Audit Committee, and the second to discuss matters relating to their remit and any issues arising from the audit.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

4. AUDIT COMMITTEE (CONT'D)

4.2 Relationship with External Auditors (Cont'd)

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 2019. The Audit Committee's assessment had included a review of the curriculum vitae of the engagement partner and the concurring partner 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, the resources (manpower, tools and collective knowledge of professionals globally) of the External Auditors to carry out their audit during the financial year, their insurance audit experience, as well as the nature, scope and fee of non-audit services to ensure that such services are permissible and that the fees are fair and realistic having regard to the nature, scope and complexity of the non-audit services undertaken so as to preserve the External Auditors' independence. The Audit Committee had also received feedback from Management on the professional working relationship with the External Auditors. The Audit Committee had obtained written assurance from the External Auditors confirming that in relation to their audit of the financial statements of the Company for the financial year, the External Auditors were not aware of any relationships or matters that may reasonably be brought to bear on their independence.

The External Auditors' independence was further enhanced by the By-laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants, International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants, and the Companies Act 2016 in Malaysia. Based on the written assurance from the External Auditors and the Audit Committee's own assessment performed, the Audit Committee was satisfied with the suitability and independence of the External Auditors. The Audit Committee's assessment was concurred by the Board of Directors. Shareholders' approval will be sought for the re-appointment of the External Auditors in the forthcoming annual general meeting before an application for approval is sought from Bank Negara Malaysia.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

4. AUDIT COMMITTEE (CONT'D)

4.3 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 prospects 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.

The Directors are of the opinion that the Company uses appropriate accounting policies that are consistently applied and supported by reasonable as well as prudent judgments and estimates, and that the financial statements have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016, and which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the results and cash flows of the Company for the financial year.

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

5.1 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 2018, the Risk Management Committee comprises 5 Directors, with a majority of the members being Independent Directors.

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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D)

5.1 Risk Management Committee (Cont'd)

- (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 6 meetings during the financial year. Attendance of the members at the meetings are as follows:

Name of Committee member	Number of meetings attended
Dato' Dr. Zaha Rina binti Zahari (Chairman)	6/6
Puan Norazian binti Ahmad Tajuddin	6/6
Mr. Michael Yee Kim Shing	6/6
Madam Sum Leng Kuang	5/6
Mr. Prasheem Seebran	6/6
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	5/5

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

5.2 Risk Management Framework

The Board regards risk management as an integral part of the Company's business operations and has accordingly a formal Risk Management Framework to assist in the identification, evaluation, management 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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D)

5.2 Risk Management Framework (Cont'd)

The Risk Management Committee 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 formulated Risk Management Framework, covers, among others, risk management principles and philosophy/policy; accountability, roles and responsibilities for risk management; risk management structure and cycle; and risk management process.

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.

5.3 Internal Control Framework

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.

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.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D)

5.3 Internal Control Framework (Cont'd)

The Company uses the three lines of defense model to review and assess the Internal Control Framework. The first line of defense 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 defense comprises the Risk Management and Compliance Departments, which provide oversight over business processes and risks on an ongoing basis. The Internal Audit function is the third line of defense, providing independent assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives. Such assurance is provided regularly upon completion of governance and internal control assignments undertaken by Internal Audit.

5.4 Internal Audit Function

The internal audit function of the Company has been outsourced to the Group Internal Audit Department of the holding company, Pacific & Orient Berhad, which is independent of the activities it audits and is performed with impartiality, proficiency and due professional care. It undertakes regular reviews of the adequacy and effectiveness of the Company's system of internal controls and risk management process, as well as appropriateness and effectiveness of the corporate governance practices based on Audit Planning Memorandums approved by the Audit Committee. The Group Internal Audit Department reports directly to the Audit Committee. The activities of this Department provides the Board with much of the assurance it requires regarding the adequacy and integrity of the risk management and internal control system.

5.5 Compliance

A Compliance Department, staffed with 3 personnel, was established by the Company on 25 April 2016. 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.

During the financial year, the Compliance Department had carried out the following activities, among others:

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D)

5.5 Compliance (Cont'd)

- (i) Prepared the Compliance Plan for approval of the Board.
- (ii) Issued 15 Compliance Assessment Reports to Management, covering compliance of business units against regulatory requirements and the Company's policies and procedures.
- (iii) Prepared the Compliance Risk Assessment Guide for approval of the Board.
- (iv) Prepared the Compliance Quarterly Report for tabling to the Board, covering matters relating to compliance assessment, compliance training, non-compliances noted, regulatory issues and other compliance activities carried out by Compliance Department during the quarter.
- (v) Summarised policy documents and exposure drafts issued by Bank Negara Malaysia and circulars issued by Persatuan Insurans Am Malaysia for information of the Board, and performing gap analysis, where necessary, to assess extent of the Company's compliance and the actions and timeline required to close the gaps.

INTEGRITY IN CORPORATE REPORTING

6. ACCOUNTABILITY AND AUDIT

6.1 Directors' Responsibility Statement

The Directors are required by the Companies Act 2016 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 2018 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 2016, the Financial Services Act 2013 and the policy documents or circulars issued by Bank Negara Malaysia.

INTEGRITY IN CORPORATE REPORTING (CONT'D)

6. ACCOUNTABILITY AND AUDIT (CONT'D)

6.1 Directors' Responsibility Statement (Cont'd)

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.

6.2 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.

6.3 Corporate Independence

At least 2 Directors, with at least 1 Director each nominated by the respective shareholders, shall constitute a quorum at Board meetings of the Company. The presence of representatives from the 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.

6.4 Scope and Performance of the Risk Management and Internal Control System

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.

INTEGRITY IN CORPORATE REPORTING (CONT'D)

6. ACCOUNTABILITY AND AUDIT (CONT'D)

6.4 Scope and Performance of the Risk Management and Internal Control System (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.

6.5 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 same applies for appointments to Senior Management and the Company's workforce. The Company recognises the value of a diverse 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.

Company No: 12557 W

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 28 November 2018.



NORAZIAN BINTI AHMAD TAJUDDIN



CHAN THYE SENG

Kuala Lumpur

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

STATEMENT BY DIRECTORS

We, NORAZIAN BINTI AHMAD TAJUDDIN 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 43 to 134, are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 September 2018 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 28 November 2018.

NORAZIAN BINTI AHMAD TAJUDDIN

CHAN THYE SENG

STATUTORY DECLARATION

I, NOOR MUZIR BIN MOHAMED KASSIM, 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 43 to 134 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 NOOR MUZIR BIN MOHAMED
KASSIM at Kuala Lumpur in Wilayah Persekutuan
on 28 November 2018

)
)
) NOOR MUZIR BIN
) MOHAMED KASSIM

Before me,

Commissioner for Oaths



Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut,
50350 Kuala Lumpur.
Tel: 019-6680745

12557 W

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pacific & Orient Insurance Co. Berhad which comprise the statements of financial position as at 30 September 2018 of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 43 to 134.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 September 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

12557 W

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

Information other than the financial statements and auditors' report thereon (cont'd.)

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

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

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibility for the audit of the financial statements

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

12557 W

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

Auditors' responsibility for the audit of the financial statements (cont'd.)

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

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

12557 W

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

Auditors' responsibility for the audit of the financial statements (cont'd.)

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

Other Matters

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



Ernst & Young
AF: 0039
Chartered Accountants



Dato' Megat Iskandar Shah bin Mohamad Nor
No. 03083/07/2019 J
Chartered Accountant

Kuala Lumpur, Malaysia
28 November 2018

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

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
ASSETS			
Property, plant and equipment	5	20,745	22,222
Investment properties	6	1,220	1,220
Prepaid land lease payments	7	294	298
Intangible assets	8	1,290	1,351
Investments	9	558,019	649,507
Reinsurance assets	10	171,803	200,416
Insurance receivables	11	25,180	20,909
Other receivables	12	69,754	74,911
Cash and cash equivalents	13	38,300	2,586
TOTAL ASSETS		<u><u>886,605</u></u>	<u><u>973,420</u></u>
EQUITY AND LIABILITIES			
Share capital	14	100,000	100,000
Revaluation reserve		12,378	12,378
Available-for-sale reserve		4,046	7,385
Retained profits	15	134,857	143,739
TOTAL EQUITY		<u><u>251,281</u></u>	<u><u>263,502</u></u>
Insurance contract liabilities	16	534,128	611,117
Deferred tax liabilities	17	3,649	4,704
Insurance payables	18	14,771	10,505
Hire purchase creditors	19	271	653
Tax payable		3,764	2,381
Borrowings	20	69,111	68,910
Other payables	21	9,630	11,648
TOTAL LIABILITIES		<u><u>635,324</u></u>	<u><u>709,918</u></u>
TOTAL LIABILITIES AND EQUITY		<u><u>886,605</u></u>	<u><u>973,420</u></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 2018

	←----- Non-Distributable -----→	-----→ Distributable			
	Share capital	Revaluation reserve	Available -for-sale reserve	Retained profits	Total
Note	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2017	100,000	12,378	7,385	143,739	263,502
Net profit for the year	-	-	-	27,618	27,618
Other comprehensive loss for the year	-	-	(3,339)	-	(3,339)
Total comprehensive income for the year	-	-	(3,339)	27,618	24,279
Dividends	33	-	-	(36,500)	(36,500)
At 30 September 2018	<u>100,000</u>	<u>12,378</u>	<u>4,046</u>	<u>134,857</u>	<u>251,281</u>
At 1 October 2016	100,000	8,914	2,910	142,668	254,492
Net profit for the year	-	-	-	36,471	36,471
Other comprehensive income for the year	-	3,464	4,475	-	7,939
Total comprehensive income for the year	-	3,464	4,475	36,471	44,410
Dividends	33	-	-	(35,400)	(35,400)
At 30 September 2017	<u>100,000</u>	<u>12,378</u>	<u>7,385</u>	<u>143,739</u>	<u>263,502</u>

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 2018

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Operating revenue	22	<u>302,373</u>	<u>317,368</u>
Gross earned premiums	23(a)	275,592	288,217
Premiums ceded to reinsurers	23(b)	<u>(106,848)</u>	<u>(103,233)</u>
Net earned premiums		<u>168,744</u>	<u>184,984</u>
Investment income	24	26,781	29,151
Realised gains	25	634	2,515
Commission income		27,184	22,284
Fair value (losses)/gains	26	(440)	1,377
Other operating (expenses)/revenue	27	<u>(390)</u>	<u>2,451</u>
Other revenue		<u>53,769</u>	<u>57,778</u>
Gross claims paid	28	(198,744)	(190,491)
Claims ceded to reinsurers	28	68,574	50,317
Gross decrease in insurance contract liabilities	28	76,682	64,139
Change in insurance contract liabilities ceded to reinsurers	28	<u>(28,050)</u>	<u>(21,247)</u>
Net claims incurred		<u>(81,538)</u>	<u>(97,282)</u>
Commission expense		(32,384)	(31,964)
Management expenses	29	(64,637)	(60,945)
Finance costs	35	<u>(5,549)</u>	<u>(5,546)</u>
Other expenses		<u>(102,570)</u>	<u>(98,455)</u>
Profit before taxation		38,405	47,025
Taxation	31	<u>(10,787)</u>	<u>(10,554)</u>
Net profit for the year		<u>27,618</u>	<u>36,471</u>
Basic earnings per share (sen)	32	<u>27.62</u>	<u>36.47</u>

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 2018

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Net profit for the year		<u>27,618</u>	<u>36,471</u>
Other comprehensive income:			
<u>Items that will not be reclassified to income statement in subsequent periods:</u>			
Surplus from revaluation of land and buildings		-	4,538
Deferred tax in respect of revaluation reserve		-	(1,074)
Net gain		-	3,464
<u>Items that may be reclassified to income statement in subsequent periods:</u>			
Fair value changes on available-for-sale ("AFS") financial assets			
- Gross (loss)/gain on fair value changes		(3,615)	8,336
- Impairment loss		-	61
- Transferred to income statement upon disposal		(778)	(2,509)
		(4,393)	5,888
- Deferred tax		1,054	(1,413)
Net (loss)/gain		<u>(3,339)</u>	<u>4,475</u>
Other comprehensive (loss)/income for the year, net of tax	34	(3,339)	7,939
Total comprehensive income for the year		<u>24,279</u>	<u>44,410</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 2018

	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	38,405	47,025
Adjustments for:		
Depreciation of property, plant and equipment	1,269	1,057
Amortisation:		
- prepaid land lease payments	4	4
- intangible assets	351	252
Transaction costs of borrowing	201	185
Loss on disposal of property, plant and equipment	162	1
Impairment loss of AFS financial assets	-	61
Bad debt written off	-	185
Gain on disposal of investments	(778)	(2,509)
Loss/(gain) on fair value of investments held as fair value through profit or loss	440	(1,360)
Loss from fair value adjustments of investment properties	-	40
Write off of property, plant and equipment	8	3
Allowance for unutilised leave	-	47
Reversal of revaluation deficit	-	(118)
Dividend income	(3,614)	(3,825)
Interest income	(13,957)	(16,873)
Interest income from islamic fixed deposits	(6,553)	(5,315)
Allowance for impairment of:		
- insurance receivables	591	152
- other receivables	-	408
Write back in allowance for impairment of:		
- insurance receivables	(76)	(540)
- other receivables	(438)	-
- reinsurance assets	-	(1,077)
Interest expense	5,345	5,358
Operating profit before working capital changes	<u>21,360</u>	<u>23,161</u>
Changes in working capital:		
Purchase of investments	(203,014)	(127,750)
Disposal of investments	186,464	162,689
Decrease in deposits and placements with financial institutions	103,983	20,248
Increase in insurance receivables	(4,787)	(2,930)
Decrease in other receivables	1,532	3,857

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2018 (CONT'D.)

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd.)			
Changes in working capital: (Cont'd.)			
Decrease in reinsurance assets		28,613	23,673
Decrease in insurance contract liabilities		(76,989)	(77,973)
Increase/(decrease) in insurance payables		4,267	(6,550)
Decrease in other payables		<u>(7,338)</u>	<u>(1,139)</u>
Cash generated from operations		54,091	17,286
Net tax paid		(8,201)	(12,642)
Dividends received		3,614	3,825
Interest received		16,815	13,892
Interest received from islamic fixed deposits		6,553	5,315
Interest paid		<u>(25)</u>	<u>(38)</u>
Net cash generated from operating activities		<u>72,847</u>	<u>27,638</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		91	1
Purchase of property, plant and equipment		(52)	(34)
Purchase of intangible assets		<u>(290)</u>	<u>(616)</u>
Net cash used in investing activities		<u>(251)</u>	<u>(649)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(36,500)	(35,400)
Decrease in hire purchase creditors		<u>(382)</u>	<u>(277)</u>
Net cash used in financing activities		<u>(36,882)</u>	<u>(35,677)</u>
Net increase/(decrease) in cash and cash equivalents		35,714	(8,688)
Cash and cash equivalents at beginning of year		<u>2,586</u>	<u>11,274</u>
Cash and cash equivalents at end of year	13	<u>38,300</u>	<u>2,586</u>

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2018 (CONT'D.)

Reconciliation of liabilities arising from financing activities

	Hire purchase creditors (Note 19) <u>RM'000</u>	Borrowings (Note 20) <u>RM'000</u>	<u>Total</u> RM'000
As at 1 October 2017	653	68,910	69,563
Changes in Financing Cash Flows			
Repayment of hire purchase	(382)	-	(382)
<u>Addition:</u>			
Transaction costs	-	201	201
As at 30 September 2018	<u>271</u>	<u>69,111</u>	<u>69,382</u>

PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

1. CORPORATE INFORMATION

The Company is principally engaged 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 28 November 2018 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, 2016 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 (CONT'D.)

(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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

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

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Reinsurance (Cont'd.)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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.

(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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

Premium liabilities (Cont'd.)

- UPR (Cont'd)

- 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.

- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(u) Income Tax (Contd.)

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Leases (Cont'd.)

(ii) Finance leases - the Company as lessee (Cont'd.)

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).

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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.

(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 2017 except for the adoption of the following MFRSs and Amendments to MFRSs issued by Malaysian Accounting Standards Board ("MASB"):

Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to MFRS 107 Disclosure Initiative

Amendments to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRSs 2014 – 2016 Cycle)

Other than the disclosure required by Amendments to MFRS 107 on reconciliation of liabilities arising from financing activities is disclosed on Statement of Cash Flows, the adoption of the above Amendments to MFRSs did not have any significant impact on the financial statements of the Company.

- (b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective

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

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 IASB in July 2014)

MFRS 15 Revenue from Contracts with Customers

Clarifications to MFRS 15 Revenue from Contracts with Customers

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

Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contract (Amendments to MFRS 4)

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

(b) MFRSs, Amendments to MFRSs and IC interpretations yet to be effective (Cont'd)

Effective for financial periods beginning on or after 1 January 2018 (Cont'd)

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

Amendments to MFRS 128 Investments in Associates and Joint Ventures (Annual Improvements to MFRSs 2014 – 2016 Cycle)

Transfers of Investment Property (Amendments to MFRS 140)

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Effective for financial periods beginning on or after 1 January 2019

MFRS 16 Leases

IC Interpretation 23 Uncertainty over Income Tax Treatments

Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)

Prepayment Features with Negative Compensation (Amendments to MFRS 9)

Amendments to MFRS 3 Business Combinations (Annual Improvements to MFRSs 2015 – 2017 Cycle)

Amendments to MFRS 11 Joint Arrangements (Annual Improvements to MFRSs 2015 – 2017 Cycle)

Amendments to MFRS 112 Income Taxes (Annual Improvements to MFRSs 2015 – 2017 Cycle)

Amendments to MFRS 123 Borrowing Costs (Annual Improvements to MFRSs 2015 – 2017 Cycle)

Amendments to MFRS 119 (Plan Amendment, Curtailment or Settlement)

Effective for financial periods beginning on or after 1 January 2020

Amendments to MFRS 2 Share-Based Payment

Amendment to MFRS 3 Business Combinations

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

(b) MFRSs, Amendments to MFRSs and IC interpretations yet to be effective (Cont'd)

Effective for financial periods beginning on or after 1 January 2020 (Cont'd)

Amendments to MFRS 6 Exploration for and Evaluation of Mineral Resources

Amendment to MFRS 14 Regulatory Deferral Accounts

Amendments to MFRS 101 Presentation of Financial Statements

Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to MFRS 134 Interim Financial Reporting

Amendment to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets

Amendment to MFRS 138 Intangible Assets

Amendment to IC Interpretation 12 Service Concession Arrangements

Amendment to IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

Amendment to IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

Amendment to IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Amendments to IC Interpretation 132 Intangible Assets - Web Site Costs

Effective for financial periods beginning on or after 1 January 2021

MFRS 17 Insurance Contracts

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, Amendments to MFRSs and IC Interpretations 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, Amendments to MFRSs and IC interpretations yet to be effective (Cont'd)

Effective date to be announced by Malaysian Accounting Standard Board (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.

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

(b) MFRSs, Amendments to MFRSs and IC interpretations yet to be effective (Cont'd)

Effective date to be announced by Malaysian Accounting Standard Board (Cont'd)

- MFRS 17: Insurance Contracts

MFRS 17 replaces the existing MFRS 4: Insurance Contracts and introduces a single principle-based standard for recognition, measurement, presentation and disclosure of all insurance contracts. MFRS 17 is introduced to address the inconsistency in MFRS 4 which allowed insurers to use different accounting policies to measure insurance contracts in different countries.

MFRS 17 requires entities to recognise and measure a group of insurance contracts at (i) a risk-adjusted present value of future cash flows that incorporates information that is consistent with observable market information plus (ii) an amount representing the unearned profit in the insurance contracts.

MFRS 17 also requires entities to change the financial statements presentations of insurance service results whereby the insurance revenue is presented separately from insurance finance income or expenses.

The Company is currently assessing the financial impact of adopting MFRS 17.

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.

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

(a) Critical Judgment Made in Applying Accounting Policies (Cont'd)

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

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.

(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.

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

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

(ii) Impairment of AFS financial assets (Cont'd)

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.

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

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

(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.

(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 Leasehold RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture, fixtures and fittings RM'000			
2018									
<u>Valuation/Cost:</u>									
At 1 October 2017	2,465	921	16,705	5,833	2,188	1,678	3,742	33,532	
Additions	-	-	-	1	-	27	24	52	
Disposals	-	-	-	-	(356)	(2)	-	(358)	
Write-offs	-	-	-	(44)	-	(23)	(7)	(74)	
At 30 September 2018	2,465	921	16,705	5,790	1,832	1,680	3,759	33,152	
<u>Accumulated depreciation:</u>									
At 1 October 2017	-	-	-	5,800	754	1,472	3,284	11,310	
Charge for the year	-	31	929	4	172	47	86	1,269	
Disposals	-	-	-	-	(106)	-	-	(106)	
Write-offs	-	-	-	(43)	-	(16)	(7)	(66)	
At 30 September 2018	-	31	929	5,761	820	1,503	3,363	12,407	
<u>Net carrying value:</u>									
At 30 September 2018	2,465	890	15,776	29	1,012	177	396	20,745	

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

	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	
2017							
<u>Valuation/Cost:</u>							
At 1 October 2016	1,860	681	16,781	5,833	2,188	1,691	32,769
Revaluation surplus	605	340	3,530	-	-	-	4,475
Reversal of revaluation deficit	-	-	118	-	-	-	118
Transfer*	-	(100)	(3,519)	-	-	-	(3,619)
Transfer to investment property	-	-	(205)	-	-	-	(205)
Additions	-	-	-	-	-	27	34
Disposals	-	-	-	-	-	(3)	(3)
Write-offs	-	-	-	-	-	(37)	(37)
At 30 September 2017	2,465	921	16,705	5,833	2,188	1,678	33,532
<u>Accumulated depreciation:</u>							
At 1 October 2016	-	80	2,852	5,796	570	1,455	13,945
Charge for the year	-	20	705	4	184	52	1,057
Transfer*	-	(100)	(3,519)	-	-	-	(3,619)
Transfer to investment property	-	-	(38)	-	-	-	(38)
Disposals	-	-	-	-	-	(1)	(1)
Write-offs	-	-	-	-	-	(34)	(34)
At 30 September 2017	-	-	-	5,800	754	1,472	3,284
<u>Net carrying value:</u>							
At 30 September 2017	2,465	921	16,705	33	1,434	206	22,222

* This relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

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

- (a) The freehold land and buildings and leasehold buildings were revalued as at 30 September 2017 based on valuation carried out by independent valuers of Messrs. Rahim & Co. on an open market value basis using the comparison method.

A desktop valuation on freehold land and buildings and leasehold buildings of the Company was conducted by Messrs. Rahim & Co. in the financial year ended 30 September 2018 and no adjustment to the financial statements is made as their carrying values are not materially different from their market values.

The fair value of the freehold land and buildings and leasehold buildings are categorised within Level 3 of the fair value hierarchy.

There is no change to the valuation technique and fair value hierarchy in current financial year.

- (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 2018 are as follows:

	<u>Net Carrying Value</u>		<u>Net Carrying Value</u>	
	<u>2018</u>		<u>2017</u>	
	Under	Under	Under	Under
	Revaluation	Cost	Revaluation	Cost
	Model	Model	Model	Model
Note	RM'000	RM'000	RM'000	RM'000
Freehold land	2,465	380	2,465	380
Freehold buildings	890	238	921	246
Leasehold buildings	15,776	5,988	16,705	6,308
42	<u>19,131</u>	<u>6,606</u>	<u>20,091</u>	<u>6,934</u>

- (c) The net book value of motor vehicles held under hire purchase arrangements are RM736,000 (2017: RM1,126,000).
- (d) During the year, the Company acquired property, plant and equipment by:

	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Cash	<u>52</u>	<u>34</u>

6. INVESTMENT PROPERTIES

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
At 1 October 2017/2016		1,220	1,030
Transfer from property, plant and equipment	5	-	167
Revaluation surplus		-	63
Loss on fair value adjustments	26	-	(40)
At 30 September		<u>1,220</u>	<u>1,220</u>

Analysed as:

Freehold buildings		655	655
Leasehold buildings		565	565
	42	<u>1,220</u>	<u>1,220</u>

Investment properties were revalued as at 30 September 2017 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

A desktop valuation on investment properties of the Company was conducted by Messrs. Rahim & Co. in the financial year ended 30 September 2018 and no adjustment to the financial statements is made as their carrying values are not materially different from their market values.

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

7. PREPAID LAND LEASE PAYMENTS

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Long term leasehold land:			
At 1 October 2017/2016		298	302
Amortisation	29	(4)	(4)
At 30 September		<u>294</u>	<u>298</u>

8. INTANGIBLE ASSETS

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Computer software and licences:			
<u>Cost</u>			
At 1 October 2017/2016		3,749	3,133
Additions		290	616
At 30 September		<u>4,039</u>	<u>3,749</u>
<u>Accumulated amortisation</u>			
At 1 October 2017/2016		2,398	2,146
Amortisation	29	351	252
At 30 September		<u>2,749</u>	<u>2,398</u>
Net book value		<u>1,290</u>	<u>1,351</u>

9. INVESTMENTS

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
(a) Available-for-sale ("AFS") financial assets:			
<u>At fair value:</u>			
Quoted shares		14,211	18,915
Unit trusts		88,812	71,173
	42	<u>103,023</u>	<u>90,088</u>
(b) Fair value through profit or loss ("FVTPL") financial assets:			
<u>At fair value:</u>			
Quoted shares		2,180	2,620
	42	<u>2,180</u>	<u>2,620</u>
(c) Loans and receivables ("L&R"):			
<u>At amortised cost:</u>			
Deposits and placements with licensed financial institutions:			
Commercial banks		266,463	445,779
Investment banks		186,353	111,020
Total loans and receivables		<u>452,816</u>	<u>556,799</u>
Total investments		<u>558,019</u>	<u>649,507</u>

9. INVESTMENTS (CONT'D.)

(d) Carrying value of investments

	Note	<u>FVTPL</u> RM'000	<u>AFS</u> RM'000	<u>L&R</u> RM'000	<u>Total</u> RM'000
<u>2018</u>					
At 1 October 2017		2,620	90,088	556,799	649,507
Additions		-	203,014	-	203,014
Placements		-	-	151,053	151,053
Disposals		-	(185,686)	-	(185,686)
Maturities		-	-	(255,036)	(255,036)
Fair value loss recorded in other comprehensive income		-	(4,393)	-	(4,393)
Fair value loss recorded in profit or loss	26	(440)	-	-	(440)
At 30 September 2018		<u>2,180</u>	<u>103,023</u>	<u>452,816</u>	<u>558,019</u>
<u>2017</u>					
At 1 October 2016		-	117,951	577,047	694,998
Additions		1,260	126,490	-	127,750
Placements		-	-	344,868	344,868
Disposals		-	(160,180)	-	(160,180)
Maturities		-	-	(365,116)	(365,116)
Fair value gain recorded in other comprehensive income		-	5,888	-	5,888
Fair value gain recorded in profit or loss	26	1,360	-	-	1,360
Impairment loss of AFS financial assets	26	-	(61)	-	(61)
At 30 September 2017		<u>2,620</u>	<u>90,088</u>	<u>556,799</u>	<u>649,507</u>

Included in deposits and placements of the Company is an amount of RM101,583 (2017: RM98,512) representing placements of deposits received from insureds as collateral for bond guarantees granted to third parties.

10. REINSURANCE ASSETS

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Reinsurance of insurance contracts			
Claims liabilities	16.1	134,956	163,006
Premium liabilities	16.2	36,847	37,410
		<u>171,803</u>	<u>200,416</u>

11. INSURANCE RECEIVABLES

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Outstanding premiums including			
agents', brokers' and co-insurers' balance	11.1	5,203	4,468
Due from reinsurers and ceding companies	11.2	21,552	17,501
		<u>26,755</u>	<u>21,969</u>
Allowance for impairment	40 (a)	<u>(1,575)</u>	<u>(1,060)</u>
		<u>25,180</u>	<u>20,909</u>

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

	<u>Gross</u> carrying amount RM'000	<u>Gross</u> amount offset RM'000	<u>Net</u> amount presented RM'000
11.1 Outstanding premiums including agents', <u>brokers' and co-insurers' balance</u>			
<u>2018</u>			
Premiums	7,801	-	7,801
Commission payables	-	(3,237)	(3,237)
Claims recoveries	639	-	639
	<u>8,440</u>	<u>(3,237)</u>	<u>5,203</u>
<u>2017</u>			
Premiums	10,103	-	10,103
Commission payables	-	(6,274)	(6,274)
Claims recoveries	639	-	639
	<u>10,742</u>	<u>(6,274)</u>	<u>4,468</u>

11. INSURANCE RECEIVABLES (CONT'D.)

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

	Gross carrying amount <u>RM'000</u>	Gross amount offset <u>RM'000</u>	Net amount presented <u>RM'000</u>
<u>11.2 Due from reinsurers and ceding companies</u>			
<u>2018</u>			
Premiums ceded	1,465	-	1,465
Commission receivables	7,873	-	7,873
Claims recoveries	12,214	-	12,214
	<u>21,552</u>	<u>-</u>	<u>21,552</u>
<u>2017</u>			
Premiums ceded	1,585	-	1,585
Commission receivables	7,775	-	7,775
Claims recoveries	8,141	-	8,141
	<u>17,501</u>	<u>-</u>	<u>17,501</u>

12. OTHER RECEIVABLES

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Due from fellow subsidiary company	(a)	497	206
Accrued income		6,637	9,495
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	(b)	56,598	60,183
Deposits and prepayments		1,458	1,269
Tax recoverable	(c)	1,999	3,204
Goods and services tax recoverable		1,106	-
Sales proceeds receivable from disposal of investments		940	-
Others		519	554
		<u>69,754</u>	<u>74,911</u>

12. OTHER RECEIVABLES (CONT'D.)

- (a) The amount due from fellow subsidiary company is unsecured, interest free and repayable on demand.
- (b) This includes the Company's contribution of RM34,359,346 to MMIP following cash calls made by the Pool during the previous financial years. The contributions were made in respect of the Company's share of MMIP's accumulated losses up to 31 December 2014.
- (c) This includes the allowable double tax deduction of the cash contribution made in respect of MMIP of RM NIL (2017: RM1,204,202).

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>2018</u> RM'000	<u>2017</u> RM'000
Deposits and placements with licensed commercial bank (with maturity of less than three months)	35,140	-
Cash and bank balances	3,160	2,586
	<u>38,300</u>	<u>2,586</u>

14. SHARE CAPITAL

	Number of shares		Amount	
	<u>2018</u> '000	<u>2017</u> '000	<u>2018</u> RM'000	<u>2017</u> RM'000
Issued and fully paid ordinary shares	<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 2018, the Company has a Capital Adequacy Ratio in excess of the minimum requirement as stipulated in the RBC Framework.

16. INSURANCE CONTRACT LIABILITIES

	2018		2017	
	Gross RM'000	Reinsurance RM'000 (Note 10)	Net RM'000	Net RM'000
General insurance	534,128	(171,803)	362,325	410,701
			611,117	(200,416)
				410,701

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

	2018		2017	
Note	Gross RM'000	Reinsurance RM'000	Net RM'000	Net RM'000
Provisions for claims reported	255,486	(85,249)	170,237	208,251
Provision for Incurred But Not Reported ("IBNR")	127,628	(37,978)	89,650	97,082
Provision of Risk Margin for Adverse Deviation ("PRAD")	30,344	(11,729)	18,615	21,801
Claims Liabilities	413,458	(134,956)	278,502	327,134
Premium Liabilities	120,670	(36,847)	83,823	83,567
	534,128	(171,803)	362,325	410,701
			611,117	(200,416)
				410,701

16. INSURANCE CONTRACT LIABILITIES (CONTD.)

16.1 Claims Liabilities

	Note	2018			2017		
		Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 October 2017/2016		490,140	(163,006)	327,134	554,279	(184,253)	370,026
Claims incurred in the current accident year (direct and facultative)		153,689	(49,590)	104,099	85,860	(23,876)	61,984
Adjustment to claims incurred in prior accident year (direct and facultative)		(24,207)	3,534	(20,673)	37,698	(4,505)	33,193
Claims incurred during the year (treaty inwards claims)		(1,168)	987	(181)	206	(177)	29
Movement in Provision of Risk Margin for Adverse Deviation ("PRAD") claims liabilities at 75% confidence level		(5,943)	2,757	(3,186)	1,809	(176)	1,633
Movement in claims handling expenses		(309)	1,788	1,479	779	(336)	443
Claims paid during the year	28	(198,744)	68,574	(130,170)	(190,491)	50,317	(140,174)
At 30 September		413,458	(134,956)	278,502	490,140	(163,006)	327,134

16. INSURANCE CONTRACT LIABILITIES (CONTD.)

16.2 Premium Liabilities

	Note	2018		2017		Net RM'000
		Gross RM'000	Reinsurance RM'000	Gross RM'000	Reinsurance RM'000	
At 1 October 2017/2016		120,977	(37,410)	134,811	(39,836)	94,975
Premiums written during the year	23	275,285	(106,285)	274,383	(100,807)	173,576
Premiums earned during the year	23	(275,592)	106,848	(288,217)	103,233	(184,984)
At 30 September		120,670	(36,847)	120,977	(37,410)	83,567

17. DEFERRED TAX LIABILITIES

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
At 1 October 2017/2016		(4,704)	(1,092)
Transfer from/(to) income statement	31	1	(1,125)
- Deferred tax assets		(36)	(1,046)
- Deferred tax liabilities		37	(79)
Transfer from/(to) AFS reserve		1,054	(1,413)
- Deferred tax assets		-	-
- Deferred tax liabilities		1,054	(1,413)
Transfer from revaluation reserve		-	(1,074)
- Deferred tax assets		-	-
- Deferred tax liabilities		-	(1,074)
At 30 September		<u>(3,649)</u>	<u>(4,704)</u>
Reflected in the statement of financial position as follows:			
Deferred tax assets	17.1	1,915	1,951
Deferred tax liabilities	17.2	(5,564)	(6,655)
Net deferred tax liabilities		<u>(3,649)</u>	<u>(4,704)</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	Premium liabilities	Accumulated impairment loss	Total
	RM'000	RM'000	RM'000	RM'000
<u>2018</u>				
At 1 October 2017	30	-	1,921	1,951
Recognised in the income statement	-	2	(38)	(36)
At 30 September 2018	30	2	1,883	1,915
<u>2017</u>				
At 1 October 2016	58	-	2,939	2,997
Recognised in the income statement	(28)	-	(1,018)	(1,046)
At 30 September 2017	30	-	1,921	1,951

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:

	Premium liabilities	Changes in fair value of AFS financial assets	Revaluation surplus	Accelerated capital allowances	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2018</u>					
At 1 October 2017	(18)	(2,332)	(3,890)	(415)	(6,655)
Recognised in the income statement	18	-	-	19	37
Recognised in the AFS reserve	-	1,054	-	-	1,054
At 30 September 2018	-	(1,278)	(3,890)	(396)	(5,564)
<u>2017</u>					
At 1 October 2016	(22)	(919)	(2,816)	(332)	(4,089)
Recognised in the income statement	4	-	-	(83)	(79)
Recognised in the AFS reserve	-	(1,413)	-	-	(1,413)
Recognised in the revaluation reserve	-	-	(1,074)	-	(1,074)
At 30 September 2017	(18)	(2,332)	(3,890)	(415)	(6,655)

18. INSURANCE PAYABLES

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Due to reinsurers and ceding companies	18.1	11,821	9,433
Due to agents, brokers, co-insurers and insureds	18.2	2,950	1,072
		<u>14,771</u>	<u>10,505</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>2018</u>			
Premiums ceded	20,878	-	20,878
Commission receivables	-	(2,760)	(2,760)
Claims recoveries	-	(6,297)	(6,297)
	<u>20,878</u>	<u>(9,057)</u>	<u>11,821</u>
<u>2017</u>			
Premiums ceded	16,903	-	16,903
Commission receivables	-	(1,179)	(1,179)
Claims recoveries	-	(6,291)	(6,291)
	<u>16,903</u>	<u>(7,470)</u>	<u>9,433</u>
<u>18.2 Due to agents, brokers, co-insurers and insureds</u>			
<u>2018</u>			
Premiums	4,444	-	4,444
Commission payables	-	(1,494)	(1,494)
	<u>4,444</u>	<u>(1,494)</u>	<u>2,950</u>
<u>2017</u>			
Premiums	2,287	-	2,287
Commission payables	-	(1,215)	(1,215)
	<u>2,287</u>	<u>(1,215)</u>	<u>1,072</u>

19. HIRE PURCHASE CREDITORS

	<u>2018</u> RM'000	<u>2017</u> RM'000
Future minimum payments:		
Not later than 1 year	150	285
Later than 1 year and not later than 2 years	104	218
Later than 2 years and not later than 5 years	32	198
Total future minimum payments	<u>286</u>	<u>701</u>
Less: Future finance charges	(15)	(48)
Present value of hire purchase liabilities	<u><u>271</u></u>	<u><u>653</u></u>
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	140	259
Later than 1 year and not later than 2 years	100	203
Later than 2 years and not later than 5 years	31	191
	<u><u>271</u></u>	<u><u>653</u></u>

The hire purchase arrangements at the reporting date bore interest between 2.87% and 4.49% (2017: 3.60% and 4.57%) per annum.

20. BORROWINGS

	Effective interest rate per annum	<u>Maturity</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
<u>Unsecured</u>				
Subordinated Notes	7.74%	2022	<u>69,111</u>	<u>68,910</u>
Amount due within 2 to 5 years			<u><u>69,111</u></u>	<u><u>68,910</u></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>2018</u>	<u>2017</u>
	RM'000	RM'000
Due to holding company*	45	40
Accruals	3,154	4,390
Collateral deposits	97	103
Refund premiums	13	18
Sales and services tax payable	1,435	-
Goods and services tax payable	-	2,279
Allowance for unutilised leave	639	639
Stamp duty payable	690	719
Unclaimed monies	19	26
Accrual of directors' fees	392	410
Sundry creditors	847	676
Underwriting fees payable	700	-
Interest payable on Subordinated Notes**	1,399	1,385
Others	200	963
	<u>9,630</u>	<u>11,648</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

		<u>2018</u>	<u>2017</u>
	Note	RM'000	RM'000
<u>Insurance fund</u>			
Gross earned premiums	23(a)	275,592	288,217
Investment income	24	26,781	29,151
		<u>302,373</u>	<u>317,368</u>

23. NET EARNED PREMIUMS

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
(a) Gross premiums	16.2	275,285	274,383
Change in premium liabilities		307	13,834
Gross earned premiums		<u>275,592</u>	<u>288,217</u>
(b) Gross premiums ceded to reinsurers	16.2	(106,285)	(100,807)
Change in premium liabilities		(563)	(2,426)
Premiums ceded to reinsurers		<u>(106,848)</u>	<u>(103,233)</u>
Net earned premiums		<u>168,744</u>	<u>184,984</u>

24. INVESTMENT INCOME

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Dividend income:			
- shares quoted in Malaysia		228	403
- unit trusts		3,386	3,422
Interest income:			
- deposits and placements with financial institutions		13,957	16,873
Income from islamic fixed deposits		6,553	5,315
Rental of properties:			
- third parties		25	22
- fellow subsidiary company	37	30	29
- holding company	37	261	256
Investment income from:			
- MMIP		2,276	2,831
- Malaysian Reinsurance Berhad ("MRB")		65	-
	22	<u>26,781</u>	<u>29,151</u>

25. REALISED GAINS

	<u>2018</u> RM'000	<u>2017</u> RM'000
Realised gains/(losses):		
- Property, plant and equipment	(162)	(1)
- AFS financial assets:		
Quoted in Malaysia	551	2,509
Unit trusts	227	-
- Foreign exchange	18	7
	<u>634</u>	<u>2,515</u>

26. FAIR VALUE (LOSSES)/GAINS

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Fair value (losses)/gains:			
Investment properties	6	-	(40)
Impairment loss of AFS financial assets	9	-	(61)
(Loss)/gain on fair value of investments held as fair value through profit or loss	9	(440)	1,360
Reversal of revaluation deficit of property, plant and equipment	5	-	118
		<u>(440)</u>	<u>1,377</u>

27. OTHER OPERATING (EXPENSES)/REVENUE

	<u>2018</u> RM'000	<u>2017</u> RM'000
Other operating (expenses)/revenue:		
Sundry income	221	2,685
Property, plant and equipment written off	(7)	(3)
Sales and Services Tax charged on unexpired premium	(366)	-
Other expenses	(238)	(231)
	<u>(390)</u>	<u>2,451</u>

28. NET CLAIMS INCURRED

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Gross claims paid	16.1	(198,744)	(190,491)
Claims ceded to reinsurers	16.1	68,574	50,317
Gross decrease in insurance contract liabilities		76,682	64,139
Change in insurance contract liabilities ceded to reinsurers		(28,050)	(21,247)
		<u>(81,538)</u>	<u>(97,282)</u>

29. MANAGEMENT EXPENSES

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Chief executive officers' remuneration	30	1,468	1,039
Staff salaries and bonus		18,393	18,708
Allowance for unutilised leave		-	47
Pension costs - defined contribution plan		2,340	2,360
Other staff benefits		2,525	2,014
Depreciation of property, plant and equipment	5	1,269	1,057
Amortisation:			
- prepaid land lease payments	7	4	4
- intangible assets	8	351	252
Auditors' remuneration			
- Statutory audit		210	211
- Other regulatory related services		61	33
Non-Executive Directors' remuneration	30	392	410
Allowance for impairment of:			
- insurance receivables	40 (a)	591	152
- other receivables		-	408
Bad debt written off		-	185
Write back in allowance for impairment of:			
- insurance receivables	40 (a)	(76)	(540)
- other receivables		(438)	-
- reinsurance assets		-	(1,077)
Rental of properties:			
- third parties		553	572
- fellow subsidiary company	37	210	199
Management fees to holding company	37	1,191	1,071
Call centre service charges to:			
- third parties		46	-
- fellow subsidiary company	37	538	536
Rental of equipment:			
- third parties		52	53
- fellow subsidiary company	37	4,642	4,231
Printing and information system expenses:			
- third parties		5,592	5,544
- fellow subsidiary company	37	9,080	8,499
Business development		5,488	4,841
Bank charges		19	21
Credit card charges		2,779	2,788
Office administration and utilities		1,721	1,709
MMIP expenses		633	701
Professional fees		1,878	1,813

29. MANAGEMENT EXPENSES (CONT'D.)

	<u>2018</u> RM'000	<u>2017</u> RM'000
Motor vehicle expenses	602	659
Travelling and transport expenses	187	215
Road Transport Department access fees	315	331
Goods and services tax expense	93	110
General Insurance	129	125
Subscription Fees	231	238
Levy	421	352
Motor Assist & Towing services	730	598
Other expenses	417	476
	<u>64,637</u>	<u>60,945</u>

30. DIRECTORS' AND CHIEF EXECUTIVE OFFICERS' REMUNERATION

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
(a) Chief Executive Officers			
Salary		626	718
Bonus		212	173
Pension costs - defined contribution plan		103	112
Benefits-in-kind		27	56
Allowance		27	36
Gratuity		500	-
		<u>1,495</u>	<u>1,095</u>
Total Chief Executive Officers' remuneration excluding benefits-in-kind	29	<u>1,468</u>	<u>1,039</u>

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

(b) Non-Executive Directors

Fees	29	392	410
Benefits-in-kind		5	7
		<u>397</u>	<u>417</u>

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

	<u>Fees</u>	<u>Benefits-in-Kind</u>	<u>Total</u>
	RM'000	RM'000	RM'000
<u>2018</u>			
Pn. Norazian binti Ahmad Tajuddin	62	1	63
Mr. Chan Thye Seng	40	-	40
Mr. Prasheem Seebran	60	-	60
Dato' Dr. Zaha Rina binti Zahari	60	2	62
Mdm. Sum Leng Kuang	60	-	60
Mr. Michael Yee Kim Shing	60	2	62
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	50	-	50
	<u>392</u>	<u>5</u>	<u>397</u>
<u>2017</u>			
Pn. Norazian binti Ahmad Tajuddin	60	-	60
Mr. Chan Thye Seng	40	-	40
Mr. Prasheem Seebran	60	-	60
Dato' Dr. Zaha Rina binti Zahari	60	3	63
Mdm. Sum Leng Kuang	60	-	60
Mr. Michael Yee Kim Shing	60	-	60
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	70	4	74
	<u>410</u>	<u>7</u>	<u>417</u>

30. DIRECTORS' AND CHIEF EXECUTIVE OFFICERS' 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>2018</u>	<u>2017</u>
<u>Executive Officers:</u>		
Below RM100,000	1	-
RM900,000 - RM1,500,000	1	1
<u>Non-Executive Directors:</u>		
Below RM40,000	1	1
RM40,001 - RM50,000	1	-
RM50,001 - RM60,000	2	4
RM60,001 - RM70,000	3	1
RM70,001 - RM80,000	-	1

31. INCOME TAX EXPENSE

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
Current income tax:			
Malaysian			
- Current		10,649	11,001
- Under/(over) provision in prior years		139	(1,572)
		<u>10,788</u>	<u>9,429</u>
Deferred tax:			
Relating to timing differences			
- Current		(1)	1,125
Transfer (from)/to deferred taxation *	17	(1)	1,125
		<u>10,787</u>	<u>10,554</u>
* Amount transferred (from)/to deferred taxation			
- Deferred tax assets		(36)	(1,046)
- Deferred tax liabilities		37	(79)
		<u>1</u>	<u>(1,125)</u>

31. INCOME TAX EXPENSE (CONT'D.)

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

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>2018</u> RM'000	<u>2017</u> RM'000
Profit before taxation	<u>38,405</u>	<u>47,025</u>
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	9,217	11,286
Under/(Overprovision) of income tax in prior years	139	(1,572)
Income not subject to tax	(866)	(1,278)
Expenses not deductible for tax purposes	<u>2,297</u>	<u>2,118</u>
Tax expense for the year	<u>10,787</u>	<u>10,554</u>

32. BASIC EARNINGS PER SHARE (SEN)

Basic earnings per share of the Company is calculated by dividing the net profit of RM27,618,000 (2017: RM36,471,000) 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</u> RM'000	<u>Date of payment</u>
<u>2018</u>			
Final single tier dividend of 36.50 sen per share, declared on 20 February 2018.	36.50	36,500	28 February 2018
		<u>36,500</u>	
<u>2017</u>			
Final single tier dividend of 35.40 sen per share, declared on 15 February 2017.	35.40	35,400	20 February 2017
		<u>35,400</u>	

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

	2018	2017
Note	RM'000	RM'000
<u>Items that will not be reclassified to income statement in subsequent periods:</u>		
	-	4,538
Surplus from revaluation of land and buildings	-	(1,074)
Deferred tax in respect of revaluation reserve	-	3,464
Net gain	-	3,464
<u>Items that may be reclassified to income statement in subsequent periods:</u>		
Fair value changes on available-for-sale ("AFS") financial assets		
- Gross (loss)/gain on fair value changes	(3,615)	8,336
- Impairment loss	-	61
- Transferred to income statement upon disposal	(778)	(2,509)
	(4,393)	5,888
- Deferred tax	1,054	(1,413)
	(3,339)	4,475
Other comprehensive (loss)/income for the year, net of tax	(3,339)	7,939

35. FINANCE COSTS

	2018	2017
	RM'000	RM'000
Hire purchase interest	25	38
Interest expense on borrowings	5,320	5,320
Transaction costs of borrowings	201	185
Others	3	3
	5,549	5,546

36. COMMITMENTS AND CONTINGENCIES

	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
(i) <u>Non-cancellable operating lease commitments</u>		
Future minimum lease payments are as follows:		
Not later than 1 year	3,084	3,422
Later than 1 year and not later than 5 years	1,791	2,338
	<u>4,875</u>	<u>5,760</u>

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

(ii) Contingent Liabilities

On 10 August 2016, the Malaysia Competition Commission (“MyCC”) through its powers granted under the Competition Act 2010 (“Act”) commenced investigations into an alleged infringement by the Persatuan Insurans Am Malaysia (“PIAM”) and its 22 members including the Company under the Section 4(2)(a) of the Act.

The alleged infringement is in relation to an agreement reached, pursuant to a requirement of Bank Negara Malaysia, between PIAM and the Federation of Automobile Workshop Owners’ Association of Malaysia (“FAWOAM”) on trade discount rates for parts of certain vehicle makes and labour hour rates for workshops under the PIAM Approved Repairers Scheme.

On 22 February 2017, MyCC issued its Proposed Decision on the alleged infringement which includes proposed financial penalties amounting to a total of RM213,454,814 on all the 22 members. The proposed financial penalty on the Company is RM2,108,452.

This Proposed Decision is subject to both written and oral representations from various parties including PIAM and the respective insurers. On 25 April 2017, the Company had via its legal counsel submitted its written representation to MyCC. The first session of the oral representations to MyCC took place on 16 and 17 October 2017. The subsequent sessions of the oral representations to MyCC took place on 12 and 14 December 2017 and 29 and 30 January 2018. There has been no update from MyCC in respect of the proposed decision since then. However, as there has been a change of head of prosecution of MyCC, the legal counsel for a number of insurance companies have requested for and will present oral representations afresh to MyCC on 19, 20 and 21 February 2019.

In the event MyCC intends to enforce the Proposed Decision, it is likely that the insurers will appeal the matter to the Courts.

37. SIGNIFICANT RELATED PARTY DISCLOSURES

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

	Note	<u>2018</u> RM'000	<u>2017</u> RM'000
<u>(Income)/ expense:</u>			
<u>Holding company:</u>			
Rental income	24	(261)	(256)
Management fees	29	1,191	1,071
Interest expenses on Subordinated Notes		2,660	2,660
Other income		(14)	(14)
<u>Fellow subsidiaries of Pacific & Orient Berhad Group:</u>			
Rental income	24	(30)	(29)
Office rental	29	210	199
Call centre service charges	29	538	536
Printing and information system expenses	29	9,080	8,499
Repair and maintenance		309	269
Rental of equipment	29	4,642	4,231
Purchase of intangible assets		258	169
Printing and stationery		126	97
Staff training		-	3
Staff welfare		-	4
<u>Substantial shareholder of Sanlam Emerging Markets (Pty) Ltd:</u>			
Actuarial fee		240	180
Specialised liability services fee		225	-
		<u>465</u>	<u>180</u>

Information regarding outstanding balances arising from related party transactions as at 30 September 2018 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>2018</u> RM'000	<u>2017</u> RM'000
Short-term employee benefits:			
Salary		626	718
Bonus		212	173
Benefits-in-kind		27	36
Allowance		27	56
Gratuity		500	-
Post-employment benefits:			
Pension cost-defined contribution plan		103	112
	30	<u>1,495</u>	<u>1,095</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").

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

38. RISK MANAGEMENT FRAMEWORK

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

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.
Staff	<ul style="list-style-type: none"> - Taking cognisance of operational risks. - Reporting any new or escalating risks identified to the risk owners.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

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

Parties responsible	Processes
Internal Audit Department	- Providing independent assurance on adequacy and effectiveness of risk management process established by the Company and recommending improvements thereto.
Compliance Department	- Acts as the second line of defense, providing independent oversight of primary and consequential risks. This includes setting risk limits and protecting against non-compliance with applicable laws and regulations. - Ensures controls to manage compliance risk are adequate and operating as intended. It also assess and monitors compliance risk faced by the Company.
Finance Department	- Helps with internal controls and risk management other than drafting financial statement or assisting in financial strategy. - Prepared to deal with uncertainties that the Company can face. The provision of regular risk based capital reports are one of the most important ways in which finance assists with assessing risk.

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.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(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.

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.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(b) Capital Management (Cont'd)

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.

(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.

38. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(d) Governance and Regulatory Framework (Cont'd)

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.

(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.

39. INSURANCE RISK (CONT'D)

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.

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:

General <u>insurance business</u>	<u>2018</u>			<u>2017</u>		
	Gross earned premium RM'000	Reinsurance RM'000	Net RM'000	Gross earned premium RM'000	Reinsurance RM'000	Net RM'000
Motor	207,127	(53,051)	154,076	221,585	(57,365)	164,220
Personal Accident	10,721	(796)	9,925	11,767	(1,052)	10,715
Fire	1,576	(562)	1,014	1,255	(718)	537
Miscellaneous	56,168	(52,439)	3,729	53,610	(44,098)	9,512
	<u>275,592</u>	<u>(106,848)</u>	<u>168,744</u>	<u>288,217</u>	<u>(103,233)</u>	<u>184,984</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>2018</u>			<u>2017</u>		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Motor	106,059	(27,026)	79,033	104,229	(25,140)	79,089
Personal Accident	1,164	(114)	1,050	1,102	(56)	1,046
Fire	267	(156)	111	358	(48)	310
Miscellaneous	13,180	(9,551)	3,629	15,288	(12,166)	3,122
	<u>120,670</u>	<u>(36,847)</u>	<u>83,823</u>	<u>120,977</u>	<u>(37,410)</u>	<u>83,567</u>

<u>Claims liabilities</u>	<u>2018</u>			<u>2017</u>		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Motor	341,391	(74,634)	266,757	405,002	(90,684)	314,318
Personal Accident	3,753	(139)	3,614	3,725	(148)	3,577
Fire	353	(166)	187	1,008	(422)	586
Miscellaneous	67,961	(60,017)	7,944	80,405	(71,752)	8,653
	<u>413,458</u>	<u>(134,956)</u>	<u>278,502</u>	<u>490,140</u>	<u>(163,006)</u>	<u>327,134</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>2018</u>					
Average claim cost	+ 1%	3,876	2,448	(2,448)	(1,860)
Average number of claims	+ 1%	3,876	2,448	(2,448)	(1,860)
Average claim settlement period	decreased by 6 months	3,390	2,595	(2,595)	(1,972)
<u>2017</u>					
Average claim cost	+ 1%	1,775	2,942	(2,942)	(2,236)
Average number of claims	+ 1%	1,775	2,942	(2,942)	(2,236)
Average claim settlement period	decreased by 6 months	3,822	2,915	(2,915)	(2,215)

* 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 2017 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 2018:

<u>Accident year</u>	Before	2012	2013	2014	2015	2016	2017	2018	Total	
	2012									
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At end of accident year		258,790	253,244	241,788	235,691	223,370	199,691	188,653		
One year later		262,480	256,276	280,037	208,308	177,210	146,915	-		
Two years later		282,396	294,416	262,636	202,198	173,470	-	-		
Three years later		308,747	286,821	259,945	197,726	-	-	-		
Four years later		295,232	289,060	259,186	-	-	-	-		
Five years later		287,852	289,843	-	-	-	-	-		
Six years later		286,672	-	-	-	-	-	-		
Current estimate of cumulative claims incurred		<u>286,672</u>	<u>289,843</u>	<u>259,186</u>	<u>197,726</u>	<u>173,470</u>	<u>146,915</u>	<u>188,653</u>		
At end of accident year		(59,518)	(52,326)	(47,235)	(36,239)	(32,100)	(29,859)	(29,587)		
One year later		(142,024)	(136,129)	(121,759)	(91,019)	(75,007)	(71,540)	-		
Two years later		(209,829)	(197,270)	(176,978)	(134,824)	(119,145)	-	-		
Three years later		(249,427)	(242,006)	(206,667)	(164,628)	-	-	-		
Four years later		(269,004)	(258,596)	(230,058)	-	-	-	-		
Five years later		(271,361)	(274,198)	-	-	-	-	-		
Six years later		(281,859)	-	-	-	-	-	-		
Cumulative payments to date		<u>(281,859)</u>	<u>(274,198)</u>	<u>(230,058)</u>	<u>(164,628)</u>	<u>(119,145)</u>	<u>(71,540)</u>	<u>(29,587)</u>		
Gross general insurance outstanding liability (direct and facultative)		<u>17,211</u>	<u>4,813</u>	<u>15,645</u>	<u>29,128</u>	<u>33,098</u>	<u>54,325</u>	<u>75,375</u>	<u>159,066</u>	<u>388,661</u>
Gross general insurance outstanding liability (treaty inward)										<u>393</u>
Best estimate of claims liabilities										389,054
Claims handling expenses										4,706
PRAD at 75% confidence level										31,290
Effects of discounting										(11,592)
Gross general insurance contract liabilities per statement of financial position										<u>413,458</u>

39. INSURANCE RISK (CONT'D.)Claims development table (Cont'd.)Net general insurance contract liabilities for 2018:

<u>Accident year</u>	Before	2012	2013	2014	2015	2016	2017	2018	Total	
	2012									
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At end of accident year		168,193	168,742	174,718	178,631	172,639	148,606	101,587		
One year later		178,771	174,031	207,249	152,783	120,864	99,684	-		
Two years later		186,995	196,815	183,247	148,032	116,799	-	-		
Three years later		205,905	185,345	185,003	143,827	-	-	-		
Four years later		191,100	187,613	183,740	-	-	-	-		
Five years later		190,942	188,173	-	-	-	-	-		
Six years later		188,359	-	-	-	-	-	-		
Current estimate of cumulative claims incurred		<u>188,359</u>	<u>188,173</u>	<u>183,740</u>	<u>143,827</u>	<u>116,799</u>	<u>99,684</u>	<u>101,587</u>		
At end of accident year		(42,761)	(36,504)	(36,192)	(28,124)	(25,086)	(22,481)	(21,731)		
One year later		(99,449)	(94,298)	(89,377)	(69,408)	(56,418)	(50,029)	-		
Two years later		(143,610)	(135,787)	(129,214)	(101,677)	(84,099)	-	-		
Three years later		(169,660)	(160,090)	(152,181)	(121,227)	-	-	-		
Four years later		(180,600)	(169,940)	(165,800)	-	-	-	-		
Five years later		(180,317)	(178,552)	-	-	-	-	-		
Six years later		(188,607)	-	-	-	-	-	-		
Cumulative payments to date		<u>(188,607)</u>	<u>(178,552)</u>	<u>(165,800)</u>	<u>(121,227)</u>	<u>(84,099)</u>	<u>(50,029)</u>	<u>(21,731)</u>		
Net general insurance outstanding liability (direct and facultative)		<u>33,105</u>	<u>(248)</u>	<u>9,621</u>	<u>17,940</u>	<u>22,600</u>	<u>32,700</u>	<u>49,655</u>	<u>79,856</u>	<u>245,229</u>
Net general insurance outstanding liability (treaty inward)										<u>390</u>
Best estimate of claims liabilities										245,619
Claims handling expenses										4,706
PRAD at 75% confidence level										19,313
Effects of discounting										8,864
Net general insurance contract liabilities per statement of financial position										<u><u>278,502</u></u>

39. INSURANCE RISK (CONT'D.)Claims development table (Cont'd.)Gross general insurance contract liabilities for 2017:

<u>Accident year</u>	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
At end of accident year		248,638	258,790	253,244	241,788	235,691	223,370	199,691	
One year later		258,486	262,480	256,276	280,037	208,308	177,210	-	
Two years later		281,919	282,396	294,416	262,636	202,198	-	-	
Three years later		293,549	308,747	286,821	259,945	-	-	-	
Four years later		309,098	295,232	289,060	-	-	-	-	
Five years later		295,180	287,852	-	-	-	-	-	
Six years later		280,120	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		<u>280,120</u>	<u>287,852</u>	<u>289,060</u>	<u>259,945</u>	<u>202,198</u>	<u>177,210</u>	<u>199,691</u>	
At end of accident year		(56,892)	(59,518)	(52,326)	(47,235)	(36,239)	(32,100)	(29,859)	
One year later		(139,326)	(142,024)	(136,129)	(121,759)	(91,019)	(75,007)	-	
Two years later		(205,996)	(209,829)	(197,270)	(176,978)	(134,824)	-	-	
Three years later		(249,908)	(249,427)	(242,006)	(206,667)	-	-	-	
Four years later		(269,248)	(269,004)	(258,596)	-	-	-	-	
Five years later		(277,947)	(271,361)	-	-	-	-	-	
Six years later		(272,895)	-	-	-	-	-	-	
Cumulative payments to date		<u>(272,895)</u>	<u>(271,361)</u>	<u>(258,596)</u>	<u>(206,667)</u>	<u>(134,824)</u>	<u>(75,007)</u>	<u>(29,859)</u>	
Gross general insurance outstanding liability (direct and facultative)	10,468	7,225	16,491	30,464	53,278	67,374	102,203	169,832	457,335
Gross general insurance outstanding liability (treaty inward)									<u>3,460</u>
Best estimate of claims liabilities									460,795
Claims handling expenses									5,015
PRAD at 75% confidence level									37,356
Effects of discounting									(13,026)
Gross general insurance contract liabilities per statement of financial position									<u><u>490,140</u></u>

39. INSURANCE RISK (CONT'D.)Claims development table (Cont'd.)Net general insurance contract liabilities for 2017:

<u>Accident year</u>	Before	2011	2012	2013	2014	2015	2016	2017	Total	
	2011									RM'000
At end of accident year		173,248	168,193	168,742	174,718	178,631	172,639	148,606		
One year later		177,930	178,771	174,031	207,249	152,783	120,864	-		
Two years later		189,370	186,995	196,815	183,247	148,032	-	-		
Three years later		196,436	205,905	185,345	185,003	-	-	-		
Four years later		206,294	191,100	187,613	-	-	-	-		
Five years later		189,923	190,942	-	-	-	-	-		
Six years later		185,668	-	-	-	-	-	-		
Current estimate of cumulative claims incurred		<u>185,668</u>	<u>190,942</u>	<u>187,613</u>	<u>185,003</u>	<u>148,032</u>	<u>120,864</u>	<u>148,606</u>		
At end of accident year		(41,748)	(42,761)	(36,504)	(36,192)	(28,124)	(25,086)	(22,481)		
One year later		(99,202)	(99,449)	(94,298)	(89,377)	(69,408)	(56,418)	-		
Two years later		(143,286)	(143,610)	(135,787)	(129,214)	(101,677)	-	-		
Three years later		(170,062)	(169,660)	(160,090)	(152,181)	-	-	-		
Four years later		(183,153)	(180,600)	(169,940)	-	-	-	-		
Five years later		(188,266)	(180,317)	-	-	-	-	-		
Six years later		(181,544)	-	-	-	-	-	-		
Cumulative payments to date		<u>(181,544)</u>	<u>(180,317)</u>	<u>(169,940)</u>	<u>(152,181)</u>	<u>(101,677)</u>	<u>(56,418)</u>	<u>(22,481)</u>		
Net general insurance outstanding liability (direct and facultative)		<u>(11,468)</u>	<u>4,124</u>	<u>10,625</u>	<u>17,673</u>	<u>32,822</u>	<u>46,355</u>	<u>64,446</u>	<u>126,125</u>	290,702
Net general insurance outstanding liability (treaty inward)										<u>699</u>
Best estimate of claims liabilities										291,401
Claims handling expenses										3,227
PRAD at 75% confidence level										22,571
Effects of discounting										9,935
Net general insurance contract liabilities per statement of financial position										<u><u>327,134</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>2018</u>	<u>2017</u>
	RM'000	RM'000
Reinsurance assets	171,803	200,416
Insurance receivables	25,180	20,909
Deposits and placements with financial institutions	452,816	556,799
Other receivables	69,754	74,911
Cash and cash equivalents	38,300	2,586
	<u>757,853</u>	<u>855,621</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>B</u>	<u>Not Rated</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2018</u>						
Reinsurance assets	2,821	462	158,702	31	9,787	171,803
Insurance receivables	262	10	20,129	-	4,779	25,180
Other receivables	3,213	1,715	1,310	-	63,516	69,754
Deposits and placements						
with financial institutions	205,491	96,112	106,460	-	44,754	452,816
Cash and cash equivalents	37,755	508	-	-	37	38,300
	<u>249,542</u>	<u>98,807</u>	<u>286,601</u>	<u>31</u>	<u>122,873</u>	<u>757,853</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>2017</u>					
Reinsurance assets	1,649	195	187,870	10,702	200,416
Insurance receivables	88	-	16,850	3,971	20,909
Other receivables	5,053	2,788	631	66,439	74,911
Deposits and placements with financial institutions	185,622	260,157	61,546	49,474	556,799
Cash and cash equivalents	2,403	147	-	36	2,586
	<u>194,815</u>	<u>263,287</u>	<u>266,897</u>	<u>130,622</u>	<u>855,621</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:

	<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>2018</u>						
Insurance receivables	4,067	247	9	3,858	1,257	9,438
<u>2017</u>						
Insurance receivables	3,329	100	117	1,047	295	4,888

Financial assets that are neither past due nor impaired

	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Insurance receivables	<u>15,742</u>	<u>16,021</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>2018</u>				
At 1 October 2017		872	188	1,060
Allowance for impairment loss	29	227	364	591
Write back of impairment loss	29	(76)	-	(76)
At 30 September 2018		<u>1,023</u>	<u>552</u>	<u>1,575</u>

2017

At 1 October 2016		1,336	112	1,448
Allowance for impairment loss	29	75	77	152
Write back of impairment loss	29	(539)	(1)	(540)
At 30 September 2017		<u>872</u>	<u>188</u>	<u>1,060</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>2018</u>							
Insurance contract liabilities	413,458	155,193	113,541	120,944	34,344	1,028	425,050
Insurance payables	14,771	14,771	-	-	-	-	14,771
Hire purchase creditors	271	150	104	32	-	-	286
Borrowings	69,111	5,320	10,662	73,928	-	-	89,910
Other payables	9,630	9,630	-	-	-	-	9,630
Total liabilities	507,241	185,064	124,307	194,904	34,344	1,028	539,647
<u>2017</u>							
Insurance contract liabilities	490,140	111,598	162,397	194,255	34,868	47	503,165
Insurance payables	10,505	10,505	-	-	-	-	10,505
Hire purchase creditors	653	285	218	198	-	-	701
Borrowings	68,910	5,320	10,669	79,241	-	-	95,230
Other payables	11,648	11,648	-	-	-	-	11,648
Total liabilities	581,856	139,356	173,284	273,694	34,868	47	621,249

* 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 and solvency.

(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 profit before tax (due to changes in fair value through profit or loss financial assets) and equity (due to changes in fair value of available-for-sale financial assets).

	Changes <u>in variables</u>	<u>2018</u>		<u>2017</u>
		Impact on profit before tax RM'000	Impact on equity* RM'000	Impact on equity* RM'000
←-----Increase/(Decrease)-----→				
Market price	+ 10%	218	7,995	7,046
Market price	- 10%	(218)	(7,995)	(7,046)

* 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 2018, as prescribed under the RBC Framework is provided below:

	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
<u>Eligible Tier 1 Capital</u>		
Share capital (paid-up)	100,000	100,000
Retained profits	134,857	143,739
	<u>234,857</u>	<u>243,739</u>
<u>Tier 2 Capital</u>		
Capital instruments which qualify as Tier 2 Capital	41,467	55,127
Revaluation reserve	12,378	12,378
AFS reserve	4,046	7,385
	<u>57,891</u>	<u>74,890</u>
Amounts deducted from Capital	<u>(1,290)</u>	<u>(1,351)</u>
Total Capital Available	<u>291,458</u>	<u>317,278</u>

42. FAIR VALUE

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

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>2018</u>				
<u>AFS financial assets</u>				
Quoted shares	14,211	-	-	14,211
Unit trusts	88,812	-	-	88,812
	<u>103,023</u>	<u>-</u>	<u>-</u>	<u>103,023</u>
<u>FVTPL financial assets</u>				
Quoted shares	2,180	-	-	2,180
	<u>2,180</u>	<u>-</u>	<u>-</u>	<u>2,180</u>
<u>2017</u>				
<u>AFS financial assets</u>				
Quoted shares	18,915	-	-	18,915
Unit trusts	71,173	-	-	71,173
	<u>90,088</u>	<u>-</u>	<u>-</u>	<u>90,088</u>
<u>FVTPL financial assets</u>				
Quoted shares	2,620	-	-	2,620
	<u>2,620</u>	<u>-</u>	<u>-</u>	<u>2,620</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>2018</u> Carrying <u>amount</u> RM'000	<u>2017</u> Carrying <u>amount</u> RM'000	<u>2018</u> Fair <u>value</u> RM'000	<u>2017</u> Fair <u>value</u> RM'000
<u>Financial liabilities</u>				
Hire purchase creditors	271	653	323	701

42. FAIR VALUE (CONT'D.)

(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 on demand.

(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.

42. FAIR VALUE (CONT'D.)

(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>2018</u>					
Property, plant and equipment					
Freehold land		-	-	2,465	2,465
Freehold buildings		-	-	890	890
Leasehold buildings		-	-	15,776	15,776
	5	-	-	19,131	19,131
Investment properties					
Freehold buildings		-	-	655	655
Leasehold buildings		-	-	565	565
	6	-	-	1,220	1,220
<u>2017</u>					
Property, plant and equipment					
Freehold land		-	-	2,465	2,465
Freehold buildings		-	-	921	921
Leasehold buildings		-	-	16,705	16,705
	5	-	-	20,091	20,091
Investment properties					
Freehold buildings		-	-	655	655
Leasehold buildings		-	-	565	565
	6	-	-	1,220	1,220

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.