



AIG MALAYSIA INSURANCE BERHAD

(795492-W)
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

RM

Net profit for the financial year

79,924,670

DIVIDENDS

The final single-tier dividend of 9.65% (RM0.0965 per share) on ordinary shares declared and paid in respect of financial year ended 31 December 2014 amounting to RM30 million was paid on 22 June 2015.

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

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

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

BAD AND DOUBTFUL DEBTS

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

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS (CONTINUED)

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

DIRECTORS' REPORT (CONTINUED)

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

The Directors who have held office during the period since the date of the last report are:

Dato' Thomas Mun Lung Lee
Mohd Daruis Bin Zainuddin
Ou Shian Waei
Matthew James Harris
Stephen Charles Snell
Antony Fook Weng Lee

DIRECTORS' BENEFIT

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than the Employee Share Option Scheme over ordinary shares of American International Group, Inc.

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

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

<u>American International Group, Inc</u>	<u>Number of ordinary shares of US\$2.50 each</u>		
	As at 01.01.2015	Exercised	As at 31.12.2015
Direct Interest			
Stephen Charles Snell	191	-	191

<u>American International Group, Inc</u>	<u>Number of warrants of US\$2.50 each</u>		
	As at 01.01.2015	Exercised	As at 31.12.2015
Direct Interest			
Stephen Charles Snell	97	-	97
Antony Fook Weng Lee	9	-	9

<u>American International Group, Inc</u>	<u>Number of stock options over ordinary shares of US\$2.50 each</u>		
	As at 01.01.2015	Expired	As at 31.12.2015
Employee Stock Options			
Stephen Charles Snell	709	-	709
Antony Fook Weng Lee	28	-	28

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

IMMEDIATE AND ULTIMATE HOLDING CORPORATIONS

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

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE

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

(A) BOARD RESPONSIBILITY AND OVERSIGHT

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

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

The Board comprises 3 Independent Non-Executive Directors, 2 Non-Independent Non-Executive Directors and 1 Executive Directors. The Board is qualified and has wide business and financial experience to effectively provide directions in terms of corporate objectives and business strategies.

There were 8 meetings held during the financial year. All Directors in office at the end financial year complied with the 75% minimum attendance requirement at such meeting.

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

<u>Name of Directors</u>	<u>(Status of Directorship)</u>	<u>Total Meeting Attended</u>
Dato' Thomas Mun Lung Lee	(Independent Non-Executive Director)	8/8
Mohd Daruis Bin Zainuddin	(Independent Non-Executive Director)	8/8
Ou Shian Waei	(Independent Non-Executive Director)	8/8
Matthew James Harris	(Non-Independent Non-Executive Director)	6/8
Antony Fook Weng Lee	(Non-Independent Executive Director)	8/8
Stephen Charles Snell	(Non-Independent Non-Executive Director)	6/8

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

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

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

Nominating Committee

The Nominating Committee ("NC") comprises 5 members, appointed from the Board. The current members are as follows:

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

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

The principal duties and responsibilities of NC are:

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

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Nominating Committee (continued)

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

There was 4 NC meeting held during the financial year ended 31 December 2015. All members of the NC at the end of financial year complied with the minimum attendance requirement at such meeting.

Remuneration Committee

The Remuneration Committee ("RC") comprises 4 Non-Executive Directors, appointed from the Board. The current members are as follows:

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

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

The principal duties and responsibilities of RC are:

- (a) recommending a framework for the remuneration of Directors, the CEO and KSOs. The remuneration policy should:-
 - be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - reflect the experience and level of responsibility borne by individual Directors, the CEO and KSOs;

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Remuneration Committee (continued)

- be sufficient to attract and retain Directors, CEO and KSOs of calibre needed to manage the company successfully; and
 - be balanced against the need to ensure that the funds of the insurers are not used to subsidise excessive remuneration packages and should not create incentives for irresponsible behaviour or insider excesses.
- (b) recommending specific remuneration packages for Directors, CEO and KSOs. The remuneration packages should:-
- be based on objective considerations and approved by the full Board;
 - take due consideration of the assessments of the nominating committee of the effectiveness and contribution of the Directors, CEO or KSOs concerned;
 - not be decided by the exercise of sole discretion by any one individual or restricted group of individuals; and
 - be competitive and consistent with the Company's culture, objectives and strategy.

There were 1 RC meetings held during the financial year ended 31 December 2015. All members of the RC at the end of financial year complied with the minimum attendance requirement at such meeting.

Risk Management Committee

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

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

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

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Risk Management Committee (continued)

The principal duties and responsibilities of RMC are:

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

There were 4 RMC meetings held during the financial year ended 31 December 2015. All members of the RMC at the end of financial year complied with the minimum attendance requirement at such meeting.

Audit Committee

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

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

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

The principal duties and responsibilities of the AC are:

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

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Audit Committee (continued)

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

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

There were 3 AC meetings held during the financial year ended 31 December 2015. All members of the AC at the end of financial year complied with the minimum attendance requirement at such meeting.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(B) MANAGEMENT ACCOUNTABILITY

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

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

(C) CORPORATE INDEPENDENCE

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

(D) INTERNAL CONTROLS AND OPERATIONAL RISK MANAGEMENT

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

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

(E) INTERNAL AUDIT

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

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

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(F) PUBLIC ACCOUNTABILITY

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

(G) FINANCIAL REPORTING

The Board has the overall responsibilities to ensure that accounting records are properly kept and that the Company's financial statements are prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards, the provisions of the Companies Act, 1965 in Malaysia, the Financial Services Act, 2013 and relevant regulatory requirements. In addition, the Company also meets the best practice requirements relating to management reporting, where the key performance indicators are reported on a monthly basis.

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 28 March 2016.

ANTONY FOOK WENG LEE
DIRECTOR

OU SHIAN WAEI
DIRECTOR

Kuala Lumpur
28 March 2016

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Antony Fook Weng Lee and Ou Shian Waei, two of the Directors of AIG Malaysia Insurance Berhad, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 17 to 99 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2015 and of its results and cash flows for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 28 March 2016.

ANTONY FOOK WENG LEE
DIRECTOR

OU SHIAN WAEI
DIRECTOR

Kuala Lumpur
28 March 2016

STATUTORY DECLARATION

PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, Zawinah Bte Ismail, the Officer primarily responsible for the financial management of AIG Malaysia Insurance Berhad, do solemnly and sincerely declare that the financial statements for the financial year ended 31 December 2015 set out on pages 17 to 99 are drawn up in accordance with Malaysia Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 and in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

ZAWINAH BTE ISMAIL

Subscribed and solemnly declared by the above named at Kuala Lumpur in the Federal Territory on 28 March 2016.

Before me,

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AIG MALAYSIA INSURANCE BERHAD
(Company No. 795492-W)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AIG Malaysia Insurance Berhad, which comprise the statement of financial position as at 31 December 2015, and the statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, summary of significant accounting policies and other explanatory notes to the financial statements, as set out on pages 17 to 99.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AIG MALAYSIA INSURANCE BERHAD
(Company No. 795492-W)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

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

Kuala Lumpur
28 March 2016

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	31.12.2015 RM	31.12.2014 Restated RM	1.1.2014 Restated RM
Assets				
Property and equipment	4	6,126,746	5,517,653	7,149,284
Intangible assets	5	4,331,610	751,390	1,117,539
Available-for-sale financial assets	6	787,529,202	819,723,329	741,110,428
Reinsurance assets	7	183,333,213	189,694,407	228,545,084
Loans and receivables, excluding insurance receivables	8	232,901,540	130,891,710	136,650,137
Insurance receivables	9	126,957,806	78,072,092	98,398,897
Deferred acquisition costs	10	40,679,368	41,431,380	36,891,945
Tax recoverable		8,113,267	9,008,769	2,735,755
Cash and bank balances		52,925,048	80,445,666	83,127,578
Total assets		1,442,897,800	1,355,536,396	1,335,726,647
Equity and liabilities				
Share capital	11(a)	310,800,000	310,800,000	310,800,000
Retained earnings	11(b)	144,537,872	94,613,202	89,216,236
Available-for-sale reserve	11(c)	11,435,533	9,972,789	13,068,121
Total equity		466,773,405	415,385,991	413,084,357
Insurance contract liabilities	12	844,171,737	855,958,916	826,082,977
Deferred tax liabilities	13	1,920,179	2,362,659	2,726,467
Insurance payables	14	88,715,916	40,614,856	59,341,463
Other payables	15	41,316,563	41,213,974	34,491,383
Total liabilities		976,124,395	940,150,405	922,642,290
Total equity and liabilities		1,442,897,800	1,355,536,396	1,335,726,647

The accompanying notes form an integral part of the financial statements

STATEMENT OF INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Note	2015 RM	2014 Restated RM
Gross earned premiums	16(a)	709,906,426	654,081,874
Premiums ceded to reinsurers	16(b)	(189,178,708)	(118,818,799)
Net earned premiums		<u>520,727,718</u>	<u>535,263,075</u>
Investment income	17	39,322,820	36,262,833
Realised gains and losses	18	1,240,271	168,346
Commission income	19(a)	46,360,046	18,894,642
Other operating revenue		<u>2,249,723</u>	<u>346,469</u>
Total revenue		<u>609,900,578</u>	<u>590,935,365</u>
Gross claims paid	20(a)	(287,851,572)	(300,592,951)
Claims ceded to reinsurers	20(b)	37,258,403	62,317,024
Gross changes in contract liabilities	20(c)	22,994,263	(5,973,824)
Changes in contract liabilities ceded to reinsurers	20(d)	(25,946,923)	(36,783,754)
Net claims incurred		<u>(253,545,829)</u>	<u>(281,033,505)</u>
Commission expense	19(b)	(87,080,618)	(78,442,886)
Management expenses	21	(172,183,394)	(152,286,477)
Other expenses		<u>(259,264,012)</u>	<u>(230,729,363)</u>
Profit before taxation		<u>97,090,737</u>	<u>79,172,497</u>
Income tax expense	22	(17,166,067)	(23,775,531)
Profit for the financial year		<u>79,924,670</u>	<u>55,396,966</u>
Earnings per share			
Basic	23	<u>26 sen</u>	<u>18 sen</u>

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

		2015	2014
	Note	RM	Restated RM
Profit for the financial year		79,924,670	55,396,966
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Changes in available-for-sale reserves:			
- Fair value gain/(loss) arise during the financial year	6(b)	2,989,670	(3,927,964)
- Fair value realised gain transferred to Statement of Income	18	(1,239,971)	(199,145)
- Tax effect on changes in fair value reserves		(286,955)	1,031,777
		<u>1,462,744</u>	<u>(3,095,332)</u>
Total comprehensive income for the financial year		<u>81,387,414</u>	<u>52,301,634</u>

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Non Distributable		Distributable	
	Share capital	Available-for-sale reserves	Retained earnings	Total
	RM	RM	RM	RM
At 1 January 2014	310,800,000	13,068,121	88,822,086	412,690,207
Change in accounting policy	-	-	394,150	394,150
At 1 January 2014-restated	310,800,000	13,068,121	89,216,236	413,084,357
Profit for the financial year	-	-	55,396,966	55,396,966
Other comprehensive income for the financial year	-	(3,095,332)	-	(3,095,332)
Total comprehensive income for the financial year	-	(3,095,332)	55,396,966	52,301,634
Dividend paid during the financial year	-	-	(50,000,000)	(50,000,000)
At 31 December 2014	<u>310,800,000</u>	<u>9,972,789</u>	<u>94,613,202</u>	<u>415,385,991</u>
At 1 January 2015	310,800,000	9,972,789	94,980,460	415,753,249
Change in accounting policy	-	-	(367,258)	(367,258)
At 1 January 2015-restated	310,800,000	9,972,789	94,613,202	415,385,991
Profit for the financial year	-	-	79,924,670	79,924,670
Other comprehensive income for the financial year	-	1,462,744	-	1,462,744
Total comprehensive income for the financial year	-	1,462,744	79,924,670	81,387,414
Dividend paid during the financial year	-	-	(30,000,000)	(30,000,000)
At 31 December 2015	<u>310,800,000</u>	<u>11,435,533</u>	<u>144,537,872</u>	<u>466,773,405</u>
	Note 11(a)	Note 11(c)	Note 11(b)	

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	2015 RM	2014 Restated RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	79,924,670	55,396,966
Adjustments for:		
Depreciation of property and equipment	1,851,588	2,308,915
Amortisation of intangible assets	147,752	366,149
Investment income	(39,322,820)	(36,262,833)
Reversal of impairment loss on LAR	-	(26,267)
Impairment loss on AFS financial assets	1,431,359	568,093
Fair value gains on AFS recorded in Statement of Income	(1,239,971)	(199,145)
(Gain)/loss on disposal of property and equipment	(300)	30,799
Income tax expense	17,166,067	23,775,531
Bad debts written off	234,648	779,058
Allowance for impairment on insurance receivables	2,813,227	328,262
	<u>63,006,220</u>	<u>47,065,528</u>
Changes in working capital:		
Decrease in reinsurance assets	6,361,194	38,850,677
(Increase)/decrease in insurance receivables	(51,933,589)	19,219,485
Decrease/(increase) in deferred acquisition costs	752,012	(4,539,435)
(Decrease)/increase in insurance contract liabilities	(11,787,179)	29,875,939
Increase/(decrease) in insurance payables	48,101,060	(18,726,607)
Increase in other payables	102,589	6,722,591
(Increase)/decrease in loans and receivables, excluding insurance receivables	(100,263,464)	5,450,631
	<u>(45,661,157)</u>	<u>123,918,809</u>
Cash generated from operations	(17,000,000)	(29,380,576)
	<u>(62,661,157)</u>	<u>94,538,233</u>
Net cash inflows from operating activities		

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	2015 RM	2014 Restated RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,460,681)	(884,583)
Proceed from disposal of property and equipment	300	176,500
Increase in intangible assets	(3,727,972)	-
Interest income received	38,073,658	35,881,144
Dividend income received	1,695,925	1,869,373
Purchases of AFS financial assets	(160,529,903)	(278,133,190)
Proceeds from disposal and maturity of AFS financial assets	192,089,212	193,870,611
Net cash outflows from investing activities	65,140,539	(47,220,145)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(30,000,000)	(50,000,000)
Net cash outflows from financing activities	(30,000,000)	(50,000,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,520,618)	(2,681,912)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	80,445,666	83,127,578
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	52,925,048	80,445,666
 Cash and cash equivalents comprise:		
Cash and bank balances	6,925,048	6,695,666
Fixed and call deposits with maturity of less than 3 months	46,000,000	73,750,000
	52,925,048	80,445,666

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

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

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

These financial statements were authorised for issue by the Board of Directors in accordance with their resolution on 28 March 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, the requirements of the Companies Act, 1965 and the Financial Services Act 2013 in Malaysia.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2015:

- Annual Improvements to MFRSs 2010 – 2012 Cycle
- Annual Improvements to MFRSs 2011 – 2013 Cycle
- Amendments to MFRS 119 "Defined Benefit Plans: Employees Contributions"

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

Financial year beginning on/after 1 January 2018

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

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

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

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

All other new amendments to the published standards and interpretations to existing standards issue by the MASB effective for financial period subsequent to 1 January 2015 are not relevant to the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment

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

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

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

Furniture and equipment	5 years
Computer equipment	2 years
Motor vehicles	5 years
Renovation	5 - 15 years

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Intangible assets – computer software

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

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

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

(d) Impairment of non-financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Assets

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

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

LAR

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

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

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

AFS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Determination of fair value

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

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

(g) Impairments of financial assets

Assets carried at amortised cost

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

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

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

AFS

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairments of financial assets (continued)

AFS (continued)

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

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

(h) Derecognition of financial assets

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

(i) Dividends to shareholders of the Company

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

(j) Product classification

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are more than the benefits payable if the insured event did not occur.

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

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

The Company issues short term contracts that transfer significant insurance risk. These contracts are mainly aviation, marine cargo, contractors all risks, fire, accident & health, motor and liabilities insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Product classification (continued)

Aviation insurance includes hull and liabilities. Hull policies insure against damage to aircraft, whilst Liabilities policies can be bought by any entity involved in aviation or aerospace, from airport catering contractors through to manufacturers of critical components, insuring against claims made by third parties for loss or damage.

Marine cargo insures owners against loss or damage to their goods whilst in transit. The Company also sells marine liability policies, which typically insure port and terminal operators against claims made by third parties for loss or damage.

Contractors all risks and erection all risk insurance contracts protect the customers for material damage suffered to their contract works and the third party liability arising out of the performance of the contract during the construction period.

Fire insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Accident & health ("A&H") insurance contracts protect the Company's customers against the risk of an accidental and unforeseen event which causes bodily injury to a person. The person can be an employee of a corporation, business or an individual. In addition, the A&H department also provides other coverages such as hospital income benefit (which pays a pre-determined amount to the insured for each day the insured is confined in a hospital), critical illness benefit (which pays a lump sum amount if the insured is first diagnosed with a critical illness). The A&H department also provides travel insurance for the travelers whether they are traveling on business or pleasure.

Motor - Almost all business written consists of comprehensive insurance for private cars, generally sold through agents. The remainder consists of comprehensive cover for light commercial vehicles (C permit) and a very small amount of third party cover for private cars.

Liabilities insurances consist of casualty and financial lines. Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Financial lines insurance contracts divide into management liability insurance contracts and professional liability insurance contracts. Management liability insurance contracts protect the directors and officers of a company from potential litigation. Such litigation can arise due to a personal liability that exists for a director or officer, and can be brought by shareholders, regulators, employees, customers and suppliers. Professional liability insurance contracts protect professionals from allegations of negligence or and act, error or omission in performing the said professional duties.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Reinsurance

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

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

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

Reinsurance assets consist of balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

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

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

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

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Insurance contracts

Premium from insurance contract

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

Insurance contracts liabilities

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

(i) Premium liabilities

Premium liabilities refer to the higher of:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Insurance contracts (continued)

(ii) Claims liabilities

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

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

(iii) Liability adequacy test on insurance contract liabilities

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

Acquisition costs and Deferred Acquisition Cost ("DAC")

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Insurance contracts (continued)

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

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

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

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

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

(m) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in statement of income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2 (g).

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

(n) Other revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Operating leases

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

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

(p) Income taxes

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contingent liabilities and contingent assets

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

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

(r) Provisions

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

(s) Employee benefits

(i) Short-term employees benefits

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

(ii) Post-employment benefits

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

(iii) Share-based compensation

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

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

(t) Foreign currencies

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

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

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

(u) Other Financial Liabilities and Insurance Payables

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

(v) Cash and cash equivalent

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Events after the statement of financial position date

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

(x) Change in accounting policy and restatement of comparatives

During the financial year, the Company changed its accounting policy on extended warranty policies' revenue recognition. As such, comparatives have been restated to conform with the current year's presentation as disclosed in Note 31 to the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The factors could include:

(a) Critical accounting estimates and assumptions

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

Claims liabilities arising from insurance contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

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

(a) Critical accounting estimates and assumptions (continued)

Claims liabilities arising from insurance contracts (continued)

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

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

(b) Critical judgments in applying the entity accounting policies

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

4. PROPERTY AND EQUIPMENT

	Furniture and equipment RM	Computer equipment RM	Motor vehicles RM	Renovation RM	Total RM
Cost					
At 1 January 2014	13,221,082	2,061,982	470,315	18,149,932	33,903,311
Additions	41,293	129,766	-	713,524	884,583
Written off	-	(1,448,543)	-	-	(1,448,543)
Disposals	(328,584)	-	(470,315)	-	(798,899)
At 31 December 2014	12,933,791	743,205	-	18,863,456	32,540,452
Additions	395,589	171,327	-	1,893,765	2,460,681
Written off	-	(112,131)	-	-	(112,131)
At 31 December 2015	13,329,380	802,401	-	20,757,221	34,889,002
Accumulated Depreciation					
At 1 January 2014	10,624,625	1,900,345	161,757	14,067,300	26,754,027
Charge for financial year	786,334	151,476	101,259	1,269,845	2,308,914
Written off	-	(1,448,543)	-	-	(1,448,543)
Disposals	(328,583)	-	(263,016)	-	(591,599)
At 31 December 2014	11,082,376	603,278	-	15,337,145	27,022,799
Charge for financial year	624,067	166,376	-	1,061,145	1,851,588
Written off	-	(112,131)	-	-	(112,131)
At 31 December 2015	11,706,443	657,523	-	16,398,290	28,762,256
Net book value					
At 1 January 2014	2,596,457	161,637	308,558	4,082,632	7,149,284
At 31 December 2014	1,851,415	139,927	-	3,526,311	5,517,653
At 31 December 2015	1,622,937	144,878	-	4,358,931	6,126,746

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

5. INTANGIBLE ASSETS

	Intangible RM	WIP RM	Total RM
Cost			
At 1 January 2014	18,814,792	-	18,814,792
Write off	(236,222)	-	(236,222)
At 31 December 2014	18,578,570	-	18,578,570
Additions	9,000	3,718,972	3,727,972
At 31 December 2015	18,587,570	3,718,972	22,306,542
Accumulated amortisation			
At 1 January 2014	17,697,253	-	17,697,253
Amortisation for the financial year	366,149	-	366,149
Write off	(236,222)	-	(236,222)
At 31 December 2014	17,827,180	-	17,827,180
Amortisation for the financial year	147,752	-	147,752
At 31 December 2015	17,974,932	-	17,974,932
Net book value			
At 1 January 2014	1,117,539	-	1,117,539
At 31 December 2014	751,390	-	751,390
At 31 December 2015	612,638	3,718,972	4,331,610

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2015 RM	31.12.2014 RM	1.1.2014 RM
(a) At fair value			
Quoted:			
Equity securities of corporations	32,539,756	41,001,500	40,033,212
Real estate investment trust	8,680,355	8,792,453	8,323,453
	41,220,111	49,793,953	48,356,665
Unquoted:			
Malaysian government securities	195,306,677	198,349,671	306,285,047
Cagamas papers	92,484,022	92,393,261	78,033,043
Corporate debt securities	458,518,392	479,186,444	308,435,673
	746,309,091	769,929,376	692,753,763
	787,529,202	819,723,329	741,110,428
Maturity within 12 months	137,458,741	145,584,876	160,419,588
Maturity after 12 months	608,850,350	624,344,500	532,334,175
	746,309,091	769,929,376	692,753,763

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

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

(b) Available-for-sale financial assets	RM
At 1 January 2014	741,110,428
Purchases	278,133,190
Maturities	(190,043,469)
Disposals	(3,627,997)
Fair value gains transferred to statement of income	(199,145)
Fair value losses recorded in other comprehensive income	(3,927,964)
Amortisation of premium, net of accretion of discounts	(2,429,691)
Movement in impairment allowance	(568,093)
Movement in interest income due and accrued	1,276,070
At 31 December 2014 / 1 January 2015	819,723,329
Purchases	160,529,903
Maturities	(180,000,000)
Disposals	(10,849,241)
Fair value gains transferred to statement of income	(1,239,971)
Fair value gains recorded in other comprehensive income	2,989,670
Amortisation of premium, net of accretion of discounts	(1,609,841)
Movement in impairment allowance	(1,431,359)
Movement in interest income due and accrued	(583,288)
At 31 December 2015	<u>787,529,202</u>

7. REINSURANCE ASSETS

	Note	31.12.2015	31.12.2014 Restated	1.1.2014 Restated
		RM	RM	RM
Reinsurance of insurance contracts:	12			
Claims liabilities		151,215,127	177,162,050	213,945,804
Premium liabilities		32,118,086	12,532,357	14,599,280
		<u>183,333,213</u>	<u>189,694,407</u>	<u>228,545,084</u>
Current		94,101,991	92,257,967	145,767,516
Non current		89,231,222	97,436,440	82,777,568
		<u>183,333,213</u>	<u>189,694,407</u>	<u>228,545,084</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

8. LOANS AND RECEIVABLES, EXCLUDING INSURANCE RECEIVABLES

	31.12.2015 RM	31.12.2014 RM	1.1.2014 RM
Fixed deposits with licensed banks in Malaysia	156,284,034	60,518,160	81,987,052
Staff loans	805,059	810,701	959,456
	157,089,093	61,328,861	82,946,508
Less: Allowance for impairment	(755,852)	(755,852)	(782,119)
	156,333,241	60,573,009	82,164,389
Other receivables:			
Amount due from Malaysian Motor Insurance pool ("MMIP")	71,252,666	61,880,331	50,400,371
- Assets held under MMIP	36,893,189	34,532,430	32,411,237
- Cash contribution to MMIP	34,359,477	27,347,901	17,989,134
Other receivables, deposits and prepayments	3,950,410	2,992,029	3,070,576
Amount due from related corporations (Note 26)	1,365,223	5,446,341	1,014,801
	76,568,299	70,318,701	54,485,748
Total loans and receivables	232,901,540	130,891,710	136,650,137
Current	178,893,432	74,218,848	76,182,307
Non-current	54,008,108	56,672,862	59,453,029
	232,901,540	130,891,710	135,635,336

MMIP balance as at 31 December 2015 is a net payable of RM6,085,206 (2014: RM7,215,284) after setting off the amounts due from MMIP against the Company's share of MMIP's claims and premium liabilities amounting to RM77,337,872 (2014: RM69,095,615) included in Note 12 to the financial statements.

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

9. INSURANCE RECEIVABLES

	31.12.2015 RM	31.12.2014 RM	1.1.2014 RM
Due premiums including agents/brokers and co-insurers balance	110,701,674	69,786,766	85,205,018
Due from reinsurers and cedants	20,236,770	9,452,737	14,033,028
	130,938,444	79,239,503	99,238,046
Less: Allowance for impairment	(3,980,638)	(1,167,411)	(839,149)
	126,957,806	78,072,092	98,398,897
Current	126,957,806	78,072,092	98,398,897

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

10. DEFERRED ACQUISITION COSTS

	Note	2015 RM	2014 Restated RM
Gross of reinsurance			
At 1 January		28,664,347	25,451,827
Change in accounting policy	31	13,874,578	12,787,138
Restated balance		42,538,925	38,238,965
Commission expense paid	19(b)	86,590,773	82,742,846
Amortisation	19(b)	(87,080,618)	(78,442,886)
		<u>42,049,080</u>	<u>42,538,925</u>
Reinsurance			
At 1 January		1,107,545	1,347,020
Commission income received	19(a)	46,622,213	18,655,167
Amortisation	19(a)	(46,360,046)	(18,894,642)
		<u>1,369,712</u>	<u>1,107,545</u>
Net of reinsurance			
At 1 January		27,556,802	24,104,807
Change in accounting policy	31	13,874,578	12,787,138
Restated balance		41,431,380	36,891,945
Net commission expense		39,968,560	64,087,679
Amortisation		(40,720,572)	(59,548,244)
At 31 December		<u>40,679,368</u>	<u>41,431,380</u>
Current		<u>40,679,368</u>	<u>41,431,380</u>

11. EQUITY

(a) Share capital

	2015		2014	
	No of Shares	RM	No of Shares	RM
Authorised:				
Ordinary shares of RM1.00 each				
At beginning and end of financial year	<u>500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>
Issued and paid-up:				
Ordinary shares of RM1.00 each				
At beginning and end of financial year	<u>310,800,000</u>	<u>310,800,000</u>	<u>310,800,000</u>	<u>310,800,000</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

11. EQUITY (CONTINUED)

(b) Retained earnings

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

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

(c) Available-for-sale reserves

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

12. INSURANCE CONTRACT LIABILITIES

	Gross RM	Reinsurance RM	Net RM
31.12.2015			
Provision for claims reported by policyholders	327,742,031	(118,259,575)	209,482,456
Provision for incurred but not reported claims ("IBNR")	150,639,041	(32,955,552)	117,683,489
Claims liabilities (i)	478,381,072	(151,215,127)	327,165,945
Premiums liabilities (ii)	365,790,665	(32,118,086)	333,672,579
	<u>844,171,737</u>	<u>(183,333,213)</u>	<u>660,838,524</u>
31.12.2014			
Provision for claims reported by policyholders	338,727,735	(132,629,782)	206,097,953
Provision for incurred but not reported claims ("IBNR")	162,647,600	(44,532,268)	118,115,332
Claims liabilities (i)	501,375,335	(177,162,050)	324,213,285
Premiums liabilities (ii)	354,583,581	(12,532,357)	342,051,224
	<u>855,958,916</u>	<u>(189,694,407)</u>	<u>666,264,509</u>
1.1.2014			
Provision for claims reported by policyholders	356,838,108	(163,247,964)	193,590,144
Provision for incurred but not reported claims ("IBNR")	138,563,403	(50,697,840)	87,865,563
Claims liabilities (i)	495,401,511	(213,945,804)	281,455,707
Premiums liabilities (ii)	330,681,466	(14,599,280)	316,082,186
	<u>826,082,977</u>	<u>(228,545,084)</u>	<u>597,537,893</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

12. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(i) Claims Liabilities

	Gross RM	Reinsurance RM	Net RM
At 1 January 2015	501,375,335	(177,162,050)	324,213,285
Claims incurred in current accident year	251,965,508	(28,234,587)	223,730,921
Adjustment to claims incurred in prior accident year	24,900,361	5,346,390	30,246,751
Effect of changes in key assumptions	(12,008,560)	11,576,717	(431,843)
Claims paid during the financial year	(287,851,572)	37,258,403	(250,593,169)
At 31 December 2015	<u>478,381,072</u>	<u>(151,215,127)</u>	<u>327,165,945</u>
At 1 January 2014	495,401,511	(213,945,804)	281,455,707
Claims incurred in current accident year	240,731,934	(34,571,614)	206,160,320
Adjustment to claims incurred in prior accident year	41,750,644	2,872,772	44,623,416
Effect of changes in key assumptions	24,084,197	6,165,572	30,249,769
Claims paid during the financial year	(300,592,951)	62,317,024	(238,275,927)
At 31 December 2014	<u>501,375,335</u>	<u>(177,162,050)</u>	<u>324,213,285</u>

(ii) Premiums Liabilities

	Note	Gross RM	Reinsurance RM	Net RM
At 1 January 2015		301,043,609	(12,532,357)	288,511,252
Change in accounting policy	31	53,539,972	-	53,539,972
Restated balance		354,583,581	(12,532,357)	342,051,224
Premiums written in the financial year	16	721,113,510	(208,764,437)	512,349,073
Premiums earned during the financial year	16	(709,906,426)	189,178,708	(520,727,718)
At 31 December 2015		<u>365,790,665</u>	<u>(32,118,086)</u>	<u>333,672,579</u>
At 1 January 2014		277,372,750	(14,599,280)	262,773,470
Change in accounting policy	31	53,308,716	-	53,308,716
Restated balance		330,681,466	(14,599,280)	316,082,186
Premiums written in the financial year	16	677,983,989	(116,751,876)	561,232,113
Premiums earned during the financial year	16	(654,081,874)	118,818,799	(535,263,075)
At 31 December 2014		<u>354,583,581</u>	<u>(12,532,357)</u>	<u>342,051,224</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

13. DEFERRED TAXATION

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

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

	2015 RM	2014 RM
Subject to income tax:		
Deferred tax liabilities	(1,920,179)	(2,362,659)
At 1 January	(2,362,659)	(2,726,467)
(Charged)/credited to statement of income:		
- property and equipment	80,289	228,585
- available-for-sale financial assets	(275,607)	(982,352)
- premium liabilities	924,754	85,798
	729,436	(667,969)
Charged to other comprehensive income	(286,956)	1,031,777
At 31 December	(1,920,179)	(2,362,659)
Subject to income tax:		
Deferred tax assets (before offsetting)		
- premium liabilities	997,269	72,515
- others	852,855	1,117,557
	1,850,124	1,190,072
Offsetting	(1,850,124)	(1,190,072)
Deferred tax assets (after offsetting)	-	-
Deferred tax liabilities (before offsetting)		
- property and equipment	(36,956)	(117,245)
- fair value changes on available-for-sale financial assets	(3,611,220)	(3,324,264)
- others	(122,127)	(111,222)
	(3,770,303)	(3,552,731)
Offsetting	1,850,124	1,190,072
Deferred tax liabilities (after offsetting)	(1,920,179)	(2,362,659)
Current	(1,920,179)	(2,362,659)

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

14. INSURANCE PAYABLES

	31.12.2015 RM	31.12.2014 Restated RM	1.1.2014 Restated RM
Due to agents and intermediaries	22,707,858	24,795,439	20,242,465
Due to reinsurers and cedants	49,180,662	15,782,399	38,754,616
Deposits received from reinsurers	16,827,396	37,018	344,382
	<u>88,715,916</u>	<u>40,614,856</u>	<u>59,341,463</u>

All amounts are payable within one year.

15. OTHER PAYABLES

	31.12.2015 RM	31.12.2014 RM	1.1.2014 RM
Amount due to related corporations (Note 26)	5,656,526	10,646,329	4,590,834
Other payables	35,660,037	30,567,645	29,900,549
	<u>41,316,563</u>	<u>41,213,974</u>	<u>34,491,383</u>

All amounts are payable within one year.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

16. NET EARNED PREMIUMS

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2015					
(a) Gross premiums earned					
Gross premiums	130,546,410	279,641,811	33,662,988	277,262,301	721,113,510
Changes in premium liabilities	(6,124,879)	(1,444,491)	(3,507,014)	(130,700)	(11,207,084)
	<u>124,421,531</u>	<u>278,197,320</u>	<u>30,155,974</u>	<u>277,131,601</u>	<u>709,906,426</u>
(b) Premiums ceded					
Reinsurance	(80,996,870)	(20,409,276)	(28,932,756)	(78,425,535)	(208,764,437)
Changes in premium liabilities	10,945,119	808,937	3,137,442	4,694,231	19,585,729
	<u>(70,051,751)</u>	<u>(19,600,339)</u>	<u>(25,795,314)</u>	<u>(73,731,304)</u>	<u>(189,178,708)</u>
Net earned premiums	<u>54,369,780</u>	<u>258,596,981</u>	<u>4,360,660</u>	<u>203,400,297</u>	<u>520,727,718</u>
2014-Restated					
(a) Gross premiums earned					
Gross premiums	114,080,170	269,067,817	29,960,248	264,875,754	677,983,989
Changes in premium liabilities	(5,265,221)	(14,513,132)	(1,194,659)	(2,929,103)	(23,902,115)
	<u>108,814,949</u>	<u>254,554,685</u>	<u>28,765,589</u>	<u>261,946,651</u>	<u>654,081,874</u>
(b) Premiums ceded					
Reinsurance	(52,287,796)	(8,076,352)	(19,454,096)	(36,933,632)	(116,751,876)
Changes in premium liabilities	1,690,382	(2,783,633)	164,968	(1,138,640)	(2,066,923)
	<u>(50,597,414)</u>	<u>(10,859,985)</u>	<u>(19,289,128)</u>	<u>(38,072,272)</u>	<u>(118,818,799)</u>
Net earned premiums	<u>58,217,535</u>	<u>243,694,700</u>	<u>9,476,461</u>	<u>223,874,379</u>	<u>535,263,075</u>

17. INVESTMENT INCOME

	2015 RM	2014 RM
AFS financial assets:		
Interest income	31,295,985	30,855,848
Dividend income	1,687,317	1,940,208
LAR interest income	7,949,359	5,896,468
Amortisation of premiums, net of accretion of discounts	<u>(1,609,841)</u>	<u>(2,429,691)</u>
	<u>39,322,820</u>	<u>36,262,833</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

18. REALISED GAINS AND LOSSES

	2015 RM	2014 RM
Realised gains/(losses) for:		
Property and equipment	300	(30,799)
AFS financial assets:	1,239,971	199,145
Equity securities	1,239,971	242,614
Debt securities	-	(43,469)
	<u>1,240,271</u>	<u>168,346</u>

19. COMMISSION INCOME/EXPENSE

	2015 RM	2014 Restated RM
(a) Commission income		
Commission income received	46,622,213	18,655,167
Movement in deferred acquisition costs	(262,167)	239,475
	<u>46,360,046</u>	<u>18,894,642</u>
(b) Commission expense		
Commission expense paid	(86,590,773)	(82,742,846)
Movement in deferred acquisition costs	(489,845)	4,299,960
	<u>(87,080,618)</u>	<u>(78,442,886)</u>

20. NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2015					
(a) Gross claims paid	(29,758,328)	(171,140,011)	(7,286,123)	(79,667,110)	(287,851,572)
(b) Claims ceded to reinsurers	16,462,932	4,092,235	5,070,438	11,632,798	37,258,403
(c) Gross changes in contract liabilities	16,100,815	(39,342,109)	8,609,942	37,625,615	22,994,263
(d) Changes in contract liabilities ceded to reinsurers	(11,414,541)	(512,673)	(4,802,345)	(9,217,364)	(25,946,923)
Net claims incurred	<u>(8,609,122)</u>	<u>(206,902,558)</u>	<u>1,591,912</u>	<u>(39,626,061)</u>	<u>(253,545,829)</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

20. NET CLAIMS INCURRED (CONTINUED)

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2014					
(a) Gross claims paid	(50,723,980)	(155,981,379)	(9,209,234)	(84,678,358)	(300,592,951)
(b) Claims ceded to reinsurers	31,363,543	3,705,942	7,083,876	20,163,663	62,317,024
(c) Gross changes in contract liabilities	10,871,996	(38,436,581)	(636,542)	22,227,303	(5,973,824)
(d) Changes in contract liabilities ceded to reinsurers	(16,505,438)	2,307,034	(2,023,999)	(20,561,351)	(36,783,754)
Net claims incurred	(24,993,879)	(188,404,984)	(4,785,899)	(62,848,743)	(281,033,505)

21. MANAGEMENT EXPENSES

	Note	2015 RM	2014 RM
Employee benefits expense	21(a)	45,426,233	40,737,432
Non-executive Directors' remuneration	21(b)	500,000	481,503
Auditors' remuneration:			
- Statutory audit		368,000	355,000
- Others		33,672	54,000
Traveling expenses		1,318,031	1,343,228
Motor vehicle expenses		408,420	480,520
Legal expenses		55,408	45,083
Advertising		7,792,139	7,422,471
Printing and stationery		3,032,070	3,567,447
Rent and rates		2,945,349	2,778,496
Electricity and water		424,565	542,736
Postage, telephone and telefax		32,001,544	27,249,801
Office maintenance		715,204	578,633
Entertainment		1,357,416	1,041,334
Training expenses		3,283,533	2,312,835
Electronic Data Processing expenses		30,204,215	34,885,597
Depreciation of property and equipment		1,851,588	2,308,915
Amortisation of intangible assets		147,752	366,149
Allowance for impairment on insurance receivables	29(a)	2,813,227	328,262
Reversal of impairment of LAR, excluding insurance receivables	29(a)	-	(26,267)
Impairment of AFS financial assets		1,431,359	569,566
Write-off of bad debts		234,648	779,058
Other expenses		35,839,021	24,084,678
		172,183,394	152,286,477

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

21. MANAGEMENT EXPENSES (CONTINUED)

	Note	2015 RM	2014 RM
(a) Employee benefits expense			
Wages and salaries		37,489,150	32,297,140
Contributions to defined contribution plan		4,378,563	4,037,409
Other benefits		3,558,520	4,402,883
		<u>45,426,233</u>	<u>40,737,432</u>
(b) Directors' Remuneration			
The details of remuneration receivable by Directors during the financial year are as follows:			
Executive:			
Salaries and other emoluments		1,704,651	1,570,237
Contribution to defined contribution plan		186,503	176,992
		<u>1,891,154</u>	<u>1,747,229</u>
Non-executive:			
Fees		500,000	471,003
Other allowances		-	10,500
		<u>500,000</u>	<u>481,503</u>
		<u>2,391,154</u>	<u>2,228,732</u>

Remuneration of executive Directors (excluding estimated money value of benefits-in-kind) are included in employee benefits expense.

The amount paid to a firm in which a Director is a Senior Partner for professional services rendered during the financial year amounted to RM8,806 (31.12.2014: RM1,500).

The remuneration, including benefit-in-kind of RM149,882 (31.12.2014: RM94,727), attributable to the Chief Executive Officer of the Company during the financial year amounted to RM1,891,154 (31.12.2014: RM1,747,229).

The number of directors whose remuneration falls into following bands is as follows:

Range of Remuneration (RM)	2015	2014
100,000 - 200,000	3	3
1,700,000 - 1,800,000	-	1
1,800,000 - 1,900,000	1	-

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

22. INCOME TAX EXPENSE

	2015 RM	2014 Restated RM
<u>Current tax</u>		
Current financial year	18,814,716	20,991,230
(Over)/under accrual in prior financial years	(919,213)	2,116,332
	<u>17,895,503</u>	<u>23,107,562</u>
<u>Deferred tax</u>		
Origination and reversal of temporary differences	(729,436)	667,969
	<u>17,166,067</u>	<u>23,775,531</u>

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

	2015 RM	2014 RM
Profit before taxation	<u>97,090,737</u>	<u>79,172,497</u>
Tax calculated at Malaysian tax rate of 25% (2013: 25%)	24,272,684	19,793,124
Tax effects of expenses not deductible for tax purposes	4,820,273	4,365,269
Income not subject to tax	(288,441)	(349,855)
Double tax deduction on MMIP	(1,752,894)	(2,339,692)
(Over)/under provision in respect of prior years	(919,213)	2,116,332
Deferred tax arising from change in accounting policy	(8,966,342)	190,353
	<u>17,166,067</u>	<u>23,775,531</u>

23. EARNINGS PER SHARE

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

	2015 RM	2014 Restated RM
Profit attributable to ordinary equity holders	79,924,670	55,396,966
Weighted average number of shares in issue	<u>310,800,000</u>	<u>310,800,000</u>
Basic earnings per share (sen)	<u>26</u>	<u>18</u>

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

24. DIVIDENDS

The final single-tier dividend of 9.65% (RM0.0965 per share) on ordinary shares declared and paid in respect of financial year ended 31 December 2014 amounting to RM30 million was paid on 22 June 2015.

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

25. COMMITMENTS

Non-cancelable operating lease commitment

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

	2015	2014
	RM	RM
Not later than 1 year	2,587,148	2,455,324
Later than 1 year but not later than 5 years	4,855,804	6,502,515
	<u>7,442,952</u>	<u>8,957,839</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

26. RELATED PARTY DISCLOSURES

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

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

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

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

	2015	2014
	RM	RM
Inward reinsurance premium received	262,253	807,131
Reinsurance premium ceded	(120,882,915)	(65,974,980)
Claims paid	(541,720)	(17,690,020)
Reinsurance claims recoveries	22,822,018	40,159,138
Commission earned	38,948,876	14,735,254
Commission paid	24,277	(139,682)
System related costs paid to related corporations	(27,679,750)	(23,620,155)
Personnel and related costs received from related corporations	3,934,392	4,896,125
Claims handling fee received from related corporation	99,684	83,246
Loss adjustment expenses	(2,074,671)	(1,168,977)
Personnel and related costs for expatriate paid to related corporations	-	(149,040)
Policy processing and related administration costs	(16,209,798)	(13,186,567)

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

26. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Compensation of key management personnel

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

	2015 RM	2014 RM
Short-term employee benefits	9,071,588	7,284,683
Post-employment benefits:		
- Defined contribution plan	1,000,158	841,270
	<u>10,071,746</u>	<u>8,125,953</u>

Included in the total key management personnel are:

Executive Directors' remuneration (Note 21(b))	<u>1,891,154</u>	<u>1,652,502</u>
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Members of key management comprise those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

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

	2015 RM	2014 RM
Amount due from/(to) related parties		
Trade related:		
- Insurance receivables	26,534,723	2,876,639
- Insurance payables	(36,604,087)	(4,087,357)
Amount due from related corporations (Note 8)	1,365,223	5,446,341
Amount due to related corporations (Note 15)	<u>(5,656,526)</u>	<u>(10,646,329)</u>

27. RISK MANAGEMENT FRAMEWORK

(a) Governance and Regulatory Framework

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Management Framework

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

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

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

Processes	Parties responsible
Establishment of risk management regime and Company's risk appetite and policy	Board of Directors Risk Management Committee ("RMC")
Implementation of Company's risk policy and compliance	Dedicated Committees • Risk & Capital Committee ("RCC") • Investment Committee Independent Risk Management and Control Unit • Internal Audit Department • Compliance Department • Risk Management Department
Implementation and compliance with the Company risk policy	Business Units • Agency Branch Channel Management Department • Claims Department • Finance & Accounting Department • Human Resource Department • Management Information Systems (MIS) Department • Operations Department • Underwriting Departments: ◦ Commercial Lines Division ◦ Consumer Lines Division • Service Centres covering: ◦ Administration ◦ Compliance ◦ Legal ◦ Communications & Branding ◦ Risk Management

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Management Framework (continued)

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

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

(c) Risk-based Capital Framework

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Risk-based Capital Framework (continued)

RBC approach

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

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

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

(d) Capital Management Plan

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

27. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(d) Capital Management Plan (continued)

Stress Testing

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

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

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

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

ALM Philosophy

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK

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

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

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

Underwriting policy

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Reinsurance

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

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

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

Claims management

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

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

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

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

Diversification

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Diversification (continued)

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

	Note	Gross RM	Reinsurance RM	Net RM
31.12.2015				
Motor		416,550,754	988,718	417,539,472
Fire		161,494,143	(106,263,239)	55,230,904
Marine Cargo, Aviation Cargo & Transit		29,531,845	(20,595,238)	8,936,607
Miscellaneous		236,594,995	(57,463,454)	179,131,541
	12	<u>844,171,737</u>	<u>(183,333,213)</u>	<u>660,838,524</u>
	Note	Gross RM	Reinsurance RM	Net RM
31.12.2014-Restated				
Motor		375,764,154	1,284,982	377,049,136
Fire		171,470,079	(106,732,661)	64,737,418
Marine Cargo, Aviation Cargo & Transit		34,634,773	(22,260,141)	12,374,632
Miscellaneous		274,089,910	(61,986,587)	212,103,323
	12	<u>855,958,916</u>	<u>(189,694,407)</u>	<u>666,264,509</u>
	Note	Gross RM	Reinsurance RM	Net RM
1.1.2014-Restated				
Motor		322,814,441	808,383	323,622,824
Fire		177,076,854	(121,547,717)	55,529,137
Marine Cargo, Aviation Cargo & Transit		32,803,572	(24,119,172)	8,684,400
Miscellaneous		293,388,110	(83,686,578)	209,701,532
	12	<u>826,082,977</u>	<u>(228,545,084)</u>	<u>597,537,893</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Key Assumptions

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

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

Sensitivities

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

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

31.12.2015	Changes in assumptions	Impact of gross liabilities RM	Impact of net liabilities RM	Impact on profit before tax RM	Impact on equity RM
Loss Development	+1.5%	35,241,434	28,024,993	(28,024,993)	(21,018,744)
	+1.0%	23,494,290	18,683,328	(18,683,328)	(14,012,496)
	+0.5%	11,747,145	9,341,664	(9,341,664)	(7,006,248)
Loss Ratio	+1.5%	79,849,460	58,329,038	(58,329,038)	(43,746,778)
	+1.0%	53,232,973	38,886,025	(38,886,025)	(29,164,519)
	+0.5%	26,616,487	19,443,013	(19,443,013)	(14,582,259)
31.12.2014	Changes in assumptions	Impact of gross liabilities RM	Impact of net liabilities RM	Impact on profit before tax RM	Impact on equity RM
Loss Development	+1.5%	35,191,112	27,650,475	(27,650,475)	(20,737,856)
	+1.0%	23,460,741	18,433,650	(18,433,650)	(13,825,238)
	+0.5%	11,730,371	9,216,825	(9,216,825)	(6,912,619)
Loss Ratio	+1.5%	75,896,238	55,147,547	(55,147,547)	(41,360,660)
	+1.0%	50,597,492	36,765,031	(36,765,031)	(27,573,773)
	+0.5%	25,298,746	18,382,516	(18,382,516)	(13,786,887)

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Sensitivities (continued)

1.1.2014	Changes in assumptions	Impact of gross liabilities RM	Impact of net liabilities RM	Impact on profit before tax RM	Impact on equity RM
Loss Development	+1.5%	33,333,746	25,666,956	(25,666,956)	(19,250,217)
	+1.0%	22,222,497	17,111,304	(17,111,304)	(12,833,478)
	+0.5%	11,111,249	8,555,652	(8,555,652)	(6,416,739)
Loss Ratio	+1.5%	72,774,081	51,979,604	(51,979,604)	(38,984,703)
	+1.0%	48,516,054	34,653,069	(34,653,069)	(25,989,802)
	+0.5%	24,258,027	17,326,535	(17,326,535)	(12,994,901)

Claims development table

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Gross Insurance Contract Liabilities for 31 December 2015:

Accident year	Before 2010 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
At end of accident year		238,975,434	288,038,129	245,879,734	272,409,510	294,279,973	302,706,007	
One year later		241,423,130	305,213,077	227,422,014	280,337,653	275,204,435		
Two years later		232,272,373	297,379,095	221,668,724	263,951,295			
Three years later		229,684,252	288,917,796	215,222,638				
Four years later		225,337,436	287,369,175					
Five years later		224,297,670						
Current estimate of cumulative claims incurred		224,297,670	287,369,175	215,222,638	263,951,295	275,204,435	302,706,007	
At end of accident year		95,256,614	116,452,447	91,730,957	104,611,723	120,717,826	137,751,024	
One year later		168,760,997	205,578,020	167,397,875	190,095,532	210,940,216		
Two years later		184,530,679	222,863,163	187,962,284	214,178,969			
Three years later		191,618,025	249,660,782	203,986,618				
Four years later		198,188,007	253,168,420					
Five years later		201,497,585						
Cumulative payments to - date		201,497,585	253,168,420	203,986,618	214,178,969	210,940,216	137,751,024	
Gross general insurance outstanding liabilities (direct and facultative)	20,707,293	22,800,084	34,200,755	11,236,020	49,772,326	64,264,219	164,954,983	367,935,680
Gross general insurance outstanding liabilities (treaty & MMIP)								67,999,935
Best estimate of claims liabilities								435,935,615
Claims handling expenses								8,828,017
Fund PRAD at 75% confidence level								33,617,440
Gross insurance contract liabilities per statement of financial position (Note 12(i))								478,381,072

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Net Insurance Contract Liabilities for 31 December 2015:

Accident year	Before 2010 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	Total RM
At end of accident year		176,974,970	182,330,032	186,484,479	212,787,942	246,426,736	263,952,837	
One year later		177,439,419	180,309,090	185,384,591	228,043,647	245,610,711		
Two years later		170,686,619	176,998,649	183,942,207	210,865,639			
Three years later		170,470,139	171,292,050	181,342,045				
Four years later		168,775,665	171,125,605					
Five years later		168,008,891						
Current estimate of cumulative claims incurred		168,008,891	171,125,605	181,342,045	210,865,639	245,610,711	263,952,837	
At end of accident year		89,039,948	86,381,270	83,461,757	96,627,336	112,722,218	128,763,772	
One year later		145,163,728	139,492,983	147,130,164	171,835,299	190,949,594		
Two years later		157,232,350	152,823,090	163,273,725	190,421,442			
Three years later		162,146,019	161,283,477	174,427,648				
Four years later		163,989,083	164,144,407					
Five years later		164,889,417						
Cumulative payments to - date		164,889,417	164,144,407	174,427,648	190,421,442	190,949,594	128,763,772	
Net general insurance outstanding liabilities (direct and facultative)	5,673,187	3,119,474	6,981,197	6,914,397	20,444,196	54,661,117	135,189,065	232,982,633
Net general insurance outstanding liabilities (treaty & MMIP)								67,999,935
Best estimate of claims liabilities								8,828,017
Claims handling expenses								300,982,568
Fund PRAD at 75% confidence level								17,355,360
Net insurance contract liabilities per statement of financial position (Note 12(i))								327,165,945

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Gross Insurance Contract Liabilities for 31 December 2014:

Accident year	Before 2009 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
At end of accident year		224,311,003	238,975,434	288,038,129	245,879,734	272,409,510	294,279,973	
One year later		211,690,453	241,423,130	305,213,077	227,422,014	280,337,653		
Two years later		218,300,392	232,272,373	297,379,095	221,668,724			
Three years later		213,754,016	229,684,252	288,917,796				
Four years later		222,313,301	225,337,436					
Five years later		219,853,323						
Current estimate of cumulative claims incurred		219,853,323	225,337,436	288,917,796	221,668,724	280,337,653	294,279,973	
At end of accident year		100,799,450	95,256,614	116,452,447	91,730,957	104,611,723	120,717,826	
One year later		171,974,810	168,760,997	205,578,020	167,397,875	190,095,532		
Two years later		192,846,250	184,530,679	222,863,163	187,962,284			
Three years later		197,485,939	191,618,025	249,660,782				
Four years later		199,906,002	198,188,007					
Five years later		203,006,103						
Cumulative payments to - date		203,006,103	198,188,007	249,660,782	187,962,284	190,095,532	120,717,826	
Gross general insurance outstanding liabilities (direct and facultative)	13,304,209	16,847,220	27,149,429	39,257,014	33,706,440	90,242,122	173,562,147	394,068,581
Gross general insurance outstanding liabilities (treaty & MMIP)								58,613,455
Best estimate of claims liabilities								452,682,036
Claims handling expenses								10,735,740
Fund PRAD at 75% confidence level								37,957,559
Gross insurance contract liabilities per statement of financial position (Note 12(i))								501,375,335

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Net Insurance Contract Liabilities for 31 December 2014:

Accident year	Before 2009 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	Total RM
At end of accident year		168,655,562	176,974,970	182,330,032	186,484,479	212,787,942	246,426,736	
One year later		166,158,320	177,439,419	180,309,090	185,384,591	228,043,647		
Two years later		168,474,954	170,686,619	176,998,649	183,942,207			
Three years later		164,456,064	170,470,139	171,292,050				
Four years later		165,742,547	168,775,665					
Five years later		162,589,796						
Current estimate of cumulative claims incurred		162,589,796	168,775,665	171,292,050	183,942,207	228,043,647	246,426,736	
At end of accident year		84,440,943	89,039,948	86,381,270	83,461,757	96,627,336	112,722,218	
One year later		138,132,680	145,163,728	139,492,983	147,130,164	171,835,299		
Two years later		151,663,708	157,232,350	152,823,090	163,273,725			
Three years later		155,804,623	162,146,019	161,283,477				
Four years later		158,064,755	163,989,083					
Five years later		159,634,132						
Cumulative payments to - date		159,634,132	163,989,083	161,283,477	163,273,725	171,835,299	112,722,218	
Net general insurance outstanding liabilities (direct and facultative)	7,549,163	2,955,664	4,786,582	10,008,572	20,668,482	56,208,348	133,704,519	235,881,330
Net general insurance outstanding liabilities (treaty & MMIP)								58,613,455
Best estimate of claims liabilities								294,494,786
Claims handling expenses								10,735,739
Fund PRAD at 75% confidence level								18,982,760
Net insurance contract liabilities per statement of financial position (Note 12(i))								324,213,285

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Gross Insurance Contract Liabilities for 1 January 2014:

Accident year	Before 2008 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		209,124,420	224,311,003	238,975,434	288,038,129	245,879,734	272,409,510	
One year later		205,085,601	211,690,453	241,423,130	305,213,077	227,422,014		
Two years later		194,538,422	218,300,392	232,272,373	297,379,095			
Three years later		192,125,776	213,754,016	229,684,252				
Four years later		188,622,876	222,313,301					
Five years later		187,693,117						
Current estimate of cumulative claims incurred		187,693,117	222,313,301	229,684,252	297,379,095	227,422,014	272,409,510	
At end of accident year		89,222,289	100,799,450	95,256,614	116,452,447	91,730,957	104,611,723	
One year later		153,560,428	171,974,810	168,760,997	205,578,020	167,397,875		
Two years later		169,426,970	192,846,250	184,530,679	222,863,163			
Three years later		176,346,159	197,485,939	191,618,025				
Four years later		178,402,909	199,906,002					
Five years later		180,140,695						
Cumulative payments to - date		180,140,695	199,906,002	191,618,025	222,863,163	167,397,875	104,611,723	
Gross general insurance outstanding liabilities (direct and facultative)	26,964,661	7,552,423	22,407,299	38,066,227	74,515,932	60,024,138	167,797,787	397,328,468
Gross general insurance outstanding liabilities (treaty & MMIP)								47,639,549
Best estimate of claims liabilities								444,968,016
Claims handling expenses								9,300,460
Fund PRAD at 75% confidence level								41,133,035
Gross insurance contract liabilities per statement of financial position (Note 12(i))								495,401,511

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

28. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Net Insurance Contract Liabilities for 1 January 2014:

Accident year	Before 2008 RM	2008 RM	2009 RM	2010 RM	2011 RM	2012 RM	2013 RM	Total RM
At end of accident year		171,024,262	168,655,562	176,974,970	182,330,032	186,484,479	212,787,942	
One year later		175,976,756	166,158,320	177,439,419	180,309,090	185,384,591		
Two years later		168,415,266	168,474,954	170,686,619	176,998,649			
Three years later		170,544,731	164,456,064	170,470,139				
Four years later		167,950,078	165,742,547					
Five years later		167,244,831						
Current estimate of cumulative claims incurred		167,244,831	165,742,547	170,470,139	176,998,649	185,384,591	212,787,942	
At end of accident year		81,130,048	84,440,943	89,039,948	86,381,270	83,461,757	96,627,336	
One year later		137,941,189	138,132,680	145,163,728	139,492,983	147,130,164		
Two years later		149,687,498	151,663,708	157,232,350	152,823,090			
Three years later		157,182,520	155,804,623	162,146,019				
Four years later		159,124,718	158,064,755					
Five years later		160,622,314						
Cumulative payments to - date		160,622,314	158,064,755	162,146,019	152,823,090	147,130,164	96,627,336	
Net general insurance outstanding liabilities (direct and facultative)	5,447,125	6,622,517	7,677,792	8,324,120	24,175,559	38,254,427	116,160,606	206,662,146
Net general insurance outstanding liabilities (treaty & MMIP)								47,639,549
Best estimate of claims liabilities								254,301,695
Claims handling expenses								9,300,459
Fund PRAD at 75% confidence level								17,853,553
Net insurance contract liabilities per statement of financial position (Note 12(i))								281,455,707

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK

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

(a) Credit risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

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

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

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

Credit exposure

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

	Note	31.12.2015 RM	31.12.2014 RM	1.1.2014 RM
Loans and receivables				
excluding insurance receivables	8	232,901,540	130,891,710	136,650,137
Available-for-sale financial assets	6	746,309,091	769,929,376	692,753,763
Reinsurance assets	7	183,333,213	189,694,407	228,545,084
Insurance receivables	9	126,957,806	78,072,092	98,398,897
Cash and bank balances		52,925,048	80,445,666	83,127,578
		<u>1,342,426,698</u>	<u>1,249,033,251</u>	<u>1,239,475,459</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating

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

	Neither past due nor impaired	Past-due but not impaired	Past-due and impaired	Total
	RM	RM	RM	RM
31.12.2015				
Loans and receivables				
excluding insurance receivables	232,901,540	-	755,852	233,657,392
Available-for-sale financial assets	746,309,091	-	2,082,568	748,391,659
Reinsurance assets	183,333,213	-	-	183,333,213
Insurance receivables	56,393,356	70,564,450	3,980,638	130,938,444
Cash and bank balances	52,925,048	-	-	52,925,048
	1,271,862,248	70,564,450	6,819,058	1,349,245,756
Allowance for impairment	-	-	(6,819,058)	(6,819,058)
	1,271,862,248	70,564,450	-	1,342,426,698

	Neither past due nor impaired	Past-due but not impaired	Past-due and impaired	Total
	RM	RM	RM	RM
31.12.2014				
Loans and receivables				
excluding insurance receivables	130,891,710	-	755,852	131,647,562
Available-for-sale financial assets	769,929,376	-	651,209	770,580,585
Reinsurance assets	189,694,407	-	-	189,694,407
Insurance receivables	43,989,967	34,082,125	1,167,411	79,239,503
Cash and bank balances	80,445,666	-	-	80,445,666
	1,214,951,126	34,082,125	2,574,472	1,251,607,723
Allowance for impairment	-	-	(2,574,472)	(2,574,472)
	1,214,951,126	34,082,125	-	1,249,033,251

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired	Past-due but not impaired	Past-due and impaired	Total
	RM	RM	RM	RM
1.1.2014				
Loans and receivables				
excluding insurance receivables	136,650,137	-	782,119	137,432,256
Available-for-sale financial assets	692,753,763	-	-	692,753,763
Reinsurance assets	228,545,084	-	-	228,545,084
Insurance receivables	54,351,947	44,046,950	839,149	99,238,046
Cash and bank balances	83,127,578	-	-	83,127,578
	1,195,428,509	44,046,950	1,621,268	1,241,096,727
Allowance for impairment	-	-	(1,621,268)	(1,621,268)
	1,195,428,509	44,046,950	-	1,239,475,459

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

	AAA RM	AA RM	A RM	Not rated RM	Total RM
31.12.2015					
Loans and receivables					
excluding insurance					
receivables	113,102,346	12,350,893	-	107,448,301	232,901,540
Available-for-sale financial					
assets*	479,596,108	71,406,306	-	195,306,677	746,309,091
Reinsurance assets	-	-	131,150,849	52,182,364	183,333,213
Insurance receivables	-	-	5,324,431	121,633,375	126,957,806
Cash and bank balances	38,085,528	2,847	-	14,836,673	52,925,048
	630,783,982	83,760,046	136,475,280	491,407,390	1,342,426,698

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

	AAA RM	AA RM	A RM	Not rated RM	Total RM
31.12.2014					
Loans and receivables excluding insurance receivables	60,518,160	-	-	70,373,550	130,891,710
Available-for-sale financial assets*	459,524,499	56,315,513	-	254,089,364	769,929,376
Reinsurance assets	-	-	152,103,537	37,590,870	189,694,407
Insurance receivables	903,776	33,135	505,956	76,629,225	78,072,092
Cash and bank balances	65,707,272	16,002,465	-	(1,264,071)	80,445,666
	<u>586,653,707</u>	<u>72,351,113</u>	<u>152,609,493</u>	<u>437,418,938</u>	<u>1,249,033,251</u>

* The unrated available-for-sale financial assets includes RM198,349,671 in Malaysia Government Securities and RM55,739,693 in Corporate debt bonds.

	AAA RM	AA RM	A RM	Not rated RM	Total RM
1.1.2014					
Loans and receivables excluding insurance receivables	81,987,052	-	-	54,663,085	136,650,137
Available-for-sale financial assets*	339,433,263	36,328,290	-	316,992,210	692,753,763
Reinsurance assets	-	-	181,308,015	47,237,069	228,545,084
Insurance receivables	-	-	1,714,829	96,684,068	98,398,897
Cash and bank balances	-	-	-	83,127,578	83,127,578
	<u>421,420,315</u>	<u>36,328,290</u>	<u>183,022,844</u>	<u>598,704,010</u>	<u>1,239,475,459</u>

* The unrated available-for-sale financial assets includes RM306,285,047 in Malaysia Government Securities and RM10,707,163 in Corporate debt bonds.

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

Age analysis of financial assets past-due but not impaired

As of 31 December 2015, insurance receivables of RM70,564,450 (2014: RM34,082,125) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default and historically indicate that these specific debtors will settle within 1 year. The ageing analysis of these insurance receivables is as follows:

	< 30 days RM	31 to 60 days RM	61 to 90 days RM	> 91 days RM	Total RM
31.12.2015					
Insurance receivables	4,653,332	244,644	4,758,860	60,907,614	70,564,450
	<u>4,653,332</u>	<u>244,644</u>	<u>4,758,860</u>	<u>60,907,614</u>	<u>70,564,450</u>
31.12.2014					
Insurance receivables	5,912,983	195,098	3,412,478	24,561,566	34,082,125
	<u>5,912,983</u>	<u>195,098</u>	<u>3,412,478</u>	<u>24,561,566</u>	<u>34,082,125</u>
1.1.2014					
Insurance receivables	7,677,702	544,755	4,057,819	31,766,674	44,046,950
	<u>7,677,702</u>	<u>544,755</u>	<u>4,057,819</u>	<u>31,766,674</u>	<u>44,046,950</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

Impaired financial assets

At 31 December 2015, based on a individual assessment of receivables, there are impaired insurance receivables of RM3,980,638 (2014: RM1,167,411). For assets to be classified as "past-due and impaired", contractual payments must be in arrears for more than two (2) months. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate allowance for doubtful debts accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivables is as follows:

	Note	2015 RM	2014 RM	1.1.2014 RM
<u>Insurance receivables</u>				
At 1 January		1,167,411	839,149	1,681,817
Movement for the financial year	21	2,813,227	328,262	(842,668)
At 31 December	9	<u>3,980,638</u>	<u>1,167,411</u>	<u>839,149</u>
<u>Available-for-sale financial assets</u>				
At 1 January		651,209	81,643	80,658
Movement for the financial year	21	1,431,359	569,566	985
At 31 December		<u>2,082,568</u>	<u>651,209</u>	<u>81,643</u>
<u>LAR, excluding insurance receivables</u>				
At 1 January		755,852	782,119	653,581
Movement for the financial year	21	-	(26,267)	128,538
At 31 December	8	<u>755,852</u>	<u>755,852</u>	<u>782,119</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(b) Liquidity risk

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(b) Liquidity Risk (continued)

	Carrying Value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	> 5 years RM	No maturity date RM	Total RM
31.12.2015							
Financial investments:							
Loans and receivables, excluding insurance receivables	232,901,540	111,317,457	54,008,108	-	-	74,377,796	239,703,361
Available-for-sale financial assets	787,529,202	193,290,300	562,350,350	46,500,000	-	41,220,111	843,360,761
Reinsurance assets on claims liabilities	151,215,127	77,616,294	49,336,024	18,337,480	5,925,329	-	151,215,127
Insurance receivables	126,957,806	126,957,806	-	-	-	-	126,957,806
Cash and bank balances	52,925,048	52,925,048	-	-	-	-	52,925,048
Total assets	1,351,528,723	562,106,905	665,694,482	64,837,480	5,925,329	115,597,907	1,414,162,103
Insurance contract liabilities on claims liabilities	478,381,072	245,545,314	156,078,434	58,012,074	18,745,250	-	478,381,072
Insurance payables	88,715,916	88,715,916	-	-	-	-	88,715,916
Other payables	41,316,563	41,316,563	-	-	-	-	41,316,563
Total liabilities	608,413,551	375,577,793	156,078,434	58,012,074	18	-	608,413,551

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(b) Liquidity risk (continued)

	Carrying Value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	> 5 years RM	No maturity date RM	Total RM
31.12.2014							
Financial investments:							
Loans and receivables, excluding insurance receivables	130,891,710	19,468,792	56,672,862	-	-	63,815,675	139,957,329
Available-for-sale financial assets	819,723,329	210,540,675	521,064,400	103,280,100	-	49,864,788	884,749,963
Reinsurance assets on claims liabilities	177,162,050	83,733,285	61,524,406	24,883,920	7,020,439	-	177,162,050
Insurance receivables	78,072,092	78,072,092	-	-	-	-	78,072,092
Cash and bank balances	80,445,666	80,445,666	-	-	-	-	80,445,666
Total assets	1,286,294,847	472,260,510	639,261,668	128,164,020	7,020,439	113,680,463	1,360,387,100
Insurance contract liabilities on claims liabilities	501,375,335	236,968,381	174,116,407	70,422,439	19,868,108	-	501,375,335
Insurance payables	40,614,856	40,614,856	-	-	-	-	40,614,856
Other payables	41,213,974	41,213,974	-	-	-	-	41,213,974
Total liabilities	583,204,165	318,797,211	174,116,407	70,422,439	19	-	583,204,165

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(b) Liquidity risk (continued)

	Carrying Value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	> 5 years RM	No maturity date RM	Total RM
1.1.2014							
Financial investments:							
Loans and receivables, excluding insurance receivables	136,650,137	26,320,933	8,044,695	51,349,352	58,982	51,913,021	137,686,983
Available-for-sale financial assets	741,110,428	210,781,850	372,214,325	154,924,850	5,195,000	48,356,665	791,472,690
Reinsurance assets on claims liabilities	213,945,804	136,456,000	57,475,093	15,343,431	4,671,280	-	213,945,804
Insurance receivables	98,398,897	98,398,897	-	-	-	-	98,398,897
Cash and bank balances	83,127,578	83,127,578	-	-	-	-	83,127,578
Total assets	1,273,232,844	555,085,258	437,734,113	221,617,633	9,925,262	100,269,686	1,324,631,952
Insurance contract liabilities							
on claims liabilities	495,401,511	315,970,246	133,086,265	35,528,432	10,816,568	-	495,401,511
Insurance payables	59,341,463	59,341,463	-	-	-	-	59,341,463
Other payables	34,491,383	34,491,383	-	-	-	-	34,491,383
Total liabilities	589,234,357	409,803,092	133,086,265	35,528,432	10,816,568	-	589,234,357

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(c) Currency risk

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

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

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

	31.12.2015 RM	31.12.2014 RM	1.1.2014 RM
Financial assets			
US Dollar	6,010,900	-	-
Financial liabilities			
US Dollar	2,957,559	8,296,573	3,264,931

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

		31.12.2015		31.12.2014		1.1.2014	
	Change in variable	Impact on profit before tax	Impact on equity *	Impact on profit before tax	Impact on equity *	Impact on profit before tax	Impact on equity *
Foreign Currency	+15%	458,001	343,501	(1,244,486)	(933,365)	(489,740)	(367,305)
Foreign Currency	-15%	(458,001)	(343,501)	1,244,486	933,365	489,740	367,305

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(d) Market risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(d) Market risk (continued)

Equity price risk (continued)

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

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

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

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

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

		31.12.2015		31.12.2014		1.1.2014	
	Change in	Impact					
	variable	on profit	Impact on	Impact on	Impact on	Impact on	Impact on
		before tax	equity *	profit before tax	equity *	profit before tax	equity *
Bursa Malaysia	+15%	4,880,964	3,660,723	7,469,093	5,601,820	7,253,500	5,440,125
Bursa Malaysia	-15%	(4,880,964)	(3,660,723)	(7,469,093)	(5,601,820)	(7,253,500)	(5,440,125)

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(d) Market risk (continued)

Interest rate risk

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

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

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

		31.12.2015		31.12.2014		1.1.2014	
	Change in	Impact					
	variable	on profit	Impact on	Impact on	Impact on	Impact on	Impact on
		before tax	equity *	profit before tax	equity *	profit before tax	equity *
Interest rate	+100						
	basis point	(14,142,148)	(10,606,611)	(16,473,375)	(12,355,031)	(12,961,293)	(9,720,970)
Interest rate	-100						
	basis point	14,667,440	11,000,580	17,124,376	12,843,282	13,504,349	10,128,262

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(e) Business and operational risk

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

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

(f) Fair value of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(f) Fair value of financial instruments (continued)

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

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

	31.12.2015			
	Amortised cost RM	Market value RM	Carrying amount RM	Fair value RM
Financial assets				
Available-for-sale financial assets	-	787,529,202	787,529,202	787,529,202
Loans and receivables, excluding insurance receivables*	232,901,540	-	232,901,540	232,901,540
Insurance receivables*	126,957,806	-	126,957,806	126,957,806
	<u>359,859,346</u>	<u>787,529,202</u>	<u>1,147,388,548</u>	<u>1,147,388,548</u>
Financial liabilities				
Insurance payables*	88,715,916	-	88,715,916	88,715,916
Other payables*	41,316,563	-	41,316,563	41,316,563
	<u>130,032,479</u>	<u>-</u>	<u>130,032,479</u>	<u>130,032,479</u>

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(f) Fair value of financial instruments (continued)

	31.12.2014			
	Amortised cost RM	Market value RM	Carrying amount RM	Fair value RM
Financial assets				
Available-for-sale financial assets	-	819,723,329	819,723,329	819,723,329
Loans and receivables, excluding insurance receivables*	130,891,710	-	130,891,710	130,891,710
Insurance receivables*	78,072,092	-	78,072,092	78,072,092
	<u>208,963,802</u>	<u>819,723,329</u>	<u>1,028,687,131</u>	<u>1,028,687,131</u>
Financial liabilities				
Insurance payables*	40,614,856	-	40,614,856	40,614,856
Other payables*	41,213,974	-	41,213,974	41,213,974
	<u>81,828,830</u>	<u>-</u>	<u>81,828,830</u>	<u>81,828,830</u>

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(f) Fair value of financial instruments (continued)

	1.1.2014			
	Amortised cost RM	Market value RM	Carrying amount RM	Fair value RM
Financial assets				
Available-for-sale financial assets	-	741,110,428	741,110,428	741,110,428
Loans and receivables, excluding insurance receivables*	136,650,137	-	136,650,137	136,650,137
Insurance receivables*	98,398,897	-	98,398,897	98,398,897
	<u>235,049,034</u>	<u>741,110,428</u>	<u>976,159,462</u>	<u>976,159,462</u>
Financial liabilities				
Insurance payables*	59,341,463	-	59,341,463	59,341,463
Other payables*	34,491,383	-	34,491,383	34,491,383
	<u>93,832,846</u>	<u>-</u>	<u>93,832,846</u>	<u>93,832,846</u>

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(g) Fair value hierarchy

Recurring for value measurement

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

	Level 1 RM	Level 2 RM	Total RM
31.12.2015			
Financial assets			
Available-for-sale financial assets			
- Equity securities of corporations	32,539,756	-	32,539,756
- Real estate investment trust	8,680,355	-	8,680,355
- Malaysian government securities	-	195,306,677	195,306,677
- Cagamas papers	-	92,484,022	92,484,022
- Corporate debt securities	-	458,518,392	458,518,392
	<u>41,220,111</u>	<u>746,309,091</u>	<u>787,529,202</u>

	Level 1 RM	Level 2 RM	Total RM
31.12.2014			
Financial assets			
Available-for-sale financial assets			
- Equity securities of corporations	41,001,500	-	41,001,500
- Real estate investment trust	8,792,453	-	8,792,453
- Malaysian government securities	-	198,349,671	198,349,671
- Cagamas papers	-	92,393,261	92,393,261
- Corporate debt securities	-	479,186,444	479,186,444
	<u>49,793,953</u>	<u>769,929,376</u>	<u>819,723,329</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(g) Fair value hierarchy (continued)

Recurring for value measurement (continued)

	Level 1 RM	Level 2 RM	Total RM
1.1.2014			
Financial assets			
Available-for-sale financial assets			
- Equity securities of corporations	40,033,212	-	40,033,212
- Real estate investment trust	8,323,453	-	8,323,453
- Malaysian government securities	-	306,285,047	306,285,047
- Cagamas papers	-	78,033,043	78,033,043
- Corporate debt securities	-	308,435,673	308,435,673
	<u>48,356,665</u>	<u>692,753,763</u>	<u>741,110,428</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(g) Fair value hierarchy (continued)

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

29. FINANCIAL RISK (CONTINUED)

(h) Regulatory capital requirements

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

	31.12.2015 RM	31.12.2014 RM	1.1.2014 RM
Eligible Tier 1 Capital			
Share capital (paid-up)	310,800,000	310,800,000	310,800,000
Retained earnings	144,537,872	94,613,202	88,822,086
	<u>455,337,872</u>	<u>405,413,202</u>	<u>399,622,086</u>
Tier 2 Capital			
Eligible reserves	11,435,533	9,972,789	13,068,121
	<u>11,435,533</u>	<u>9,972,789</u>	<u>13,068,121</u>
 *Amount deducted from Capital	 (4,331,611)	 (751,391)	 (2,249,095)
Total Capital Available	<u>462,441,794</u>	<u>414,634,600</u>	<u>410,441,112</u>

At the end of 2015, approximately 98% of the Company's total capital consists of Tier 1 capital, comprising of fully paid-up ordinary shares and retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

30. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

31.12.2015

	Gross amounts of recognised financial assets RM	Gross amounts of recognised financial liabilities set off in the balance sheet RM	Net amounts of recognised financial assets presented in the balance sheet RM	Net amount RM
Insurance receivables	175,648,365	(48,690,559)	126,957,806	126,957,806
	<u>175,648,365</u>	<u>(48,690,559)</u>	<u>126,957,806</u>	<u>126,957,806</u>

31.12.2014

	Gross amounts of recognised financial assets RM	Gross amounts of recognised financial liabilities set off in the balance sheet RM	Net amounts of recognised financial assets presented in the balance sheet RM	Net amount RM
Insurance receivables	106,916,317	(28,844,225)	78,072,092	78,072,092
	<u>106,916,317</u>	<u>(28,844,225)</u>	<u>78,072,092</u>	<u>78,072,092</u>

1.1.2014

	Gross amounts of recognised financial assets RM	Gross amounts of recognised financial liabilities set off in the balance sheet RM	Net amounts of recognised financial assets presented in the balance sheet RM	Net amount RM
Insurance receivables	127,671,360	(29,272,463)	98,398,897	98,398,897
	<u>127,671,360</u>	<u>(29,272,463)</u>	<u>98,398,897</u>	<u>98,398,897</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

30. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

31.12.2015

	Gross amounts of recognised financial assets RM	Gross amounts of recognised financial liabilities set off in the balance sheet RM	Net amounts of recognised financial assets presented in the balance sheet RM	Net amount RM
Insurance payables	(137,406,475)	48,690,559	(88,715,916)	(88,715,916)
	<u>(137,406,475)</u>	<u>48,690,559</u>	<u>(88,715,916)</u>	<u>(88,715,916)</u>

31.12.2014

	Gross amounts of recognised financial assets RM	Gross amounts of recognised financial liabilities set off in the balance sheet RM	Net amounts of recognised financial assets presented in the balance sheet RM	Net amount RM
Insurance payables	(69,459,081)	28,844,225	(40,614,856)	(40,614,856)
	<u>(69,459,081)</u>	<u>28,844,225</u>	<u>(40,614,856)</u>	<u>(40,614,856)</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

30. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

1.1.2014

	Gross amounts of recognised financial assets RM	Gross amounts of recognised financial liabilities set off in the balance sheet RM	Net amounts of recognised financial assets presented in the balance sheet RM	Net amount RM
Insurance payables	(88,613,926)	29,272,463	(59,341,463)	(59,341,463)
	<u>(88,613,926)</u>	<u>29,272,463</u>	<u>(59,341,463)</u>	<u>(59,341,463)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2015 (CONTINUED)

31. CHANGE IN ACCOUNTING POLICY

During the financial year, the Company changed its accounting policy with respect to the extended warranty policies' revenue recognition from inception date to risk acceptance date with corresponding premium liability. The Company believes the change provides a better reflection of premium in accordance to the risk accepted and its corresponding premium liabilities.

The change in the computation has been recognised retrospectively as an adjustment to the opening balance as at 1 January 2015 and full effect on the opening balances are as follows:

As at 1 January 2014

	Balance as at 1.1.2014	Effects of prior year adjustment	Restated balance as at 1.1.2014
	RM	RM	RM
Deferred acquisition costs	24,104,808	12,787,137	36,891,945
Insurance contract liabilities	772,774,261	53,308,716	826,082,977
Insurance payables	100,257,192	(40,915,729)	59,341,463
Retained earnings	88,822,086	394,150	89,216,236

As at 31 December 2014

	Balance as at 31.12.2014	Effects of prior year adjustment	Restated balance as at 31.12.2014
	RM	RM	RM
Deferred acquisition costs	27,556,802	13,874,578	41,431,380
Insurance contract liabilities	802,418,944	53,539,972	855,958,916
Insurance payables	79,912,991	(39,298,135)	40,614,856
Retained earnings	94,980,461	(367,259)	94,613,202

The effects of the prior year adjustment to the Company's income statement for the year ended 31 December 2014 are as follows:

	As previously stated	Effects of prior year adjustment	As restated
	RM	RM	RM
Gross earned premiums	655,998,989	(1,917,115)	654,081,874
Commission expense	(79,598,591)	1,155,706	(78,442,885)
Profit for the year	56,158,375	(761,409)	55,396,966

There is no effect on the cash flows of the Company for the year ended 31 December 2014 as a result of the prior year adjustment.