QBE Insurance (Malaysia) Berhad (161086-D)

QBE

Annual Report 2016

Contents

QBE Insurance (Malaysia) Berhad Annual report 2016
Reg. No.: 161086-D

Section 1
Corporate information

Section 2
Business review

Section 3
Financial report

Section 4
Other information

Corporate information

Board of directors

Dato' Koh Hong Sun
Master in Strategic & Security Studies
SIMP, DSAP, DIMP, DMPN, JSD, DSM,
PGPP, PSPP, KMN

Bruce Anthony Howe
Master of Economics/Fellow
(Institute of Actuaries of Australia)

Mark Thomas Lingafelter
Bachelor of Art

Dato' Tan Ang Meng
Certified Public Accountant

Arunothayam Rajatnam
Advocate & Solicitor of Singapore Bar
Chartered Insurance Practitioner
(Chartered Insurance Institute of United Kingdom)

Company secretary

Seng Soo Wy
MIA No. 18556

Registered office

No.638, Level 6, Block B1,
Pusat Dagang Setia Jaya
(Leisure Commerce Square),
No. 9, Jalan PJS 8/9,
46150 Petaling Jaya,
Selangor Darul Ehsan,
Malaysia.

Auditors

PricewaterhouseCoopers

Solicitors

Skrine

Main banker

Citibank Berhad

Our Purpose and Vision

Our Purpose

We give people the confidence to achieve their ambitions

Everyone has ambitions and goals – both personal and professional. We give people the confidence to achieve them by helping them manage risks so they can focus on the outcome they desire, not the potential barriers holding them back.

Our Vision

To be the insurer that builds the strongest partnerships with customers

Our customers are defined very broadly. This means there are many different stakeholder groups we are committed to building the strongest partnerships with – they include our major trading partners, brokers, agents, insureds, policyholders, claimants as well as our most important asset, our own people.

Our People

The key to our success is our people - who we see as our most precious asset and ultimate key differentiator.

Our people are our most precious asset and we believe a strong internal culture will provide the necessary platform for QBE to achieve its vision.

QBE has a set of values that makes us think and act as ONE global company. The six values are known by the acronym ONE QBE. These values drive the day-to-day behaviour of our people – across all of the divisions in which we operate – and are the common thread that make us ONE QBE whenever and wherever we do business in the world.

Our six ONE QBE values are:

- **O**pen Minded
- **N**etworked
- **E**mpowered
- **Q**uality Approach
- **B**usiness Acumen
- **E**xcellent Outcome

ONE QBE, and the six values it represents, makes us think and act as ONE team of people. We make it possible for our people to realise their ability and ultimate potential.

Board of directors

Skills, experience & knowledge

Dato' Koh Hong Sun

Independent Non-Executive Director

Dato' Koh was appointed as an Independent Non-Executive Director of QBE Malaysia on April 2011. He holds Master Degree in Strategic & Security Studies from Universiti Kebangsaan Malaysia. Dato' Koh had a distinguished career with the Royal Malaysian Police (RMP) for almost 40 years, having joined RMP as a Probationary Inspector in 1971 and retired in October 2010 as the Director of Commercial Crime Investigation Department.

During the period as an officer of the RMP, he has held various important command posts including as Commandant of The Police Training Centre in Kuala Lumpur, Assistant Director NCB-Interpol, Officer-in-Charge of Brickfields Police District, Federal Traffic Chief, Deputy Chief Police Officer of Johor, Chief Police Officer of Penang and Commissioner of Police as Director of Commercial Crime Investigation Department.

Dato' Koh is a Director of Mega First Corporation Berhad and Genting Malaysia Berhad which are both listed on Bursa Malaysia.

Bruce Anthony Howe

Non-Independent Non-Executive Director

Mr. Bruce Howe was appointed as a Non-Executive Director of QBE Malaysia on 20 March 2014, and is a member of the Risk Management, Nomination and Remuneration Committees. He joined QBE in May 2013 as Chief Operating Officer, Asia Pacific. Bruce sits on the Boards of all of QBE's Asian operating entities.

Bruce has been involved in the insurance industry for more than 30 years. He is a veteran in mergers and acquisitions, operational and process review to unlock business growth potential, and improve profitability for both developed and new businesses. His extensive career has also covered reinsurance, risk management, actuarial management and governance.

Prior to joining QBE, Bruce was the Chief Executive Officer for the UK, Europe and the Middle East operations of HSBC Insurance. He has also worked extensively in Asia for more than 16 years as an executive and a consultant in both life and non-life insurance.

Mark Thomas Lingafelter

Executive Director

Mr. Mark was appointed as an Executive Director of QBE Malaysia on 18 November 2015 , and is a member of the Nomination Committee. He joined QBE in September 2015 as Managing Director, Asia Pacific.

Mark brings with him a wealth experience in product, underwriting and distribution. He also has a proven track record of growing businesses profitably in Asia and Australia in addition to success in implementing strategic change initiatives.

Prior to joining QBE, Mark held various senior positions with Chubb Insurance Company in Australia, Hong Kong and Singapore, having spent more than 30 years with the company. His last role with Chubb was as the Managing Director and CEO for the firm's Australian operation for 10 years. Prior to this, Mark was the CEO of Federal, Hong Kong, and the Country Manager for Federal, Singapore – both part of the Chubb Group. Before taking up the country management roles, Mark was also an Underwriting Manager with Chubb in Asia as well as the United States.

Board of directors (continued)

Dato' Tan Ang Meng

Independent Non-Executive Director

Dato' Tan was appointed as an Independent Non-Executive Director of QBE Malaysia on 13 April 2016. He is the Chairman of the Audit Committee as well as a member of the Nomination Committee, Remuneration Committee and Risk & Capital Committee. He is a Certified Public Accountant and was admitted to the Malaysia Institute of Certified Public Accountants in 1980.

Dato' Tan started his career in 1975 with PriceWaterhouseCoopers, Kuala Lumpur in the audit division. He left the firm in 1981 to join UMW. In 1983, he joined Guinness Malaysia Berhad. Following the merger between Guinness Malaysia Berhad and Malayan Breweries (M) Sdn. Bhd., he was transferred to Malayan Breweries Limited in 1991 (which later changed its name to Asia Pacific Breweries Ltd) and served within the Group until January 2001. During that period, he held various senior management positions with his last position as Regional Director based in Singapore with responsibility for the brewery operations in China, Vietnam, Cambodia and Myanmar. In March 2001, he joined as Chief Executive Officer of Fraser & Neave Holdings Bhd, a position he held until his retirement in November 2010.

Dato' Tan is also a Director of Mega First Corporation Berhad, iCapital.Biz Berhad, and Red Sena Berhad, which all are listed on Bursa Malaysia.

Arunothayam Rajaratnam

Independent Non-Executive Director

Ms. Arunothayam Rajaratnam (Aruno) was admitted as an Advocate & Solicitor of the Singapore Bar in February 1975. In 1984, the Chartered Insurance Institute of the United Kingdom conferred upon her the status of Chartered Insurance Practitioner. She was appointed as an Independent Non-Executive Director of QBE Malaysia on 25 April 2016 and is currently the Chairman of the Risk & Capital Committee as well as a member of the Audit Committee, Nomination Committee and Remuneration Committee.

In 2014, Aruno became the 1st Asian and only the 2nd woman to be conferred the prestigious PLUS 1 Award at the Professional Liability Underwriting Society (PLUS) International Conference in Las Vegas, USA. In 2015 she was awarded the "Personality Of The Year" at the 19th Asia Insurance Industry Awards. This award was in recognition of her 40 years of experience in the Asian insurance industry.

Aruno has held diverse roles in the industry. She was placed the 1st Directors & Officers Policy in Asia in 1986 and co-authorised the mandatory textbook for the Certificate of General Insurance in Singapore in 1990. In 1991, she developed and managed the First Compulsory Professional Indemnity Insurance Scheme for Lawyers in Singapore.

1 Corporate information
2 Business review
3 Financial report
4 Other information

Central office managers

Senior management:

Leonardo Perazzi Zanolini
Chief Executive Officer
MBA, Bachelor in Business Administration

William Foo
Chief Operating Officer
RFP, AMII, B. Management (Hons)

Muhammad Ikram Bin Kamarudin
Chief Financial Officer
CPA (Aust.), C.A. (M), B. Commerce in Accounting and Finance

Nor Azima Binti Abdul
Head, People and Culture
B. Management (Hons)

Amar Singh Nihal Singh
Head of Commercial Distribution
ACII, B. Management (Technology)

Seng Soo Wy
Head of Compliance and Risk Management & Company Secretary
C.A (M), B.A.Econs (Hons), FCCA, CIRM

Sunther Kuppan
Head of Claims
ACII, B. Law & Art

Foo Yong Chiat
Head of Underwriting
ACII, Diploma in Engineering Telecom

Back row from left : Amar Singh Nihal Singh, Foo Yong Chiat, Seng Soo Wy, Nor Azima Binti Abdul, Sunther Kuppan
Front row from left : Muhammad Ikram Bin Kamarudin, Leonardo Perazzi Zanolini, William Foo

Chairman's statement

Economic Environment
It was a challenging year for Malaysia, with weakening economic conditions and a deterioration in the Malaysian Ringgit impacting both market sentiment for consumers and for external trade.

The general insurance industry recorded growth of 1.1% in 2016 to RM17.67 billion, compared to growth of 2.3% in 2015. The phased liberalisation of Motor and Fire Tariffs announced by Bank Negara Malaysia in June 2016 has created a roadmap for the transition to a fully liberalised insurance market in Malaysia. This detariffication will transform the insurance landscape, in particular for motor and fire which represent a significant share of the overall general insurance premiums; approximately 65% in 2016.

2016 Performance
Despite the challenging economic headwinds, QBE Malaysia posted another year of remarkable success, with an encouraging financial performance in 2016. QBE registered gross written premiums of RM358.9 million, representing a level of growth (5.4%) that was five times higher than average general insurance industry growth in Malaysia.

Underwriting profit before taxation continued to rise to RM35.4 million, which translated to growth of 52% against 2015's RM23.3 million.

QBE continuously strives to protect shareholders' capital and provide attractive returns and dividends. Hence, in line with the Company's double-digit growth recorded in 2015, QBE Malaysia paid a final single tier dividend of 20.51 cents per share after consideration of capital retention to fund opportunities for profitable growth. QBE Malaysia continued to maintain satisfactory capital levels throughout 2016.

The Company is also progressively enhancing its operational capabilities. During 2016, the claims handling process was centralised and streamlined. In addition, QBE Malaysia set up a Customer Service Department to further enhance the customer experience and service levels.

QBE will continue to strengthen its organisational, distribution and services capabilities to achieve continuous profitable growth.

QBE regards its employees as one of the most important stakeholder groups as well as the key foundation for sustainable growth. QBE continues to invest in talent development, with several programmes being introduced in 2016, including a Leadership Academy, Managers Essential Programme, Underwriting Academy and Six-Sigma.

Regulatory Requirement
To align with the announcement of phased liberalisation of the Motor and Fire Tariffs and the transition to market-based pricing, QBE is in good position to capitalise on the potential market opportunities arising from detariffication. The motor (Comprehensive and Third Party Fire & Theft product) de-tariff environment will commence in 2017. The project management office was set up for preparation to provide meaningful value-added risk protection to consumers by strengthening QBE's capabilities in terms of pricing, product design, IT processes, portfolio management, and distribution management.

2017 Outlook
QBE's Asia Pacific Profitable Growth Strategy has been extended as the Emerging Market Profitable Growth Strategy. By continuing to implement this strategy amidst challenging market conditions, I am confident that QBE Malaysia will achieve another profitable performance in 2017.

Acknowledgments
On behalf of the Directors, I would like to express my sincere gratitude to all valued business partners for their continuous loyalty and support in 2016 and over the years. The Board would like to extend its sincere appreciation on the support and commitment from the CEO, the Senior Management Team and all employees for their leadership and hard work in striving another successful year.

Let me take this opportunity to express a special thanks to Mr Lau Cheong Koon, our Independent Non-Executive Director, who resigned upon expiry of his term. We thank him for his dedication, expert counsel and the guidance he brought to the Board.

Finally, I would like to welcome our two Independent Non-Executive Directors, Dato' Tan Ang Meng and Miss Arunothayam Rajaratnam, who were appointed during the year.

Dato' Koh Hong Sun
Chairman


“I am pleased to present QBE Insurance (Malaysia) Berhad’s Annual Report and Financial Statements for the financial year ended 31 December 2016.”
Dato' Koh Hong Sun
Chairman

2016 Snapshot

Net combined operating ratio (NCOR%)

93.20%

2015 **97.9%**

Gross written premium

MYR**358.9**Mil

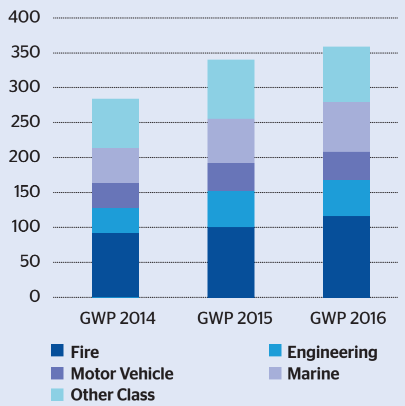
5.4% from 2015

Net claims ratio (%)

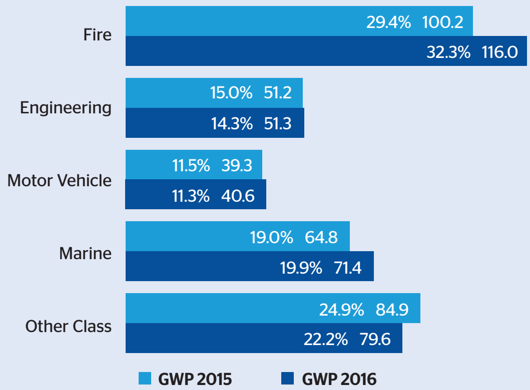
50.5%

2015 **54.2%**

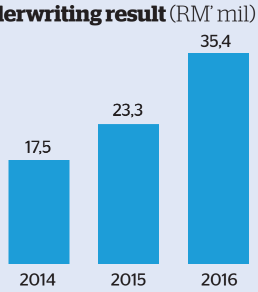
Gross written premium (RM' mil)
by class of business



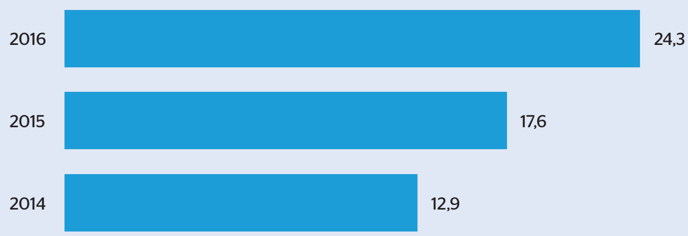
Business portfolio 2016 (RM' mil)



Underwriting result (RM' mil)



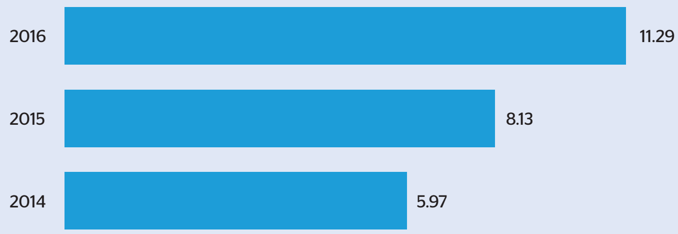
Net profit after income tax (RM' mil)



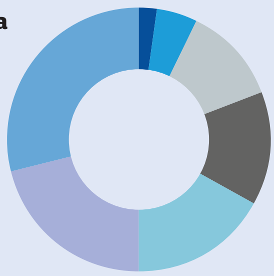
Investment 2016

	2016	2015
Money Market Placement	75%	82%
Government Bonds	25%	18%

Earning per share (cents)



Business across Malaysia



	2016	2015
Broking Partners	29%	29%
Major Trading Partners	21%	17%
Central Agency	17%	18%
Northern Agency	14%	13%
East M'sia Agency	12%	11%
Southern Agency	5%	8%
MMIP	2%	4%

Chief executive officer's statement

QBE Insurance Malaysia recorded a strong financial performance in 2016. This performance is a testament to the strength of the company and the implementation of an effective strategy along with a collaborative underwriting and distribution culture. We believe this result is a milestone in the journey to delivering steady increases in QBE Malaysia's fundamental value, even in the face of challenging market conditions. I am confident that our strategic execution and solid foundation will allow us to meet the challenges and also grasp the opportunities that lie ahead.

External Environment

In 2016, the Malaysia economy experienced challenges on several fronts. There was uncertainty in the operating business environment due to the weakening Malaysia Ringgit, a gloomy global economy compounded by the impact of Brexit, the plunging price of crude oil, geopolitical turmoil in various jurisdictions globally, and the normalisation of interest rates in the United States. Malaysia's economy expanded 4.2% in 2016 compared with 4.7% growth in 2015. The general insurance industry registered growth of just 1.1% in 2016 with Gross Written Premium increasing to RM17.67 billion from RM17.50 billion in 2015. Notwithstanding the challenging external environment, I am pleased to report QBE Malaysia delivered a strong financial performance in 2016.

2016 Performance

Against the backdrop of overall diminishing market growth and intense competition in the Malaysia insurance sector, QBE Malaysia demonstrated its resilience with a performance that was significantly stronger than the market average. QBE Malaysia's gross written premium (GWP) grew by 5.4% to RM358.9 million, while net earned premium increased by 9.2% to RM243.1 million. Discounting the element out of our control that influence GWP – such as cancellation of major project that impacted our premium, the underlying organic growth in 2016 was 12.1%.

QBE Malaysia recorded a robust profit before tax of RM35.4 million, a commendable increase of 52% against RM23.3 million in 2015. This was largely due to the Company's organic growth strategy and prudent underwriting discipline. In 2016, we achieved targets for cost reduction, claims efficiency and capital ratio. The profit uplift coupled with strong cash flow generation has contributed to an increase in basic earnings per share, which increased to 11.29 cents from 8.13 cents in 2015. On the back of this strong performance, I am proud that QBE Malaysia announced the highest record dividend payout of RM44.3 million in June 2016.

The net claims incurred ratio decreased by 5.4% from 55.5% in 2015 to 49.8% in 2016, representing a better loss ratio compared to the market loss ratio of 53.8%. The favorable loss ratio was contributed by QBE Malaysia's specialty in underwriting and distribution, comprehensive risk solutions and the release of Malaysian Motor Insurance Pool IBNR.

QBE Malaysia recorded statutory Net Combined Operating Ratio (NCOR) of 93.2% in 2016, compared to 97.9% in 2015. The company maintained a sound Capital Adequacy Ratio (CAR) at all times during 2016, exceeding both the Supervisory CAR and the company's own internal capital target as per our Capital Management Plan.

The investment portfolio for 2016 was higher than 2015 by RM12 million despite a dividend payout of RM44.3 million during the year. QBE Malaysia remains cautious on Malaysian bonds due to the potential for currency volatility and capital outflows. The Company had positioned its investment portfolio to maintain running yield, with the view to capture term premium and an attractive spread on term deposits. In 2016, investment income of RM19.0 million exceeded a budget of RM10.5 million, with an average investment yield of 3.93%. The investment portfolio mix is consistently maintained with 75% in money market placement and 25% in Government bonds.

Business across the country

The robust year-on-year performance was driven by effective business development activities by our distribution team across Malaysia. The major contributors to the growth of GWP were broking partners and Major Trading Partners as well as the Central Region Agency. Major Trading Partners led the growth rates at 28.9%, followed by broking partners at 10.1%.

GWP for the fire class of business represented the highest growth at 15.7% or RM116.0 million compared to 2015's RM100.2 million. Further, the marine line of business recorded strong growth of 10.3% to RM71.4 million against 2015's RM64.7 million.

The Reinsurance Inward Department, a newly set up business unit during the year, contributed 4.6% of GWP amounting to RM 16.5 million. This was a notable performance as it creates a new avenue of growth for QBE Malaysia.

Operations

In 2016, we implemented various strategic initiatives to strengthen the Agency channel. Recruitment activities result in 117 new agents, up from 79 new agents in 2015.

A new Customer Service team was also formed as part of our transformation strategy, reflecting our commitment to further enhance customer service experience. In line with the new team's responsibilities, QBE's Customer Value Proposition model was rolled out to ease customer acquisition, strengthen customer loyalty and increase customer satisfaction. As part of our continuous efforts in streamlining our processes, claims handling was centralised to Central Office during the year.

Corporate Social Responsibility

At QBE Malaysia, corporate social responsibility is part of our business strategy. We know that sustainable and responsible business practices matter to all of our stakeholders: our customers, our people (as well as potential recruits), our shareholders and investors, the communities in which we do business, and also society at large.

In 2016, the QBE Foundation continued to provide support to the Hospital Kuala Lumpur and also activities for underprivileged youth.

In November, in cooperation with the Hospital Kuala Lumpur Pediatrik Institute, QBE presented wheelchairs to children in need from five low-income families.

In December, QBE Malaysia's employees mentored 35 underprivileged youth through a design thinking workshop. The participating youth were presented with several challenges that required them to respond with creative solutions, simultaneously engaging them to think beyond their boundaries. They also received a full set of school uniform, shoes, school bags and stationery for the school year that began in January 2017. In addition, the QBE Foundation also donated dry food supplies for 300 underprivileged households across the Klang Valley.

World-class Human Capital

QBE Malaysia made substantial investments in building, developing and retaining the best individuals by implementing initiatives covering leadership, managerial, technical, and talent programmes that embody QBE's commitment to the Employee Value Proposition and Customer Value Proposition. In 2016, the main initiatives included a Leadership Academy, Managers Essential Programme, Underwriting Academy, Sales@QBE, and Six-Sigma.

High-potential talents are placed in a special programme that develops participants' creativity, critical thinking, entrepreneurship, and business acumen. One of the programmes for talent development is the CEO Club, which I mentor and which will include many exciting projects in 2017.

Chief executive officer's statement (cont'd)

Employee Engagement

QBE Malaysia is committed to continuous learning among employees. We create various platforms for active networking, which enable a dynamic exchange of views and information as well as connecting us more widely to the business.

The quarterly newsletters along with regular employee Townhall sessions, continue to play a vital role in our communication with employees to better align with the Company's direction and encourage knowledge sharing efforts across all levels to meet global objectives.

In 2016, Diversity and Inclusion initiatives saw the Company celebrate International Women's Day in April and Family Day in August – both successful events with high participation rates and employee engagement. The Inter-Department Games were also held with mixed gender teams of employees showing great sportsmanship.

The Sports Club organised the highly anticipated Inter-Branch Match, where QBE Malaysia made history by winning all the games in the competition and kept the QBE Cup for another year. Other activities such as the first-ever overseas annual trip to Phuket, bowling, a movie night with the family, and festival luncheons also all helped to reinforce employee engagement, with the finale being the Annual Dinner in December 2016.

Looking Forward

Reflecting on the progress that has been made over the past few years, I am certain that QBE Malaysia is today a highly professional and financially sound insurance company with tremendous growth prospects. We have continuously outperformed the general insurance industry in the country, with a gross written premium CAGR of 16.63% over the past three years compared to the industry's CAGR of 3.0%.

We would not be able to deliver this level of performance without the quality and commitment of our people and the latent benefits of being one of a handful of truly global insurance franchises. A challenging market backdrop tested us in 2016 and we delivered. I feel privileged to lead an accomplished team that is diverse in thought and cohesive in action. It is a team that keeps its promises and continues to deliver year after year. I would also like to express my sincere appreciation to the Board of Directors as well as my leadership team for their confidence and trust in me and their continuous support.

In closing, I remain optimistic and enthusiastic about QBE Malaysia's ability to deliver high quality financial returns. I also want to thank all of our stakeholders for their confidence in us and support for QBE. As I consider our business today, the future looks bright and I look forward to reaching our ambitions in 2017 and beyond.

Leonardo Perazzi Zanolini
Chief Executive Officer


"Today, QBE Malaysia is stronger strategically, operationally and financially – with our best yet to come!"
Leonardo Perazzi Zanolini
Chief Executive Officer

Financial report & statements contents

Directors' report

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

Principal Activity

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

Financial Results

Net profit for the financial year	RM 24,380,648

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

Dividends

Since the end of the previous financial year, the Company paid a final single tier dividend of 20.51 sen per share, totalling RM44,301,600 in respect of the financial year ended 31 December 2015 on 27 June 2016.

The Directors do not recommend the payment of dividend for the financial year ended 31 December 2016.

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 Outstanding Claims

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

Other Statutory Information

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps:

(i) 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; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Company misleading.

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

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

Other Statutory Information (continued)

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Company which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e) and (f), contingent and other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

(g) Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in the RBC Framework for insurers issued by BNM.

Corporate Governance

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under Financial Services Act, 2013 ("FSA") and Bank Negara Malaysia ("BNM") Guidelines in particular BNM/RH/PD_029-9 on Corporate Governance.

The Company and its Directors are committed to ensuring that the highest standards of corporate governance are practised. Integrity is a fundamental value to our business that is applied to all our activities.

a) Board Responsibility and Oversight
The Board comprises five Directors, represented by three independent non-executive directors (including the Chairman), one non-independent non-executive director and an executive director. Six meetings were held during the financial year ended 31 December 2016 and six meetings have been scheduled for the year 2017, with additional meetings to be convened as necessary.

The Board is responsible for the overall governance of the Company and is committed to ensuring that the highest standards are being maintained and compliance with relevant Acts, Regulations and Guidelines are being observed. The Directors bring to the Board a wide range of business and financial experience and participate fully in decisions on the key issues of the Company.

b) Committees
The Board is supported by several committees which comprise certain members of the Board. The main committees of the Board are the Audit, Nomination, Remuneration and Risk & Capital Committees.

Committee membership is reviewed at least annually and the Committees meet regularly as required, to deal with matters that are referred by the Board or management from time to time. Details of Directors' and Committee members' attendance at Board and Committee meetings are outlined in the table of meeting attendance set out on page 18 of this report.

(i) Audit Committee
The membership of the Audit Committee comprises three independent non-executive directors. The current members of the Audit Committee are Dato' Tan Ang Meng (Chairman), Dato' Koh Hong Sun and Arunothayam Rajaratnam.

The Audit Committee operates under written terms of reference determined by the Board and the role of the Committee is to oversee and enhance credibility of the Company's financial reporting process, and to ensure all policies, procedures and all statutory and non-statutory guidelines are adhered to.

There are formal procedures in place for both internal and external auditors to report conclusions and recommendations to management and to the Audit Committee. All aspects of the system of internal controls are subjected to regular review to ensure their adequacy and effectiveness.

(ii) Nomination Committee
The membership of the Nomination Committee comprises three independent non-executive directors, one non-independent non-executive director and an executive director. The current members of the Committee are Dato' Koh Hong Sun (Chairman), Bruce Anthony Howe, Mark Lingafelter, Dato' Tan Ang Meng and Arunothayam Rajaratnam. The Nomination Committee operates under written terms of reference determined by the Board, taking into consideration all relevant Bank Negara Malaysia's guidelines. The role of the Committee is to establish the minimum requirements for the appointment of Board members, the Chief Executive Officer and key senior officers, including overseeing the composition, size and skills of the Board members and its effectiveness.

The Committee believes the skills, experience and qualities of Directors are conducive to the efficient running of the business.

(iii) Remuneration Committee
The membership of the Remuneration Committee comprises three independent non-executive directors and one non-independent non-executive director. The current members of the Remuneration Committee are Dato' Koh Hong Sun (Chairman), Bruce Anthony Howe, Dato' Tan Ang Meng and Arunothayam Rajaratnam.

The Remuneration Committee operates under written terms of reference determined by the Board and is responsible for the development of the Company's remuneration policy for its Directors, Chief Executive Officer and key senior officers. The Committee considers recommendations from management and provides specific recommendations on the remuneration packages and other terms of employment for executive and non-executive directors, senior management as well as staff development to ensure that high quality people are retained.

(iv) Risk and Capital Committee
The Risk & Capital Committee comprises three independent non-executive directors and one non-independent non-executive director. The current members of the Risk & Capital Committee are Arunothayam Rajaratnam (Chairman), Dato' Koh Hong Sun, Bruce Anthony Howe and Dato' Tan Ang Meng.

The Risk & Capital Committee operates under written terms of reference determined by the Board and is responsible for overseeing the senior management's activities in managing the key risk areas of the Company.

The Company has established internal controls to manage risk in the key areas of exposure relevant to its business and the Committee has a risk management framework to identify significant areas of business risk and to effectively and expeditiously manage those risks. Systems are designed to provide reasonable assurance that the assets of the Company are safeguarded, insurance risk exposure is within desired limits, reinsurance protections are adequate and counter-parties are subject to security assessment.

The scope of internal controls covers not only financial controls but also operational and compliance controls as well as risk management. The system is intended to provide reasonable assurance, but not an absolute guarantee, against material financial misstatement or loss.

The Committee recommends and the Board approves a comprehensive Risk Management Strategy and Reinsurance Management Strategy on an annual basis and is responsible to the shareholders for the performance of the Company and as such, fulfils a critical role in establishing and maintaining an effective risk management strategy.

c) Management Accountability
The Company has well documented and updated organisational structures showing all reporting lines as well as clearly documented job descriptions for management and executive employees.

A formal process of developing and monitoring individual goals on a consultative basis is adopted for staff performance appraisals to ensure that the goals are in line with the Company's corporate objectives and responsibilities.

Directors' report (continued)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Corporate Governance (continued)

d) Public Accountability
The Company has always ensured that its business is conducted fairly, honestly and professionally.

e) Corporate Independence
All material related party transactions have been disclosed in the notes to the financial statements.

f) Financial Reporting
The Directors are responsible for ensuring that the 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 and the requirements of the Companies Act, 1965 in Malaysia.

The Board and senior management receive regular financial and management reports to enable them to effectively monitor the financial performance and condition of the Company in relation to the corporate objectives and responsibilities.

Meetings of Directors

		Meetings of Committees			
	Full meeting of directors	Audit	Nomination	Remuneration	Risk & Capital
Number of meetings held during the year	6	6	4	3	6
	Number Attended	Number Attended	Number Attended	Number Attended	Number Attended
Dato' Koh Hong Sun	6	6	4	3	6
Lau Cheong Koon (Resigned on 22 July 2016)	2	2	1	2	2
Bruce Anthony Howe	5	5	4	3	5
Mark Lingafelter	6	6	4	3	6
Dato' Tan Ang Meng (Appointed on 13 April 2016)	4	4	3	1	4
Arunothayam Rajaratnam (Appointed on 25 April 2016)	4	4	3	1	4

Directors and their Interests in Shares

a) The Directors who have held office since the date of the last report are as follows:
Dato' Koh Hong Sun
Lau Cheong Koon (Resigned on 22 July 2016)
Bruce Anthony Howe
Mark Lingafelter
Dato' Tan Ang Meng (Appointed on 13 April 2016)
Arunothayam Rajaratnam (Appointed on 25 April 2016)

b) In accordance with Article 63 of the Company's Articles of Association, Dato' Koh Hong Sun and Mark Lingafelter retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

c) In accordance with Article 68 of the Company's Articles of Association, Dato' Tan Ang Meng and Arunothayam Rajaratnam, who were appointed during the financial year, retires at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

d) Rights over shares in QBE Insurance Group Limited granted to the Directors are as follows:

	--- No. of rights over Ordinary Shares of A$1 each ---			
	At 1.1.2016	Granted	Extinguished	At 31.12.2016
Bruce Anthony Howe	89,613	69,786	(2,906)	156,493

e) Other than the above, none of the other Directors in office at the end of the financial year held any interest in the shares in or debentures of the Company or its related corporations during the financial year.

Directors' Benefits

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 options and rights granted over the shares of the ultimate holding corporation as disclosed in this report.

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of fees and other emoluments received or due and receivable by directors shown in Note 15 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except that certain directors received remuneration from the Company's ultimate holding corporation and other related corporations.

Ultimate Holding Corporation

The Directors regard QBE Insurance Group Limited, a corporation incorporated in Australia, as the ultimate holding corporation.

Registered Office and Principal Place of Business

The registered office and principal place of business of the Company are located at No. 638, Level 6, Block B1, Pusat Dagang Setia Jaya (Leisure Commerce Square), No 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor.

Auditors

Our auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 16 February 2017.

Dato' Koh Hong Sun
Director

Dato' Tan Ang Meng
Director

Petaling Jaya

Statement by directors

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

We, Dato' Koh Hong Sun and Dato' Tan Ang Meng, being two of the Directors of QBE Insurance (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 23 to 57 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2016 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 16 February 2017.

Dato' Koh Hong Sun
Director

Dato' Tan Ang Meng
Director

Petaling Jaya

Statutory declaration

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

I, Muhammad Ikram Bin Kamarudin, being the officer primarily responsible for the financial management of QBE Insurance (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 23 to 57 are 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.

Muhammad Ikram Bin Kamarudin

Subscribed and solemnly declared by the above named Muhammad Ikram Kamarudin at Petaling Jaya, in the State of Selangor Darul Ehsan this day of 16 February 2017.

Before me,

PESURUHJAYA SUMPAH
No. : B381
Nama : RADZIAH BINTI ABDUL RAHMAN
MALAYSIA

Commissioner for Oaths

Alamat tempat perniagaan
No. 513, Block A3, Pusat Dagang Setia Jaya
No. 9, Jalan PJS 8/9, 46150 Petaling Jaya,
Selangor Darul Ehsan.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF

QBE Insurance (Malaysia) Berhad

(Incorporated in Malaysia)
(Company No. 161086-D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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

What we have audited
We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 23 to 57.

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF

QBE Insurance (Malaysia) Berhad (continued)

(Incorporated in Malaysia)
(Company No. 161086-D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Auditors' responsibilities for the audit of the financial statements (continued)
As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PricewaterhouseCoopers
(No. AF-1146)
Chartered Accountants

Shirley Goh
01778/08/2018 J
Chartered Accountant

Kuala Lumpur
16 February 2017

Statement of financial position

AS AT 31 DECEMBER 2016

	NOTE	2016 RM	2015 RM
Assets			
Property, plant and equipment	3	15,441,180	16,942,934
Investments	4	403,240,596	388,610,321
Fair value through profit and loss		100,973,717	69,763,925
Loans and receivables		302,266,879	318,846,396
Reinsurance assets	9	34,147,518	28,899,153
Insurance receivables	5	127,698,613	119,243,464
Other receivables	6	68,468,722	81,402,790
Deferred tax asset	10	2,654,435	1,854,593
Tax recoverable		602,669	1,685,772
Cash and bank balances		210,399	3,705,094
Total assets		652,464,132	642,344,121
Liabilities			
Insurance contract liabilities	9	413,403,926	370,405,233
Insurance payables	11	36,823,715	52,599,316
Other payables	12	25,139,096	22,321,225
Total liabilities		475,366,737	445,325,774
Shareholders' equity			
Share capital	7	108,000,000	108,000,000
Retained earnings	8	69,097,395	89,018,347
		177,097,395	197,018,347
Total liabilities and shareholders' equity		652,464,132	642,344,121

The accompanying notes are an integral part of these financial statements

Statement of comprehensive income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 RM	2015 RM
Gross earned premiums	13(a)	332,971,073	303,721,703
Premium ceded to reinsurers	13(b)	(89,859,850)	(81,093,027)
Net earned premiums		243,111,223	222,628,676
Investment income	14	19,119,798	17,856,243
Loss on disposal of property, plant and equipment		(2,307)	(141,359)
Gain on disposal of investment property		-	10,000
Fair value (loss)/gains and losses on investments	4(c)	(309,650)	1,028,300
Other operating revenue		228,215	66,347
Total revenue		262,147,279	241,448,207
Gross claims paid		(119,014,105)	(90,212,471)
Claims recoveries from reinsurers		14,968,409	4,067,772
Gross change to claims liabilities		(17,083,972)	(37,907,595)
Change in claims liabilities ceded to reinsurers		2,367,252	2,877,162
Net claims		(118,762,416)	(121,175,132)
Fee and commission expense		(49,754,436)	(44,722,395)
Management expenses	15	(58,246,518)	(52,298,944)
Other expenses		(108,000,954)	(97,021,339)
Profit before taxation		35,383,909	23,251,736
Taxation	18	(11,003,261)	(5,681,209)
Net profit and total comprehensive income for the financial year		24,380,648	17,570,527
Earnings per share (sen)	19	11.29	8.13

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	NOTE	SHARE CAPITAL RM	DISTRIBUTABLE RETAINED EARNINGS RM	TOTAL RM
At 1 January 2015		108,000,000	71,447,820	179,447,820
Total comprehensive income for the financial year		-	17,570,527	17,570,527
At 31 December 2015		108,000,000	89,018,347	197,018,347
At 1 January 2016		108,000,000	89,018,347	197,018,347
Total comprehensive income for the financial year		-	24,380,648	24,380,648
Dividend paid	20	-	(44,301,600)	(44,301,600)
At 31 December 2016		108,000,000	69,097,395	177,097,395

The accompanying notes are an integral part of these financial statements.

Cash flow statement

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016 RM	2015 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial year	24,380,648	17,570,527
Adjustments for:		
Depreciation on property, plant and equipment	3,040,284	2,066,814
Reversal of impairment loss on self-occupied properties	(117,224)	(66,347)
Loss on disposal of property, plant and equipment	2,307	141,359
Gain on disposal of investment property	-	(10,000)
(Gain)/loss on disposal of investments	(677,760)	41,160
Unrealised loss/(gain) on investments	987,410	(1,069,460)
(Writeback of)/ allowance for impairment on insurance receivables	(124,223)	270,136
Interest income	(19,118,189)	(17,853,154)
Rental income	(1,609)	(3,089)
Taxation	11,003,261	5,681,209
Profit from operations before changes in operating assets and liabilities	19,374,905	6,769,155
Proceeds from disposal of FVTPL investments	69,134,800	46,311,000
Purchase of FVTPL investments	(100,532,700)	(3,982,000)
Decrease/(increase) in LAR investments	19,000,000	(61,000,000)
Increase in premium liabilities	23,033,608	33,169,663
Increase in claims liabilities	14,716,720	35,030,433
Increase in insurance receivables	(8,330,926)	(58,920,246)
Decrease/(increase) in other receivables	12,934,068	(16,202,179)
(Decrease)/increase in insurance payables	(15,775,601)	16,141,884
Increase/ (decrease) in other payables	2,817,871	(87,960)
Income taxes paid	(10,720,000)	(6,711,334)
Interest income received	16,576,164	14,412,186
Rental income received	1,609	3,089
Net cash generated from operating activities	42,230,518	4,933,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	34,757	1,267,986
Proceeds from disposal of investment property	-	380,000
Purchase of property, plant and equipment	(1,458,370)	(10,414,226)
Net cash used in investing activities	(1,423,613)	(8,766,240)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(44,301,600)	-
Net cash used in financing activities	(44,301,600)	-
Net movement in cash and cash equivalents	(3,494,695)	(3,832,550)
Cash and cash equivalents at 1 January	3,705,094	7,537,644
Cash and cash equivalents at 31 December	210,399	3,705,094
Cash and cash equivalents comprise:		
Cash and bank balances	210,399	3,705,094

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. Principal activity

The Company, a public limited liability Company incorporated and domiciled in Malaysia, is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

2. Significant accounting policies

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

2.1 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 and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Company have also been prepared on a historical cost basis, except for investment properties and those financial instruments that have been measured at their fair values and insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") Framework for insurers issued by Bank Negara Malaysia ("BNM").

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

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 the reported financial period. It also requires Directors to exercise their judgement 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 judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3 to the financial statements.

a) Standards, amendments to published standards and interpretations that are effective

The Company has applied the following amendments for the first time for the financial year beginning on 1 January 2016:

- Amendments to MFRS 101 'Presentation of financial statements' - Disclosure initiative

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

b) Standards and amendments that have been issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2016. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

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

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

  The amendments shall be applied retrospectively.

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) 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 cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an 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.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

2.1 Basis of Preparation (continued)

b) Standards and amendments that have been issued but not yet effective (continued)

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

The Company will assess the full impact of MFRS 9 onto the Company's financial statements.

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:
  - Identify contracts with customers
  - Identify the separate performance obligations
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:
  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standard, there are also increased disclosures.

  Based on the Company's assessment, there is no expected material changes to the Company's accounting policies.

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

  Based on the Company's assessment, there is no expected material changes to the Company's accounting policies.

2.2 Summary of Significant Accounting Policies

a) Property, Plant and Equipment

Property, plant 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 comprehensive income during the financial period in which they are incurred.

Leasehold building is amortised in equal instalments over the period of lease of 75.68 years. Depreciation on other property, plant and equipment is calculated using the straight-line basis to allocate their cost to their residual values over the expected useful lives of the assets. The expected useful lives of the assets are as follows:

Motor Vehicles	5 years
EDP Equipment	3 - 5 years
Office Equipment	4 - 10 years
Furniture & Fittings	2 - 10 years
Renovations	2 - 5 years
Freehold Building	50 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, 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 Note 2.2 (b) to the financial statements on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the statement of comprehensive income.

b) Impairment of Non-Financial Assets

The carrying values of non-financial assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may 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 fair value less costs to sell and the value in use. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is charged to the statement of comprehensive 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 comprehensive income.

c) Investments and Other Financial Assets

The Company classifies its investments into financial assets as fair value through profit or loss ("FVTPL") and loans and other receivables ("LAR").

FVTPL

The Company classifies its securities portfolio, comprising Malaysian Government Securities and Treasury Bills which are held-for-trading, as FVTPL. Securities are classified as FVTPL if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. FVTPL securities measured at fair value and any gain or loss arising from a change in the fair value is recognised in the statement of comprehensive income.

LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

d) Fair Value of Financial Instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the date of the statement of financial position.

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

2.2 Summary of Significant Accounting Policies (continued)

d) Fair Value of Financial Instruments (continued)

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued interest/profit. The fair value of fixed interest/yield-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

e) Impairment of Financial Instruments

The Company assesses at each date of the statement of financial position whether a financial assets or group of financial assets is impaired.

Assets Carried at Amortised Cost

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

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

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

f) 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.

g) Product Classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those 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.

h) General Insurance Underwriting Results

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

Gross Premiums

Gross premiums are recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year upon the issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been raised as of the date of the statement of financial position are accrued at that date and are recognised in the statement of comprehensive income during the year.

Inward facultative reinsurance premiums are recognised in the financial period in respect of the facultative risks assumed during that particular financial period, as in the case of direct policies, following the individual risks' inception dates.

Inward treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inceptions dates of these risks and contractually accounted for, as such to reinsurers under the terms of the proportional treaties. In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premium are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

Premium Liabilities

Premium liabilities refer to the higher of:

(i) the aggregate of the unearned premium reserves ("UPR"): or

(ii) 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 shall allow for expected future premium refunds.

UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at the date of the statement of financial position, the method that most accurately reflects the actual unearned premium used is as follows:

(i) 25% method for marine cargo and transit business;

(ii) 1/365th method (i.e. daily pro-rata method) for all other classes of general insurance business in respect of Malaysian general policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Claims Liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

Provision for claims liabilities is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the date of the statement of financial position. Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the date of the statement of financial position, based on an actuarial valuation.

Throughout the course of the financial year, management regularly re-assesses claims and provisions both on an individual and class basis, based on independent professional advice and reports, other available information and management's own assessment of the claims and provisions.

Acquisition Costs

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 periods in which it is probable they give rise to income.

i) Reinsurance

Reinsurance ceded

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance costs are recognised in statement of comprehensive income immediately at the date of purchase and are not amortised.

Reinsurance assumed

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

Premium 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. Reinsurance liabilities represent balances due to reinsurance companies. Amount payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

2.2 Summary of Significant Accounting Policies (continued)

i) Reinsurance (continued)

Reinsurance assets or liabilities

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

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 comprehensive income.

j) 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 comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired using the same processes adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets.

k) General Insurance Contract Liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise claims liabilities and premiums liabilities.

Claims liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, 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 date of the statement of financial position. The liability is calculated at the reporting data using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for premium liabilities represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

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 reserves. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in statement of comprehensive income by setting up a provision for liability adequacy.

l) Other Revenue Recognition

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

Rental Income

Rental income from investment property is recognised on a straight-line basis over the term of the lease.

Interest and Profit Income

Income is recognised on an accrual basis using the effective yield method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective yield of the instrument.

Dividend Income

Dividend income is recognised when the Company's right to receive payment is established.

Realised Gains and Losses on Investments

Realised gains and losses recorded in statement of comprehensive income on investments include gains and losses on financial assets and investment properties. Gain and losses on the sale of investments are calculated as the difference between net sales proceeds and the carrying value of the investments and are recorded on occurrence of the sale transaction.

m) Income Tax

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

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 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 profits.

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 date of the statement of financial position.

Deferred tax is recognised as income or an expense and included in the statement of comprehensive 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.

n) Provisions

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

o) Employee Benefits

(i) Short Term Employee Benefits

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

(ii) Post-employment Benefits

The Company's contributions to defined contribution plans are charged to the statement of comprehensive income in the period to which they relate to. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Termination Benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage redundancy.

(iv) Cash-Settled Share-Based Plan

The Company participated in a cash-settled, share-based plan for the employees of the Company. The fair value of the employee services received in exchange for the grant of the share appreciation rights is recognised in the statement of comprehensive income over the vesting periods of the grant with a corresponding increase in liabilities.

The total amount to be expensed off on the vesting period is determined by reference to the fair value of the share appreciation rights. At each date of the statement of financial position, the Company reviews its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the statement of comprehensive income.

The cumulative liability incurred will be reversed as cash is paid, net of any directly attributable transaction costs, at the end of vesting period.

p) Foreign Currencies

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

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the date of the statement of financial position are translated to Ringgit Malaysia at exchange rates prevailing at the date of the statement of financial position. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the statement of comprehensive income.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

2.2 Summary of Significant Accounting Policies (continued)

q) Insurance Payables and Other Payables

Insurance payables and other 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.

r) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on 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.

s) 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 circumstance 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.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, 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. These factors could include:

a) Key Sources of Estimation Uncertainty and Assumptions

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

Valuation of General Insurance Contract Liabilities

For general 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 claims incurred but not yet reported ("IBNR") at the date of the statement of financial position.

It can take a significant period of time before the ultimate claims costs can be established with certainty, and hence, actual future claim payments will not develop exactly as projected. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Gluck, Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. 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. Historical claims development data is adjusted for the impact of inflation, and explicit assumptions are made for the rate of future claims inflation applied to the projected losses. Additional qualitative judgement is used to assess the extent to which the 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, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features 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.

3. Property, plant and equipment

	MOTOR VEHICLES RM	EDP EQUIPMENT RM	OFFICE EQUIPMENT RM	FURNITURE & FITTINGS RM	RENOVATIONS RM	LEASEHOLD BUILDING RM	TOTAL RM
Net book value							
At 1 January 2016	621,569	8,338,352	378,486	1,231,695	828,943	5,543,889	16,942,934
Additions	5,582	1,302,780	147,318	2,894	(204)	-	1,458,370
Disposals	(25,755)	(3,517)	(2,234)	-	-	-	(31,506)
Written off	-	-	-	(5,558)	-	-	(5,558)
Reversal of impairment loss	-	-	-	-	-	117,224	117,224
Depreciation	(145,865)	(2,349,771)	(101,230)	(163,606)	(212,533)	(67,279)	(3,040,284)
At 31 December 2016	455,531	7,287,844	422,340	1,065,425	616,206	5,593,834	15,441,180
At 31 December 2016							
Cost	810,573	12,275,701	1,547,001	1,876,816	2,158,411	6,587,782	25,256,284
Accumulated impairment loss	-	-	-	-	-	(5,032)	(5,032)
Accumulated depreciation	(355,042)	(4,987,857)	(1,124,661)	(811,391)	(1,542,205)	(988,916)	(9,810,072)
Net Book Value	455,531	7,287,844	422,340	1,065,425	616,206	5,593,834	15,441,180

	MOTOR VEHICLES RM	EDP EQUIPMENT RM	OFFICE EQUIPMENT RM	FURNITURE & FITTINGS RM	RENOVATIONS RM	FREEHOLD BUILDING RM	LEASEHOLD BUILDING RM	TOTAL RM
Net book value								
At 1 January 2015	733,025	792,756	394,918	799,502	556,217	1,118,134	5,543,968	9,938,520
Additions	114,675	8,916,110	133,289	664,554	585,598	-	-	10,414,226
Disposals	(67,838)	-	(3,894)	-	-	(1,097,601)	-	(1,169,333)
Written off	-	-	(39,646)	(113,379)	(86,987)	-	-	(240,012)
Reversal of impairment loss	-	-	-	-	-	-	66,347	66,347
Depreciation	(158,293)	(1,370,514)	(106,181)	(118,982)	(225,885)	(20,533)	(66,426)	(2,066,814)
At 31 December 2015	621,569	8,338,352	378,486	1,231,695	828,943	-	5,543,889	16,942,934
At 31 December 2015								
Cost	893,912	12,251,794	1,423,668	1,881,283	2,158,885	-	6,587,782	25,197,324
Accumulated impairment loss	-	-	-	-	-	-	(122,256)	(122,256)
Accumulated depreciation	(272,343)	(3,913,442)	(1,045,182)	(649,588)	(1,329,942)	-	(921,637)	(8,132,134)
Net Book Value	621,569	8,338,352	378,486	1,231,695	828,943	-	5,543,889	16,942,934

Notes to the financial statements (continued)

4. Investments

	2016 RM	2015 RM
The Company's investments are summarised as follows:		
Fair value through profit or loss ("FVTPL")	100,210,050	69,121,800
Accrued interest	763,667	642,125
	100,973,717	69,763,925
Loans and receivables ("LAR")	295,000,000	314,000,000
Accrued interest	7,266,879	4,846,396
	302,266,879	318,846,396
Total investments	403,240,596	388,610,321
The following investments mature after 12 months:		
FVTPL	100,973,717	69,763,925
The following investments mature within 12 months:		
LAR	302,266,879	318,846,396

(a) FVTPL

Fair value	2016 RM	2015 RM
Malaysian Government Securities	100,210,050	69,121,800
Accrued interest	763,667	642,125
Total investment at FVTPL	100,973,717	69,763,925

(b) LAR

Amortised cost	2016 RM	2015 RM
Deposits with financial institutions	295,000,000	314,000,000
Accrued interest	7,266,879	4,846,396
Total investments at LAR	302,266,879	318,846,396

(c) Carrying Values of Financial Instruments

	FVTPL RM	LAR RM	TOTAL RM
At 1 January 2015	111,521,067	253,948,985	365,470,052
Purchases/deposits	3,982,000	583,000,000	586,982,000
Maturities	-	(522,000,000)	(522,000,000)
Disposals	(46,311,000)	-	(46,311,000)
Fair value gains recorded in profit or loss	1,028,300	-	1,028,300
Movement in accrued interest	(456,442)	3,897,411	3,440,969
At 31 December 2015	69,763,925	318,846,396	388,610,321
Purchases/deposits	100,532,700	574,000,000	674,532,700
Maturities	-	(593,000,000)	(593,000,000)
Disposals	(69,134,800)	-	(69,134,800)
Fair value loss recorded in profit or loss	(309,650)	-	(309,650)
Movement in accrued interest	121,542	2,420,483	2,542,025
At 31 December 2016	100,973,717	302,266,879	403,240,596

(d) Fair Values of Financial Instruments

The following table shows financial instruments recorded at fair value analysed as follows:-

	FVTPL RM
2016	
Level 2 - Valuation techniques - market observable input	100,973,717
2015	
Level 2 - Valuation techniques - market observable input	69,763,925

Financial instruments, which are under Level 2 of the fair value hierarchy are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market and instruments with fair values based on broker quotes.

5. Insurance receivables

	2016 RM	2015 RM
Due premiums including agents/brokers and co-insurers balances	106,268,491	108,636,514
Due from reinsurers and cedants	22,729,755	12,030,806
	128,998,246	120,667,320
Allowance for impairment	(1,299,633)	(1,423,856)
	127,698,613	119,243,464
Receivable within 12 months	127,698,613	119,243,464

Financial assets	2016 RM	2015 RM
Gross amounts of recognised financial assets	142,911,529	134,696,573
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 11)	(13,913,283)	(14,029,253)
Net amounts of financial assets presented in the statement of financial position	128,998,246	120,667,320

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2016 (2015: Nil).

6. Other receivables

	2016 RM	2015 RM
Malaysian Motor Insurance Pool ("MMIP")		
- Cash calls made	25,359,477	34,359,477
- Other assets held in MMIP	37,708,833	40,657,816
	63,068,310	75,017,293
Other receivables	5,400,412	6,385,497
	68,468,722	81,402,790
Receivable within 12 months	63,068,310	79,731,687

The carrying amounts approximate the fair values due to the relatively short-term maturity of these balances.

MMIP as at 31 December 2016 is a net receivable of RM6,407,155 (2015: net payable of RM1,564,202) after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premium liabilities amounting RM56,661,155 (2015: RM76,581,495) included in Insurance Contract Liabilities (Note 9) to the financial statements.

Notes to the financial statements (continued)

7. Share capital

	2016 NO OF SHARES	2016 RM	2015 NO OF SHARES	2015 RM
Authorised ordinary shares of RM0.50 each:				
As at 1 January/31 December	400,000,000	200,000,000	400,000,000	200,000,000
Issued and fully paid ordinary shares of RM0.50 each:				
As at 1 January/31 December	216,000,000	108,000,000	216,000,000	108,000,000

8. Retained earnings

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

9. Insurance contract liabilities

	GROSS RM	REINSURANCE RM	NET RM
At 31 December 2016			
Provision for outstanding claims	195,069,143	(18,106,199)	176,962,944
Provision for incurred but not reported claims ("IBNR")	45,911,892	(2,520,305)	43,391,587
Claims liabilities (i)	240,981,035	(20,626,504)	220,354,531
Premium liabilities (ii)	172,422,891	(13,521,014)	158,901,877
	413,403,926	(34,147,518)	379,256,408
At 31 December 2015			
Provision for outstanding claims	176,039,063	(17,716,252)	158,322,811
Provision for incurred but not reported claims ("IBNR")	47,858,000	(543,000)	47,315,000
Claims liabilities (i)	223,897,063	(18,259,252)	205,637,811
Premium liabilities (ii)	146,508,170	(10,639,901)	135,868,269
	370,405,233	(28,899,153)	341,506,080

	2016 RM	2015 RM
Current	289,140,936	249,910,269
Non current	90,115,472	91,595,811
	379,256,408	341,506,080

	2016 GROSS RM	2016 REINSURANCE RM	2016 NET RM	2015 GROSS RM	2015 REINSURANCE RM	2015 NET RM
(i) Claims liabilities						
At 1 January	223,897,063	(18,259,252)	205,637,811	185,989,468	(15,382,090)	170,607,378
Claims incurred in the current accident year	150,448,304	(8,760,017)	141,688,287	147,905,800	(12,810,572)	135,095,228
Adjustment to claims incurred in prior accident years due to changes in assumptions:						
- Development factors, and discount rates	(10,585,560)	(930,349)	(11,515,909)	(3,190,911)	(662,172)	(3,853,083)
Other claims experience movements to claims incurred	(3,764,667)	(7,645,295)	(11,409,962)	(16,594,823)	6,527,810	(10,067,013)
Claims paid during the financial year	(119,014,105)	14,968,409	(104,045,696)	(90,212,471)	4,067,772	(86,144,699)
As 31 December	240,981,035	(20,626,504)	220,354,531	223,897,063	(18,259,252)	205,637,811

(ii) Premium liabilities						
At 1 January	146,508,170	(10,639,901)	135,868,269	109,798,885	(7,100,279)	102,698,606
Premiums written in the financial year (note 13)	358,885,794	(92,740,963)	266,144,831	340,430,988	(84,632,649)	255,798,339
Premiums earned during the financial year (note 13)	(332,971,073)	89,859,850	(243,111,223)	(303,721,703)	81,093,027	(222,628,676)
As 31 December	172,422,891	(13,521,014)	158,901,877	146,508,170	(10,639,901)	135,868,269

10. Deferred tax asset

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2016 RM	2015 RM
As at 1 January	1,854,593	1,986,984
Recognised in income statement (note 18)	799,842	(132,391)
As at 31 December	2,654,435	1,854,593
Current	3,643,195	1,964,357
Non current	(988,760)	(109,764)
	2,654,435	1,854,593

The movements in deferred tax asset during the financial year comprise the tax effects of the following:

	AT 1 JANUARY RM	(CHARGED)/ CREDITED RM	AT 31 DECEMBER RM
2016			
Recognised in income statement:			
Excess of capital allowance over depreciation	(585,982)	(996,269)	(1,582,251)
Impairment loss on insurance receivables	341,718	(29,808)	311,910
Premium liabilities	1,469,490	456,120	1,925,610
Employee benefits accrued	184,705	1,155,431	1,340,136
Other provisions	604,204	(22,610)	581,594
Fair value changes of FVTPL investments	(159,542)	236,978	77,436
	1,854,593	799,842	2,654,435
2015			
Recognised in income statement:			
Excess of capital allowance over depreciation	(404,606)	(181,376)	(585,982)
Impairment loss on insurance receivables	288,430	53,288	341,718
Premium liabilities	968,596	500,894	1,469,490
Employee benefits accrued	91,476	93,229	184,705
Other provisions	941,913	(337,709)	604,204
Fair value changes of FVTPL investments	101,175	(260,717)	(159,542)
	1,986,984	(132,391)	1,854,593

Notes to the financial statements (continued)

11. Insurance payables

	2016 RM	2015 RM
Due to agents and intermediaries	15,168,864	30,102,936
Due to reinsurers and cedants	21,576,335	22,417,864
Deposits received from reinsurers	78,516	78,516
	36,823,715	52,599,316
Payable within 12 months	36,823,715	52,599,316

The carrying amount disclosed above approximates the fair value at the date of the statement of financial position.

	2016 RM	2015 RM
Gross amounts of recognised financial liabilities	50,736,998	66,628,569
Less: Gross amounts of recognised financial assets set off in the statement of financial position (Note 5)	(13,913,283)	(14,029,253)
Net amounts of financial liabilities presented in the statement of finacial position	36,823,715	52,599,316

As disclosed in Note 5 to the financial statements, there are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2016 (2015: Nil).

12. Other payables

	2016 RM	2015 RM
Payroll liabilities	4,703,704	4,096,833
Duties and other taxes payable	76,310	118,280
Accrued expenses	2,763,215	2,666,758
Accrual for Head Office (note 22)	12,868,000	12,868,000
Accrual for employees cash-settled share-based plan (note 16)	-	16,139
Other liabilities	4,727,867	2,555,215
	25,139,096	22,321,225

The carrying amount disclosed above approximates the fair value at the date of the statement of financial position.

All amounts are payable within one year except for accrual for the employees cash-settled share-based plan (Note 16 to the financial statements).

13. Net earned premiums

	2016 RM	2015 RM
(a) Gross earned premiums		
Written premium	358,885,794	340,430,988
Change in premium liabilities	(25,914,721)	(36,709,285)
	332,971,073	303,721,703
(b) Premiums ceded		
Ceded premium	(92,740,963)	(84,632,649)
Change in premium liabilities	2,881,113	3,539,622
	(89,859,850)	(81,093,027)
Net earned premiums	243,111,223	222,628,676

14. Investment income

	2016 RM	2015 RM
Investment property:		
Gross rental income	1,609	19,200
Rates and maintenance for investment property	-	(16,111)
FVTPL investments		
Interest income	1,699,520	3,169,869
LAR investments		
Interest income	17,418,669	14,683,285
	19,119,798	17,856,243

15. Management expenses

	2016 RM	2015 RM
Staff salaries and bonus	22,909,933	20,949,688
Defined contribution plans	2,932,319	2,681,087
Employees cash-settled share-based plan (note 16)	-	18,057
Other employee benefits	2,400,483	1,709,514
Staff costs	28,242,735	25,358,346
Non-Executive Directors:		
Fees	190,981	164,516
Others	7,500	7,000
Directors' remuneration	198,481	171,516
Depreciation of property, plant and equipment	3,040,284	2,066,814
Auditors' remuneration	219,213	190,500
Hire of equipment	68,940	91,833
Office rental	886,319	596,317
EDP expenses	2,728,931	1,111,481
Communication expenses	350,183	305,088
Travelling expenses	1,482,379	1,242,757
Bad and doubtful debts:		
Allowance of impairment on insurance receivables	-	270,136
Bad debts recoveries	-	(6,286)
Head office expenses	12,868,000	12,667,319
Other expenses	8,161,053	8,233,123
	29,805,302	26,769,082
	58,246,518	52,298,944

Included in the staff costs, there are benefits-in-kind attributable to the Company's Chief Executive Officer (Leonardo Perazzi Zanolini) amounted to RM2,377,297 (2015: RM1,632,357).

Notes to the financial statements (continued)

16. Employees cash-settled share-based benefit plan

Employees of the Company are invited to participate in a cash-settled share-based plan offered by the ultimate holding company, QBE Insurance Group Limited.

The grant will be paid out to eligible permanent employees who have met minimum service conditions and after a retention period of three years provided the employees are still employed by Company at that time.

Details of the plan are as follows:

	2016		2015	
	NO OF UNITS	GRANT VALUE RM	NO OF UNITS	GRANT VALUE RM
Allocated: As at 31 December (note 12)	-	-	929	16,139
Actual payments during the financial year	-	-	1,281	49,056

The fair value of the grant awarded during the financial year was determined using the closing price of QBE Insurance Group Limited's shares at the statement of financial position date and the expected notional cash dividends for that year of entitlement. The significant inputs into the computation were as follows:

	2016 AUD$	2015 AUD$
Closing market price (per share)	-	12.59
Expected notional cash dividends (per award)	-	0.20

17. Key management personnel

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly, including any director (executive or non-executive).

The total remuneration of the Directors is disclosed in Note 15 to the financial statements.

The compensation of the Chief Executive Officer and Non-Executive Directors are as follows:

	FEE RM	SALARY RM	BONUS RM	OTHERS RM	BENEFIT-IN -KIND RM	TOTAL RM
2016						
Chief Execuive Officer						
- Leonardo Perazzi Zanolini	-	1,016,936	723,907	614,900	21,554	2,377,297
Non-Executive Directors						
- Dato' Koh Hong Sun	73,433	-	-	3,000	-	76,433
- Lau Cheong Koon	33,548	-	-	1,000	-	34,548
- Arunothayam Rajaratnam	41,000	-	-	1,500	-	42,500
- Dato' Tan Ang Meng	43,000	-	-	2,000	-	45,000
	190,981	1,016,936	723,907	622,400	21,554	2,575,778
2015						
Chief Execuive Officer						
- Leonardo Perazzi Zanolini	-	771,278	179,648	654,336	27,095	1,632,357
Non-Executive Directors						
- Dato' Nik Mohamed Din Bin Datuk Nik Yusoff	44,516	-	-	1,000	-	45,516
- Dato' Koh Hong Sun	60,000	-	-	3,000	-	63,000
- Lau Cheong Koon	60,000	-	-	3,000	-	63,000
	164,516	771,278	179,648	661,336	27,095	1,803,873

The compensation of the other key management personnel is as follows:

	2016 RM	2015 RM
Salary and other remuneration	1,980,298	2,087,520
Benefits-in-kind	11,716	17,293
Share-based payment	2,413	4,737
	1,994,427	2,109,550

	Number of officers	
	2016	2015
Salary and other remuneration	5	5
Benefits-in-kind	5	3
Share-based payment	3	4

18. Income tax expense

	2016 RM	2015 RM
Current tax	11,803,103	5,548,818
Deferred tax (note 10)	(799,842)	132,391
Tax expense	11,003,261	5,681,209
Current tax		
Current year	11,592,556	5,610,966
Under/(Over) accrual in prior years	210,547	(62,148)
	11,803,103	5,548,818
Deferred tax		
Origination and reversal of temporary differences	(1,982,057)	132,391
Under provision in prior year	1,182,215	-
	(799,842)	132,391
	11,003,261	5,681,209
(a) Reconciliation of prima facie tax to income tax expense:		
Profit before tax	35,383,909	23,251,736
Tax calculated at the Malaysian tax rate of 24% (2015: 25%)	8,492,138	5,812,934
Tax effect of:		
Non-deductible expenses	46,815	657,670
Non-deductible foreign reinsurance expense	989,195	958,478
Non-taxable income	82,351	67,169
Tax deduction of cash contribution to MMIP during the year*	-	(1,752,894)
Under/(over) accrual in prior years	1,392,762	(62,148)
Income tax expense attributable to profit	11,003,261	5,681,209

(*) The tax deduction of cash contribution to MMIP in 2015 amounting to RM1,752,894 relates to the double tax deduction allowed on MMIP cash calls made during the financial year, pursuant to the Gazette order issued by the Attorney General Chambers of Malaysia on 28 November 2012.

19. Earnings per share

The earnings per ordinary share has been calculated based on the net profit for the financial year of RM24,380,648 (2015: RM17,570,527) and on the weighted average number of ordinary shares in issue during the financial year of 216,000,000 (2015: 216,000,000).

Notes to the financial statements (continued)

20. Dividend

The amount of dividends declared and paid by the Company since the end of the previous financial year was as follows:

	RM
Dividend paid on 27 June 2016	
- Final single tier dividend of 20.51 sen per share	44,301,600

The Directors do not recommend any proposed dividend for the financial year ended 31 December 2016.

21. Non-cancellable operating lease commitments

	FUTURE MINIMUM LEASE PAYMENTS	
	2016 RM	2015 RM
Not later than 1 year	54,517	68,130
Later than 1 year and not later than 5 years	47,450	78,107
	101,967	146,237

22. Significant related party disclosures

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party disclosures.

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

Related parties	Relationship
QBE Insurance Group Limited (Incorporated in Australia)	Ultimate holding corporation
QBE Asia Pacific Holdings Limited (Incorporated in Hong Kong)	Immediate holding corporation
QBE Insurance (Australia) Ltd (Incorporated in Australia)	Related company

In the normal course of business, the Company undertakes various transactions with other companies deemed related on terms agreed between the Company and related parties.

The significant related party transactions during the financial year and balances at the financial year end between the Company and these related parties are set out as follows:

	2016 RM	2015 RM
Business transactions with related company:		
Reinsurance claims recoveries		
- QBE Insurance (International) Ltd.	8,120,134	901,208
- QBE Insurance (Australia) Ltd.	756,063	585,446
Reinsurance premium ceded		
- QBE Insurance (International) Ltd.	(53,003,269)	(43,325,895)
- QBE Insurance (Australia) Ltd.	(9,272,911)	(8,831,736)
Reinsurance commission earned		
- QBE Insurance (Australia) Ltd.	2,545,553	2,223,680
Expenses		
- QBE Insurance (International) Ltd.		
Employees Share Incentives Scheme	(141,665)	(114,898)
Head office expenses	(3,216,600)	(12,868,000)
Expenses		
- QBE Group Service Hong Kong		
Other payables	(1,037,942)	-
Employees Share Incentives Scheme	(276,194)	-
Head office expenses	(9,651,400)	-

Amounts due from / (due to) related entities as at the date of the statement of financial position are set out below:

	NOTE	2016 RM	2015 RM
Holding corporation/related entities:			
Reinsurance assets - claims liabilities		12,172,871	10,050,591
Insurance payables		(1,846,686)	(6,988,628)
Other receivables		-	1,083,719
Other payables		(1,314,136)	-
Accrued expenses for			
- Head office expenses	12	(12,868,000)	(12,868,000)
		(16,028,822)	(18,772,909)

The amounts due to related parties are unsecured, interest free and have no fixed terms of repayment.

23. Risk management framework

The Board of Directors annually approves a comprehensive risk management strategy ("RMS") and a reinsurance management strategy ("REMS"), both of which are available for review by BNM when requested. The Company's risk management policy, strategy and framework are embedded in all operations, ensuring a consistent approach to managing risk across the organisation.

The Company's strategy for managing risk is to:

- achieve competitive advantage by better understanding the risk environments in which we operate;
- operate within our stated risk appetite and more effectively allocating capital and resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises by reducing uncertainty and volatility through the identification and management of risks to the achievement of strategies and objectives.

The Company aims to adopt a rigorous approach to managing risk. The key objectives of the Company's approach to risk management are to:

- drive conscious and objective risk-based decisions to optimise return;
- give confidence to the business to actively take appropriate risks; and
- adopt leading practices and a single Enterprise Risk Management approach globally that allows for more consistent and improved outcomes.

It is the Company's philosophy to ensure that risk management is embedded in the business and that the risk makers or risk takers are themselves the risk managers. Embedding a risk assessment mindset in business planning and management processes assists in keeping focus on the key objectives and identifying metrics required to monitor portfolio performance and improvement initiatives. The management of risk must occur at each point in the business management cycle.

Risk management is a key part of strategic and business planning, it underpins the setting of limits and authorities and it is embedded in the monitoring and evaluation of performance. This holistic approach to risk management supports the Company in ensuring the Company's risks are managed in an integrated manner.

The Company's risk management framework sets out the approach to manage risks and meeting strategic objectives whilst taking into account the creation of value for our shareholders. The framework is made up of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include: governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk and control self assessment, risk treatment, optimisation and ongoing improvement through action plans, risk and performance monitoring.

The Company's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. Risk treatments, internal controls and systems are designed to provide reasonable assurance that the assets and revenues of the Company are safeguarded, including insurance and investment exposures are within desired limits, reinsurance protections are adequate, counterparties are subject to security assessment and foreign exchange exposures are within stated risk appetites. The Company has established internal systems and controls to manage material risk in the key areas of exposure relevant to its business.

The Company's risk profile is assessed under the following broad risk categories:

- Strategic risk
- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Group Risk

Each of these is described more fully in sections (a) to (g) below.

a) Strategic risk

The current and prospective impact on earnings and or capital arising from strategic business decisions and responsiveness to external change. Includes the following sub categories:

- business product, market, and distribution approach;
- capital structure and management;
- acquisition decision and negotiation;
- tax planning and decisioning; and
- investment strategy.

Notes to the financial statements (continued)

23. Risk management framework (continued)

b) Insurance risk
The risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Includes the following sub categories:
- underwriting/pricing;
- insurance concentrations;
- reserving; and
- reinsurance.

c) Credit risk
The risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. Exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors. Includes the following sub categories:
- reinsurance counterparty credit and other recoveries;
- premium and other counterparty credit; and
- investment counterparty credit.

d) Market risk
The risk of variation in the value of investments due to movements in market factors. Market factors include but are not limited to: interest rates, credit spreads, foreign exchange rates, equity prices and commodity derivatives. Includes the following sub categories:
- investment market movement (including equity, interest rate, credit spreads); and
- foreign exchange rate movement.

e) Liquidity risk
Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors or only being able to do so at excessive cost.

f) Operational risk
Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). Includes the following sub categories:
- internal fraud;
- external fraud;
- employment practices (people risks);
- improper business practices;
- disasters and other events;
- technology and infrastructure failures; and
- business and transaction processing

g) Group risk
Group Risk is the risk to the Company arising specifically from being part of the wider QBE group, including financial impact and loss of support from the parent company.

24. Insurance risk

The table below sets out the concentration of General insurance contracts liabilities by type of contract..

	2016 GROSS RM	2016 REINSURANCE RM	2016 NET RM	2015 GROSS RM	2015 REINSURANCE RM	2015 NET RM
Motor	92,262,848	(1,218,245)	91,044,603	108,421,969	(926,814)	107,495,155
Fire	88,283,210	(5,826,981)	82,456,228	69,791,052	(3,437,909)	66,353,143
Marine, Aviation & Transit	82,501,720	(20,564,174)	61,937,547	59,089,821	(15,662,569)	43,427,252
Miscellaneous	150,356,148	(6,538,118)	143,818,030	133,102,390	(8,871,861)	124,230,529
Insurance contract liabilities	413,403,926	(34,147,518)	379,256,408	370,405,232	(28,899,153)	341,506,079

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 assumption in respect of average claims costs, claim handling costs and average number of claims for each accident year. Assumptions are also made in relation to the rate of claims inflation in the future.

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

Other key circumstances affecting the reliability of assumption include variation in interest rates and delays in settlement.

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 movement in key assumptions with all other assumptions held constant, showing the impact on Gross and Net Liabilities, Profit before Tax and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	CHANGE IN ASSUMPTIONS	IMPACT ON GROSS LIABILITIES RM	IMPACT ON NET LIABILITIES RM	IMPACT ON PROFIT BEFORE TAX (ADDITIONAL LOSS) RM	IMPACT ON EQUITY (DEBIT) RM
2016					
Average claim cost	+10%	24,098,104	22,035,453	22,035,453	16,746,944
Number of claims	+10%	3,973,243	3,633,158	3,633,158	2,761,200
Inflation	+1%	3,105,943	2,892,203	2,892,203	2,198,074
Discount rate	-1%	3,137,166	2,921,072	2,921,072	2,220,015
Ultimate loss ratio	+5%	16,412,298	11,933,047	11,933,047	9,069,116
2015					
Average claim cost	+10%	22,389,706	20,563,781	20,563,781	15,422,836
Number of claims	+10%	3,043,734	2,795,512	2,795,512	2,096,634
Inflation	+1%	3,119,559	2,869,059	2,869,059	2,151,794
Discount rate	-1%	3,159,354	2,905,799	2,905,799	2,179,349
Ultimate loss ratio	+5%	14,960,318	11,320,222	11,320,222	8,490,167

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at 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 exercise 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 and the margin maintained should decrease.

Gross General Insurance Claims Liabilities for 2016:

INCURRED CLAIMS ACCIDENT YEAR	NOTE	BEFORE 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	TOTAL RM'000
At end of accident year			54,093	55,473	72,342	92,620	94,132	137,702	147,905	150,448	
One year later			59,702	52,442	69,753	85,299	91,690	132,111	153,306		
Two years later			58,117	54,092	61,654	82,245	87,219	126,849			
Three years later			57,527	51,404	61,295	79,046	83,941				
Four years later			54,010	50,298	59,382	76,173					
Five years later			53,524	49,832	57,519						
Six years later			53,066	48,522							
Seven years later			52,187								
Current estimate of cumulative claims incurred			52,187	48,522	57,519	76,173	83,941	126,849	153,306	150,448	
Claims payment											
Accident year											
At end of accident year			17,861	14,649	18,991	19,869	20,147	40,951	30,387	29,013	
One year later			40,243	33,292	44,800	49,758	54,947	83,131	93,762		
Two years later			47,708	39,434	46,411	59,861	62,620	96,948			
Three years later			50,242	41,730	50,733	66,122	68,426				
Four years later			49,585	44,205	52,422	69,057					
Five years later			50,695	45,307	53,933						
Six years later			50,969	46,413							
Seven years later			51,492								
Cumulative payments to-date			51,492	46,413	53,933	69,057	68,426	96,948	93,762	29,013	
Gross general insurance contract liabilities per statement of financial position	9	1,080	695	2,109	3,586	7,116	15,515	29,901	59,544	121,435	240,981
Current estimate of surplus % surplus of initial gross reserve			4%	13%	20%	18%	11%	8%	-4%	0%	

Notes to the financial statements (continued)

24. Insurance risk (continued)

Net General Insurance Claims Liabilities for 2016:

INCURRED CLAIMS ACCIDENT YEAR	NOTE	BEFORE 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	TOTAL RM'000
At end of accident year			46,202	48,393	56,118	79,184	85,959	116,455	135,095	141,688	
One year later			48,569	43,488	54,023	73,057	82,605	113,209	130,217		
Two years later			46,337	45,618	46,717	69,338	77,868	108,363			
Three years later			45,603	43,098	46,097	66,952	73,183				
Four years later			41,952	42,123	44,902	64,033					
Five years later			41,598	41,617	42,874						
Six years later			41,150	40,112							
Seven years later			40,541								
Current estimate of cumulative claims incurred			40,541	40,112	42,874	64,033	73,183	108,363	130,217	141,688	
Claims payment Accident year											
At end of accident year			12,888	14,000	13,129	17,676	18,900	25,372	28,683	28,137	
One year later			30,328	29,021	30,788	38,942	46,684	65,743	80,636		
Two years later			36,074	33,174	32,314	48,184	54,181	79,712			
Three years later			38,550	33,707	36,513	54,125	57,993				
Four years later			37,736	36,083	38,184	56,919					
Five years later			38,813	37,174	39,530						
Six years later			39,084	38,111							
Seven years later			39,847								
Cumulative payments to-date			39,847	38,111	39,530	56,919	57,993	79,712	80,636	28,137	
Net general insurance contract liabilities per statement of financial position	9	229	694	2,001	3,344	7,114	15,190	28,651	49,581	113,551	220,355
Current estimate of surplus % surplus of initial net reserve			12%	17%	24%	19%	15%	7%	4%	0%	

Gross General Insurance Claims Liabilities for 2015:

INCURRED CLAIMS ACCIDENT YEAR	NOTE	BEFORE 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	TOTAL RM'000
At end of accident year			59,803	54,093	55,473	72,342	92,620	94,132	137,702	147,905	
One year later			64,166	59,702	52,442	69,753	85,299	91,690	132,111		
Two years later			63,158	58,117	54,092	61,654	82,245	87,219			
Three years later			64,527	57,527	51,404	61,294	79,046				
Four years later			55,537	54,010	50,298	59,382					
Five years later			54,699	53,524	49,832						
Six years later			46,126	53,066							
Seven years later			45,735								
Current estimate of cumulative claims incurred			45,735	53,066	49,832	59,382	79,046	87,219	132,111	147,905	
Claims payment Accident year											
At end of accident year			13,429	17,861	14,649	18,991	19,869	20,147	40,951	30,387	
One year later			31,132	40,243	33,292	44,800	49,758	54,947	83,131		
Two years later			35,498	47,708	39,434	46,411	59,861	62,620			
Three years later			40,479	50,242	41,730	50,733	66,122				
Four years later			44,725	49,585	44,205	52,422					
Five years later			44,384	50,695	45,307						
Six years later			44,848	50,969							
Seven years later			44,964								
Cumulative payments to-date			44,964	50,969	45,307	52,422	66,122	62,620	83,131	30,387	
Gross general insurance contract liabilities per statement of financial position	9	5,523	771	2,097	4,525	6,960	12,924	24,599	48,980	117,518	223,897
Current estimate of surplus											
% surplus of initial net reserve			24%	2%	10%	18%	15%	7%	4%	0%	

Notes to the financial statements (continued)

24. Insurance risk (continued)

Net General Insurance Claims Liabilities for 2015:

INCURRED CLAIMS ACCIDENT YEAR	NOTE	BEFORE 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	TOTAL RM'000
At end of accident year			42,034	46,202	48,393	56,118	79,184	85,959	116,455	135,095	
One year later			42,829	48,569	43,488	54,023	73,057	82,605	113,209		
Two years later			41,496	46,337	45,618	46,717	69,338	77,868			
Three years later			41,449	45,603	43,098	46,097	66,952				
Four years later			38,453	41,952	42,123	44,902					
Five years later			36,780	41,598	41,617						
Six years later			36,426	41,150							
Seven years later			36,038								
Current estimate of cumulative claims incurred			36,038	41,150	41,617	44,902	66,952	77,868	113,209	135,095	
Claims payment Accident year											
At end of accident year			12,657	12,888	14,000	13,129	17,676	18,900	25,372	28,683	
One year later			26,245	30,328	29,021	30,788	38,942	46,684	65,743		
Two years later			30,280	36,074	33,174	32,314	48,184	54,181			
Three years later			32,401	38,550	33,707	36,513	54,125				
Four years later			35,210	37,736	36,083	38,184					
Five years later			34,899	38,813	37,174						
Six years later			35,159	39,084							
Seven years later			35,273								
Cumulative payments to-date			35,273	39,084	37,174	38,184	54,125	54,181	65,743	28,683	
Net general insurance contract liabilities per statement of financial position	9	1,254	765	2,066	4,443	6,718	12,827	23,687	47,466	106,412	205,638
Current estimate of surplus											
% surplus of initial net reserve			14%	11%	14%	20%	15%	9%	3%	0%	

25. Financial risks

(1) Credit Risk

In the normal course of business, the Company incurs credit risk from trade receivables and financial institutions. There is no significant concentration of credit risk.

The credit risk on financial assets of the Company is generally the carrying amount, which is net of any allowances. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counter-party. The Company does not expect any counter-parties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security.

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.

	NOTE	2016 RM	2015 RM
Investments at FVTPL:			
Malaysian Government Securities	4(a)	100,973,717	69,763,925
LAR:			
Fixed and call deposits	4(b)	302,266,879	318,846,396
Reinsurance assets - claims liabilities	9	20,626,504	18,259,252
Insurance receivables	5	127,698,613	119,243,464
Cash and bank balances		210,399	3,705,094
		551,776,112	529,818,131

Credit Exposure by Credit Rating

The table below provides information regarding the credit risk exposure of the company by classifying assets according to the recognised local or international rating agencies' credit ratings of counterparties. AAA is the highest possible rating. Rated assets fall outside the range of AAA to BBB are classified as speculative grade and thus are considered as non-investment grade.

	NEITHER PAST-DUE NOR IMPAIRED INVESTMENT GRADE RM	NEITHER PAST-DUE NOR IMPAIRED NOT RATED RM	PAST DUE BUT NOT IMPAIRED RM	PAST DUE AND IMPAIRED RM	TOTAL RM
2016					
Investments at FVTPL:					
Malaysian Government Securities	-	100,973,717	-	-	100,973,717
LAR:					
Fixed deposits and call deposits	302,266,879	-	-	-	302,266,879
Reinsurance assets - claims liabilities	16,877,055	3,749,449	-	-	20,626,504
Insurance receivables	-	102,401,256	25,297,357	1,299,633	128,998,246
Cash and bank balances	199,399	11,000	-	-	210,399
	319,343,333	207,135,422	25,297,357	1,299,633	553,075,745
Allowance for impairment	-	-	-	(1,299,633)	(1,299,633)
	319,343,333	207,135,422	25,297,357	-	551,776,112

Notes to the financial statements (continued)

25. Financial risks (continued)

(1) Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

	NEITHER PAST-DUE NOR IMPAIRED INVESTMENT GRADE RM	NEITHER PAST-DUE NOR IMPAIRED NOT RATED RM	PAST DUE BUT NOT IMPAIRED RM	PAST DUE AND IMPAIRED RM	TOTAL RM
2015					
Investments at FVTPL:					
Malaysian Government Securities	-	69,763,925	-	-	69,763,925
LAR:					
Fixed deposits and call deposits	318,846,396	-	-	-	318,846,396
Reinsurance assets - claims liabilities	14,500,329	3,758,923	-	-	18,259,252
Insurance receivables	-	83,167,289	36,076,175	1,423,856	120,667,320
Cash and bank balances	3,694,094	11,000	-	-	3,705,094
	337,040,819	156,701,137	36,076,175	1,423,856	531,241,987
Allowance for impairment	-	-	-	(1,423,856)	(1,423,856)
	337,040,819	156,701,137	36,076,175	-	529,818,131

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default experience. The unimpaired insurance receivables without external credit rating are relating to agents and brokers with no defaults in the past.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the recognised local or international rating agencies' credit ratings of counterparties. AAA is the highest possible rating. Rated assets fall outside the range of AAA to BBB are classified as speculative grade and thus are considered as non-investment grade.

2016	AAA RM	AA RM	A RM	NOT RATED RM	TOTAL RM
Investments at FVTPL:					
Malaysian Government Securities	-	-	-	100,973,717	100,973,717
LAR:					
Fixed and call deposits	189,014,801	113,252,078	-	-	302,266,879
Reinsurance assets - claims liabilities	-	16,877,055	-	3,749,449	20,626,504
Insurance receivables	-	220,946	-	127,477,667	127,698,613
Cash and bank balances	197,286	-	2,113	11,000	210,399
	189,212,087	130,350,079	2,113	232,211,833	551,776,112
2015					
Investments at FVTPL:					
Malaysian Government Securities	-	-	-	69,763,925	69,763,925
LAR:					
Fixed and call deposits	188,544,315	130,302,081	-	-	318,846,396
Reinsurance assets - claims liabilities	-	14,500,329	-	3,758,923	18,259,252
Insurance receivables	-	1,108,767	-	118,134,697	119,243,464
Cash and bank balances	3,690,923	3,171	-	11,000	3,705,094
	192,235,238	145,914,348	-	191,668,545	529,818,131

During the financial year, no credit exposure limits were exceeded.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

Aged Analysis of Financial Assets Past-Due But Not Impaired*

	<30 DAYS	31-60 DAYS	61-90 DAYS	>90 DAYS	TOTAL
2016					
Insurance receivables	7,047,865	4,707,446	6,296,631	7,245,415	25,297,357
2015					
Insurance receivables	14,566,118	8,877,689	5,928,205	6,704,163	36,076,175

* Past-due but not impaired refers to amounts outstanding more than 90 days from the effective date of the transactions. The above balances had been aged according to the period subsequent to classification of these balances as past-due.

Impaired Financial Assets
A receivable is considered as individually impaired if the counterparty is in the process of liquidation or legal action has been taken to recover the outstanding balances.

At 31 December 2016, based on individual assessment of insurance receivables, there are impaired insurance receivables of RM1,299,633 (2015: RM1,423,856). The Company considers insurance receivables classified as “past due and impaired” as those which the Company has remote chance to recover. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for insurance receivables in separate allowance for impairment losses account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	2016 RM	2015 RM
At 1 January	1,423,856	1,153,720
(Write back)/allowance	(124,223)	270,136
At 31 December	1,299,633	1,423,856

(2) Liquidity Risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

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

- In addition to treasury cash held for working capital requirements, and in accordance with the Company’s liquidity policy, a minimum percentage of investments and cash are held in liquid short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations.
- The Company limits the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

Maturity Profiles
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 receivables.

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

Premium liabilities and the corresponding reinsurers’ share of premium liabilities have been excluded from the analysis as they do not contain any contractual obligations.

Notes to the financial statements (continued)

25. Financial risks (continued)

(2) Liquidity Risk (continued)

	CARRYING VALUE RM	UP TO A YEAR RM	1-3 YEARS RM	3-5 YEARS RM	5-15 YEARS RM	TOTAL RM
2016						
Investments:						
FVTPL	100,973,717	-	62,666,075	50,692,493	-	113,358,568
LAR	302,266,879	307,367,699	-	-	-	307,367,699
Reinsurance assets -						
claims liabilities	20,626,504	13,656,044	5,853,308	927,770	189,382	20,626,504
Insurance receivables	127,698,613	127,698,613	-	-	-	127,698,613
Tax recoverable	602,669	602,669	-	-	-	602,669
Cash and bank balances	210,399	210,399	-	-	-	210,399
Total assets	552,378,781	449,535,424	68,519,383	51,620,263	189,382	569,864,452
Insurance contract liabilities -						
claims liabilities	240,981,035	143,895,103	71,803,291	18,058,900	7,223,741	240,981,035
Insurance payables	36,823,715	36,823,715	-	-	-	36,823,715
Other payables	25,139,096	25,139,096	-	-	-	25,139,096
Total liabilities	302,943,846	205,857,914	71,803,291	18,058,900	7,223,741	302,943,846

	CARRYING VALUE RM	UP TO A YEAR RM	1-3 YEARS RM	3-5 YEARS RM	5-15 YEARS RM	TOTAL RM
2015						
Investments:						
FVTPL	69,763,925	-	44,114,092	32,324,877	-	76,438,969
LAR	318,846,396	324,437,083	-	-	-	324,437,083
Reinsurance assets -						
claims liabilities	18,259,252	11,083,000	4,832,000	1,551,000	793,252	18,259,252
Insurance receivables	119,243,464	119,243,464	-	-	-	119,243,464
Tax recoverable	1,685,772	1,685,772	-	-	-	1,685,772
Cash and bank balances	3,705,094	3,705,094	-	-	-	3,705,094
Total assets	531,503,903	460,154,413	48,946,092	33,875,877	793,252	543,769,634
Insurance contract liabilities -						
claims liabilities	223,897,063	125,125,000	71,296,000	19,747,000	7,729,063	223,897,063
Insurance payables	52,599,316	52,599,316	-	-	-	52,599,316
Other payables	22,321,225	22,305,086	16,139	-	-	22,321,225
Total liabilities	298,817,604	200,029,402	71,312,139	19,747,000	7,729,063	298,817,604

The table below summarises the expected utilisation or settlement of assets.

	CURRENT* RM	NON-CURRENT RM	TOTAL RM
2016			
Property, plant and equipment	-	15,441,180	15,441,180
Investments:			
- FVTPL	-	100,973,717	100,973,717
- LAR	302,266,879	-	302,266,879
Reinsurance assets	34,147,518	-	34,147,518
Insurance receivables	127,698,613	-	127,698,613
Other receivables	63,068,310	5,400,412	68,468,722
Deferred tax asset	3,643,195	(988,760)	2,654,435
Tax recoverable	602,669	-	602,669
Cash and bank balances	210,399	-	210,399
Total assets	531,637,583	120,826,549	652,464,132
2015			
Property, plant and equipment	-	16,942,934	16,942,934
Investments:			
- FVTPL	-	69,763,925	69,763,925
- LAR	318,846,396	-	318,846,396
Reinsurance assets	21,722,901	7,176,252	28,899,153
Insurance receivables	119,243,464	-	119,243,464
Other receivables	79,731,687	1,671,103	81,402,790
Deferred tax asset	1,964,357	(109,764)	1,854,593
Tax recoverable	1,685,772	-	1,685,772
Cash and bank balances	3,705,094	-	3,705,094
Total assets	546,899,671	95,444,450	642,344,121

* expected utilisation or settlement within 12 months from the date of the statement of financial position.

Notes to the financial statements (continued)

25. Financial risks (continued)

(3) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three (3) types of risk – foreign exchanges rates (Currency risk), market interest rates/profit yields (Interest Rate/Profit Yield risk) and market prices (Price risk).

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

- The Company is exposed to market risk on its investments in fixed interest securities. It is not the Company's policy to hedge its market risks.
- The risk management process is subject to regular internal audit and close senior management scrutiny, including regular Board and other management reporting.
- All investments are made in accordance with the Company's investments guidelines which are approved by the Board of Directors.

Currency Risk

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

The Company's primary transactions are carried out in Ringgit Malaysia (RM) and the Company undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currency arise. It is not the Company's policy to hedge its foreign currency risks.

The Company's main foreign exchange risk come from recognised assets and liabilities that arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year. The impact arising from sensitivity in foreign exchange rates on reinsurance assets and liabilities is deemed minimal as the Company has no significant concentration of foreign currency risk.

Interest Rate/Profit Yield Risk

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

The Company's risk management approach is to minimise interest rate risk by investing in high quality, liquid fixed interest securities and cash and actively managing the duration of the fixed interest portfolio.

Price Risk

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

The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

Operational Risks

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 manages operational risk within the same robust control framework as its other risks. One of the cornerstones of the Company's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices. The Company operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorisation and reconciliation procedures.

26. Regulatory capital requirements

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

	NOTE	2016 RM	2015 RM
Eligible Tier 1 Capital			
Share capital (paid-up)	7	108,000,000	108,000,000
Reserves, including retained earnings		69,097,395	89,018,347
		177,097,395	197,018,347
Amounts deducted from Capital	10	(2,654,435)	(1,854,593)
Total Capital Available		174,442,960	195,163,754

27. Approval of financial statements

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 16 February, 2017.

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