

**GREAT EASTERN GENERAL INSURANCE
(MALAYSIA) BERHAD (102249-P)
(Formerly known as Overseas Assurance Corporation
(Malaysia) Berhad)
(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements
31 December 2017**

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
(Incorporated in Malaysia)

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

The principal activity of the Company is underwriting of all classes of general insurance business.

RESULTS

	RM
Net profit for the year	<u>45,712,342</u>

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

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

The amounts of dividend paid by the Company since 31 December 2016 were as follows:

	RM
In respect of the financial year ended 31 December 2016 as reported in the Directors' report of that year:	
Final single tier dividend of RM0.30 per ordinary share on 100,000,000 ordinary shares paid on 26 April 2017	<u>30,000,000</u>

At the forthcoming Annual General Meeting ("AGM") of the Company, a final single-tier dividend in respect of the financial year ended 31 December 2017 of RM0.30 per ordinary share on 100,000,000 ordinary shares, amounting to a dividend payable of RM30,000,000 will be proposed for shareholder's approval.

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DIVIDENDS (CONT'D.)

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in the shareholder's equity as appropriation of retained earnings in the next financial year ending 31 December 2018.

DIRECTORS

The names of the Directors of the Company in office since the beginning of the financial year to the date of this report are:

Mr Norman Ka Cheung Ip (Chairman)
Mr Tan Yam Pin (Appointed on 3 January 2017)
Mr Koh Poh Tiong (Appointed on 1 October 2017)
Mr Khor Hock Seng
Y Bhg Datuk Kamaruddin bin Taib
Y Bhg Dato' Yeoh Beow Tit
Mr Ng Hon Soon
Mdm Tan Fong Sang (Appointed on 10 March 2017)
Y Bhg Dato Koh Yaw Hui (Stepped down on 20 January 2017)

In accordance with Article 76 of the Company's Constitution, Mr Khor Hock Seng, Mr Norman Ka Cheung Ip and Y Bhg Datuk Kamaruddin bin Taib would retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the options over shares in the Company's ultimate holding company as disclosed in this report.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of remuneration received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Notes 23(b) and 30(b) to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest required to be disclosed under Fifth Schedule, Part 1 Section 3 of the Companies Act, 2016.

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DIRECTORS' BENEFITS (CONT'D.)

A Director and officer's liability insurance has been entered into by the Company for the financial year ended 31 December 2017 pursuant to Section 289 of the Companies Act 2016. The cost of insurance effected for the Directors and officer of the Company amounted to RM36,840.

ULTIMATE HOLDING COMPANY

The directors regard Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), a public-listed company incorporated in the Republic of Singapore, as the ultimate holding company of the Company.

DIRECTORS' INTERESTS

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

	Shareholdings in which Directors have a direct interest				
	<u>1.1.2017</u>	<u>Acquired</u>	<u>Disposed</u>	<u>31.12.2017</u>	
a) Ordinary shares of OCBC Bank					
Mr Norman Ka Cheung Ip	4,201	-	-	4,201	
Mr Khor Hock Seng	141,521	122,859	-	264,380	
Y Bhg Dato' Yeoh Beow Tit	342,906	76,830	(113,000)	306,736	
Mdm Tan Fong Sang	37,936	-	-	37,936	
		Shareholdings in which Directors are deemed to have an interest			
	<u>1.1.2017</u>	<u>Granted</u>	<u>Vested</u>	<u>Adjustment</u>	<u>31.12.2017</u>
				(due to ESPP 2015 offer)	
Mr Khor Hock Seng	245,718 ⁽¹⁾	96,289	(122,859)	-	219,148 ⁽¹⁾

Notes:

(1) Deemed interest from Remuneration Trust to be released annually on 31 March 2016 to 2018.

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DIRECTORS' INTERESTS (CONT'D.)

		Shareholdings in which Directors have a direct interest					
		<u>1.1.2017</u>	<u>Acquired</u>	<u>Redeemed</u>	<u>31.12.2017</u>		
b) 5.1% non-cumulative non-convertible guaranteed preference shares in OCBC Capital Corporation (2008)							
Mr Tan Yam Pin		2,000	-	-	2,000		
Options held by Directors in their own name							
		<u>Expiry date</u>	<u>Exercise price</u> S\$	<u>1.1.2017</u>	<u>Granted</u>	<u>Exercised</u>	<u>31.12.2017</u>
c) Options to subscribe for ordinary shares of OCBC Bank							
Mr Khor Hock Seng		22.3.2027	9.594	-	327,082	-	327,082
Y Bhg Dato' Yeoh Beow Tit		13.3.2017	8.354	25,415	-	(25,415)	-
		13.3.2018	7.313	51,415	-	(51,415)	-
Mdm Tan Fong Sang		14.3.2020	8.521	10,283	-	-	10,283
		13.3.2021	9.093	9,113	-	-	9,113
		13.3.2022	8.556	10,079	-	-	10,079

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

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CORPORATE GOVERNANCE DISCLOSURES

The Company has taken concerted steps to comply with Bank Negara Malaysia (“BNM”) Policy Document on Corporate Governance issued on 3 August 2016 (the “CG PD”). The Company is committed to the standards and practices prescribed in this policy document.

OTHER STATUTORY INFORMATION

- (a) Before the balance sheet and income statement 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 provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have 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 provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to 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 in the financial statements of the Company which would render any amount stated in the financial statements misleading.

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OTHER STATUTORY INFORMATION (CONT'D.)

- (e) 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 in respect of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent liability 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 as and 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.
- (g) Before the balance sheet and income statement of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance contract liabilities in accordance with the valuation method specified in Part D of the Risk-Based Capital Framework for insurers issued by BNM.

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

SUBSEQUENT EVENT

There were no significant events during or subsequent events after the financial year.

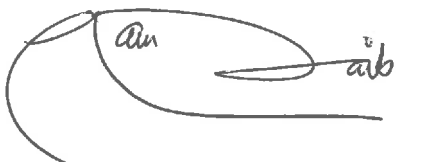
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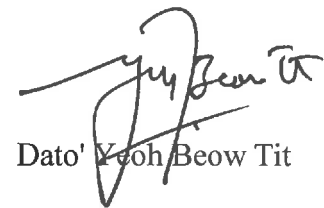
AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office. Auditors' remuneration are disclosed in Note 23 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors dated **29 MAR 2018**



Datuk Kamaruddin bin Taib



Dato' Yeoh Beow Tit

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CORPORATE GOVERNANCE DISCLOSURES (as referred to in the Directors' Report)

The Board of Directors (the “Board”) and Management of Great Eastern General Insurance (Malaysia) Berhad (formerly known as Overseas Assurance Corporation (Malaysia) Berhad) (the “Company”) place great importance on high standards of corporate conduct and are committed to upholding values of integrity, honesty and proper corporate conduct at all times in the business operations and dealings of the Company.

The Company adopts corporate governance practices which are in conformity with Bank Negara Malaysia (“BNM”) Policy Document on Corporate Governance issued on 3 August 2016 (the “CG PD”) and is continually enhancing its standards of the overall governance.

THE BOARD’S CONDUCT OF AFFAIRS

Board's responsibilities and accountability

The Board provides strategic directions to the Company and its principal roles and functions include the following:

- (a) setting and overseeing the implementation of business and risk objectives, as well as strategies and in doing so, shall have regard to the long term viability of the Company and reasonable standards of fair dealing;
- (b) approving the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company’s risk profile;
- (c) overseeing the implementation of the Company’s governance and internal control frameworks, and periodically reviewing the frameworks to ensure they remain appropriate in light of material changes to the size, nature and complexity of the Company’s operations;
- (d) overseeing the selection, performance, remuneration and succession plans of the Chief Executive Officer (“CEO”), control function heads and other members of Senior Management, such that the Board is satisfied with their collective competence to effectively lead the operations of the Company;
- (e) ensuring that there is a reliable and transparent financial reporting process within the Company;
- (f) overseeing and approving the recovery and resolution as well as business continuity plans for the Company to restore its financial strength, and to maintain or preserve critical operations and services when they come under stress;

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THE BOARD'S CONDUCT OF AFFAIRS (CONT'D.)

Board responsibilities and accountability (cont'd.)

- (g) promoting, together with Senior Management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;
- (h) promoting sustainability through appropriate environmental, social and governance considerations in the Company's business strategies; and
- (i) promoting timely and effective communications between the Company and BNM on matters affecting or that may affect the safety and soundness of the Company.

The matters requiring Board approval include but are not limited to the overall business strategy and direction, significant policies governing the operations of the Company, strategic or significant acquisitions and disposal of assets by the Company, corporate restructuring, major corporate initiatives and other activities of a significant nature, dividend policy and dividend declaration, all material and special related party transactions, authority levels for the Company's core functions and outsourcing of core business functions.

Board Committees

The Board had established a number of Board committees ("Board Committees") to assist it in carrying out effective oversight of the operations and business affairs of the Company. These Board Committees consist of the Board Nominations and Remuneration Committee, Board Audit Committee and Board Risk Management Committee. All the Board Committees have been constituted with clear Board-approved written terms of reference.

The Company's Board Committees, in carrying out responsibilities pursuant to their respective terms of reference, are also actively involved in assisting the Board to ensure compliance with good corporate governance practices by the Company. Details of the roles and principal responsibilities of the Board Committees are set out in relevant sections on the respective Board Committees herein. Minutes of all Board Committees meetings, which provide fair and accurate record of the discussions, key deliberations and decisions taken during the meetings, are maintained, and are circulated to the Board on a regular basis.

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THE BOARD'S CONDUCT OF AFFAIRS (CONT'D.)

Meetings and Directors' Attendance

The Board meets regularly during the year to review the business performance and key activities of the Company, and to consider business proposals of a significant nature. All members of the Board participated actively in Board discussions, and decisions are made objectively in the interests of the Company. The Board guided Management with strategic directions to achieve its stated goals and the Management remains accountable to the Board. Where warranted by particular circumstances, ad hoc Board or Board Committee meetings will be convened. In 2017, the Board convened seven scheduled Board meetings. Meetings of the Board and Board Committees via telephone or video conference are permitted by the Company's Constitution. Director who is unable to attend any Board or Board Committee meeting will still be provided with all meeting papers for information. Directors are equipped with electronic tablets that allow secured access to Board and Board Committee meeting materials.

All Directors have complied with the minimum 75% meeting attendance requirement at Board meetings as stipulated in the CG PD and Board Charter.

The number of meetings of the Board and Board Committees held in 2017 and the attendance of the Director at those meetings are tabulated below:

Directors' attendance at Board and Board Committees' meetings in 2017

Name of Director	Board		Board Nominations and Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended ⁽⁴⁾	No. of Meetings Held	No. of Meetings Attended
Mr Norman Ka Cheung Ip	7	7	6	6
Mr Tan Yam Pin ⁽¹⁾	7	6	6	6
Mr Koh Poh Tiong ⁽²⁾	1	1	1	1 ⁽⁵⁾
Mr Khor Hock Seng	7	7	6	6 ⁽⁵⁾
Y Bhg Datuk Kamaruddin bin Taib	7	7	6	6
Y Bhg Dato' Yeoh Beow Tit	7	7	6	6
Mr Ng Hon Soon	7	7	6	6
Mdm Tan Fong Sang ⁽³⁾	4	4	3	3 ⁽⁵⁾

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THE BOARD'S CONDUCT OF AFFAIRS (CONT'D.)

Directors' attendance at Board and Board Committees' meetings in 2017 (cont'd.)

Name of Director	Board Audit Committee		Board Risk Management Committee	
	No. of Meetings Held	Attended	No. of Meetings Held	Attended
Mr Norman Ka Cheung Ip	1	1 ⁽⁶⁾	-	-
Mr Tan Yam Pin ⁽¹⁾	1	1 ⁽⁵⁾	-	-
Mr Koh Poh Tiong ⁽²⁾	-	-	-	-
Mr Khor Hock Seng	5	5 ⁽⁵⁾	4	4 ⁽⁵⁾
Y Bhg Datuk Kamaruddin bin Taib	4	4 ⁽⁷⁾	1	1 ⁽⁸⁾
Y Bhg Dato' Yeoh Beow Tit	5	5	4	4
Mr Ng Hon Soon	1	1 ⁽⁶⁾	4	4
Mdm Tan Fong Sang ⁽³⁾	4	4	3	3

Notes:

- (1) Appointed as Director and Chairman of the Board Nominations and Remuneration Committee on 3 January 2017.
- (2) Appointed as Director on 1 October 2017.
- (3) Appointed as Director and Member of the Board Audit Committee and Board Risk Management Committee on 10 March 2017.
- (4) A total of 7 Board meetings were held in 2017.
- (5) Attendance by Invitation.
- (6) Stepped down as a Member of the Board Audit Committee on 10 March 2017.
- (7) Appointed as Member and Chairman of the Board Audit Committee on 10 March 2017 and 21 March 2017 respectively.
- (8) Stepped down as a Member of the Board Risk Management Committee on 10 March 2017.
- (-) Not applicable to the Non-Member of the respective Board Committees.

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THE BOARD'S CONDUCT OF AFFAIRS (CONT'D.)

Directors' attendance at Board and Board Committees' meetings in 2017 (cont'd.)

Directors' attendance at the Annual General Meeting of the Company is not included in the above table.

There were 2 Joint Board Audit Committee-Board Risk Management Committee meetings held in 2017. Directors' attendance at these meetings is not included in the above table.

The number of meetings indicated in "Held" above reflects the number of meetings held during the time the respective Directors held office.

BOARD COMPOSITION AND GUIDANCE

Board Membership

The Company's present Board comprises eight Directors with an Independent Chairman, Mr Norman Ka Cheung Ip, five other Independent Directors, one Non-Independent Non-Executive Director and one Executive Director.

Mr Tan Yam Pin, Mdm Tan Fong Sang and Mr Koh Poh Tiong were appointed to the Board on 3 January 2017, 10 March 2017 and 1 October 2017 respectively.

Mr Ng Hon Soon and Y Bhg Dato' Yeoh Beow Tit were re-elected to the Board at the Company's Annual General Meeting on 13 April 2017.

All appointments and re-appointments of Directors of the Company are subject to the approval of BNM. The composition of the Board was as follows:

Members of the Board	Status of directorship
Mr Norman Ka Cheung Ip, Chairman	Independent Director
Mr Tan Yam Pin	Independent Director
Mr Koh Poh Tiong	Independent Director
Mr Khor Hock Seng	Executive Director
Y Bhg Datuk Kamaruddin bin Taib	Independent Director
Y Bhg Dato' Yeoh Beow Tit	Non-Independent Non-Executive Director
Mr Ng Hon Soon	Independent Director
Mdm Tan Fong Sang	Independent Director

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BOARD COMPOSITION AND GUIDANCE (CONT'D.)

Key Information on Directors

The key information on each Director is set out under the sections ‘Board of Directors’ and ‘Further Information on Directors’ of the Company’s Annual Report¹. The Directors’ membership in the various Board Committees is set out herein. Directors’ interests in shares and share options in the Company’s ultimate holding company, Oversea-Chinese Banking Corporation Limited (“OCBC Bank”) are disclosed in the Directors’ Report that accompanies the Company’s financial statements for the financial year ended 31 December 2017 (“FY2017”). The Directors do not hold any shares in the Company or its penultimate holding company, Great Eastern Holdings Limited (“GEH”).

Board Composition and Independence

The Company determines the independence of its Directors in accordance with the requirements under the CG PD. Under the CG PD, an Independent Director of the Company is one who himself or any person linked to him is independent from Management, the substantial shareholders of the Company or any of its affiliates, and has no significant business or other contractual relationship with the Company or any of its affiliates within the last two years; and has not served for more than nine years on the Board².

Under the CG PD, the Board is required to have a majority of Independent Directors³. The current Board comprises a majority of Independent Directors. The Board Nominations and Remuneration Committee determines annually whether a Director is independent. Taking into consideration the definition of “independence” of a Director under the CG PD, the Board Nominations and Remuneration Committee has determined that the Company’s Independent Directors are currently Mr Norman Ka Cheung Ip, Mr Tan Yam Pin, Mr Koh Poh Tiong, Y Bhg Datuk Kamaruddin bin Taib, Mr Ng Hon Soon and Mdm Tan Fong Sang. Under the CG PD, Y Bhg Dato' Yeoh Beow Tit is deemed non-independent as he has served for more than nine years on the Board. However, he is independent from Management, the substantial shareholders of the Company or any of its affiliates, and has no significant business or other contractual relationship with the Company or any of its affiliates. Mr Khor Hock Seng is an Executive Director as he is the Group Chief Executive Officer of GEH.

¹ Available at the Company’s website.

² CG PD provide for tenure limits of independent directors to generally not exceed nine years except under exceptional circumstances or as part of the transitional arrangement.

³ Transitional arrangements are allowed for Independent Directors to make up at least half of the board membership by 3 August 2019 and Independent Directors to make up a majority of the board membership by 3 August 2021.

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BOARD COMPOSITION AND GUIDANCE (CONT'D.)

Board Composition and Independence (cont'd.)

The Board, through its Board Nominations and Remuneration Committee, is of the view that the current Board size is appropriate to facilitate effective decision making, taking into account the scope and nature of the Company's operations.

The Board members of the Company are from diverse backgrounds and qualifications and bring a wide range of financial and commercial experience to the Board. Collectively, they provide the necessary business acumen, knowledge, capabilities and core competencies to the Company, including industry knowledge in insurance, investment and asset management, banking, accounting, finance, strategy formulation, management experience, risk management and familiarity with regulatory requirements. The diversity of experience and competencies of the Directors enhance the effectiveness of the Board in discharging its responsibilities. Directors who serve on the Board Committees have an appropriate mix of skills and capabilities, taking into account the skill set required for the Board Committees to perform their respective roles and responsibilities.

With the knowledge, objectivity and balance contributed by the Non-Executive Directors, the Board constructively challenges and enhances proposals on strategy, reviews the performance of Management against agreed goals and objectives, and monitors the reporting of performances.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman, Mr Norman Ka Cheung Ip and the CEO, Mr Ng Kok Kheng are distinct and separate, with clear division of responsibilities between them to ensure an appropriate balance of power, increased accountability and greater independence in decision making. The Chairman and the CEO are not related to each other.

The principal responsibilities of the Chairman include leading the Board to ensure it effectively discharges its roles and responsibilities, approving agendas of the Board meetings, monitoring the quality and timeliness of the flow of information from Management to the Board and promoting effective communication with shareholders. The Chairman also facilitates robust discussions and deliberations in Board meetings, encourages constructive relations between the Board and Management, and promotes high standards of corporate governance with the full support of the other Directors, the Company Secretary and Management. He also leads efforts to address the Board's developmental needs.

The CEO manages the Company and oversees the Company's operations and implementation of the Company's strategies, plans and policies to achieve planned corporate performance and financial goals. His management of the Company's businesses, including implementing the Board's decisions, is carried out with the assistance of the Senior Management of the Company. He is primarily responsible for the day-to-day operations and administration of the Company, ensuring inter alia, operational and organisational efficiency, profitable performance, regulatory compliance, good corporate governance and effective risk management.

PROCESS FOR APPOINTMENT OF NEW DIRECTORS

BOARD NOMINATIONS AND REMUNERATION COMMITTEE

The Board Nominations and Remuneration Committee is to consist of at least three Non-Executive Directors, with a majority of Independent Directors and chaired by an Independent Director.

The Board Nominations and Remuneration Committee comprises the following Directors:

- Mr Tan Yam Pin, Chairman
- Mr Norman Ka Cheung Ip, Member
- Y Bhg Datuk Kamaruddin bin Taib, Member
- Y Bhg Dato' Yeoh Beow Tit, Member
- Mr Ng Hon Soon, Member

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PROCESS FOR APPOINTMENT OF NEW DIRECTORS (CONT'D.)

BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

The responsibilities of the Board Nominations and Remuneration Committee are set out in its Board-approved terms of reference, amongst others the responsibilities include identifying, reviewing and recommending candidates for nominations and recommending the re-appointment and re-election of Directors on the Board and Board Committees. It also reviews and recommends nominations of Senior Management positions in the Company to the Board.

The Board Nominations and Remuneration Committee has a key role in carrying out the formal and transparent process established for the appointment and re-appointment of Directors to the Board. Proposals for the appointment of new Directors are reviewed by the Board Nominations and Remuneration Committee. The Board Nominations and Remuneration Committee meets with the candidates to assess their suitability and commitment. Amongst others, the Board Nominations and Remuneration Committee takes into consideration the candidate's professional qualifications, integrity, financial and commercial business experience and expertise relevant to the Company, as well as his/her potential to contribute to the effectiveness of the Board and to complement the skills, knowledge and expertise of the Board. Competent individuals will be nominated and recommended to the Board for appointment.

In addition, the Board Nominations and Remuneration Committee further determines the proposed candidate's independence status under the CG PD, and ensures that the proposed candidate would satisfy the criteria under the CG PD in that his/her appointment would not result in non-compliance with any of the composition requirements for the Board and Board Committees, and that he/she is fit and proper for the position, taking into account his/her track record, age, experience, capabilities, skills and other relevant factors as may be determined by the Board Nominations and Remuneration Committee. Similar checks are also conducted on an annual basis to ensure that each Director remains qualified for the office based on the above criteria.

The Board Nominations and Remuneration Committee held a total of six meetings in 2017.

Re-appointment/Re-election of Directors

All Directors subject themselves for re-appointment and/or re-election upon the expiry of their BNM Appointment Term or by rotation at the Annual General Meeting of the Company pursuant to the Company's Constitution, where applicable. The Board Nominations and Remuneration Committee is responsible to recommend the re-appointment and/or re-election of Directors to the Board, taking into account the comprehensive evaluation of the Directors in addition to the Directors' attendance at meetings, their expertise, knowledge, commitment, and contributions to Board discussions and to the overall effectiveness of the Board.

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PROCESS FOR APPOINTMENT OF NEW DIRECTORS (CONT'D.)

BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Board Orientation and Training

A formal appointment letter will be issued to every new Director. Newly-appointed Directors will be apprised of their statutory duties and obligations and issued with a Director's orientation kit which will include key information on the Company, the terms of reference of the Board and Board Committees, duties and obligations of Directors as well as relevant rules and regulations. As part of the induction programme for new Directors, the Senior Management will brief new Directors on the Company's principal activities, business operations, staff strengths, and applicable rules and regulations. The Company constantly reviews and improves on the contents of such briefings to new Directors to take into account any new legislative changes which affect the Directors and to enable them to have a more comprehensive understanding of the Company.

There is a continuous professional development programme for all Directors, so that they are equipped with the appropriate skills and knowledge to perform their roles on the Board and Board Committees effectively. The Directors are continually updated on developments affecting the insurance industry. From time to time, the Company organises talks, seminars or presentations by external professionals, consultants or Management on topics relevant to the insurance industry and provides updates on developments in the industry locally. Industry-related and topical articles are regularly circulated to Directors as part of the Company's continuous development programme for Directors. Continued training and development programmes for Directors are more flexible and Directors may attend appropriate courses, conferences and seminars conducted by professional bodies within the industry or other professional organisations, where relevant. The Company has dedicated sufficient resources towards the on-going development of its Directors.

The Company arranges for and fund the training and development programmes for existing and new Directors. The Company also maintains formal records of the training and development received by its Directors.

During the financial year, the Directors, collectively or on their own, attended seminars, courses and briefing organized by professional bodies and regulatory authorities as well as those conducted in-house, including the following:

- Big Data and Artificial Intelligence in Financial Services
- Board Educational Series: Customer Due Diligence
- Board Educational Series: Criteria of Individual Target Capital Level Determination
- Board Educational Series: International Financial Reporting Standards & The Directors' and Officers' Liability Insurance

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PROCESS FOR APPOINTMENT OF NEW DIRECTORS (CONT'D.)

BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Board Orientation and Training (cont'd.)

- Board Educational Series: Key Drivers of Profit
- Board Educational Series: Malaysian Companies Act 2016
- Briefing Session on BNM Annual Report 2016 / Financial Stability and Payment System Report 2016
- Cryptocurrency and Blockchain Technology
- Cyber Securities Advance Capabilities
- Exclusive Workshop for Nomination Committee Chairman and Members: Board Selection – Engagement with Potential Directors
- Fintech: Opportunities for the Financial Services Industry in Malaysia
- Great Eastern: International Financial Reporting Standards (“IFRS”) training session for Audit Committee Members of Singapore, Malaysia and Indonesia
- Perspectives on Digital Financial Services
- Ping An Insurance’s Innovations in the Internet Era
- Risk and Reward: What Must Boards Know About A Sustainable FI Remuneration System for Senior Management and Material Risk Takers?
- Update on China Insurance Industry

BOARD PERFORMANCE

The Board has an annual performance evaluation process, carried out by the Board Nominations and Remuneration Committee, to assess the effectiveness of the Board, Board Committees and each Director’s contributions. This annual assessment process consists principally of evaluation by and feedback from each Director. Each Director evaluates the performance of the Board and Board Committees. The assessment of the contributions of individual directors to the effectiveness of the Board is also performed annually. Such assessments are made against established performance criteria consistent with those approved by the Board and used in the previous year. The purpose of the evaluation is to increase the overall effectiveness of the Board. The Board has found the evaluation process useful and constructive since its implementation several years ago. The peer assessment was facilitated by an external consultant. This collective process has also provided an opportunity to obtain insightful feedback from each Director on suggestions to enhance the effectiveness of the Board.

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BOARD PERFORMANCE (CONT'D.)

Directors are expected to set aside adequate time for their oversight of matters relating to the Company. The Directors provide declarations of changes in their other appointments which are disseminated to all Board members. The Company has established guidelines on meeting attendance and the extent of other appointments outside the Company that a Director may assume. Generally, a Director who has full-time employment in any organisation shall have appointments in no more than four listed companies and fifteen unlisted companies, while a Director who does not have any full-time employment shall have appointments in no more than seven listed companies and fifteen unlisted companies. The Board Nominations and Remuneration Committee annually assesses each Director's attendance record.

Senior Management Appointment and Performance

The Board Nominations and Remuneration Committee also recommends and assesses the nominee for the position of CEO and re-appointment of CEO as well as oversees the appointment and succession planning of the Senior Management of the Company.

Additionally, it is responsible to oversee performance evaluation of CEO and Senior Management. Whenever applicable and consistent with the prescribed internal Remuneration Framework, the Board Nominations and Remuneration Committee's recommendations on the CEO and Senior Management would be made in consultation with the input from the Chairman of the Board Audit Committee and Board Risk Management Committee.

Further, the Board Nominations and Remuneration Committee is also responsible to ensure all Key Responsible Persons ("KRPs") fulfil the fit and proper requirements, in line with the Fit and Proper Policy for KRPs.

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES, LEVEL AND MIX OF REMUNERATION AND DISCLOSURE ON REMUNERATION

The Board Nominations and Remuneration Committee ensures that the Company implements formal and transparent procedures for developing policies on executive remuneration and for determining the remuneration packages of individual Directors and Senior Management.

It is also responsible to recommend to the Board, Policy on Remuneration for Directors, CEO and Senior Management; and its review thereof from time to time. This will ensure that the Company remains competitive along with the industry and is able to attract, retain and motivate the calibre needed to manage the Company successfully, while at the same time satisfying itself that the remuneration packages are not excessive and consistent with the prudent management of the Company's affairs.

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PROCEDURES FOR DEVELOPING REMUNERATION POLICIES, LEVEL AND MIX OF REMUNERATION AND DISCLOSURE ON REMUNERATION (CONT'D.)

Remuneration of Non-Executive Directors

The Non-Executive Directors are paid Directors' fees, which take into account factors such as the Directors' contributions, effort and time spent, attendance at and frequency of meetings, the respective responsibilities of the Directors including the Board Committees on which they serve, market practices and the need to pay competitive fees to attract, retain and motivate Directors. No Director is involved in deciding his/her own remuneration.

The Board Nominations and Remuneration Committee performs an annual review of the fee structure for Directors' fees and of the computation of the aggregate Directors' fees based on the Board-approved fee structure. The Directors' fees proposed by the Board each year are subject to the shareholders' approval at the Company's Annual General Meeting.

The Board has considered the market practices for Non-Executive Director remuneration, and has decided to use the same fee structure for computing the fee for each Non-Executive Director for the FY2017 as that used in the previous financial year:

		Annual Retainer
Board	Chairman	RM32,000
	Member	RM16,000
Board Committees	<u>Chairman:</u> • Board Audit Committee • Board Risk Management Committee	RM18,000
	<u>Member:</u> • Board Audit Committee • Board Risk Management Committee	RM9,000
	<u>Chairman:</u> • Board Nominations and Remuneration Committee	RM15,000
	<u>Member:</u> • Board Nominations and Remuneration Committee	RM9,000
	Attendance fees per Board or Board Committee meeting	RM1,400

The attendance fee is paid to Non-Executive Directors to recognise their commitment, contribution, and time spent in attending meetings.

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PROCEDURES FOR DEVELOPING REMUNERATION POLICIES, LEVEL AND MIX OF REMUNERATION AND DISCLOSURE ON REMUNERATION (CONT'D.)

Disclosure of Directors' and CEO's Remuneration

The total Directors' Remuneration from the Company in respect of FY2017 is shown under Note 23 in the Company's financial statements. Fees for Non-Executive Directors totaling RM409,583.00 in respect of FY2017 will be tabled for approval at the forthcoming Annual General Meeting of the Company. The Directors' and CEO's Remuneration for FY2017 are disclosed under Note 23 in the Company's financial statements.

Remuneration policy in respect of executive Director and Senior Officers ("SOs") of the Company

The objective of the Company's remuneration policy is to attract, motivate, reward and retain quality personnel. The remuneration policy is approved by the Board and is subject to annual review taking into account changes in the remuneration practices and/or regulator's requirements from time to time.

The remuneration of the CEO and the respective SOs of the Company are reviewed annually by the Board Nominations and Remuneration Committee, based on the overall remuneration framework approved by the Board. SOs comprises the Senior Management Team and such other executives as the Board of Directors and/or regulator should determine. Currently, there are five identified SOs.

Besides the Senior Management Team, the Company has identified another key segment of officers; i.e. Other Material Risk Taker ("OMRT"). OMRT is defined to include an officer who can materially commit or control significant amounts of the Company's resources or whose actions are likely to have a significant impact on the Company's risk profile. There is one identified OMRT who is subject to risk control Key Performance Indicators and risk adjusted variable compensation commencing from FY2017.

The basic component of the remuneration package comprises a monthly basic salary. The variable components have been designed to link rewards to corporate and individual performance, based on appropriate and meaningful performance measures set up by the Company, and approved by the Board Nominations and Remuneration Committee and the Board. Such components comprise a performance-based variable bonus and long-term incentives, which are generally paid/awarded once a year. SOs are subject to an additional performance measurement approach by embedding corporate governance indicator for more prudent risk taking.

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PROCEDURES FOR DEVELOPING REMUNERATION POLICIES, LEVEL AND MIX OF REMUNERATION AND DISCLOSURE ON REMUNERATION (CONT'D.)

Remuneration policy in respect of executive Director and Senior Officers (“SOs”) of the Company (cont'd.)

In such annual remuneration reviews, the Board Nominations and Remuneration Committee takes into consideration factors such as market competitiveness and benchmark, and that the remuneration packages commensurate with individual performance and contribution. The Board Nominations and Remuneration Committee also takes into account the time horizon of risks, such as ensuring that variable compensation payments shall not be finalised over short periods when risks are realised over longer periods.

The Board Nominations and Remuneration Committee reviews the annual budget for salary increment, performance-related variable bonus and long-term incentives, before submitting their recommendation to the Board for approval. The competitiveness of the Company’s compensation structure is reviewed annually relative to a peer group of companies that is considered to be relevant for benchmarking purposes to ensure continued appropriateness. The review is done through comparison to data source from various remuneration surveys conducted independently by remuneration consultants.

As a consequence of the financial crisis in recent years, financial institutions globally have been reviewing compensation practices to reduce incentives that encourage excessive risk taking. While the Company has adopted compensation practices that take into account the principles and implementation standards issued by the Financial Stability Forum for Sound Compensation Practices, it also continues to review its compensation practices on an ongoing basis to further ensure that decisions made are conducive to sustain business performance. In its deliberations, the Board Nominations and Remuneration Committee also takes into account the remuneration principles, practices and standards issued by the regulator from time to time.

In collaboration with the Board Nominations and Remuneration Committee, the Company has designed and developed its Remuneration Practice Guide, which takes into consideration the prevailing regulatory requirements, and with the input from the Senior Management. The Remuneration Practice Guide is independently reviewed by the Board Audit Committee and Board Risk Management Committee. The Board Risk Management Committee may with the assistance of Risk Management Team assess how the Remuneration Practice Guide affects the Company’s risk profile.

The Company’s variable compensation varies in line with its financial performance and the meeting of corporate governance requirements.

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PROCEDURES FOR DEVELOPING REMUNERATION POLICIES, LEVEL AND MIX OF REMUNERATION AND DISCLOSURE ON REMUNERATION (CONT'D.)

Remuneration policy in respect of executive Director and Senior Officers (“SOs”) of the Company (cont'd.)

The Company does not have any share option scheme or share plan in place. Instead, the Company’s ultimate holding company, OCBC Bank, grants share options pursuant to the OCBC Share Option Scheme 2001 and awards shares pursuant to the OCBC Deferred Share Plan to selected senior executives of the Company.

A significant proportion of the SOs’ compensation may be deferred under deferral arrangements over a period of years and the deferred amount increases with the seniority/rank and bonus amount. The cash bonus paid to the SOs and OMRT is subject to claw back by the Company. Details of the remuneration granted to the eligible executives are disclosed in the table below.

Total value of remuneration awards for the FY2017 are as follows:

	Unrestricted		Deferred	
	No. of pax	RM	No. of pax	Units
Fixed remuneration				
- Cash-based	5	1,997,400	-	-
- Other	1	24,600	-	-
Variable remuneration				
- Cash-based	5	585,048	-	-
- Share and share-linked instruments	5	124,671	5	13,292 (Deferred Share, Share Option and Employee Share Purchase Plan (ESPP))
- Other*	5	449,444	-	-

*Include SOs.

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ACCESS TO INFORMATION

The Board members are provided with relevant and timely information by Management on matters to be discussed or considered at meetings of the Board and Board Committees. In respect of matters for approval, information furnished by Management usually includes background explanatory information, relevant facts and/or analysis to support the proposal, implications or merits of the case, risk analysis and mitigating strategies, the budget (if applicable) and Management's recommendation. The Senior Management who are in charge of the matter will usually be present during discussion on such matters, to provide additional information and insight, or clarifications to queries raised. Occasionally, external consultants engaged on specific projects may also be invited to brief the Board or Board Committees, where relevant. All Board and Board Committees' members have unfettered access to information which the Company is in possession of or has access to, for the purpose of carrying out their responsibilities.

Directors have separate and independent access to the Company Secretary and to Senior Management of the Company at all times.

The Company Secretary attends all Board meetings and prepares minutes of Board proceedings. She assists the Chairman to ensure that appropriate Board procedures are followed and that applicable regulations are complied with. Under the direction of the Chairman, she ensures good information flows within the Board and Board Committees and between Senior Management and Directors. The Company Secretary also facilitates the orientation of new Directors and professional development of Directors as required. The appointment and removal of Company Secretary is considered to be a matter for the Board as a whole.

The Director may take independent professional advice as and when necessary to enable them to discharge their duties effectively, at the expense of the Company. Similarly, the Board and each Board Committee may obtain the professional advice that it requires to assist in its work.

BOARD AUDIT COMMITTEE

The Board Audit Committee is to consist of at least three Non-Executive Directors, with a majority of Independent Directors and chaired by an Independent Director.

The Board Audit Committee comprises the following Directors:

- Y Bhg Datuk Kamaruddin bin Taib, Chairman
- Y Bhg Dato' Yeoh Beow Tit, Member
- Mdm Tan Fong Sang, Member

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BOARD AUDIT COMMITTEE (CONT'D.)

The functions performed by the Board Audit Committee and details of the Board Audit Committee's activities during FY2017 included the following:

- (a) Reviewed with the Internal Auditors:
 - (i) their audit plans, their evaluation of the system of internal controls and their audit reports;
 - (ii) the scope and results of the internal audits; and
 - (iii) the assistance given by the officers of the Company to the internal auditors.

- (b) Reviewed with the External Auditors:
 - (i) their audit plans prior to the commencement of the annual audit;
 - (ii) the interim financial statements and the audited financial statements of the Company for the financial year and the auditors' report thereon for submission to the Board for consideration and approval thereafter;
 - (iii) the scope and results of the audit procedures and cost effectiveness, and their independence and objectivity taking into consideration factors including the nature and extent of non-audit services provided by them (if any);
 - (iv) the implications and impact of new or proposed changes in financial reporting standards, accounting policies and regulatory requirements on the financial statements together with the Senior Management Team;
 - (v) any significant financial reporting issues, to ensure the integrity of the financial statements of the Company; and
 - (vi) the assistance given by the officers of the Company, including the internal auditors, to the external auditors.

- (c) Reviewed the findings of the internal and external auditors on their reviews of the adequacy and effectiveness of the internal controls of the Company, including financial, operational, compliance and information technology controls and systems established by Management.

- (d) Maintained an appropriate relationship with both the internal and external auditors, and in separate sessions met at least annually with the Management; internal and external auditors (without the presence of Management); to consider any other matters which may be raised privately.

- (e) Reviewed the effectiveness of the outsourced internal audit function.

- (f) Made recommendation to the Board on the re-appointment of the external auditor, their remuneration and terms of engagement.

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BOARD AUDIT COMMITTEE (CONT'D.)

- (g) Reviewed and updated the Board on all related-party transactions as well as reviewed the write-off of material and special related-party transaction and recommended to the Board for approval.
- (h) Monitored compliance with the Directors' Conflict of Interest Guide.

The Board Audit Committee held a total of five meetings in 2017, and its members' attendance at these meetings is disclosed herein. The Board Audit Committee meetings were attended by the internal and external auditors.

The Company has instituted a whistle-blowing policy whereby employees of the Company or any other persons may raise genuine concerns about possible improprieties in matters of financial reporting or other malpractices at the earliest opportunity. Concerns expressed anonymously will be considered and investigated on the basis of their merits. The Board Audit Committee ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action. If fraud is determined, appropriate remedial action will be taken and the Board Audit Committee would be updated regularly on its status. The whistle-blower will have protection against reprisals provided he has acted in good faith. The Board Audit Committee Chairman is responsible for the effective implementation of the whistle-blowing policy which includes evaluating periodic reports that monitor and assess how concerns are escalated and dealt with, and overseeing periodic review of the effectiveness of the policy.

The Board Audit Committee has explicit authority to investigate any matters within its terms of reference and has full co-operation of and access to Management. The Board Audit Committee has full discretion to invite any Director or Senior Management to attend its meetings.

The auditors, both internal and external, have unrestricted access to the Board Audit Committee, and to information and such persons within the Company as necessary to conduct the audit.

RELATED PARTY TRANSACTION

The Company has implemented policies and procedures on related party transactions covering the definitions of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving and monitoring such transactions. All related party transactions are conducted on reasonable commercial terms and in the ordinary course of business. The terms and conditions of such transactions are carried out on an arm's length basis. Directors with conflict of interest are excluded from the approval process of granting related party transactions. Material related party transactions are reported to the Board Audit Committee for review and to the Board for approval. Details of the Company's related party transactions during FY2017 are set out in Note 30 of the Notes to the Financial Statements.

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INTERNAL AUDIT

The Company utilises the outsourced services of the Internal Audit Department of Great Eastern Life Assurance (Malaysia) Berhad (“GELM”), which assists the Board Audit Committee in discharging its duties and responsibilities. The internal audit function (“Internal Audit”) serves to provide the Board and Management with independent and objective assessments of the adequacy and effectiveness of the governance, risk management and internal control processes as designed and implemented by Management. The Internal Audit Charter is approved by the Board Audit Committee. Internal Audit is independent of the activities it audits.

Internal Audit adopts a risk-based approach where audit work is prioritised and scoped according to an assessment of risk exposures, which include financial, strategic, reputational, operational, technology, legal and regulatory risks. The work undertaken by Internal Audit involves the assessment of the adequacy and effectiveness of the Company’s risk management and internal control environment, including ascertaining if the internal controls are sufficient in ensuring that significant financial, managerial and operating information is accurate, reliable and timely, operations and programs are effective and efficient, and assets are safeguarded. Reviews conducted by Internal Audit also focus on the Company’s compliance with relevant laws and regulations, adherence to established policies and whether Management has taken appropriate measures to address control deficiencies.

BOARD RISK MANAGEMENT COMMITTEE

The Board Risk Management Committee is to consist of at least three Non-Executive Directors, with a majority of Independent Directors and chaired by an Independent Director.

The Board Risk Management Committee comprises the following Directors:

- Mr Ng Hon Soon, Chairman
- Y Bhg Dato’ Yeoh Beow Tit, Member
- Mdm Tan Fong Sang, Member

The Board Risk Management Committee is responsible for the oversight of market, credit, liquidity, insurance, operational, technology, regulatory and compliance risks; and any other category of risks as delegated by the Board or as deemed necessary by the committee, to manage the financial and reputational impact arising from these risks. It reviews the overall risk management philosophy, in to manage the financial and reputational impact arising from these risks. It reviews the overall risk management philosophy, including, the risk profile, risk tolerance level, and risk and capital management strategy, guided by the overall corporate strategy and risk appetite as set and approved by the Board. The Board Risk Management Committee also assists the Board in monitoring the effectiveness and adequacy of the risk management processes and systems set up by the Company.

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BOARD RISK MANAGEMENT COMMITTEE (CONT'D.)

The Board Risk Management Committee performs its functions pursuant to its Board-approved written terms of reference. Such terms of reference include the review and endorsement or review and approval of (where applicable) frameworks, policies and charters; as well as strategies for effective risk management, investment management and asset-liability management. The terms of reference also include the review of major risk management initiatives, significant investment, property and other financial transactions that exceed the authorisation limits of the Management Committees that the Board Risk Management Committee oversees. Material investment-related activities and transactions are reviewed by the Board Risk Management Committee and recommended to the Board for information or approval, as applicable.

The Company engages the services of the Risk Management and Compliance Department of GELM in discharging its duties and responsibilities, which are adequately resourced with experienced and qualified employees who are sufficiently independent to perform their duties objectively. They regularly engage Senior Management to develop enterprise-wide risk controls and risk mitigation procedures. The Board Risk Management Committee reviews the performance of the outsourced services and its servicing fees.

The Board Risk Management Committee meets with the Chief Risk Officer and the Head of Compliance of GELM at least once a year without the presence of Management to discuss matters which may be raised privately.

The Board Risk Management Committee held a total of four meetings in 2017.

The Company's enterprise risk governance, risk management objectives and policies and other pertinent details are disclosed in Note 32 to the Financial Statements.

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INTERNAL CONTROL FRAMEWORK

The Board has overall oversight responsibility to ensure that the Company maintains an adequate system of internal controls and is equipped with effective and efficient operations and risk management as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements to safeguard assets of the Company and stakeholders' interests.

The system of internal controls provides reasonable but not absolute assurance that the Company would not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. In this regard, it is noted that no system of internal controls can provide absolute assurance, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

The internal control framework comprises among others, the infrastructure in the form of risk oversight committees at the Board and Management level; frameworks, policies and procedures; risk and compliance self-assessment processes for all business units to assess and manage the adequacy and effectiveness of their systems of internal controls and their level of compliance with applicable rules and regulations; and a monitoring and reporting process.

Infrastructure

While the Board is ultimately responsible for the management of risks within the Company, several risk oversight committees have been established over the years to facilitate in depth review of the risks associated with specific aspects of the business such as the Board Risk Management Committee, the Senior Management Team, the Asset Liability Committee, the Information Technology Steering Committee and the Product Development Committee. The duties and scope of work of these committees are documented in their respective terms of reference.

The authority delegated by the Board to the Board Committees and the CEO are formalized in the Company's Authority Grid. There are other documents which serve as guidance to the delegation of the CEO's authority such as underwriting limits, claim limits and investment limits.

The segregation of duties is paramount in ensuring that members of staff are not assigned with potential conflicting responsibilities, relating to, among others, approvals, disbursements and administration of policies, execution and recording of investment matters, operational and internal audit/compliance functions, underwriting and credit control.

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INTERNAL CONTROL FRAMEWORK (CONT'D.)

Frameworks, Policies and Procedures

The Company has established risk management frameworks and policies that set forth the means by which the Company shall evaluate and manage the risks inherent in the business. The frameworks outline the common risk management process across all risk types within the Company.

A number of policies and procedures have also been put in place to guide and facilitate consistency in application across the board. These cover key areas of risk such as:

- Investments
- Insurance operations
- Information technology and information security
- Fraud and market conduct
- Anti-money laundering and countering the financing of terrorism
- Capital management, capital contingency and stress testing
- Related party and interested party transactions
- Outsourcing
- Reinsurance management
- Business continuity management

The frameworks, policies and procedures are reviewed each year to ensure continued relevance and to capture the latest regulatory, statutory and Group requirements. They are then approved by the Board or relevant Board or Management Committees, as appropriate to formalize their application within the Company.

Self-assessment Process

A mature self-assessment process that is supported by the use of the Risk Control Self-assessment and Compliance Requirements Self-assessment tools is entrenched in the Company. The results of the assessment are reviewed by the Senior Management, who in turn would provide an annual assurance to the CEO on the adequacy and effectiveness of the Company's operational risk management and internal control systems and in compliance with the relevant statutory and regulatory requirements. In 2017, an Own Risk and Solvency Assessment report was submitted to the Board and Board Risk Management Committee to apprise them on the Company's risk profile, the manner in which the Company determines its solvency and the various measures put in place to ensure that the solvency requirements are met at all times. The said report was also submitted to the Board for information. Commencing from 2017, this self-assessment process would be further supplemented by an assurance report on risk management and internal controls.

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INTERNAL CONTROL FRAMEWORK (CONT'D.)

Monitoring and Reporting

An Enterprise Risk Dashboard that features the Company's risk profile from five perspectives (namely strategic, financial, operational, technology and compliance) is submitted to the Board, Board Risk Management Committee and Senior Management Team for notation.

Stress test scenarios and the corresponding stress factors are developed and reviewed by the Board annually and thereafter, the scenarios and factors are used to stress the financial positions at least annually.

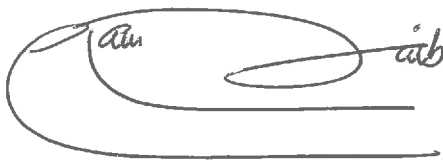
Regulatory breach and operational incidents are reported in the Enterprise Risk Dashboard while investment breaches are reported via the limits report and compliance examination reports. Respective business units are required to provide the corrective and preventive measures once a regulatory breach or operational incident is discovered. The Company has a process to collate statistics for several Key Risk Indicators for reporting to BNM on a regular basis.

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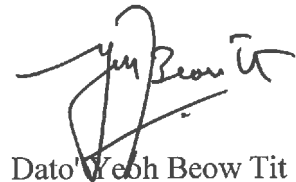
STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Datuk Kamaruddin bin Taib and Dato' Yeoh Beow Tit, being two of the Directors of Great Eastern General Insurance (Malaysia) Berhad (formerly known as Overseas Assurance Corporation (Malaysia) Berhad), do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 37 to 147 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and the cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated **29 MAR 2018**



Datuk Kamaruddin bin Taib



Dato' Yeoh Beow Tit

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

I, Khoo Sook Hooi, being the officer primarily responsible for the financial management of Great Eastern General Insurance (Malaysia) Berhad (formerly known as Overseas Assurance Corporation (Malaysia) Berhad), do solemnly and sincerely declare that the accompanying financial statements set out on pages 37 to 147 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.

Subscribed and solemnly declared
by the abovenamed Khoo Sook Hooi at
Kuala Lumpur in the Federal Territory
on **29 MAR 2018**


Khoo Sook Hooi

Before me,



Lot 2-2-41D, Tingkat 2, Wisma Rampai,
Jalan 34/26, Taman Sri Rampai, Setapak,
53300 Kuala Lumpur.

102249-P

**Independent auditors' report to the member of
Great Eastern General Insurance (Malaysia) Berhad
(Formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
(Incorporated in Malaysia)**

Report on the financial statements

Opinion

We have audited the financial statements of Great Eastern General Insurance (Malaysia) Berhad (formerly known as Overseas Assurance Corporation (Malaysia) Berhad), which comprise the balance sheet as at 31 December 2017, and the income statement and statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 37 to 147.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Emphasis of Matter

We draw attention to Note 34 of the financial statements which describes the uncertainty relating to the future outcome of the arbitration proceedings between the Company and Tahan Insurance Malaysia Berhad (now known as Tahan Malaysia Berhad). Our opinion is not qualified in respect of this matter.

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**Independent auditors' report to the member of
Great Eastern General Insurance (Malaysia) Berhad (cont'd.)
(Formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
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Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' report and Corporate Governance Disclosures, but does not include the financial statements of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors report, and the Corporate Information, Senior Management Team, CEO's Statement, Calendar of Events, Branch Network & Servicing Office and Financial Highlights contained in the Annual Report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Company does not cover the other information

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

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

Responsibilities of the directors for the financial statements

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

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**Independent auditors' report to the member of
Great Eastern General Insurance (Malaysia) Berhad (cont'd.)
(Formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
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Auditors' responsibilities for the audit of the financial statements

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

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

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

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**Independent auditors' report to the member of
Great Eastern General Insurance (Malaysia) Berhad (cont'd.)
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Auditors' responsibilities for the audit of the financial statements (cont'd.)

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

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

Other matters

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



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
29 March 2018



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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 RM	2016 RM
Assets			
Goodwill	3	18,182,598	18,182,598
Property and equipment	4	19,350,326	26,358,847
Investments	5	662,076,879	630,365,643
Reinsurance assets	6	226,909,865	250,552,702
Insurance receivables	7	73,321,937	79,527,696
Other receivables	8	70,523,760	74,810,046
Asset held for sale	9	11,692,000	-
Cash and bank balances		18,557,881	18,422,448
Total assets		<u>1,100,615,246</u>	<u>1,098,219,980</u>
Equity			
Share capital	10	100,000,000	100,000,000
Retained earnings	11	313,114,781	297,402,439
Available-for-sale fair value reserves		6,042,600	5,150,587
Total equity		<u>419,157,381</u>	<u>402,553,026</u>
Liabilities			
Insurance contract liabilities	12	569,517,770	586,384,133
Deferred tax liabilities	13	1,680,748	1,803,904
Deposits from reinsurers	14	2,011,301	1,189,897
Insurance payables	15	58,930,399	56,681,746
Provision for taxation		8,342,450	9,708,006
Other payables	16	40,975,197	39,899,268
Total liabilities		<u>681,457,865</u>	<u>695,666,954</u>
Total equity and liabilities		<u>1,100,615,246</u>	<u>1,098,219,980</u>

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
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INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM	2016 RM
Gross earned premiums	17(a)	445,168,015	443,532,713
Premiums ceded to reinsurers	17(b)	<u>(152,925,236)</u>	<u>(149,291,141)</u>
Net earned premiums		<u>292,242,779</u>	<u>294,241,572</u>
Investment income	18	28,156,507	29,161,955
Realised gains	19	10,381,744	4,027,893
Fair value gains/(losses)	20	234,063	(1,733,458)
Fee and commission income		30,155,330	30,736,123
Other operating revenue	21	<u>5,760,512</u>	<u>5,456,878</u>
Other revenue		<u>74,688,156</u>	<u>67,649,391</u>
Gross claims paid	22(a)	(265,419,588)	(225,255,929)
Claims ceded to reinsurers	22(b)	106,151,431	71,530,602
Gross change in contract liabilities	22(c)	22,219,590	7,094,191
Change in contract liabilities ceded to reinsurers	22(d)	<u>(10,622,065)</u>	<u>6,703,233</u>
Net claims		<u>(147,670,632)</u>	<u>(139,927,903)</u>
Fee and commission expense		(66,661,331)	(66,620,776)
Management expenses	23	<u>(92,106,168)</u>	<u>(81,926,447)</u>
Other expenses		<u>(158,767,499)</u>	<u>(148,547,223)</u>
Profit before taxation		60,492,804	73,415,837
Taxation	24	<u>(14,780,462)</u>	<u>(18,790,359)</u>
Net profit for the year		<u>45,712,342</u>	<u>54,625,478</u>
Earnings per share (sen)			
Basic and diluted	25	<u>45.71</u>	<u>54.63</u>

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM	2016 RM
Net profit for the year		45,712,342	54,625,478
Other comprehensive income:			
<u>Items that may be reclassified to income statement in subsequent periods:</u>			
Available-for-sale fair value reserves:			
Gain on fair value changes		11,559,985	6,096,764
Realised gains transferred to income statement		(10,386,282)	(4,026,984)
		1,173,703	2,069,780
Tax effect	13	(281,690)	(496,746)
		892,013	1,573,034
Total comprehensive income for the year		46,604,355	56,198,512

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Non-distributable	Available- for-sale	Distributable	
	Share capital RM	fair value reserves RM	Retained earnings RM	Total equity RM
At 1 January 2016	100,000,000	3,577,553	253,776,961	357,354,514
Total comprehensive income for the year	-	1,573,034	54,625,478	56,198,512
Dividend paid during the year (Note 26)	-	-	(11,000,000)	(11,000,000)
At 31 December 2016	<u>100,000,000</u>	<u>5,150,587</u>	<u>297,402,439</u>	<u>402,553,026</u>
Total comprehensive income for the year	-	892,013	45,712,342	46,604,355
Dividend paid during the year (Note 26)	-	-	(30,000,000)	(30,000,000)
At 31 December 2017	<u>100,000,000</u>	<u>6,042,600</u>	<u>313,114,781</u>	<u>419,157,381</u>

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM	2016 RM
Operating activities			
Cash generated from operating activities	27	73,780,374	11,980,957
Dividend income received		1,597,396	1,091,534
Interest income received		28,226,968	26,071,636
Income tax paid		<u>(16,550,863)</u>	<u>(15,376,470)</u>
Net cash flows generated from operating activities		<u>87,053,875</u>	<u>23,767,657</u>
Investing activities			
Proceeds from disposal of equipment		-	1,450
Purchase of equipment	4	<u>(9,418,442)</u>	<u>(6,723,669)</u>
Net cash flows used in investing activities		<u>(9,418,442)</u>	<u>(6,722,219)</u>
Financing activity			
Dividend paid, representing net cash flows used in financing activity	26	<u>(30,000,000)</u>	<u>(11,000,000)</u>
Net increase in cash and cash equivalents		47,635,433	6,045,438
Cash and cash equivalents at beginning of year		<u>45,372,448</u>	<u>39,327,010</u>
Cash and cash equivalents at end of year		<u>93,007,881</u>	<u>45,372,448</u>
Cash and cash equivalents comprise:			
Cash and bank balances		18,557,881	18,422,448
Deposits with financial institutions	5(a)	<u>74,450,000</u>	<u>26,950,000</u>
		<u>93,007,881</u>	<u>45,372,448</u>

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017

1. CORPORATE INFORMATION

The Company is a public limited liability company incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 20, Menara Great Eastern, 303 Jalan Ampang, 50450 Kuala Lumpur.

The principal activity of the Company is underwriting of all classes of general insurance business.

There has been no significant change in the nature of the principal activity during the financial year.

The immediate holding company is Overseas Assurance Corporation (Holdings) Berhad, which is incorporated in Malaysia. The intermediate holding company is Great Eastern General Insurance Limited, a company incorporated in the Republic of Singapore. The ultimate holding company is OCBC Bank, a public-listed company incorporated in the Republic of Singapore.

During the financial year, the Company has changed its name from Overseas Assurance Corporation (Malaysia) Berhad to Great Eastern General Insurance (Malaysia) Berhad with effect from 31 July 2017.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 29 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and the Companies Act, 2016 in Malaysia.

The financial statements of the Company have been prepared under the historical cost convention, unless stated otherwise in the accounting policies. The financial statements are presented in Ringgit Malaysia (“RM”), which is the Company's functional currency.

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of preparation (cont'd.)

Enactment of Companies Act, 2016

Companies Act, 2016 (“CA 2016”) was enacted to replace the Companies Act, 1965 (“CA 1965”), and all of the provisions in CA 2016 other than Section 241 and Division 8 of Part III came into operations on 31 January 2017.

Amongst others, CA 2016 abolished the concept of par or nominal value of shares that was applied under CA 1965. Concepts tied to par value under CA 1965, such as authorised share capital, share premium and capital redemption reserve have been similarly abolished.

In addition, the disclosure requirements under the Ninth Schedule of CA 1965 have also been removed upon the commencement of CA 2016. This change is applicable to all financial statements for the financial year ended on or after 31 January 2017. Nevertheless, this change did not result in any significant impact to the financial statements of the Company for the financial year ended 31 December 2017 as a majority of the disclosure requirements under the Ninth Schedule of CA 1965 are also required by the applicable approved accounting standards.

2.2 Summary of significant accounting policies

(a) Property and equipment and depreciation

Property and equipment are recorded at cost less accumulated depreciation and impairment losses. The initial cost of property and equipment comprises its purchase price, including non-refundable taxes and any costs to enhance the working condition of the asset for its intended use.

Expenditure incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which the costs are incurred. Where the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property and equipment.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(a) Property and equipment and depreciation (cont'd.)

Depreciation of property and equipment is calculated on a straight-line basis to write off the cost of each amount to its residual value over its estimated useful life. No depreciation is provided for freehold land as it has an unlimited useful life. As for the capital work in progress, the depreciation will only commence upon the completion of projects and reclassified from capital work in progress to property and equipment. The useful life of an asset is as follows:

Category of asset	Useful life
Leasehold land	Term of lease, up to 99 years
Buildings	50 years
Office equipment	5 years
Office furniture and fittings	10 years
Renovation	3 to 5 years
Computer equipment	3 years
Software development	5 years
Project Implementation	3 to 10 years
Motor Vehicles	5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gain or loss on disposal are determined by comparing net disposal proceeds with the carrying amount of the disposed asset and is recognised in the income statement.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Investments and financial assets

Financial assets and liabilities are recognised when, and only when, the Company becomes a party to the contractual obligations of the financial instruments. The Company determines the classification of its financial assets and liabilities at initial recognition.

The Company classifies its investments into financial assets at fair value through profit or loss (“FVTPL”), loans and receivables (“LAR”) and available-for-sale (“AFS”) financial assets. The classification depends on the purpose for which the investments were acquired or originated.

Financial assets held for trading (“HFT”) are classified as FVTPL where the Company’s documented investment strategy is to manage financial assets on fair value basis, because the related liabilities are also managed on this basis.

The AFS category is used when the relevant liabilities are passively managed and/or carried at amortised cost.

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

(i) FVTPL

Assets stated at FVTPL include financial assets HFT and those designated at FVTPL at inception. Investments typically bought with the intention to sell in the near future are classified as FVTPL.

For investments designated at FVTPL, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment such as asset liability mismatch, that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- the assets and liabilities are part of a Company of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Investments and financial assets (cont'd.)

(i) FVTPL (cont'd.)

Financial assets classified as FVTPL include fixed income securities, derivatives and embedded derivatives.

Derivatives are financial instruments or contracts where values vary according to changes in interest rate, foreign exchange rate, credit spread or other variables.

Embedded derivatives are hybrid financial instruments that include a non-derivative host contract.

(ii) 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 acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

Subsequent to initial recognition, LAR are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process.

(iii) AFS

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

After initial recognition, AFS are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in the fair value reserve in the Statement of Comprehensive Income except for impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method, which are recognised in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement when the financial asset is derecognised.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(c) Financial liabilities and insurance payables

Financial liabilities and insurance payables within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* and MFRS 4 *Insurance Contracts* respectively are recognised on the balance sheet when the Company becomes a party to the contractual obligations of the financial instrument.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(i) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities HFT and financial liabilities designated upon initial recognition as at FVTPL.

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

The Company has not designated any financial liabilities at FVTPL.

(ii) Other financial liabilities

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Fair value measurement

The Company measures financial instruments, such as, derivatives and non-financial assets, at fair value at each balance sheet date.

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

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

The principal or the most advantageous market must be accessible to the Company.

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

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

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Fair value measurement (cont'd.)

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable including quotes from brokers and market makers, discounted cash flows and other valuation techniques commonly used by market participants; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for the valuation of significant assets such as properties. The involvement of external valuers is decided every three (3) years by the Finance Department. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. A valuation is performed every three (3) years.

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Fair value measurement (cont'd.)

At each reporting date, Finance Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies.

The Finance Department and the Company's external valuers also compare the changes in the fair value of each property with the relevant external sources to determine whether the change is reasonable.

The valuation results, as performed by the Company's external valuers, are presented to the Board in the year the valuation is performed.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(e) Impairment of financial assets

At each balance sheet date, the Company assesses whether there is any objective evidence that a financial asset or Company of financial assets is impaired.

Objective evidence that a financial asset is impaired includes observable data about loss events such as significant financial difficulty of the issuer or obligor, significant adverse changes in the business environment in which the issuer or obligor operates and the disappearance of an active market for that financial asset because of financial difficulties which indicate that there is measureable decrease in the estimated future cash flows. However, it may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events is considered in determining whether an asset is impaired.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(e) Impairment of financial assets (cont'd.)

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 assets's carrying amount and the present value of estimated future cash flows 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 income statement.

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 to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of loss is recognised in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss on a financial asset carried at cost has been incurred, the carrying amount will be written down to the recoverable amount. Such impairment losses are not reversed in subsequent periods.

AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income to the income statement. Reversals of impairment losses in respect of equity instruments classified as AFS are not recognised in the income statement. Impairment for equity instrument is provided immediately upon meeting the significant or prolonged criteria in compliance with MFRS 139. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which fair value has been below its original cost.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(e) Impairment of financial assets (cont'd.)

AFS financial assets (cont'd.)

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss. If in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed in the income statement.

(f) Financial instruments: Derecognition of financial assets and liabilities

A financial asset is derecognised when:

- The contractual right to receive cash flows from the asset has expired;
- The Company retains the contractual rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party; or
- The Company has transferred its rights to receive cash flows from the assets and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(f) Financial instruments: Derecognition of financial assets and liabilities (cont'd.)

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Gains and/or losses are recognised in the income statement.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability. The difference in the respective carrying amounts is recognised in the income statement.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(g) Financial instruments: Offsetting of financial assets and liabilities

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

(h) Impairment of non-financial assets

The carrying amount of non-financial assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and its value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating units ("CGU").

An impairment loss is recognised in the income statement in the period in which it arises. Subsequent increases 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. A reversal of impairment loss is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(i) Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities including contingent liabilities but excluding future restructuring liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets (net fair value of identifiable assets, liabilities and contingent liabilities) acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Business combination and goodwill (cont'd.)

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Company's CGU that are expected to benefit from the synergies of the combination.

The CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the CGU may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised in the income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative fair values of the operations disposed and the portion of the CGU retained.

(j) Equity instruments

Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholder.

Dividends for the year that are approved between the balance sheet date and the date of financial statements are authorised for issue are disclosed as an event after the balance sheet date.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(k) Product classification

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

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

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

(l) Reinsurance

The Company cedes insurance risk in the normal course of business for all its businesses. Reinsurance assets represent amounts recoverable from reinsurers for insurance contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(l) Reinsurance (cont'd.)

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

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

The Company also assumes reinsurance risk in the normal course of business when applicable.

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

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

(m) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, premium liabilities and claim liabilities.

Gross premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(m) General insurance underwriting results (cont'd.)

Reinsurance premiums

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

Inwards proportional treaty reinsurance premium is recognised on the basis of periodic advices received from cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inception dates of these risks and contractually accounted for.

Premium liabilities

Premium liabilities represent the Company's future obligations on insurance contracts as represented by premiums received for risks that have not yet expired. In determining premium liabilities at reporting date, the method that most accurately reflects the actual unearned premium is used, as described in Note 2.2(o)(ii).

Claim liabilities

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

The amount of claim liabilities is the best estimate of the expenditure required together with related expenses less reinsurance recoveries to settle the present obligation at the balance sheet date.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the balance sheet date based on actuarial valuation.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(m) General insurance underwriting results (cont'd.)

Acquisition costs

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

(n) Insurance receivables

Insurance receivables are recognised when due. They are measured at initial recognition at the fair value received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest/yield method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in the income statement using the same process adopted for financial assets carried at amortised cost. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

(o) General insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged. The valuation of general insurance contract liabilities is in accordance with the RBC Framework issued by BNM.

General insurance contract liabilities comprise claim liabilities and premium liabilities.

(i) Claim liabilities

Claim liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain type of claims; therefore, the ultimate cost of these claims cannot be known with certainty at the balance sheet date. The liabilities are calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation as required by the RBC Framework. The liability is not discounted for the time value of money. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(o) General insurance contract liabilities (cont'd.)

(i) Claim liabilities (cont'd.)

The valuation of general insurance contract liabilities at balance sheet date is based on best estimates of the ultimate settlement cost of claims plus a provision for adverse deviation. As required by BNM, the provision for adverse deviation is set at 75% level of sufficiency. The valuation methods used include the Paid Claims Development Method, the Incurred Claim Development Method, the Paid Bornhuetter-Ferguson Method and the Loss Ratio Method.

(ii) Premium liabilities

Premium liabilities is the higher of the aggregate of the Unearned Premium Reserves (“UPR”) for all lines of business and the best estimate value of the Unexpired Risk Reserves (“URR”) at the required risk margin for adverse deviation as required by the RBC Framework.

a) UPR

UPR represents the portion of net premiums of insurance policies written, less the related net acquisition costs that remains unearned at the balance sheet date. UPR is computed with reference to the month of accounting for the premium reduced by the percentage of accounted gross direct business commissions to the corresponding premiums but not exceeding such limits as specified by BNM on the following basis:

- 25% method for marine and aviation cargo, and transit business;
- 1/365th method for all other classes of general business in respect of Malaysian policies; and
- Non-annual policies are time apportioned over the period of the risks.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(o) General insurance contract liabilities (cont'd.)

(ii) Premium liabilities (cont'd.)

b) URR

The URR is defined as a prospective assessment of the amount that needs to be set aside in order to provide for the claims and expenses which will emerge from unexpired risks and which is over and above the unearned premium reserve pertaining to the same risks as the same valuation date. In other words, the best estimate of URR gross and net of reinsurance was calculated by multiplying the UPR gross and net of reinsurance with the sum of estimated loss ratio and expense ratio.

(p) 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. Revenue is measured at the fair value of consideration received or receivable.

Interest income is recognised on a time proportion basis that takes into account the effective yield of the asset.

Dividend is recognised when the right to receive payment is established.

All sales of investments are recognised on their trade dates i.e., the date the Company commits to sell the assets. Gains or losses arising from the sale of investments are calculated as the difference between net sales proceeds and the original or carrying amount and are credited or charged to the income statement.

Commission income derived from reinsurers in the course of cession of premiums to reinsurers are charged to the income statement in the period in which they are incurred.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(q) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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 profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(r) 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(r) Provisions (cont'd.)

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risk specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(s) Contingent liabilities

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

Contingent liabilities are not recognised on the balance sheet of the Company.

(t) Employee benefits

Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(t) Employee benefits (cont'd.)

Defined Contribution Plans Under Statutory Regulations

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement as incurred.

Employee Leave Entitlements

An employee's entitlement to annual leave is estimated and accrued according to the Company's Human Resource policy.

Share Options

Senior executives of the Company are granted share options in the OCBC Bank's Share Option Scheme as consideration for services rendered. Options granted generally vest in one-third increments over a 3-year period and expire between 5 and 10 years from date of grant. The cost of these equity-settled share based payment transactions with the senior executives is measured by reference to the fair value of the options at the date on which the options are granted which takes into account market conditions and non-vesting conditions. The cost is recognised in the income statement of the respective insurance funds, with a corresponding increase in the intercompany balance with the ultimate holding company, over the vesting period.

The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of options that will ultimately vest. The charge or credit to income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. In the case where the option does not vest as a result of a failure to meet a non-vesting condition that is within the control of the Company or the senior executives, it is accounted for as a cancellation. In such case, the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately in the income statement upon cancellation.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(t) Employee benefits (cont'd.)

Deferred Share Plan

In addition to the OCBC Bank's Share Option Scheme, certain employees within the Company are granted OCBC shares under the OCBC Deferred Share Plan ("DSP"). There are 2 types of deferred share awards. Deferred share awards granted as part of long term incentive compensation will vest three years from the grant date and will lapse if the staff ceases employment during the vesting period. For deferred share awards granted as part of variable performance bonus, half of the share awards will vest two years from the grant date and the remaining half will vest at the end of three years from the grant date. The cost of the DSP is recognised in the income statement on a straight-line basis over the vesting period of the DSP.

At each balance sheet date, the cumulative expense is adjusted for the estimated number of shares granted under the DSP that have vested and/or lapsed.

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term, highly liquid investments with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

(v) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risk and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(v) Leases (cont'd.)

(ii) Operating Leases - the Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the upfront payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The upfront payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term. Long term prepaid lease payments refer to leases with an unexpired period of fifty years or more.

(w) Goods and Service Tax (“GST”)

GST is a multistage consumption tax on domestic consumption.

For the Company, revenues, expenses and assets are recognised net of the amount of GST except where GST incurred on a purchase of assets or services is not recoverable from the tax authority, in which case GST is recognised as part of the expense item as applicable. Receivable and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the tax authority is included as part of the receivables and payables in the balance sheet.

(x) Related parties

A related party is defined as follows:

(a) A person or a close member of that person’s family who:

- (i) has control or joint control over the Company;**
- (ii) has significant influence over the Company; or**
- (iii) is a member of the key management personnel which includes the Directors, Chief Executive Officer and Senior Management Team of the Company or parent of the Company.**

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(x) Related parties (cont'd.)

(b) An entity is related to the Company where any of the following condition applies:

- (i) the entity and the Company are members of the same Company (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) the entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Company of which the other entity is a member);
- (iii) both the entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or parent of the entity); or
- (viii) the entity, or any member of a Company of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

Related party transactions are reported in the Company's financial statement in accordance with requirements of MFRS 124 *Related Party Disclosures*, Companies Act 2016 and Financial Services Act 2013.

(y) Asset held for sale

Non-current assets are classified as asset held for sale and stated at the lower of the carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

(z) Retained earnings

A portion of the retained earnings has been set aside to meet risk-based capital requirements for regulatory reporting purposes. These reserves are deemed statutory reserves and are not available for distribution to shareholders. These statutory reserves are measured according to the regulatory prescriptions and are subject to changes in line with the underlying risks underwritten.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Changes in accounting policies and disclosures

New and amended standards and IC interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2017, the Company adopted the following amendments to MFRSs mandatory for annual financial periods beginning on or after 1 January 2017.

- Amendments to MFRS 12 *Disclosure of Interest in Other Entities (Annual Improvements to MFRSs 2014-2016 Cycle)*
- Amendments to MFRS 107 *Statement of Cash Flows - Disclosures Initiatives*
- Amendments to MFRS 112 *Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of the above pronouncements did not have any significant impact on the financial statements of the Company.

2.4 Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following Standards, IC Interpretations and Amendments to Standards and improvements to published standards have been issued by the Malaysian Accounting Standards Board (“MASB”) but are not yet effective and have not been adopted by the Company.

Effective for the financial periods beginning on or after 1 January 2018

- Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2 *Share-based payment - Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- MFRS 9 *Financial Instruments*
- Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140 *Transfers of Investment Property*
- IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- MFRS 15 *Revenue from Contracts with Customers*

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

Effective for the financial periods beginning on or after 1 January 2019

- MFRS 16 *Leases*
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 128 *Investments in Associates and Joint Ventures - Long-term Interest in Associates and Joint Ventures*
- Amendments to MFRS 3 *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 9 *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 *Joint Arrangement (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 112 *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 123 *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 cycle)*

Effective for the financial periods beginning on or after 1 January 2021

- MFRS 17 *Insurance Contracts*

Deferred

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

The management expects that the adoption of the above standards, amendments to standards and interpretations to standards issued by MASB, but not yet effective, will have no material impact on the financial statements in the period of initial application except as discussed below:

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments

In July 2014, the MASB issued the final version of MFRS 9 Financial Instruments that replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 introduces new requirements for classification and measurement of financial instruments and impairment of financial instruments, and is effective for annual periods beginning on or after 1 January 2018. Financial instruments are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in MFRS 9 are based on an expected credit loss model and replace the MFRS 139 incurred loss model.

Retrospective application is required but providing comparative information is not compulsory. The Company plans to adopt the new standard on the required effective date without restating prior periods' information and recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

The information below which is also illustrated in Table A in Note 2.4(c) reflects the Company's expectation of the impact arising from adoption of MFRS 9 based on currently available information. The impact may change when the transition adjustments are finalised upon adoption of MFRS 9 in 2018.

(a) Classification and measurement

The Company expects to have mixed business models. Based on business model, the Company intends to hold the debt securities to collect contractual cash flows and to sell, and accordingly these will be measured at fair value through other comprehensive income ("FVOCI") when it applies MFRS 9. The total amount of debt securities to be measured at FVOCI amounts to approximately RM436.44^{N1} million. Debt securities where cash flows do not represent Solely Payments of Principal and Interest ("SPPI") amounting to approximately RM51.21^{N2} million will be reclassified as at FVTPL. The Company intends to continue to measure its currently HFT debt securities of about RM25.56^{N2} million as at FVTPL.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

(a) Classification and measurement (cont'd.)

For equity securities, the Company intends to continue to measure its currently AFS equity securities of about RM2.22^{N3} million as at FVOCI and its currently HFT equity securities of about RM0.01^{N4} million as at FVTPL. The impairment loss of RM0.04* million previously recognised in profit or loss will be adjusted against opening retained earnings when the Company applies MFRS 9.

For collective investment scheme (“CIS”) amounting to RM50.97^{N5} million, the Company intends to measure currently AFS CIS at FVTPL.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing SPPI. The Company analysed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

* The sum of which makes up provision for impairment loss of RM388,285 as disclosed in Note 5(d).

(b) Impairment

MFRS 9 requires the Group to record expected credit loss on its debt securities measured at FVOCI, loans measured at amortised cost, other receivables and trade receivables either on a 12-month or lifetime basis. The expected credit loss is estimated to be RM4,210^{N6} for loans measured at amortised cost, RM24,634^{N7} for other receivables and RM2,630,583^{N8} for debt securities measured at FVOCI respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

(c) Table A - Estimated impact from adoption of MFRS 9

	Ref No.	Before MFRS 9 adjustments RM	Classification and Measurement RM	Expected Credit Loss ("ECL") Impairment RM	After MFRS 9 adjustments RM
Assets					
Investments		587,626,879	-	(4,210)	587,622,669
LAR	N6	21,223,147	-	(4,210)	21,218,937
AFS		540,831,360	(540,831,360)	-	-
- Quoted equities	N3	2,211,721	(2,211,721)	-	-
- Debt securities		487,645,897	(487,645,897)	-	-
- Collective investment schemes	N5	50,973,742	(50,973,742)	-	-
HFT		25,572,372	(25,572,372)	-	-
- Quoted equities	N4	9,200	(9,200)	-	-
- Debt securities	N2	25,563,172	(25,563,172)	-	-
FVTPL		-	127,755,887	-	127,755,887
- Quoted equities	N4	-	9,200	-	9,200
- Debt securities	N2	-	76,772,945	-	76,772,945
- Collective investment schemes	N5	-	50,973,742	-	50,973,742
FVOCI		-	438,647,845	-	438,647,845
- Quoted equities	N3	-	2,211,721	-	2,211,721
- Debt securities	N1	-	436,436,124	-	436,436,124
Other receivables	N7	500,000	-	(24,634)	475,366
Equity					
Retained earnings		-	1,277,495	(2,652,504)	(1,375,009)
AFS reserves		6,042,600	(6,042,600)	-	-
FVOCI reserves	N8	-	4,765,105	2,630,583	7,395,688
Liabilities					
Deferred tax liabilities		1,680,748	-	(6,923)	1,673,825

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

Other than the effects described above, the Company expects that the adoption of the new standard will have no material impact on the financial statements in the year of initial application.

MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 *Revenue*, MFRS 111 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied i.e, when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company expects that the adoption of the new financial reporting framework will have no material impact on the financial statements in the year of initial application.

MFRS 16 *Leases*

MFRS 16 will replace MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Lease - Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

MFRS 16 Leases (cont'd.)

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Company is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

MFRS 17 Insurance Contracts

MFRS 17 will replace MFRS 4 that was issued in 2005. MFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows).
- A Contractual Service Margin (“CSM”) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period).
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

MFRS 17 Insurance Contracts (cont'd.)

- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

An entity shall apply MFRS 17 for annual reporting periods beginning on or after 1 January 2021. Early application is permitted for entities that apply MFRS 9 and MFRS 15 on or before the date of initial application of MFRS 17.

Retrospective approach for estimating the CSM on the transition date is required. However, if full retrospective application in estimating the CSM for a group of insurance contracts is impracticable (as defined by MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*), an entity is required to choose one of the following two alternatives:

(i) Modified retrospective approach

Based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

MFRS 17 Insurance Contracts (cont'd.)

(ii) Fair value approach

The CSM is determined as the positive difference between the fair value determined in accordance with MFRS 13 *Fair Value Measurement* and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date).

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if:

- (i) it has not previously applied any version of IFRS 9 before; and
- (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

The Company intends to adopt MFRS 9 on the required effective date without applying any of the alternative options.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting judgements, estimates and assumptions

(a) Critical judgements made in applying accounting policies

In the preparation of the Company's financial statements, management makes estimates, assumptions and judgements that affect the reported amounts of revenues, expenses, assets and liabilities at reporting date. Estimates, assumptions and judgements are continually evaluated and based on internal studies of actual historical experience and other factors. Best estimates and assumptions are constantly reviewed to ensure that they remain relevant and valid. 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 future periods.

The following are judgements made by management in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in the financial statements.

(i) Impairment of AFS financial assets

Significant judgement is required to assess impairment for AFS financial assets. The Company evaluates the duration and extent to which the fair value of an investment is less than cost; the financial health and near term business outlook for the investee, including but not limited to factors such as industry and sector performance, changes in technology and operational and financial cash flow.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting judgements, estimates and assumptions (cont'd.)

(a) Critical judgements made in applying accounting policies (cont'd.)

(ii) Impairment of receivables

The Company assesses at each quarter reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company complies with BNM's Guidelines on Financial Reporting (BNM/RH/STD 032-5). In line with the requirements of the Guidelines, where receivables that are individually assessed for impairment is past due for more than 90 days or 3 months, objective evidence of impairment is deemed to exist. Accordingly, management will assess such receivables to determine if an impairment event has occurred. Other factors considered by the Company are probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where evidence exists that a receivable is impaired, the Company will recognised the impairment loss in the income statement immediately.

(iii) Impairment of reinsurance assets

The Company reviews the reinsurance assets at each quarter balance sheet date or more frequently when an indication of impairment arises during the financial period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of reinsurance assets that the Company may not receive part or all outstanding amounts due under the terms of the contract.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting judgements, estimates and assumptions (cont'd.)

(b) Key sources of estimation uncertainty and assumptions

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

(i) Valuation of general insurance contract liabilities

The principal uncertainty in the Company's general insurance business arises from the technical provisions which include premium and claim liabilities. Premium liabilities are recorded as the higher of UPR or URR while claim liabilities mainly comprise the provision for outstanding claims notified and outstanding claims incurred but not reported.

Generally, claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premium and claim liabilities will not exactly develop as projected and may vary from the Company's projections.

The estimates of premium and claim liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium and claim liabilities may vary from the initial estimates.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting judgements, estimates and assumptions (cont'd.)

(b) Key sources of estimation uncertainty and assumptions (cont'd.)

(i) Valuation of general insurance contract liabilities (cont'd.)

Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations, legislative changes and claims handling procedures.

At each reporting date, the estimates of premium and claim liabilities are re-assessed for adequacy by an appointed actuary and changes will be reflected as adjustments to these liabilities. The appointment of the actuary is approved by BNM.

(ii) Pipeline premium

The estimation of pipeline premiums made by management is based on average actual pipeline premium booked in for past three (3) years. As estimations are inherently uncertain, actual premium may differ from the estimated premiums.

(iii) Impairment of goodwill

The Company assesses goodwill annually to determine if any impairment exists by measuring the recoverable amount of the goodwill based on the value-in-use method, which requires the use of estimates of cash flow projections, growth rates and discount rates. Changes to the assumptions used by management, particularly the discount rate and the terminal value, may affect the results of the impairment assessment. The assumptions applied to estimate the value-in-use computations are as described in Note 3 to the financial statements.

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3. GOODWILL

	2017 RM	2016 RM
At beginning of year	18,182,598	18,182,598
Impairment	-	-
At end of year	<u>18,182,598</u>	<u>18,182,598</u>

The goodwill above arose from the acquisition of certain assets and liabilities of the general insurance business of Tahan Insurance Malaysia Berhad (now known as Tahan Malaysia Berhad) on 1 January 2011 (“Tahan”).

Goodwill is allocated to the Company’s CGU which is expected to benefit from the synergies of the acquisition. The recoverable amount of the CGU is assessed based on its value-in-use and compared to the carrying value of the CGU to determine whether any impairment exists. Impairment is recognised in the income statement if the carrying amount of the CGU exceeds its recoverable amount.

Goodwill is allocated to the Company's business as a whole, which is defined as a single CGU.

The value-in-use calculations apply discounted cash flow projections prepared and approved by management, covering a five-year period.

The other key assumptions for the computation of value-in-use are as follows:

- (i) The expected growth rate of the Company is on the average of 8.6% per annum (2016: 11.2%);
- (ii) The discount rate applied is the internal weighted average cost of capital of the Company at the time of the assessment, which is estimated to be 8.3% per annum (2016: 9.1%) (pre-tax discount rate of 9.3% per annum (2016: 10.4%); and
- (iii) Terminal value cash flow growth rate of 5.4% (2016: 4.1%), which is consistent with the Gross Domestic Product rate.

The management of the Company believes that reasonably possible changes in any of the above key assumptions would not cause the carrying value of the CGU to exceed its recoverable amount. Accordingly, there is no evidence of impairment of goodwill as at the financial year-end.

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4. PROPERTY AND EQUIPMENT

Cost	Freehold	Buildings -	Office	Motor	Computer	Capital	Total
	land	Owner	equipment,	vehicles	equipment	work-in-	
	RM	occupied	renovation,	RM	RM	progress	RM
		properties	furniture			RM	
		RM	& fittings				
			RM				
At 1 January 2016	9,800,000	2,200,000	7,856,651	548,005	16,523,562	4,558,817	41,487,035
Additions	-	-	36,972	-	224,395	6,462,302	6,723,669
Reclassification	-	-	303,659	-	3,385,663	(3,689,322)	-
Disposals	-	-	-	(7,941)	(2,149)	-	(10,090)
Write-off	-	-	(8,805)	-	(6,704)	-	(15,509)
At 31 December 2016	9,800,000	2,200,000	8,188,477	540,064	20,124,767	7,331,797	48,185,105
Additions	-	-	215,842	-	408,162	8,794,438	9,418,442
Reclassified to asset held for sale (Note 9)	(9,800,000)	(2,200,000)	-	-	-	-	(12,000,000)
Reclassification	-	-	2,271,527	-	2,365,430	(4,636,957)	-
Write-off	-	-	(115,441)	-	(26,485)	-	(141,926)
At 31 December 2017	-	-	10,560,405	540,064	22,871,874	11,489,278	45,461,621

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4. PROPERTY AND EQUIPMENT (CONT'D.)

	Freehold land RM	Buildings - Owner occupied properties RM	Office equipment, renovation, furniture & fittings RM	Motor vehicles RM	Computer equipment RM	Capital work-in- progress RM	Total RM
Accumulated depreciation							
At 1 January 2016	-	220,000	5,336,742	312,115	11,680,969	-	17,549,826
Depreciation charge for year (Note 23)	-	44,000	811,197	85,041	3,360,729	-	4,300,967
Disposals	-	-	-	(7,939)	(1,610)	-	(9,549)
Write-off	-	-	(8,288)	-	(6,698)	-	(14,986)
At 31 December 2016	-	264,000	6,139,651	389,217	15,033,390	-	21,826,258
Depreciation charge for year (Note 23)	-	44,000	833,499	85,043	3,759,938	-	4,722,480
Reclassified to asset held for sale (Note 9)	-	(308,000)	-	-	-	-	(308,000)
Write-off	-	-	(103,348)	-	(26,095)	-	(129,443)
At 31 December 2017	-	-	6,869,802	474,260	18,767,233	-	26,111,295
Net carrying amount							
At 31 December 2016	9,800,000	1,936,000	2,048,826	150,847	5,091,377	7,331,797	26,358,847
At 31 December 2017	-	-	3,690,603	65,804	4,104,641	11,489,278	19,350,326

Included in the cost of property and equipment of the Company are the costs of fully depreciated assets which are still in use amounting to RM13,920,075 (2016: RM12,578,901).

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5. INVESTMENTS

	2017	2016
	RM	RM
Malaysian government securities	38,277,600	37,891,520
Debt securities	474,931,469	502,407,177
Equity securities	2,220,921	40,158,339
Unit and property trust funds	50,973,742	1,497,768
Loans	21,223,147	21,460,839
Deposits with financial institutions	74,450,000	26,950,000
	<u>662,076,879</u>	<u>630,365,643</u>

The Company's investments are summarised by categories as follows:

	2017	2016
	RM	RM
LAR	95,673,147	48,410,839
AFS financial assets	540,831,360	556,888,598
FVTPL financial assets	25,572,372	25,066,206
	<u>662,076,879</u>	<u>630,365,643</u>

The following investments mature after 12 months:

	2017	2016
	RM	RM
LAR	21,096,978	21,341,831
AFS financial assets	523,650,239	493,775,223
FVTPL financial assets	25,563,172	25,066,206
	<u>570,310,389</u>	<u>540,183,260</u>

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5. INVESTMENTS (CONT'D.)

(a) LAR

	2017	2016
	RM	RM
At amortised cost/cost:		
Fixed and call deposits with licensed financial institutions	74,450,000	26,950,000
Loans:	21,223,147	21,460,839
Mortgage loans	144,708	155,018
Secured loans	20,022,508	20,031,355
Vehicle loans	1,055,931	1,274,466
	<u>95,673,147</u>	<u>48,410,839</u>

The carrying value of fixed and call deposits approximate their fair values due to the relatively short term maturities.

The carrying value of the mortgage loans, secured loans and vehicle loans are reasonable approximations of fair values due to the insignificant impact of discounting.

(b) AFS financial assets

	2017	2016
	RM	RM
At fair value:		
Malaysian government securities	38,277,600	37,891,520
Unquoted debt securities in Malaysia	449,368,297	477,446,821
Quoted equity securities in Malaysia	2,211,721	40,052,489
Unit and property trust funds:		
Quoted in Malaysia	-	1,497,768
Unquoted in Malaysia	50,973,742	-
	<u>540,831,360</u>	<u>556,888,598</u>

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5. INVESTMENTS (CONT'D.)

(c) FVTPL

	2017 RM	2016 RM
At fair value:		
Unquoted debt securities in Malaysia	25,563,172	24,960,356
Quoted equity securities in Malaysia	9,200	105,850
	<u>25,572,372</u>	<u>25,066,206</u>

Financial instruments carried at FVTPL primarily comprise redeemable convertible preference shares (“RCPS”), warrants and structured deposits. In accordance with MFRS 139, these have been designated as at FVTPL upon initial recognition.

(d) Carrying values of investments

	LAR RM	AFS RM	FVTPL RM	Total RM
At 1 January				
2016	42,342,607	497,558,221	19,484,120	559,384,948
Purchases (Note 27)	2,091,141,400	481,812,795	29,507,771	2,602,461,966
Maturities/ disposals	(2,085,064,614)	(424,308,872)	(23,000,000)	(2,532,373,486)
Fair value gains recorded in other comprehensive income	-	2,069,780	-	2,069,780
Fair value losses recorded in income statement	-	-	(925,685)	(925,685)
Impairment losses on investments (Amortisation)/ accretion adjustments	(8,554)	564,447	-	555,893
At 31 December				
2016	<u>48,410,839</u>	<u>556,888,598</u>	<u>25,066,206</u>	<u>630,365,643</u>

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5. INVESTMENTS (CONT'D.)

(d) Carrying values of investments (cont'd.)

	LAR RM	AFS RM	FVTPL RM	Total RM
At 1 January				
2017	48,410,839	556,888,598	25,066,206	630,365,643
Purchases				
(Note 27)	4,113,854,000	687,030,108	59,400	4,800,943,508
Maturities/ disposals	(4,066,582,845)	(704,065,717)	(58,370)	(4,770,706,932)
Fair value gains recorded in other comprehensive income	-	1,173,703	-	1,173,703
Fair value gains recorded in income statement	-	-	505,136	505,136
Impairment losses on investments	-	(388,285)	-	(388,285)
(Amortisation)/ accretion adjustments	(8,847)	192,953	-	184,106
At 31 December				
2017	<u>95,673,147</u>	<u>540,831,360</u>	<u>25,572,372</u>	<u>662,076,879</u>

6. REINSURANCE ASSETS

	2017 RM	2016 RM
Reinsurers' share of claim liabilities (Note 12)	181,002,230	191,781,182
Reinsurers' share of premium liabilities (Note 12)	46,449,082	59,469,854
	<u>227,451,312</u>	<u>251,251,036</u>
Accumulated impairment losses	(541,447)	(698,334)
	<u>226,909,865</u>	<u>250,552,702</u>

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6. REINSURANCE ASSETS (CONT'D.)

Movement of accumulated impairment losses account:

	Individually Impaired	
	2017	2016
	RM	RM
At beginning of year	698,334	1,413,846
Reversal of impairment losses	(156,887)	(715,512)
At end of year	<u>541,447</u>	<u>698,334</u>

During the year, the Company made reversal of impairment losses of RM156,887 in respect of reinsurance assets pertaining to a reinsurer which had been fully impaired in the previous year due to deteriorating financial performance and credit rating. The reversal of impairment losses during the current year was due to the settlement of claims and the closure of time-barred losses, resulting in the reversal of reserves provided earlier.

7. INSURANCE RECEIVABLES

	2017	2016
	RM	RM
Due premiums including agents/brokers, co-insurers and insured balances	66,615,876	69,842,402
Due from reinsurers and cedants	23,270,031	25,754,070
	<u>89,885,907</u>	<u>95,596,472</u>
Accumulated impairment losses	(16,563,970)	(16,068,776)
	<u>73,321,937</u>	<u>79,527,696</u>

Insurance receivables that do not meet the offsetting criteria as at 31 December 2017 amount to RM17,199,110 (2016: RM8,753,142).

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7. INSURANCE RECEIVABLES (CONT'D.)

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

	Gross carrying amount RM	Gross amounts offset in the balance sheet RM	Net amounts in the balance sheet RM
31 December 2017			
Premiums	80,996,635	(6,311,708)	74,684,927
Commissions	1,073,157	(10,323,031)	(9,249,874)
Claims	7,375,121	(123,377)	7,251,744
	<u>89,444,913</u>	<u>(16,758,116)</u>	<u>72,686,797</u>
31 December 2016			
Premiums	85,457,447	(17,769,398)	67,688,049
Commissions	5,264,189	(8,930,940)	(3,666,751)
Claims	22,822,032	-	22,822,032
	<u>113,543,668</u>	<u>(26,700,338)</u>	<u>86,843,330</u>

Movement of accumulated impairment losses account:

	2017 RM	2016 RM
<u>Collective impairment</u>		
At beginning of year	13,477,563	14,757,384
Provision for/(write back of) impairment losses (Note 23)	481,758	(1,279,821)
At end of year	<u>13,959,321</u>	<u>13,477,563</u>
<u>Specific impairment</u>		
At beginning of year	2,591,213	1,826,184
Provision for impairment losses (Note 23)	13,436	765,029
At end of year	<u>2,604,649</u>	<u>2,591,213</u>

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8. OTHER RECEIVABLES

	2017	2016
	RM	RM
Income due and accrued	5,791,528	6,207,773
Assets held under the Malaysian Motor Insurance Pool (“MMIP”) (Note 32(v))*	56,970,281	59,800,997
Collateral fixed deposits	4,472,779	5,345,554
Deposits and prepayments	1,616,469	1,782,123
Due from Tahan	6,721,890	7,395,119
Other receivables	1,672,703	1,000,370
	<u>77,245,650</u>	<u>81,531,936</u>
Accumulated impairment losses	<u>(6,721,890)</u>	<u>(6,721,890)</u>
	<u>70,523,760</u>	<u>74,810,046</u>

The carrying amounts of other receivables (not including assets held under the MMIP, deposits and prepayments) approximate fair values due to the relatively short-term maturity of these balances.

* As a participating member of MMIP, the Company shares a proportion of the Pool's assets/liabilities. At each reporting date, the Company accounts for its share of the assets, liabilities and performance of the Pool. The assets held under the MMIP represents the Company's share of the Pool's assets, before insurance contract liabilities and other liabilities. The Company's share of the Pool's insurance contract liabilities, other liabilities and net exposure arising from its participation in the Pool is disclosed in Notes 12, 16 and 32(v) respectively.

* Assets held under the MMIP includes cash contribution of RM25,359,477 (2016: RM25,359,477) made to MMIP. The accumulated cash contributions were made in respect of the Company's share of MMIP's accumulated losses up to 31 December 2014.

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9. ASSET HELD FOR SALE

	2017
	RM
At beginning of year	-
Reclassified from property and equipment (Note 4)	11,692,000
At end of year	<u>11,692,000</u>

As at 31 December 2017, the Company is in the midst of disposing the property which was previously classified as a self-occupied property.

10. SHARE CAPITAL

	2017		2016	
	No. of Shares	RM	No. of Shares	RM
Issued and paid-up:				
Ordinary shares				
At beginning and end of year	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>

The shares issued by the Company do not have par value.

11. RETAINED EARNINGS

The Company may distribute dividends out of its entire retained earnings as at 31 December 2017 and 31 December 2016 under the single tier system.

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12. INSURANCE CONTRACT LIABILITIES

	2017		2016			
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
Provision for claims reported by policyholders and provision for incurred but not reported claims ("IBNR")	356,467,259	(173,919,262)	182,547,997	358,638,571	(186,161,399)	172,477,172
Claim liabilities (i)	18,803,517	(6,541,521)	12,261,996	38,851,795	(4,921,449)	33,930,346
Premium liabilities (ii)	375,270,776	(180,460,783)	194,809,993	397,490,366	(191,082,848)	206,407,518
	194,246,994	(46,449,082)	147,797,912	188,893,767	(59,469,854)	129,423,913
	569,517,770	(226,909,865)	342,607,905	586,384,133	(250,552,702)	335,831,431
(i) Claim liabilities						
At beginning of year	397,490,366	(191,082,848)	206,407,518	404,584,557	(184,379,617)	220,204,940
Claims incurred in the current accident year (direct and facultative)	261,256,477	(94,722,217)	166,534,260	247,769,547	(85,698,225)	162,071,322
Adjustment to claims incurred in prior accident year due to changes in assumption						
- change in link ratios used in the IBNR estimation	18,786,395	(15,037,116)	3,749,279	(7,963,339)	2,293,958	(5,669,381)
Movement in PRAD of claim liabilities	(12,999,695)	5,801,755	(7,197,940)	(13,046,527)	4,977,204	(8,069,323)
Movement in unallocated loss adjustment expenses ("ULAE")	(792,429)	-	(792,429)	(1,177,611)	-	(1,177,611)
Other movement in claims incurred in prior accident years (direct and facultative)	(21,687,205)	8,428,212	(13,258,993)	(613,584)	193,230	(420,354)
Movement in claims incurred (treaty inwards claims)	(1,363,545)	-	(1,363,545)	(6,806,748)	-	(6,806,748)
Claims paid during the year (Note 22(a))	(265,419,588)	106,151,431	(159,268,157)	(225,255,929)	71,530,602	(153,725,327)
At end of year	375,270,776	(180,460,783)	194,809,993	397,490,366	(191,082,848)	206,407,518

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12. INSURANCE CONTRACT LIABILITIES (CONT'D.)

	2017		2016		Net RM	Net RM
	Gross RM	Reinsurance RM	Gross RM	Reinsurance RM		
(ii) Premium liabilities						
At beginning of year	188,893,767	(59,469,854)	129,423,913	202,213,777	(74,223,826)	127,989,951
Premiums written in the year (Note 17)	450,521,242	(139,904,464)	310,616,778	430,212,703	(134,537,169)	295,675,534
Premiums earned during the year (Note 17)	(445,168,015)	152,925,236	(292,242,779)	(443,532,713)	149,291,141	(294,241,572)
At end of year	194,246,994	(46,449,082)	147,797,912	188,893,767	(59,469,854)	129,423,913

As at 31 December 2017, the insurance contract liabilities above includes the Company's share of MMIP's claims and premium liabilities amounting to RM39,110,409 (2016: RM50,199,451) and RM3,426,279 (2016: RM4,104,864). The Company's net exposure arising from its participation in the Pool is detailed in Note 32(v).

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13. DEFERRED TAX LIABILITIES

	2017 RM	2016 RM
At beginning of year	1,803,904	(205,032)
Recognised in:		
Income statement (Note 24)	(404,846)	1,512,190
Other comprehensive income	281,690	496,746
At end of year	<u>1,680,748</u>	<u>1,803,904</u>

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.

	2017 RM	2016 RM
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	2,577,658	2,446,867
Deferred tax assets	(896,910)	(642,963)
	<u>1,680,748</u>	<u>1,803,904</u>

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

Deferred tax liabilities:

	Investments RM	Premium liabilities RM	Accelerated capital allowance on property and equipment RM	Total RM
At 1 January 2017	1,081,535	99,327	1,266,005	2,446,867
Recognised in:				
Income statement	369,412	165,745	(686,056)	(150,899)
Other comprehensive income	281,690	-	-	281,690
At 31 December 2017	<u>1,732,637</u>	<u>265,072</u>	<u>579,949</u>	<u>2,577,658</u>

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13. DEFERRED TAX LIABILITIES (CONT'D.)

Deferred tax liabilities: (cont'd.)

	Investments RM	Premium liabilities RM	Accelerated capital allowance on property and equipment RM	Total RM
At 1 January 2016	506,939	-	-	506,939
Recognised in:				
Income statement	77,850	99,327	1,266,005	1,443,182
Other comprehensive income	496,746	-	-	496,746
At 31 December 2016	<u>1,081,535</u>	<u>99,327</u>	<u>1,266,005</u>	<u>2,446,867</u>

Deferred tax assets:

	Receivables RM	Investments RM	Premium liabilities RM	Accelerated capital allowance on property and equipment RM	Total RM
At 1 January 2017	(642,963)	-	-	-	(642,963)
Recognised in					
income statement	(253,947)	-	-	-	(253,947)
At 31 December 2017	<u>(896,910)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(896,910)</u>
At 1 January 2016	(482,431)	-	(135,388)	(94,152)	(711,971)
Recognised in					
income statement	(160,532)	-	135,388	94,152	69,008
At 31 December 2016	<u>(642,963)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(642,963)</u>

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14. DEPOSITS FROM REINSURERS

A reinsurance deposit or premium reserve is maintained in the event the reinsurer fail to discharge their liability under the contract. The premium reserve is computed at the rate of 40% of gross premium and is only applicable to foreign reinsurers.

All deposits shall be released in next succeeding year.

15. INSURANCE PAYABLES

	2017 RM	2016 RM
Due to agents, intermediaries and insured	13,067,244	13,494,092
Due to reinsurers and cedants	45,863,155	43,187,654
	<u>58,930,399</u>	<u>56,681,746</u>

The carrying amounts disclosed above approximate fair values at the balance sheet date.

All amounts are payable within one year.

Insurance payables that do not meet the offsetting criteria as at 31 December 2017 amount to RM8,070,317 (2016: RM6,303,516).

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

	Gross carrying amount RM	Gross amounts offset in the balance sheet RM	Net amounts in the balance sheet RM
31 December 2017			
Premiums	71,134,525	(3,175,231)	67,959,294
Commissions	1,423,682	(10,249,290)	(8,825,608)
Claims	97,171	(8,370,775)	(8,273,604)
	<u>72,655,378</u>	<u>(21,795,296)</u>	<u>50,860,082</u>
31 December 2016			
Premiums	62,032,780	(1,374,825)	60,657,955
Commissions	1,541,979	(6,358,095)	(4,816,116)
Claims	(236,833)	(5,226,776)	(5,463,609)
	<u>63,337,926</u>	<u>(12,959,696)</u>	<u>50,378,230</u>

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16. OTHER PAYABLES

	2017	2016
	RM	RM
Amount due to related companies (Note 30(a))	1,114,750	1,539,842
Amount due to immediate holding company (Note 30(a))	-	533,371
Liabilities held under the MMIP (Note 32(v))	3,620,816	4,119,901
Goods and services tax	1,375,853	958,019
Cash collateral held on behalf of insureds	4,936,906	5,773,181
Accrual for staff bonus	6,439,958	5,426,876
Other accrued expenses	8,175,039	6,449,368
Other payables	15,311,875	15,098,710
	<u>40,975,197</u>	<u>39,899,268</u>

The carrying amounts disclosed above approximate fair values at the balance sheet date.

The carrying amounts of other payables (not including liabilities held under the MMIP) are payable within one year.

The amounts due to related companies and immediate holding company are trade in nature, unsecured, interest free and are repayable on demand.

17. NET EARNED PREMIUMS

	2017	2016
	RM	RM
(a) Gross earned premiums		
General insurance contract (Note 12(ii))	450,521,242	430,212,703
Change in premium liabilities	(5,353,227)	13,320,010
	<u>445,168,015</u>	<u>443,532,713</u>
(b) Premiums ceded to reinsurers		
General insurance contract (Note 12(ii))	(139,904,464)	(134,537,169)
Change in premium liabilities	(13,020,772)	(14,753,972)
	<u>(152,925,236)</u>	<u>(149,291,141)</u>
Net earned premiums (Note 12(ii))	<u>292,242,779</u>	<u>294,241,572</u>

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18. INVESTMENT INCOME

	2017	2016
	RM	RM
Net rental income from properties	-	661,200
Interest/profit income from AFS financial assets	24,677,072	24,581,742
Interest/profit income from FVTPL financial assets	1,418,000	677,668
Dividend/distribution income:		
- quoted equity securities in Malaysia	1,247,570	1,143,681
- unquoted unit and property trust funds in Malaysia	324,795	-
LAR interest income	1,740,683	1,605,496
Investment income (Note 27)	29,408,120	28,669,787
Net accretion of discounts (Note 27)	184,106	555,893
Investment expenses	(1,435,719)	(63,725)
	<u>28,156,507</u>	<u>29,161,955</u>

19. REALISED GAINS

	2017	2016
	RM	RM
Property and equipment:		
Gain on disposal of property and equipment (Note 27)	-	909
AFS financial assets:		
Realised gains:		
- quoted equity securities in Malaysia	7,787,767	2,829,247
- unquoted debt securities in Malaysia	3,052,556	522,870
- Malaysian government securities	120,573	690,021
Realised losses:		
- unquoted debt securities in Malaysia	(574,614)	(15,154)
Realised gains on AFS financial assets	<u>10,386,282</u>	<u>4,026,984</u>
FVTPL financial assets:		
Realised gains:		
- quoted equity securities in Malaysia	967	-
Realised losses:		
- quoted equity securities in Malaysia	(5,505)	-
Realised losses on FVTPL financial assets	<u>(4,538)</u>	<u>-</u>
Realised gains on AFS and FVTPL financial assets (Note 27)	<u>10,381,744</u>	<u>4,026,984</u>
Total realised gains	<u>10,381,744</u>	<u>4,027,893</u>

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20. FAIR VALUE GAINS/(LOSSES)

	2017 RM	2016 RM
Impairment losses on investments	(388,285)	(807,773)
Unrealised gains on equity securities	19,532	37,888
Unrealised gains/(losses) on debt securities	602,816	(963,573)
Total fair value gains/(losses) (Note 27)	<u>234,063</u>	<u>(1,733,458)</u>

21. OTHER OPERATING REVENUE

Other operating revenue consist of sundry income.

22. NET CLAIMS

	2017 RM	2016 RM
(a) Gross claims paid		
General insurance contracts (Note 12(i))	(265,419,588)	(225,255,929)
(b) Claims ceded to reinsurers		
General insurance contracts (Note 12(i))	106,151,431	71,530,602
Net claims paid (a) (Note 12(i))	<u>(159,268,157)</u>	<u>(153,725,327)</u>
(c) Gross change in contract liabilities		
General insurance contracts	22,219,590	7,094,191
(d) Change in contract liabilities ceded to reinsurers		
General insurance contracts	(10,622,065)	6,703,233
Net change in contract liabilities (b)	<u>11,597,525</u>	<u>13,797,424</u>
Net claims (a) + (b)	<u>(147,670,632)</u>	<u>(139,927,903)</u>

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23. MANAGEMENT EXPENSES

	2017	2016
	RM	RM
Employee benefits expense (Note 23(a))	47,339,322	42,228,605
Directors' remuneration (Note 23(b))	409,583	404,525
Auditors' remuneration:		
- statutory audits	293,469	232,210
- regulatory related fees	31,742	29,236
- other services	31,791	30,422
Depreciation of property and equipment (Note 4)	4,722,480	4,300,967
Write back of bad debts (Note 27)	(506,158)	(21,608)
Property and equipment written off (Note 27)	12,483	523
Office rental	3,517,659	3,025,040
Rental of equipment, software and services	426,342	386,849
Administration and general expenses	35,332,261	31,824,470
Provision for/(write back of) impairment losses on insurance receivables (Note 7)	495,194	(514,792)
	<u>92,106,168</u>	<u>81,926,447</u>

(a) Employee benefits expense

	2017	2016
	RM	RM
Wages and salaries	39,998,464	34,699,076
Social security contributions	310,326	268,538
Contributions to defined contribution plan - EPF	4,925,915	5,216,023
Other benefits	1,883,673	1,869,024
Share based payments	220,944	175,944
	<u>47,339,322</u>	<u>42,228,605</u>

Included in employee benefits expense is CEO's remuneration of RM840,475 (2016: RM797,110) as detailed in Note 23(c).

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23. MANAGEMENT EXPENSES (CONT'D)

(b) Directors' remuneration

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

	2017 RM	2016 RM
Non-executive directors' fees	409,583	404,525
Name		
Mr Norman Ka Cheung Ip	66,000	93,700
Mr Tan Yam Pin	50,450	-
Mr Koh Poh Tiong	8,800	-
Y Bhg Datuk Kamaruddin bin Taib	73,400	50,775
Y Bhg Dato' Albert Yeoh Beow Tit	80,600	124,500
Mr Ng Hon Soon	75,000	103,750
Mdm Tan Fong Sang	55,333	-
Mr Lee Kong Yip	-	31,800
	<u>409,583</u>	<u>404,525</u>

The other directors in office during the year and as at the financial year did not receive any remuneration from the Company.

The Directors' fees are subject to the recommendation by the Board Nominations and Remuneration Committee ("BNRC") to the Board for endorsement and approval by the shareholder at the Annual General Meeting ("AGM") of the Company.

(c) CEO's remuneration

The details of remuneration received by the CEO during the year are as follows:

	2017 RM	2016 RM
Salaries and other remuneration	647,875	608,710
Bonus	168,000	163,800
Total remuneration excluding benefits in kind	<u>815,875</u>	<u>772,510</u>
Estimated money value of benefits in kind	24,600	24,600
Total remuneration (Note 23(a))	<u>840,475</u>	<u>797,110</u>
Share-based payment (in units)	<u>2,252</u>	<u>110</u>

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24. TAXATION

	2017	2016
	RM	RM
Current income tax:		
Malaysian income tax	15,909,230	18,856,930
Overprovision of income tax	<u>(723,922)</u>	<u>(1,578,761)</u>
	<u>15,185,308</u>	<u>17,278,169</u>
Deferred tax (Note 13):		
Relating to origination and reversal of temporary differences	(463,740)	242,337
Underprovision in prior year	58,894	1,269,853
	<u>(404,846)</u>	<u>1,512,190</u>
	<u>14,780,462</u>	<u>18,790,359</u>

Income tax is based on the statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year.

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

	2017	2016
	RM	RM
Profit before taxation	<u>60,492,804</u>	<u>73,415,837</u>
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	14,518,273	17,619,801
Income not subject to tax	(968,417)	(533,737)
Expenses not deductible for tax purposes	1,895,634	2,013,203
Overprovision of prior year income tax	(723,922)	(1,578,761)
Underprovision of deferred tax in prior year	58,894	1,269,853
Tax expense for the year	<u>14,780,462</u>	<u>18,790,359</u>

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25. EARNINGS PER SHARE

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

	2017 RM	2016 RM
Profit attributable to ordinary equity holder	45,712,342	54,625,478
Number of ordinary shares in issue during the year	100,000,000	100,000,000
Basic earnings per share (sen)	<u>45.71</u>	<u>54.63</u>

There were no dilutive potential ordinary shares as at the reporting date. There have been no other transactions involving ordinary shares between the reporting date and the date of completion of the financial statements.

26. DIVIDENDS

Recognised during the financial year:

	2017 RM	2016 RM
Final single tier dividend of RM0.11 per ordinary share on 100,000,000 ordinary shares paid on 28 April 2016	<u>-</u>	<u>11,000,000</u>
Final single tier dividend of RM0.30 per ordinary share on 100,000,000 ordinary shares paid on 26 April 2017	<u>30,000,000</u>	<u>-</u>

27. CASH GENERATED FROM OPERATING ACTIVITIES

	Note	2017 RM	2016 RM
Profit before taxation		60,492,804	73,415,837
Investment income	18	(29,408,120)	(28,669,787)
Realised gains on AFS and FVTPL financial assets	19	(10,381,744)	(4,026,984)
Fair value (gains)/losses recorded in income statement	20	(234,063)	1,733,458

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27. CASH GENERATED FROM OPERATING ACTIVITIES (CONT'D.)

	Note	2017 RM	2016 RM
Purchases of FVTPL financial assets	5(d)	(59,400)	(29,507,771)
Purchases of AFS financial assets	5(d)	(687,030,108)	(481,812,795)
Proceeds from maturities/disposals of AFS financial assets		714,451,998	428,335,856
Proceeds from maturities/disposals of FVTPL financial assets		171,045	23,000,000
Decrease in LAR		228,845	493,214
Non-cash items:			
Depreciation of property and equipment	4	4,722,480	4,300,967
Gain on disposal of property and equipment	19	-	(909)
Provision for/(write back of) impairment losses on insurance receivables	7	495,194	(514,792)
Write back of bad debts	23	(506,158)	(21,608)
Property and equipment written off	23	12,483	523
Net accretion of discounts	18	(184,106)	(555,893)
Changes in working capital:			
Reinsurance assets		23,642,837	8,050,741
Insurance receivables		6,216,722	23,879,357
Other receivables		3,870,042	13,749,359
Insurance contract liabilities		(16,866,363)	(20,414,201)
Deposits from reinsurers		821,404	1,092,980
Insurance payables		2,248,654	(4,724,389)
Other payables		1,075,928	4,177,794
Cash generated from operating activities		<u>73,780,374</u>	<u>11,980,957</u>

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from cash flows associated with the origination of insurance contracts, net of the cash flows for payments of claims incurred for insurance contracts, which are classified under operating activities.

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28. CAPITAL COMMITMENTS

The capital commitments of the Company as at the financial year-end are as follows:

	2017	2016
	RM	RM
Capital expenditure:		
Approved and contracted for:		
Property and equipment	5,259,637	9,390,604
Approved but not contracted for:		
Property and equipment	196,335	118,481
	<u>5,455,972</u>	<u>9,509,085</u>

29. OPERATING LEASE ARRANGEMENTS

The Company as lessee

The Company has entered into lease agreements for rental of equipment, software and services and office premises.

The future aggregate minimum lease payments under operating lease contracted for as at the reporting date but not recognised as liabilities are as follows:

Future minimum rental payments:

	2017	2016
	RM	RM
Rental of equipment, software and services:		
Not later than 1 year	331,182	331,585
Later than 1 year and not later than 5 years	428,695	352,913
	<u>759,877</u>	<u>684,498</u>
Rental of office premises:		
Not later than 1 year	2,717,520	2,703,703
Later than 1 year and not later than 5 years	1,779,850	3,273,693
	<u>4,497,370</u>	<u>5,977,396</u>

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30. RELATED PARTY DISCLOSURES

(a) Related party transactions and balances

In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during and at the end of the financial year:

Significant transactions with related parties during the year:

	2017	2016
	RM	RM
Expense/(income):		
Premium paid (i)		
- Great Eastern Life Assurance (Malaysia) Berhad	286,159	252,647
Premium received (i)		
- Great Eastern Life Assurance (Malaysia) Berhad	(2,512,655)	(2,556,052)
- OCBC Bank (Malaysia) Berhad	(4,135,474)	(3,908,526)
- OCBC Al-Amin Bank Berhad	(40,894)	(70,155)
- OCBC Properties (M) Sdn Bhd	(49,853)	(101,540)
- Pacific Mutual Fund Bhd	(45,036)	(25,576)
- E2 Power Sdn Bhd	(544,855)	(328,807)
- Horizon Asset Management Sdn Bhd	(418)	(278)
- Pac Lease Berhad	(56,120)	(40,515)
- Eastern Realty Company Ltd	(161,993)	-
- Lee Rubber Company Pte Ltd	(733)	-
- BCS Information Systems Pte Ltd	(5,604)	-
- Key Management Personnel	(83,642)	(56,754)
Reinsurance premium received (i)		
- Great Eastern Life Assurance (Malaysia) Berhad	(4,457)	(152,501)
Property rentals paid (ii)		
- Great Eastern Life Assurance (Malaysia) Berhad	3,042,130	1,894,954
Service charges paid (iii)		
- Great Eastern Life Assurance (Malaysia) Berhad	6,956,568	6,303,868
- Great Eastern Life Assurance (Singapore) Co Ltd	4,068,952	3,341,278
Bank charges and custodian fees paid (iii)		
- OCBC Bank (Malaysia) Berhad	1,661,412	1,571,287

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30. RELATED PARTY DISCLOSURES (CONT'D.)

(a) Related party transactions and balances (cont'd.)

Significant transactions with related parties during the year: (cont'd.)

	2017 RM	2016 RM
Expense/(income):		
Interest received (iv)		
- OCBC Bank (Malaysia) Berhad	(788,304)	(460,737)
Commission fees paid		
- Great Eastern Life Assurance (Malaysia) Berhad	378,315	391,232
- OCBC Bank (Malaysia) Berhad	3,665,790	3,915,492
- OCBC Al-Amin Bank Berhad	109	6,959
- OCBC Properties (M) Sdn Bhd	-	15,856
- Pac Lease Berhad	2,054,171	2,331,728
Employee Share Purchase Plan		
- Oversea-Chinese Banking Corporation Limited	120,382	72,604
Employee Share Option Scheme		
- Oversea-Chinese Banking Corporation Limited	25,245	43,728
Deferred Share Plan		
- Oversea-Chinese Banking Corporation Limited	75,317	59,612
Disposal of investments to		
- Great Eastern Life Assurance (Malaysia) Berhad	(89,751,116)	(61,652,614)
- Pac Lease Berhad	-	(51,495,729)
Purchase of investments from		
- Great Eastern Life Assurance (Malaysia) Berhad	40,014,502	14,273,760
- Pac Lease Berhad	-	51,325,003
Investment in wholesale unit trust fund		
- Affin Hwang Wholesale Income Fund	50,973,742	-
Dividend received from wholesale unit trust fund		
- Affin Hwang Wholesale Income Fund	(324,795)	-

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30. RELATED PARTY DISCLOSURES (CONT'D.)

(a) Related party transactions and balances (cont'd.)

Significant transactions with related parties during the year: (cont'd.)

	2017 RM	2016 RM
Balances with related parties at year-end:		
Cash and bank balances		
- OCBC Bank (Malaysia) Berhad	18,383,913	17,259,227
- OCBC Al-Amin Bank Berhad	76,235	-
Fixed deposits and structured deposits		
- OCBC Bank (Malaysia) Berhad	68,137,014	13,912,317
Amount due to subsidiaries of penultimate holding company (Note 16):		
- Great Eastern Life Assurance (Malaysia) Berhad	554,480	1,169,302
- Great Eastern Life Assurance (Singapore) Co Ltd	451,053	260,529
- Oversea-Chinese Banking Corporation Limited	109,217	110,011
	<u>1,114,750</u>	<u>1,539,842</u>
Amount due to immediate holding company (Note 16):		
- Overseas Assurance Corporation (Holdings) Berhad	<u>-</u>	<u>533,371</u>

The related companies disclosed above are companies within the Oversea-Chinese Banking Corporation Group. Notes on transactions with related parties:

- (i) The sale and purchase of insurance policies to/from related companies are made according to normal market prices and at terms and conditions no more favourable than those to other customers and employees.
- (ii) Rental of property from related parties are made according to normal market prices, terms and conditions.

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30. RELATED PARTY DISCLOSURES (CONT'D.)

(a) Related party transactions and balances (cont'd.)

Significant transactions with related parties during the year: (cont'd.)

- (iii) Payment of banking and trading service charges to related parties are made according to normal market prices.
- (iv) The interest income arose mainly from investment in fixed deposits and structured deposits which are made according to prevailing market rates, terms and conditions.
- (v) General terms for balances with related companies are disclosed in Note 16.

(b) Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel of the Company includes the Directors, Chief Executive Officer and Senior Management Team.

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

	2017 RM	2016 RM
Short-term employee benefits	2,651,891	2,619,192
Post-employment benefits	404,601	398,040
Share based payment ("DSP")	124,671	29,476
	<u>3,181,163</u>	<u>3,046,708</u>
Non Executive Directors' remuneration (Note 23(b))	<u>409,583</u>	<u>404,525</u>
	<u>3,590,746</u>	<u>3,451,233</u>
Share-based payment (in units)	<u>13,292</u>	<u>9,120</u>

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31. FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2017

Assets	LAR RM	AFS RM	FVTPL RM	Other financial liabilities RM	Total RM
Investments	95,673,147	540,831,360	25,572,372	-	662,076,879
Insurance receivables	73,321,937	-	-	-	73,321,937
Other receivables	68,998,677	-	-	-	68,998,677
Cash and bank balances	18,557,881	-	-	-	18,557,881
Total assets	256,551,642	540,831,360	25,572,372	-	822,955,374
Liabilities					
Deposits from reinsurers	-	-	-	2,011,301	2,011,301
Other payables	-	-	-	8,557,722	8,557,722
Insurance payables	-	-	-	58,930,399	58,930,399
Total liabilities	-	-	-	69,499,422	69,499,422

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31. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D.)

31 December 2016

	LAR RM	AFS RM	FVTPL RM	Other financial liabilities RM	Total RM
Assets					
Investments	48,410,839	556,888,598	25,066,206	-	630,365,643
Insurance receivables	79,527,696	-	-	-	79,527,696
Other receivables	73,127,506	-	-	-	73,127,506
Cash and bank balances	18,422,448	-	-	-	18,422,448
Total assets	219,488,489	556,888,598	25,066,206	-	801,443,293
Liabilities					
Deposits from reinsurers	-	-	-	1,189,897	1,189,897
Other payables	-	-	-	9,893,082	9,893,082
Insurance payables	-	-	-	56,681,746	56,681,746
Total liabilities	-	-	-	67,764,725	67,764,725

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES

Governance Framework

Managing risk is an integral part of the Company's core business. As stated in the Enterprise Risk Management ("ERM") Framework, the Company shall:

- Operate within parameters and limits that have been set based on the risk appetite approved by the Board; and
- Pursue appropriate risk-adjusted returns.

The Risk Management and Compliance Department spearheads the development and implementation of the ERM Framework for the Company.

The Board Risk Management Committee ("BRMC"), constituted in 2003, provides the oversight on the risk management initiatives. Detailed risk management and oversight activities are undertaken by the following Management Committees comprising the CEO and key Senior Management Executives:

- Senior Management Team ("SMT")
- Asset Liability Committee ("ALC")
- Product Development Committee ("PDC")
- IT Steering Committee ("ITSC")
- Financial Crime Committee ("FCC")

The SMT is responsible for providing leadership, direction and functional oversight with regard to all matters of the Company. The SMT is also responsible for ensuring compliance and alignment with Group Governance and Oversight Framework, i.e. Group standards and guidelines.

The ALC is responsible for balance sheet management. Specifically, the ALC reviews and formulates technical frameworks, policies and methodologies relating to balance sheet management.

The PDC oversees the product development and launch process. In addition, the PDC regularly reviews and monitors the performance of new and existing products.

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Governance Framework (cont'd.)

The ITSC is responsible for the oversight of technology and information risks and any relevant regulatory and compliance risks relating to technology and information risks within the Company.

The FCC provides independent oversight of fraud investigation and anti-money laundering / countering of financing of terrorism (AML/CFT) review, and ensures that investigations and reviews are conducted in a manner that is fair, consistent and transparent.

On 3 August 2016, BNM issued a Policy Document on Corporate Governance which sets out a framework of principles to strengthen board composition rules; heighten expectations on the board and senior management to foster a corporate culture that promotes ethical, prudent and professional behaviour; and expand requirements on compensation structures to ensure that employees' incentives are aligned with prudent risk-taking, and clarifies expectations in respect of group-wide governance. The Company is working towards full compliance with the Policy Document by 2019.

Regulatory Framework

Insurers are regulated by the Financial Services Act 2013 ("FSA") which came into force on 30 June 2013, and other relevant regulations issued by regulators from time to time.

The Phased Liberalisation of Motor and Fire Tariffs issued by BNM on 30 June 2016 aims to deregulate the pricing of motor and fire products through the gradual disapplication of requirements under the Motor Tariff and Revised Fire Tariff (Fire Tariff). The objective of this initiative by BNM is to allow the insurance industry to be able to compete in a more liberalised environment and thus promote greater product innovation for the benefit of consumers. Liberalisation has begun and done in phases. Impact of the phased liberalisation will be evaluated by the regulators from 2019 onwards to determine the readiness of consumers and the industry for further liberalisation.

BNM's Policy Document on Compliance took effect on 1 January 2017. The Policy Document aims to promote the safety and soundness of financial institutions by minimising financial, reputational and operational risks arising from legal and regulatory non-compliance. The Company is in full compliance with the Policy Document.

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Regulatory Framework (cont'd.)

BNM's Policy Document on Operational Risk will be effective on 10 May 2018. The Policy Document sets out the regulatory expectations for the management of operational risk by financial institutions. It aims to strengthen the governance, framework and processes for managing operational risk within financial institutions. Emphasis is also given to effective coordination in the management of operational risk with that of other risks (e.g. credit and market risks) to provide a holistic and integrated approach to a financial institution's overall risk management strategy. The Company is currently working towards full compliance with the Policy Document.

Capital Management Framework

The Company's capital management policy is to create shareholder value, deliver sustainable returns to the shareholder, maintain a strong capital position with sufficient buffer to meet obligations to policyholders and regulatory requirements and to make strategic investments for business growth. The Company has had no significant changes in the policies and processes relating to its capital structure during the year.

Under the RBC Framework, the insurer has to maintain a capital adequacy level that is commensurate with its risk profiles. The Capital Adequacy Ratio of the Company remained well at above the minimum capital requirement of 130% under the RBC Framework regulated by BNM.

The Internal Capital Adequacy Assessment Process ("ICAAP") Framework came into effect on 1 September 2012. Under this Framework, the Company has to ensure adequate capital to meet its capital requirements on an ongoing basis. The key elements supporting the Framework include Board and Senior Management oversight, comprehensive risk assessment, individual target capital level and stress testing, sound capital management as well as ongoing monitoring, reporting and review of capital position.

Capital management and contingency policies were further developed and refined under the Framework to outline the approaches and principles under which the Company's capital will be monitored and managed, as well as the corrective actions to be implemented at various critical capital levels. In addition, a risk appetite statement has been established to outline the Company's capacity to take on risks to achieve its business objectives while managing the expectations of key stakeholders.

The following sections provide details regarding the exposure to the key risks faced by the Company and the objectives, policies and processes for the management of these risks. There has been no major change to the Company's exposure to these key risks or the manner in which it manages and measures these risks.

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk

The principal activity of the Company is underwriting of all classes of general insurance business.

The Company's underwriting strategy is designed to ensure that these risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification of insurance contracts across industry sectors and geography, regular review of the actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are also set in place to enforce appropriate risk selection criteria.

Insurance risk comprises both actuarial and underwriting risks resulting from the pricing and acceptance of insurance contracts. The risks arise when actual claims experience is different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims. Assumptions that may cause insurance risks to be underestimated include assumptions on policy claims frequency and policy claims severity.

The Company works closely with reinsurers to put in place a prudent underwriting policy to ensure appropriate risk classification and premium levels. The Company's reinsurance management strategy and policy are reviewed annually by the SMT and BRMC, and approved by the Board. Reinsurance structures are set based on the type of risk. Catastrophe reinsurance is procured to limit catastrophic losses.

Only foreign reinsurers meeting a minimum credit rating of Standard & Poor's "A-", or its equivalent, or legally set up local reinsurers are considered when deciding on which reinsurers to reinsure the Company's risk. The Company limits its risk to any one reinsurer by ceding different risks to different reinsurers or to a panel of reinsurers.

The SMT reviews the claims trends and experience, as well as expenses to ensure that appropriate policies, guidelines and limits put in place to manage these risks remain adequate and appropriate.

Stress Testing ("ST") is performed in accordance with BNM requirements. The purpose of the ST is to test the solvency of the general insurance fund under the various scenarios according to regulatory guidelines on stress testing, simulating drastic changes in major parameters such as new business volume, investment and loss ratios.

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

Risks under general insurance policies usually cover a twelve-month duration. The risk inherent in general insurance contracts is reflected in the insurance contract liabilities which include the premium and claim liabilities, as set out under Note 12 of the financial statements. The premium liabilities comprise the higher of UPR or URR, while the claim liabilities comprise the loss reserves which include both provision for outstanding claims notified and outstanding claims incurred but not reported.

Table 32(A1): The table below shows the concentration of premium liabilities by class of business:

	Gross premium liabilities RM	Reinsurance premium liabilities RM	Net premium liabilities RM
31 December 2017			
Fire	39,471,740	(16,829,608)	22,642,132
Motor	69,148,013	(320,454)	68,827,559
Marine, Aviation and Transit	12,686,746	(12,501,468)	185,278
Workmen's Compensation	892,911	137,002	1,029,913
Personal Accident and Health	42,031,145	(1,531,564)	40,499,581
Others	30,016,439	(15,402,990)	14,613,449
	<u>194,246,994</u>	<u>(46,449,082)</u>	<u>147,797,912</u>
31 December 2016			
Fire	48,237,109	(27,835,283)	20,401,826
Motor	56,641,703	(2,103,699)	54,538,004
Marine, Aviation and Transit	15,307,035	(14,615,136)	691,899
Workmen's Compensation	762,060	123,171	885,231
Personal Accident and Health	40,739,149	(2,261,354)	38,477,795
Others	27,206,711	(12,777,553)	14,429,158
	<u>188,893,767</u>	<u>(59,469,854)</u>	<u>129,423,913</u>

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

Table 32(A2): The table below shows the concentration of claim liabilities by class of business:

	Gross claim liabilities RM	Reinsurance claim liabilities RM	Net claim liabilities RM
31 December 2017			
Fire	48,862,055	(34,561,133)	14,300,922
Motor	127,841,198	(8,722,617)	119,118,581
Marine, Aviation and Transit	46,764,320	(44,837,945)	1,926,375
Workmen's Compensation	770,170	(10,510)	759,660
Personal Accident and Health	35,863,440	(3,453,379)	32,410,061
Others	115,169,593	(88,875,199)	26,294,394
	<u>375,270,776</u>	<u>(180,460,783)</u>	<u>194,809,993</u>
31 December 2016			
Fire	77,126,976	(61,553,797)	15,573,179
Motor	138,323,537	(6,354,156)	131,969,381
Marine, Aviation and Transit	14,786,945	(12,658,685)	2,128,260
Workmen's Compensation	558,593	(11,451)	547,142
Personal Accident and Health	37,483,434	(6,012,725)	31,470,709
Others	129,210,881	(104,492,034)	24,718,847
	<u>397,490,366</u>	<u>(191,082,848)</u>	<u>206,407,518</u>

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

The general insurance contract liabilities are determined based on previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Of particular relevance is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions, economic conditions and claims handling procedures. The estimates of the general insurance contract liabilities are therefore sensitive to various factors and uncertainties. The actual premium and claim liabilities will not develop exactly as projected and may vary from initial estimates.

Insurance risk of general insurance contracts is mitigated by emphasising diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, e.g. hurricanes, earthquakes and flood damages.

The sensitivity analysis below shows the impact of changes in key assumptions on gross and net liabilities, profit before taxation and shareholders' equity.

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

Table 32(A3): The table below shows the insurance risk sensitivity analysis:

	Changes in variables	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before taxation RM'000	Impact on equity* RM'000
31 December 2017					
Increase/(decrease):					
PRAD margin	+20%	4,362	5,261	(5,261)	(3,998)
	-20%	(4,362)	(5,261)	5,261	3,998
Selected loss ratio (for latest year)	+20%	106,139	85,933	(85,933)	(65,309)
	-20%	(72,589)	(59,481)	59,481	45,206
Claims handling expenses	+20%	388	9,861	(9,861)	(7,494)
	-20%	(388)	(9,189)	9,189	6,984

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

Table 32(A3): The table below shows the insurance risk sensitivity analysis:

	Changes in variables	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before taxation RM'000	Impact on equity* RM'000
31 December 2016					
Increase/(decrease):					
PRAD margin	+20% -20%	1,411 (1,411)	2,442 (785)	(2,442) 785	(1,856) 597
Selected loss ratio (for latest year)	+20% -20%	89,127 (14,718)	69,841 (9,928)	(69,841) 9,928	(53,079) 7,546
Claims handling expenses	+20% -20%	280 (280)	7,693 (272)	(7,693) 272	(5,847) 207

* *The impact on equity reflects the impact net of tax at 24% (2016: 24%)*

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

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

Claims development table

Table 32(A4): The table below shows the cumulative claims estimates, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date:

Gross general insurance contract liabilities for 2017:

Accident year	Note	Prior										Total RM
		2010 RM	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM		
At the end of accident year		3,075,510,391	113,500,585	207,936,334	162,618,716	295,811,820	217,630,111	269,295,799	255,380,592	229,203,401		
One year later		767,874,668	158,805,737	230,182,139	174,527,552	263,352,963	225,821,390	277,009,059	233,065,696			
Two years later		1,393,561,177	155,353,123	173,307,559	171,765,873	223,135,903	222,266,869	227,100,093				
Three years later		1,377,994,013	147,218,068	168,756,254	165,343,460	223,225,980	218,599,624					
Four years later		1,373,398,903	144,152,973	165,307,073	165,300,210	248,510,262						
Five years later		1,442,766,683	142,672,826	164,406,812	163,425,148							
Six years later		1,438,754,667	136,169,464	159,627,517								
Seven years later		1,404,733,870	135,824,764									
Eight years later		1,476,336,349										
Nine years later												
Current estimate of												
cumulative claims incurred		1,476,336,349	135,824,764	159,627,517	163,425,148	248,510,262	218,599,624	227,100,093	233,065,696	229,203,401	3,091,692,854	
At the end of accident year		2,254,633,146	53,860,911	76,681,802	84,564,888	84,240,032	73,154,298	83,570,279	109,406,241	109,039,935		
One year later		656,451,919	114,628,952	132,395,382	128,798,809	156,452,886	174,994,471	172,738,047	182,484,260			
Two years later		1,274,572,688	128,883,888	150,216,318	145,439,416	176,365,323	191,501,009	198,872,893				
Three years later		1,296,898,368	132,914,213	154,627,191	152,795,580	181,719,689	198,171,716					
Four years later		1,328,221,424	134,804,294	157,332,154	155,291,832	229,605,584						
Five years later		1,350,548,615	135,255,528	158,313,856	157,198,478							
Six years later		1,345,433,226	135,441,687	158,405,191								
Seven years later		1,346,590,129	135,537,970									
Eight years later		1,347,106,051										
Nine years later												
Cumulative payments to-date		1,347,106,051	135,537,970	158,405,191	157,198,478	229,605,584	198,171,716	198,872,893	182,484,260	109,039,935	2,716,422,078	
Gross general insurance												
contract liabilities per												
Balance Sheet		12(i)	129,230,298	286,794	1,222,326	6,226,670	20,427,908	28,227,200	50,581,436	120,163,466	375,270,776	

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Insurance Risk (cont'd.)

Claims development table (cont'd.)

Table 32(A4): The table below shows the cumulative claims estimates, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date (cont'd.):

Net general insurance contract liabilities for 2017:

Accident year	Note	Prior										Total RM
		2010	2010	2011	2012	2013	2014	2015	2016	2017	RM	
At the end of accident year		1,790,459,748	81,247,277	158,310,475	123,588,391	196,908,860	143,087,271	145,035,562	171,217,017	175,031,561		
One year later		429,938,833	119,859,290	177,713,437	135,107,857	136,318,215	145,511,345	140,781,117	162,547,109			
Two years later		915,817,704	118,685,939	123,785,406	131,057,646	130,955,203	143,781,073	138,008,349				
Three years later		905,668,285	113,403,560	123,538,770	127,734,661	131,676,354	144,120,092					
Four years later		891,211,732	111,666,146	118,094,509	128,031,293	133,044,038						
Five years later		947,145,653	109,709,189	118,148,482	127,686,483							
Six years later		959,354,256	106,435,489	114,404,478								
Seven years later		936,251,805	106,171,745									
Eight years later		922,979,407										
Nine years later												
Current estimate of												
cumulative claims incurred		922,979,407	106,171,745	114,404,478	127,686,483	133,044,038	144,120,092	138,008,349	162,547,109	175,031,561	2,023,993,262	
At the end of accident year		1,261,064,736	44,156,291	58,187,492	77,160,971	66,467,272	62,727,289	60,500,671	88,482,492	96,693,859		
One year later		375,481,110	91,629,441	97,624,197	106,827,704	109,522,813	118,472,967	109,508,077	134,081,944			
Two years later		839,485,004	101,284,277	107,972,263	117,967,522	119,998,811	129,984,384	120,434,727				
Three years later		852,189,435	104,489,554	111,165,388	121,691,972	122,486,678	133,945,014					
Four years later		864,017,404	105,540,058	112,897,673	123,058,168	123,642,256						
Five years later		874,908,572	105,801,826	113,365,929	123,386,824							
Six years later		876,825,865	105,874,081	113,439,135								
Seven years later		877,155,303	105,919,237									
Eight years later		877,640,273										
Nine years later												
Cumulative payments to-date		877,640,273	105,919,237	113,439,135	123,386,824	123,642,256	133,945,014	120,434,727	134,081,944	96,693,859	1,829,183,269	
Net general insurance												
contract liabilities per												
Balance Sheet	12(i)	45,339,134	252,508	965,343	4,299,659	9,401,782	10,175,078	17,573,622	28,465,165	78,337,702	194,809,993	

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

Claims development table

Table 32(A4): The table below shows the cumulative claims estimates, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date:

Gross general insurance contract liabilities for 2016:

Accident year	Note	Prior		2009	2010	2011	2012	2013	2014	2015	2016	Total
		RM	RM									
At the end of accident year		2,310,693,997	127,455,539	113,500,585	207,936,334	162,618,716	295,811,820	217,630,111	269,295,799	255,380,592		
One year later		637,360,855	134,536,325	158,805,737	230,182,139	174,527,552	263,352,963	225,821,390	277,009,059			
Two years later		633,338,343	197,590,558	155,353,123	173,307,559	171,765,873	223,135,903	222,266,869				
Three years later		1,195,970,619	194,022,082	147,218,068	168,756,254	165,343,460	223,225,980					
Four years later		1,183,971,931	184,522,218	144,152,973	165,307,073	165,300,210						
Five years later		1,188,876,685	179,284,973	142,672,826	164,406,812							
Six years later		1,263,481,710	178,522,264	136,169,464								
Seven years later		1,260,232,403	174,328,029									
Eight years later		1,230,405,842										
Nine years later												
Current estimate of												
cumulative claims incurred		1,230,405,842	174,328,029	136,169,464	164,406,812	165,300,210	223,225,980	222,266,869	277,009,059	255,380,592	2,848,492,857	
At the end of accident year		1,655,331,947	55,111,531	53,860,911	76,681,802	84,564,888	84,240,032	73,154,298	83,570,279	109,406,241		
One year later		544,189,668	96,821,183	114,628,952	132,395,382	128,798,809	156,452,886	174,994,471	172,738,047			
Two years later		559,630,736	162,261,600	128,883,888	150,216,318	145,439,416	176,365,323	191,501,009				
Three years later		1,112,311,088	168,059,179	132,914,213	154,627,191	152,795,580	181,719,689					
Four years later		1,128,839,189	172,879,129	134,804,294	157,332,154	155,291,832						
Five years later		1,155,342,295	173,232,040	135,255,528	158,313,856							
Six years later		1,177,316,575	173,889,556	135,441,687								
Seven years later		1,171,543,670	174,103,802									
Eight years later		1,172,486,328										
Nine years later												
Cumulative payments to-date		1,172,486,328	174,103,802	135,441,687	158,313,856	155,291,832	181,719,689	191,501,009	172,738,047	109,406,241	2,451,002,491	
Gross general insurance contract liabilities per												
Balance Sheet		12(i) 57,919,514	224,227	727,777	6,092,956	10,008,378	41,506,291	30,765,860	104,271,012	145,974,351	397,490,366	

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Insurance Risk (cont'd.)

Claims development table (cont'd.)

Table 32(A4): The table below shows the cumulative claims estimates, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date (cont'd.):

Net general insurance contract liabilities for 2016:

Accident year	Note	Prior										Total RM					
		2009	2009	2010	2010	2011	2011	2012	2012	2013	2013		2014	2014	2015	2015	2016
		RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
At the end of accident year		1,363,730,591	75,515,734	81,247,277	158,310,475	123,588,391	196,908,860	143,087,271	145,035,562	171,217,017							
One year later		351,213,423	80,520,772	119,859,290	177,713,437	135,107,857	136,318,215	145,511,345	140,781,117								
Two years later		349,418,061	131,677,937	118,685,939	123,785,406	131,057,646	130,955,203	143,781,073									
Three years later		784,139,767	129,038,909	113,403,560	123,538,770	127,734,661	131,676,354										
Four years later		776,629,376	122,635,954	111,666,146	118,094,509	128,031,293											
Five years later		768,575,778	117,605,699	109,709,189	118,148,482												
Six years later		829,539,954	117,622,454	106,435,489													
Seven years later		841,731,802	115,112,346														
Eight years later		821,139,459															
Nine years later																	
Current estimate of																	
cumulative claims incurred		821,139,459	115,112,346	106,435,489	118,148,482	128,031,293	131,676,354	143,781,073	140,781,117	171,217,017	1,876,322,630						
At the end of accident year		916,389,128	40,625,670	44,156,291	58,187,492	77,160,971	66,467,272	62,727,289	60,500,671	88,482,492							
One year later		304,049,938	63,790,870	91,629,441	97,624,197	106,827,704	109,522,813	118,472,967	109,508,077								
Two years later		311,690,240	107,046,237	101,284,277	107,972,263	117,967,522	119,998,811	129,984,384									
Three years later		732,438,767	112,073,024	104,489,554	111,165,388	121,691,972	122,486,678										
Four years later		740,116,411	113,834,192	105,540,058	112,897,673	123,058,168											
Five years later		750,183,212	114,273,707	105,801,826	113,365,929												
Six years later		760,634,865	114,799,053	105,874,081													
Seven years later		762,026,812	114,838,635														
Eight years later		762,316,668															
Nine years later																	
Cumulative payments to-date		762,316,668	114,838,635	105,874,081	113,365,929	123,058,168	122,486,678	129,984,384	109,508,077	88,482,492	1,669,915,112						

Net general insurance contract liabilities per

Balance Sheet	12(i)	58,822,791	273,711	561,408	4,782,553	4,973,125	9,189,676	13,796,689	31,273,040	82,734,525	206,407,518
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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Market And Credit Risks

Market risk arises when the market value of assets do not move consistently as the financial markets change. Changes in interest rates, foreign exchange rates, equity prices and alternative investment prices can impact present and future investment earnings of the insurance operations as well as shareholder's equity.

The Company is exposed to market risk in the Shareholder's Fund and the General Insurance Fund. The ALC actively manages market risk through setting and monitoring of the investment policy, asset allocation, portfolio construction and risk measurement as well as approving hedging strategies. Investment limits are monitored at various levels to ensure that all investment activities are conducted within the Company's risk appetite and in line with the Company's risk management principles and philosophies. Compliance with established limits forms an integral part of the risk governance and financial reporting framework. The approach adopted by the Company in managing the various types of risk, including interest rate risk, foreign exchange risk, equity price risk, credit spread risk, liquidity risk, credit risk and concentration risk, is briefly described as follows:

(i) Interest Rate Risk

The Company is exposed to interest rate risk through investments in fixed income instruments in both the Shareholder's Fund and the General Insurance Fund. Since the Shareholder's Fund and General Insurance Fund have exposure to investments in fixed income instruments, it will incur an economic loss when interest rates rise.

(ii) Foreign Currency Risk

Investments denominated in foreign currencies are limited to 10% of individual funds regardless of country, subject to the foreign investments being in jurisdictions with sovereign ratings at least equivalent to that of Malaysia, as prescribed by the regulator. The Company does not have exposure to foreign currency risk via direct investments. However, foreign currency risk exists in some insurance policies of which premiums and/or claims are billed and paid in foreign currencies.

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Market And Credit Risks (cont'd.)

(iii) Equity Price Risk

Exposure to equity price risk exists in assets. Asset exposure exists through direct equity investment, where the Company through its investments in the Shareholder's Fund and General Insurance Fund, bears all or most of the volatility in returns and investment performance risk. A robust monitoring process is in place to manage equity risk by activating appropriate risk management strategies to limit the downside risk at certain pre-determined levels. Limits are set for single security holdings as a percentage of equity holdings.

(iv) Credit Spread Risk

Exposure to credit spread risk exists in the Company's investments in bonds. Credit spread is the difference between the corporate yields against risk-free rate of similar tenure. When spreads widen, it generally implies that the market is factoring a deterioration in the creditworthiness of the bonds. A widening in credit spreads will generally result in a fall in the value of the Company's bond portfolio.

(v) Liquidity Risks

Liquidity risks arise when a company is unable to meet the cash flow needs of its financial liabilities, or if the assets backing the liabilities cannot be sold quickly enough to meet its financial obligations. For an insurance company, the greatest liquidity needs typically arise from its insurance liabilities. Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

Expected liquidity demands are managed through a combination of treasury, investment and asset-liability management practices which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored and a reasonable amount of assets are kept in liquid instruments at all times.

The Company is exposed to liquidity risk from its insurance contract liabilities when actual claims development deviates from estimated claim liabilities. This is mitigated to some extent through the Company's periodic liability adequacy tests.

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Market And Credit Risks (cont'd.)

(v) Cash Flow And Liquidity Risks (cont'd.)

Unexpected liquidity demands are managed through a combination of diversification limits, investment strategies and systematic monitoring.

Maturity profiles

Table 32(B1): The following tables show the maturity profile of the company's financial and insurance liabilities and the expected recovery or settlement of financial and insurance assets based on contractual undiscounted cash flow basis:

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

31 December 2017

Investments:

	Carrying value RM	Less than 1 year RM	Over 1-5 years RM	Over 5 years RM	No maturity date RM	Total RM
LAR	95,673,147	75,504,392	22,119,524	292,283	-	97,916,199
AFS	540,831,360	38,057,732	279,737,283	326,588,511	53,185,463	697,568,989
FVTPL	25,572,372	1,418,000	10,323,951	22,468,655	-	34,210,606
Reinsurance assets	180,460,783	176,830,574	(6,697,568)	(382,457)	10,710,234	180,460,783
Insurance receivables	73,321,937	73,321,937	-	-	-	73,321,937
Other receivables	70,523,760	11,937,010	-	58,586,750	-	70,523,760
Cash and bank balances	18,557,881	18,557,881	-	-	-	18,557,881
Total assets	1,004,941,240	395,627,526	305,483,190	407,553,742	63,895,697	1,172,560,155

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Market And Credit Risks (cont'd.)

(v) Cash Flow And Liquidity Risks (cont'd.)

Maturity profiles (cont'd.)

Table 32(B1): The following tables show the maturity profile of the company's financial and insurance liabilities and the expected recovery or settlement of financial and insurance assets based on contractual undiscounted cash flow basis (cont'd.):

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities (cont'd.).

	Carrying value RM	Less than		Over		Over		Total RM
		1 year RM	1-5 years RM	5 years RM	No maturity date RM			
31 December 2017 (cont'd.)								
Insurance contract liabilities	375,270,776	338,126,330	(28,344,973)	(1,658,150)	67,147,569	375,270,776		
Deposits from reinsurers	2,011,301	2,011,301	-	-	-	2,011,301		
Insurance payables	58,930,399	58,930,399	-	-	-	58,930,399		
Other payables	40,975,197	37,354,381	-	3,620,816	-	40,975,197		
Total liabilities	477,187,673	436,422,411	(28,344,973)	1,962,666	67,147,569	477,187,673		

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Market And Credit Risks (cont'd.)

(v) Cash Flow And Liquidity Risks (cont'd.)

Maturity profiles (cont'd.)

Table 32(B1): The following tables show the maturity profile of the company's financial and insurance liabilities and the expected recovery or settlement of financial and insurance assets based on contractual undiscounted cash flow basis (cont'd.):

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities (cont'd.).

31 December 2016

Investments:

	Carrying value RM	Less than 1 year RM	Over 1-5 years RM	Over 5 years RM	No maturity date RM	Total RM
LAR	48,410,839	28,016,149	23,448,601	127,211	-	51,591,961
AFS	556,888,598	46,904,255	305,377,841	343,105,628	41,550,257	736,937,981
FVTPL	25,066,206	1,418,000	10,671,001	23,636,655	-	35,725,656
Reinsurance assets	191,082,848	200,053,295	(16,302,882)	(234,904)	7,567,339	191,082,848
Insurance receivables	79,527,696	79,527,696	-	-	-	79,527,696
Other receivables	74,810,046	13,226,926	-	61,583,120	-	74,810,046
Cash and bank balances	18,422,448	18,422,448	-	-	-	18,422,448
Total assets	994,208,681	387,568,769	323,194,561	428,217,710	49,117,596	1,188,098,636

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Market And Credit Risks (cont'd.)

(v) Cash Flow And Liquidity Risks (cont'd.)

Maturity profiles (cont'd.)

Table 32(B1): The following tables show the maturity profile of the company's financial and insurance liabilities and the expected recovery or settlement of financial and insurance assets based on contractual undiscounted cash flow basis (cont'd.):

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities (cont'd.).

	Carrying value RM	Less than 1 year RM	Over 1-5 years RM	Over 5 years RM	No maturity date RM	Total RM
31 December 2016 (cont'd.)						
Insurance contract liabilities	397,490,366	355,444,976	(35,180,737)	(871,648)	78,097,775	397,490,366
Deposits from reinsurers	1,189,897	1,189,897	-	-	-	1,189,897
Insurance payables	56,681,746	56,681,746	-	-	-	56,681,746
Other payables	39,899,268	35,779,367	-	4,119,901	-	39,899,268
Total liabilities	495,261,277	449,095,986	(35,180,737)	3,248,253	78,097,775	495,261,277

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Market And Credit Risks (cont'd.)

(v) Liquidity Risks (cont'd.)

Included in other receivables and other payables is the Company's share in the assets and liabilities held under MMIP as disclosed in Note 8 and Note 16. The Company's share of insurance contract liabilities from MMIP are disclosed in Note 12 of the financial statements. These balances have not been offset in the financial statements of the Company as it is the view of the Directors and Management that no legal right of set-off exists. The assets have been contributed in line with the Company's obligations under the Collective Agreement signed on 16 November 1992 and the insurance contract liabilities represent the Company's share of the Pool's insurance contract liabilities arising from insurance contracts underwritten in respect of third party policyholders collectively, under the name of MMIP. Presented below is the Company's net position of its share in the net asset held under the MMIP as at 31 December 2017:

	2017	2016
	RM	RM
<u>Assets/(liabilities):</u>		
<u>Assets:</u>		
- Accumulated cash contributions to MMIP	25,359,477	25,359,477
- Other assets	31,610,804	34,441,520
Total Assets (Note 8)	<u>56,970,281</u>	<u>59,800,997</u>
<u>Liabilities:</u>		
- Insurance payables	(64,832)	(13,004)
- Other payables and provisions	(3,555,984)	(4,106,897)
Total Liabilities (Note 16)	<u>(3,620,816)</u>	<u>(4,119,901)</u>
Net assets held under MMIP	<u>53,349,465</u>	<u>55,681,096</u>
Insurance contract liabilities (Note 12)		
- Claim liabilities	(39,110,409)	(50,199,451)
- Premium liabilities	(3,426,279)	(4,104,864)
	<u>(42,536,688)</u>	<u>(54,304,315)</u>
Net position	<u>10,812,777</u>	<u>1,376,781</u>

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Market And Credit Risks (cont'd.)

(v) Liquidity Risks (cont'd.)

Table 32(B2): The following table shows the current/non current classification of assets and liabilities:

	Current* RM	Non- current** RM	Total RM
31 December 2017			
Assets			
Goodwill	-	18,182,598	18,182,598
Property and equipment	-	19,350,326	19,350,326
Investments:			
LAR	74,576,169	21,096,978	95,673,147
AFS	17,181,121	523,650,239	540,831,360
FVTPL	9,200	25,563,172	25,572,372
Reinsurance assets	223,279,656	3,630,209	226,909,865
Insurance receivables	73,321,937	-	73,321,937
Other receivables	11,937,010	58,586,750	70,523,760
Cash and bank balances	18,557,881	-	18,557,881
Assets held for sale	11,692,000	-	11,692,000
Total assets	<u>430,554,974</u>	<u>670,060,272</u>	<u>1,100,615,246</u>
Liabilities			
Insurance contract liabilities	(532,373,324)	(37,144,446)	(569,517,770)
Deferred tax liabilities	-	(1,680,748)	(1,680,748)
Deposits from reinsurers	(2,011,301)	-	(2,011,301)
Insurance payables	(58,930,399)	-	(58,930,399)
Provision for taxation	(8,342,450)	-	(8,342,450)
Other payables	(37,354,381)	(3,620,816)	(40,975,197)
Total liabilities	<u>(639,011,855)</u>	<u>(42,446,010)</u>	<u>(681,457,865)</u>
	<u>(208,456,881)</u>	<u>627,614,262</u>	<u>419,157,381</u>

* *Expected utilisation or settlement within 12 months from the Balance Sheet date.*

** *Included in non-current AFS financial assets are quoted equity securities and unquoted unit and property trust fund of RM2,211,721 and RM50,973,742 with no maturity date.*

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Market And Credit Risks (cont'd.)

(v) Liquidity Risks (cont'd.)

Table 32(B2): The following table shows the current/non current classification of assets and liabilities: (cont'd.)

	Current* RM	Non- current** RM	Total RM
31 December 2016			
Assets			
Goodwill	-	18,182,598	18,182,598
Property and equipment	-	26,358,847	26,358,847
Investments:			
LAR	27,069,008	21,341,831	48,410,839
AFS	63,113,375	493,775,223	556,888,598
FVTPL	-	25,066,206	25,066,206
Reinsurance assets	259,523,149	(8,970,447)	250,552,702
Insurance receivables	79,527,696	-	79,527,696
Other receivables	13,226,926	61,583,120	74,810,046
Cash and bank balances	18,422,448	-	18,422,448
Total assets	<u>460,882,602</u>	<u>637,337,378</u>	<u>1,098,219,980</u>
Liabilities			
Insurance contract liabilities	(544,338,743)	(42,045,390)	(586,384,133)
Deferred tax liabilities	-	(1,803,904)	(1,803,904)
Deposits from reinsurers	(1,189,897)	-	(1,189,897)
Insurance payables	(56,681,746)	-	(56,681,746)
Provision for taxation	(9,708,006)	-	(9,708,006)
Other payables	(35,779,367)	(4,119,901)	(39,899,268)
Total liabilities	<u>(647,697,759)</u>	<u>(47,969,195)</u>	<u>(695,666,954)</u>
	<u>(186,815,157)</u>	<u>589,368,183</u>	<u>402,553,026</u>

* *Expected utilisation or settlement within 12 months from the Balance Sheet date.*

** *Included in non-current AFS financial assets are quoted equity securities and quoted unit and property trust fund of RM40,052,489 and RM1,497,768 with no maturity date.*

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Market And Credit Risks (cont'd.)

(vi) Credit Risk

Credit risk is the risk that one party to a financial contract will cause financial loss to the other party by failing to discharge an obligation. The Company is exposed to credit risk through (i) investment in cash, deposits and bonds, (ii) corporate lending activities, (iii) exposure to counterparty's credit in derivative transactions and reinsurance contracts and (iv) non-payment of premiums past the grace period. For all four types of exposures, financial loss may materialise as a result of credit default by the borrower or counterparty. For investment in bonds, financial loss may materialise as a result of the widening credit spread or downgrade of credit rating.

The task of evaluating and monitoring credit risk is undertaken by the ALC. The Company has internal limits by issuer or counterparty and by credit ratings. These limits are actively monitored to manage the credit and concentration risk, and are reviewed on a regular basis. The creditworthiness of reinsurers and banks is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

Treaty reinsurance is placed with counterparties that have good rating while facultative reinsurance is placed with counterparties that have been carefully selected via internal guidelines to minimise credit risk.

Credit risk in respect of non-payment of premiums past the grace period is being actively monitored and guided by strict credit control guideline.

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Market And Credit Risks (cont'd.)

(vi) Credit Risk (cont'd.)

Credit Exposure

Table 32(C1): The table below shows the maximum exposure to credit risk for the components of the balance sheet and items such as future commitments by funds.

	Insurance Fund RM	Shareholder's Fund RM	Total RM
31 December 2017			
LAR:			
Loans	16,217,520	5,005,627	21,223,147
Fixed and call deposits	63,600,000	10,850,000	74,450,000
AFS financial assets:			
Malaysian government securities	38,277,600	-	38,277,600
Debt securities	434,359,789	15,008,508	449,368,297
FVTPL:			
Debt securities	21,228,583	4,334,589	25,563,172
Reinsurance assets	226,909,865	-	226,909,865
Insurance receivables	73,321,937	-	73,321,937
Other receivables	70,219,970	303,790	70,523,760
Cash and bank balances	18,203,565	354,316	18,557,881
	<u>962,338,829</u>	<u>35,856,830</u>	<u>998,195,659</u>
31 December 2016			
LAR:			
Loans	16,453,000	5,007,839	21,460,839
Fixed and call deposits	25,350,000	1,600,000	26,950,000
AFS financial assets:			
Malaysian government securities	37,891,520	-	37,891,520
Debt securities	411,734,182	65,712,639	477,446,821
FVTPL:			
Debt securities	20,717,561	4,242,795	24,960,356
Reinsurance assets	250,552,702	-	250,552,702
Insurance receivables	79,527,696	-	79,527,696
Other receivables	74,059,290	750,756	74,810,046
Cash and bank balances	17,991,124	431,324	18,422,448
	<u>934,277,075</u>	<u>77,745,353</u>	<u>1,012,022,428</u>

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Market And Credit Risks (cont'd.)

(vi) Credit Risk (cont'd.)

Credit Exposure (cont'd.)

Credit exposure by credit rating

Table 32(C2): The table below provides information regarding the credit risk exposures of the Company by classifying assets according to the credit ratings of counterparties:

	Neither past-due nor impaired				Total RM
	Government guaranteed/ Investment grade* RM (BBB - AAA)	Non- investment grade* RM (C to BB)	Not rated RM	Not subject to credit risk RM	
31 December 2017					
LAR:					
Loans	20,022,508	-	-	1,200,639	21,223,147
Fixed and call deposits	74,450,000	-	-	-	74,450,000
AFS financial investments:					
Malaysian government securities	38,277,600	-	-	-	38,277,600
Debt securities	329,699,537	-	119,668,760	-	449,368,297
FVTPL:					
Debt securities	25,563,172	-	-	-	25,563,172
Reinsurance assets	222,667,146	-	4,242,719	-	226,909,865
Insurance receivables	2,843,149	-	26,789,780	-	43,689,008
Other receivables	10,264,307	-	60,259,453	-	70,523,760
Cash and bank balances	18,557,881	-	-	-	18,557,881
	742,345,300	-	210,960,712	1,200,639	998,195,659

* Based on public ratings assigned by external rating agencies including S&P, Moody's, RAM and MARC.

** An aging analysis for financial assets past due is provided on page 138.

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Market And Credit Risks (cont'd.)

(vi) Credit Risk (cont'd.)

Credit Exposure (cont'd.)

Credit exposure by credit rating

Table 32(C2): The table below provides information regarding the credit risk exposures of the Company by classifying assets according to the credit ratings of counterparties:

	Neither past-due nor impaired				Total RM
	Government guaranteed/ investment grade* RM (BBB - AAA)	Non- investment grade* RM (C to BB)	Not rated RM	Not subject to credit risk RM	
31 December 2016					
LAR:					
Loans	20,031,355	-	1,429,484	-	21,460,839
Fixed and call deposits	26,950,000	-	-	-	26,950,000
AFS financial investments:					
Malaysian government securities	37,891,520	-	-	-	37,891,520
Debt securities	388,864,448	-	88,582,373	-	477,446,821
FVTPL:					
Debt securities	24,960,356	-	-	-	24,960,356
Reinsurance assets	247,453,698	-	3,099,004	-	250,552,702
Insurance receivables	3,651,587	-	40,931,160	-	34,944,949
Other receivables	11,553,326	-	63,256,720	-	74,810,046
Cash and bank balances	18,422,448	-	-	-	18,422,448
	779,778,738	-	197,298,741	-	1,012,022,428

* Based on public ratings assigned by external rating agencies including S&P, Moody's, RAM and MARC.

** An aging analysis for financial assets past due is provided on page 138.

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Market And Credit Risks (cont'd.)

(vi) Credit Risk (cont'd.)

Credit Exposure (cont'd.)

Credit exposure by credit rating (cont'd.)

Table 32(C3): The table below provides aging analysis of financial assets that are past due at the balance sheet date:

Aging Analysis of financial assets past due:

	Past-due but not impaired					Total RM	Past due and impaired RM	Total past due RM
	<30 days RM	31 to 60 days RM	61 to 90 days RM	91 to 180 days RM	More than 180 days RM			
31 December 2017								
Insurance receivables	12,738,705	7,565,868	6,924,645	9,046,673	7,413,117	43,689,008	16,563,970	60,252,978
31 December 2016								
Insurance receivables	6,334,545	6,562,427	5,443,339	8,980,412	7,624,226	34,944,949	16,068,776	51,013,725

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

Receivables that are past due but not impaired are unsecured in nature.

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Market And Credit Risks (cont'd.)

(vi) Credit Risk (cont'd.)

For corporate lending, the amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Credit risk is mitigated by entering into collateral agreements and collaterals are revalued on a periodic basis. The Company monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation, whenever applicable. The fair value of collateral, held by the Company as a lender, for which it is entitled to sell or pledge in the event of default is as follows:

	Type of Collateral	Carrying Amount of Loans	Fair Value of Collateral
2017			
Mortgage loans	Properties	144,708	144,708
Secured loans			
- Vehicle loans	Vehicle	1,055,931	1,055,931
- Government guaranteed loans	Nil	20,022,508	-
		<u>21,223,147</u>	<u>1,200,639</u>
2016			
Mortgage loans	Properties	155,018	155,018
Secured loans			
- Vehicle loans	Vehicle	1,273,547	1,273,547
- Other loans	Other	919	919
- Government guaranteed loans	Nil	20,031,355	-
		<u>21,460,839</u>	<u>1,429,484</u>

Transactions are conducted under terms and conditions that are usual and customary to standard securities borrowing and lending activities.

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Market And Credit Risks (cont'd.)

(vii) Concentration Risk

An important element of managing both market and credit risks is to actively manage concentration to specific issuers, counterparties, industry sectors, countries and currencies. Both internal and regulatory limits are put in place and monitored to manage this risk. These limits are reviewed on a regular basis by the ALC. The Company's exposures are within the concentration limits set by the regulator. The Company actively manages its asset mix to ensure that there is no significant concentration of credit risk.

(viii) Sensitivity Analysis On Financial Risks

The sensitivity analysis below shows the impact on the Company's net profit after taxation by applying possible shocks to each key variable with all other variables held constant. While the co-movement of key variables can significantly affect the fair values and/or amortised cost of financial assets, to demonstrate the impact due to changes in each key variable, the variables are changed individually.

The impact on net profit after taxation represents the effect caused by changes in fair value of financial assets whose fair values are recorded in the income statement, and changes in valuation of insurance contract liabilities. The impact on equity represents the impact on net profit after taxation and the effect on changes in fair value reserves of financial assets.

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Market And Credit Risk (cont'd.)

(viii) Sensitivity Analysis On Financial Risks (cont'd.)

The table below shows the market risk sensitivity analysis:

Changes in variable	31 December 2017		31 December 2016	
	Impact on profit after taxation RM'000	Impact on equity* on equity* RM'000	Impact on profit after taxation RM'000	Impact on equity* on equity* RM'000
Equity (KLCI)				
+20%	-	8,093	-	6,101
-20%	-	(8,093)	-	(6,101)
Interest rate				
Yield curve +100 bps	(2,434)	(21,328)	(2,673)	(23,505)
Yield curve -100 bps	2,434	23,034	2,673	25,532
Credit spread				
Spread +100 bps	-	(16,822)	-	(18,593)
Spread -100 bps	-	18,361	-	20,403

* The impact on equity reflects the after tax impact, when applicable.

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Operational, Market Conduct And Compliance Risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives resulting from inadequate or failed internal processes and systems, human factors or external events.

Market Conduct risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives arising from its personnel and intermediaries not conducting themselves in accordance with ethical standards and in compliance with relevant laws and regulations governing insurance product for pre-sales, during sales and after sales process. It is synonymous with professional behaviour and customer's protection. There are four areas in which the Company continuously strengthen:

- Fit and Proper
- Sales Advisory Process
- Training and Competency
- Business Conduct

Compliance risk is any event or action that may potentially impact partly or completely the achievement of the Company's objectives, as a result of its failure to comply with applicable laws, regulations and standards. The applicable key compliance areas include:

- Laws, regulations and rules governing insurance business and regulated financial activities undertaken by the Company;
- Codes of practice promoted by industry associations;
- Anti-money laundering; and
- Countering of financing of terrorism.

The day-to-day management of operational, market conduct and compliance risk is effected through the maintenance of comprehensive internal controls, supported by an infrastructure of systems and procedures to monitor processes and transactions. The SMT reviews and monitors these issues at its monthly meetings. The Internal Audit team reviews the systems of internal control to assess their effectiveness and continued relevance, and reports at least quarterly to the Audit Committee. As an added measure, the risk appetite statement explicitly sets the Company's tolerance level to financial loss arising from operational, market conduct and compliance risk.

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Technology Risk

Technology risk is defined as risk related to any potential adverse outcome, damage, loss, disruption, violation, or failure arising from the use of or reliance on computer hardware, software, electronic devices, and networks.

The Company adopts a risk based approach in managing technology risks relating to data loss/leakage, system security vulnerabilities, inferior system acquisition and development, system breakdown and availability, outsourced vendor service delivery, privileged access misuse and technology obsolescence. Key risk indicators related to technology risks are reported to the Board on a regular basis. Independent assessment is performed by the Internal Audit team on the adequacy and effectiveness of the processes to manage technology risks. The risk appetite statement also explicitly sets the Company's tolerance level to financial loss arising from technology risks.

Fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Quoted market price (Level 1) RM	Valuation technique using observable inputs (Level 2) RM	Total RM
31 December 2017			
Assets measured at fair value on a recurring basis:			
AFS financial assets:			
Malaysian government securities	-	38,277,600	38,277,600
Debt securities	-	449,368,297	449,368,297
Equity securities	2,211,721	-	2,211,721
Unit and property trust funds	-	50,973,742	50,973,742
FVTPL financial assets:			
Debt securities	-	25,563,172	25,563,172
Equity securities	9,200	-	9,200
	<u>2,220,921</u>	<u>564,182,811</u>	<u>566,403,732</u>

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32. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Fair value hierarchy (cont'd.)

	Quoted market price (Level 1) RM	Valuation technique using observable inputs (Level 2) RM	Total RM
31 December 2016			
Assets measured at fair value on a recurring basis:			
AFS financial assets:			
Malaysian government securities	-	37,891,520	37,891,520
Debt securities	-	477,446,821	477,446,821
Equity securities	40,052,489	-	40,052,489
Unit and property trust funds	1,497,768	-	1,497,768
FVTPL financial assets:			
Debt securities	-	24,960,356	24,960,356
Equity securities	105,850	-	105,850
	<u>41,656,107</u>	<u>540,298,697</u>	<u>581,954,804</u>

Valuation techniques

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (2016: nil).

The following is a description of the method by which the fair values of financial instruments which are recorded at fair value are determined using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments:

AFS/FVTPL financial assets

The fair value of equity financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets at the close of business on the balance sheet date.

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Fair value hierarchy (cont'd.)

AFS/FVTPL financial assets (cont'd.)

Investments in financial instruments with embedded derivatives consist of investments in structured deposits. The fair values of structured deposits are determined by reference to banks' valuation at the close of business on the balance sheet date.

For investment in quoted unit and real estate investment trusts, fair values are determined by reference to published net asset values.

33. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2017, as prescribed under the RBC Framework is provided below:

	2017	2016
	RM	RM
Eligible Tier 1 Capital:		
Share capital (paid up)	100,000,000	100,000,000
Reserves, including retained earnings	<u>262,079,596</u>	<u>251,252,050</u>
	<u>362,079,596</u>	<u>351,252,050</u>
Tier 2 Capital:		
Eligible Reserves	<u>5,126,998</u>	<u>4,416,856</u>
Deductions	<u>(18,182,598)</u>	<u>(18,182,598)</u>
Total Capital Available	<u>349,023,996</u>	<u>337,486,308</u>

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34. CONTINGENT LIABILITIES

On 18 August 2010, the Company entered into a Sale and Purchase Agreement (“SPA” or the “Agreement”) with Tahan Insurance Malaysia Berhad (now known as Tahan Malaysia Berhad) (“Tahan”) to acquire certain assets and liabilities of general insurance business of Tahan.

On 1 January 2011, the Company completed the acquisition of certain assets and liabilities of the general insurance business of Tahan for a cash consideration of RM15 million, subject to adjustments to be made to the value of the acquired assets and liabilities upon finalisation of the acquisition.

In order to ascertain the adequacy of the claim liabilities of Tahan, especially the IBNR claims reserve as at 31 December 2010, the Company and Tahan had each appointed independent professional actuaries to provide an estimate of the total claim liabilities. Different views arose on the value to be ascribed to the IBNR component of total claim liabilities. The Company’s independent professional actuary estimated the value of the IBNR claims of Tahan as at 31 December 2010 to be approximately RM46.5 million, which was higher than the value estimated by Tahan’s independent professional actuary and used as the basis for determining the value of the IBNR claim liabilities as at the acquisition date.

On 29 December 2011, Tahan, via an appointed legal counsel, served an originating summons in the High Court of Malaya in Kuala Lumpur, making a claim against the Company for an amount of approximately RM21.8 million plus interest of 8% per annum.

On 22 February 2012, the High Court of Malaya in Kuala Lumpur approved the Company’s application for a stay of proceedings and the Company commenced action through arbitration. Both parties had agreed to leave the appointment of the arbitrator to the Kuala Lumpur Regional Centre for Arbitration (“KLRCA”).

The appointment of the arbitrator was made by Kuala Lumpur Regional Centre for Arbitration (“KLRCA”) on 7 January 2013. Since the appointment of the arbitrator, hearings were held between the Company, Tahan and the arbitrator.

On 24 January 2018, the Arbitrator had sought clarification from counsel on several aspects of the remedies sought by the claimant. The Arbitrator gave the directions to move the matter forward which both parties will agree on a list of issues to address and deliver the written submissions to Arbitrator by 30 March 2018.

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34. CONTINGENT LIABILITIES (CONT'D.)

The Directors of the Company are of the view that any possible obligation that may arise in respect of the disagreement between Tahan and the Company will be confirmed only by the outcome of the arbitration. The amount of the obligation, if any, cannot be measured with sufficient reliability as it is dependent on the assessment to be made by the independent actuary to be appointed by KLRCA.

The final outcome of the Terms of Settlement may have an impact on the purchase considerations and income statements of the Company should the IBNR claims reserve estimated by the Company on the date of acquisition differ materially from the assessment of the independent actuary appointed by KLRCA.

35 UPDATES ON MALAYSIAN COMPETITION COMMISSION ("MYCC")

On 22 February 2017, the Malaysian Competition Commission ("MyCC") issued its Proposed Decision on an alleged infringement by the General Insurance Association of Malaysia ("PIAM") and its 22 members under the Section 4(2)(a) of the Competition Act 2010 ("the Act"). MyCC's Proposed Decision is with respect to the agreement reached between PIAM and the Federation of Automobile Workshop Owners' Association of Malaysia ("FAWOAM") in respect to the trade discount rates for parts of certain vehicle makes and labour rates for workshops under the PIAM Approved Repairers Scheme.

As a result, MyCC has proposed various remedies on the general insurers, including financial penalties amounting to a total of RM213.45 million. The proposed financial penalty on the Company is RM2.95 million.

General insurers have been given until 5 April 2017 to submit written representations to the MyCC and to indicate if they wish to make an oral representation before the MyCC. The MyCC will make its final decision after having considered all representations and available information and evidence.

Pursuant to the first session of the oral representation on 16 October 2017 and 17 October 2017, the Commission had decided for the second session of the oral representation to be held on 12 December 2017 and 14 December 2017. During GEGM's oral representation on 14 December 2017, counsel had adopted the strategy of delivering the oral representation succinctly, focusing on the BNM Directive argument, and avoiding technical issues as much as possible.

The Commission fixed 29 January 2018 and 30 January 2018 for the oral representations of the remaining general insurers and BNM. BNM's Oral Representation will be held in a closed session and insurers and counsels will not be allowed to sit in.