HELLO

TO A SUSTAINABLE TOMORROW

Photo by : Ahar bin Tabe (visually impaired photographer)

2019
annual report

MSIG
Insurance that sees the heart in everything

A Member of MS&AD INSURANCE GROUP

SUSTAINABILITY

We possess tomorrow what we protect today.

At MSIG, we are passionate about the well-being of people as well as the ecosystem that sustains us. Supporting UN Sustainable Development Goals 3, 4, 11 and 13, we commit to sustainable efforts as part of our business and CSR practices.

Going above and beyond for our customers and stakeholders is part of our culture. Seeing the heart in everything, we ensure the fulfilment of needs, the protection and improvement of lives, and the preservation of environment for generations to come.

MSIG Malaysia supports the Sustainable Development Goals

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DIRECTORS' PROFILE

Dato' Mohd. Sallehuddin bin Othman

Dato' Mohd. Sallehuddin bin Othman joined MSIG Insurance (Malaysia) Bhd as an Independent Non-Executive Director in 2005 and was appointed the Chairman of the Board in March 2014. He holds professional accounting qualifications in Association of Chartered and Certified Accountants ("ACCA") and Chartered Institute of Management Accountants ("CIMA"), United Kingdom. He also graduated with a Master's Degree from City University, London in 1975. He is registered as a Chartered Accountant with Malaysia Institute of Accountants in 1981 and became a Fellow member of ACCA in 1983.

Dato' Mohd. Sallehuddin began his career with brief stints in various audit firms in Malaysia and United Kingdom, a statutory body and a major Government-linked company in Malaysia, before joining the Asian Development Bank based in Manila, Philippines from 1981 to 1986.

Upon returning to Malaysia in 1986, Dato' Mohd. Sallehuddin joined Permodalan Nasional Berhad in senior positions doing corporate services and human resources until 1994. From mid-1994 to 2000, Dato' Mohd. Sallehuddin was with UMW Holdings Berhad, initially as Executive Director, and subsequently as Group Managing Director. From 2001 until his retirement in 2006, he served as Group Managing Director of Malaysian Industrial Finance Berhad.

Post retirement, Dato' Mohd. Sallehuddin has served as an Independent Non-Executive Director of a few companies including a foreign Islamic bank. In addition to MSIG Insurance (Malaysia) Bhd, he is currently an Independent Director of a number of companies, notably MUFG Bank (Malaysia) Berhad, and a Public Interest Director in Federation of Investment Managers Malaysia, recognised by the Securities Commission Malaysia as a self-regulatory organisation.

Presently, Dato' Mohd. Sallehuddin serves as a member of the Board Nominations, Remuneration, Audit, Compliance & Risk Management and Investment Committees.

Pearl Chan Siew Cheng

Ms. Pearl Chan Siew Cheng joined the Board of MSIG Insurance (Malaysia) Bhd on 18 March 2014 as an Independent Non-Executive Director. She has 31 years of experience in the Malaysian fund management industry, having managed institutional money such as government funds, insurance funds, pension funds, charitable foundations and unit trust funds throughout her career.

Prior to her retirement in January 2008, Ms. Chan was the Deputy Chief Executive Officer of CIMB Principal Asset Management for one year, after a merger between CIMB and the Southern Bank Group. Before that, she pioneered SBB Asset Management, a wholly-owned subsidiary of the Southern Bank Group, which became the first commercial bank in Malaysia to have an asset management arm. She held the position of CEO for 17 years, and CEO/Chief Investment Officer for the first 14 years, leading a team of equity and fixed income fund managers. Before setting up SBB Asset Management, she was General Manager of Rashid Hussain Asset Management and a fund manager with Bumiputra Merchant Bankers Berhad for a total of 13 years.

During her career, she also spearheaded two major corporate integration exercises in 2003 and 2007, where she successfully completed the entire integration process, involving organisation and governance structures, human resources, administration and technical systems. Ms. Chan is a graduate in Economics from the University of Nottingham, England.

Presently, Ms. Chan serves as Chairman of the Board Nominations and Investment Committees and is a member of the Audit and Compliance & Risk Management Committees.

Dato' Muthanna bin Abdullah

Dato' Muthanna bin Abdullah joined the Board of MSIG Insurance (Malaysia) Bhd as an Independent Non-Executive Director on 12 March 2018. He is a Barrister of Middle Temple and an Advocate and Solicitor of the High Court of Malaya. He studied law at the University of Buckingham, England and was called to the Bar of England and Wales in 1982 and to the Malaysian Bar in 1983. He is a Consultant of Abdullah Chan & Co.

Currently, Dato' Muthanna is the Honorary Consul to Kuala Lumpur of the Republic of San Marino.

He is also a Director of Sapura Resources Berhad, Malaysian Life Reinsurance Group Berhad, Malaysian Rating Corporation Berhad, MSM Malaysia Holdings Berhad, a Trustee of The Habitat Foundation and Yayasan Siti Sapura Husin.

Presently, Dato' Muthanna serves as a member of the Board Nominations, Remuneration, Audit, Investment and Compliance & Risk Management Committees.

Iichiro Sadamoto

Mr. Iichiro Sadamoto joined the Board of MSIG Insurance (Malaysia) Bhd as an Independent Non-Executive Director on 1 October 2017. He is currently the Managing Director of Toyota Tsusho (Malaysia) Sdn Bhd. Prior to this, he had been the Group Leader of Parts Assembly Department of Toyota Tsusho Corporation since 2013.

A law graduate of Hiroshima University Japan, Mr. Sadamoto has more than 25 years of working experience in the automotive parts and parts assembly during his tenure in Toyota Tsusho Corporation. His previous work experience includes overseas postings where he worked at the Manila Branch, Philippines from 2002 to 2003 and Toyota Tsusho (Thailand) Co., Ltd from 2003 to 2007. He was also the President of TT Assembly (Thailand) Co., Ltd and TT Assembly East Co., Ltd from 2010 to 2013.

Presently, Mr. Sadamoto is the Chairman of the Board Remuneration Committee and serves as member of the Board Nominations, Audit and Compliance & Risk Management Committees.

Lim Tiang Siew

Mr. Lim Tiang Siew joined MSIG Insurance (Malaysia) Bhd as Independent Non-Executive Director on 15 December 2018. He retired as the Group Chief Internal Auditor of CIMB Group in March 2018, after serving 27 years in CIMB. Mr. Lim's experience and expertise of over 40 years covered internal and external auditing, accounting, corporate finance and advisory, corporate governance, and compliance. For more than half of his tenure in CIMB, Mr. Lim was a member of CIMB's top most management team, and a member of all its major risk committees.

Mr. Lim has been a member of the Malaysian Institute of Certified Public Accountants since January 1981 and is a Chartered Accountant of the Malaysian Institute of Accountants since November 1987. He was an examiner for the Malaysian Institute of Certified Public Accountants professional examinations in respect of a particular subject for some 15 years before being appointed as a reviewer for the same subject, a position which he still holds.

He joined Commerce International Merchant Bankers Berhad (now known as CIMB Investment Bank) in January 1991 as an assistant manager in the Corporate Finance Department before eventually becoming the Head for a number of years. After over 15 years as a Corporate Finance specialist and following the acquisition of Bumiputra-Commerce Bank by CIMB and the subsequent merger of Bumiputra-Commerce Bank with Southern Bank, Mr. Lim was appointed the Group Chief Financial Officer, a position he held for over 2 years before being appointed the Group Chief Internal Auditor.

Presently, Mr. Lim serves as Chairman of the Board Audit Committee and is a member of the Compliance & Risk Management Committee.

Loh Guat Lan

Ms. Loh Guat Lan joined the Board of MSIG Insurance (Malaysia) Bhd ("MSIG") as a Non-Independent Non-Executive Director on 1 October 2010 and is a member of the Board Investment Committee of MSIG. She is currently the Group Managing Director / Chief Executive Officer of Hong Leong Assurance ("HLA"), a subsidiary of HLA Holdings Sdn Bhd ("HLAH") wholly-owned by Hong Leong Financial Group Berhad ("HLFG"), the financial services arm of Hong Leong Group Malaysia. She was appointed to this position on 1 September 2009. She is also a Director of Hong Leong MSIG Takaful Berhad.

Ms. Loh holds a Bachelor of Science in Human Development (majoring in Food Nutrition) and is a Fellow Member of Life Management Institute ("FLMI"), Customer Service Management ("CSM") and Life Office Management ("LOMA"). She is also a Certified Financial Planner ("CFP") and Registered Financial Planner ("RFP").

Ms. Loh has over 30 years of extensive experience in the insurance industry, including agency management, branch management, and agency development and training. She was previously the Chief Operating Officer (Life Division) of HLA and prior to joining HLA, she was with American International Assurance Company Limited where her last position was Vice President & Senior Director of Agency (Malaysia).

Besides her role as the Chairman of HL Assurance Pte Ltd, Singapore, Ms. Loh is also a Director of Hong Leong Insurance (Asia) Limited, Hong Kong. She is currently the President of the Life Insurance Association of Malaysia ("LIAM") for 2019/2020, and a Board Member of the Financial Industry Collective Outreach ("FINCO") and Financial Services Professional Board ("FSPB").

Alan John Wilson

Mr. Alan Wilson has been the Chief Executive Officer of Singapore-based MSIG Holdings (Asia) since 2008. He also serves as Chairman or Director on the boards (or equivalent) of 18 MSIG related entities around the region, including Chairman of MSIG Berhad. Under Mr. Wilson's leadership, the MSIG network in Asia has expanded to 14 markets. He was honoured to be appointed as the first foreign Executive Officer of Mitsui Sumitomo Insurance Co Ltd (Japan) in April 2015 and became Deputy Head of its International Business Department in January 2020. Mr. Wilson has a sound executive management track record with over 40 years of experience in the insurance industry.

Prior to joining MSIG Asia, Mr. Wilson was the Asia CEO at Allianz from 1999 where he assumed overall responsibility for managing over 20 general, life and health insurance operations across 14 countries, and later served on several boards for Allianz and for other groups such as Parkway in Asia. Mr. Wilson joined Allianz from Guardian Royal Exchange Assurance Group where he was Asia Managing Director. Over the course of his 21 years there, he held various senior positions with progressive responsibilities, where he managed general and life insurance businesses in 11 countries.

A British national and a Singaporean Permanent Resident, Mr. Wilson has lived and worked in Asia since 1982 in various places, including Hong Kong, Indonesia, Pakistan and Singapore.

Mr. Wilson is a Fellow of the Chartered Insurance Institute (UK) and has a BA (Hons) in Economics and Economic History from the University of Liverpool, England.

Presently, Mr. Wilson serves as member of the Board Nominations Committee.

CORPORATE INFORMATION

BOARD NOMINATIONS COMMITTEE

Chairman: Pearl Chan Siew Cheng
Members: Dato' Mohd. Sallehuddin bin Othman
Dato' Muthanna bin Abdullah
Iichiro Sadamoto
Alan John Wilson

BOARD REMUNERATION COMMITTEE

Chairman: Iichiro Sadamoto
Members: Dato' Mohd. Sallehuddin bin Othman
Dato' Muthanna bin Abdullah

BOARD COMPLIANCE & RISK MANAGEMENT COMMITTEE

Chairman: Dato' Muthanna bin Abdullah
Members: Dato' Mohd. Sallehuddin bin Othman
Pearl Chan Siew Cheng
Iichiro Sadamoto
Lim Tiang Siew

BOARD AUDIT COMMITTEE

Chairman: Lim Tiang Siew
Members: Dato' Mohd. Sallehuddin bin Othman
Pearl Chan Siew Cheng
Dato' Muthanna bin Abdullah
Iichiro Sadamoto

BOARD INVESTMENT COMMITTEE

Chairman: Pearl Chan Siew Cheng
Members: Dato' Mohd. Sallehuddin bin Othman
Dato' Muthanna bin Abdullah
Loh Guat Lan
Chua Seck Guan
Takero Sawamura

EXTERNAL AUDITOR

KPMG PLT

REGISTERED OFFICE

Level 12, Menara Hap Seng 2,
Plaza Hap Seng,
No.1, Jalan P. Ramlee,
50250 Kuala Lumpur

TECHNICAL ADVISORS

Masayuki Fujii
Bachelor of Commerce

Yoshihiro Shibuya
Bachelor of Laws

Yoshihiro Okamoto
Bachelor of Laws

Masaharu Sato
Bachelor of Economics

Yu Oi
Bachelor of Economics

Daisuke Mizuguchi
Technical Servicing Certificate

Ken Shinagawa
Bachelor of Commerce

SENIOR MANAGEMENT

CHIEF EXECUTIVE OFFICER
Chua Seck Guan
ANZIIF (Snr Assoc)

DEPUTY CHIEF EXECUTIVE OFFICER
Takero Sawamura
Bachelor of Laws

CHIEF OPERATING OFFICER
Jennifer Hsu Chin Fen
LLB (Hons)

TECHNICAL ADVISOR
Masayuki Fujii
Bachelor of Commerce

EXECUTIVE VICE PRESIDENT
Finance, Pricing & Corporate Services
Soh Lai Sim
CA (M), CPA, FCTIM

SENIOR VICE PRESIDENT
Broking & Bancassurance / Affinity & Online
Ang Yien Chia
B.Sc (BA), DMII

SENIOR VICE PRESIDENT
Franchise & Direct Corporate
Victor Chen Fan Loan
ANZIIF (Assoc) CIP, DMII

SENIOR VICE PRESIDENT
IT, Digital & E-Commerce
Chin Jee Gwan
BSc (Hons), MSc

SENIOR VICE PRESIDENT
Compliance & Enterprise Risk Management
Chin Kong Meng
CA (M), FCPA (Aust), CFP

SENIOR VICE PRESIDENT
Claims & Reinsurance
Marianne Sow Mei Eng
FCII, FMII, Chartered Insurer

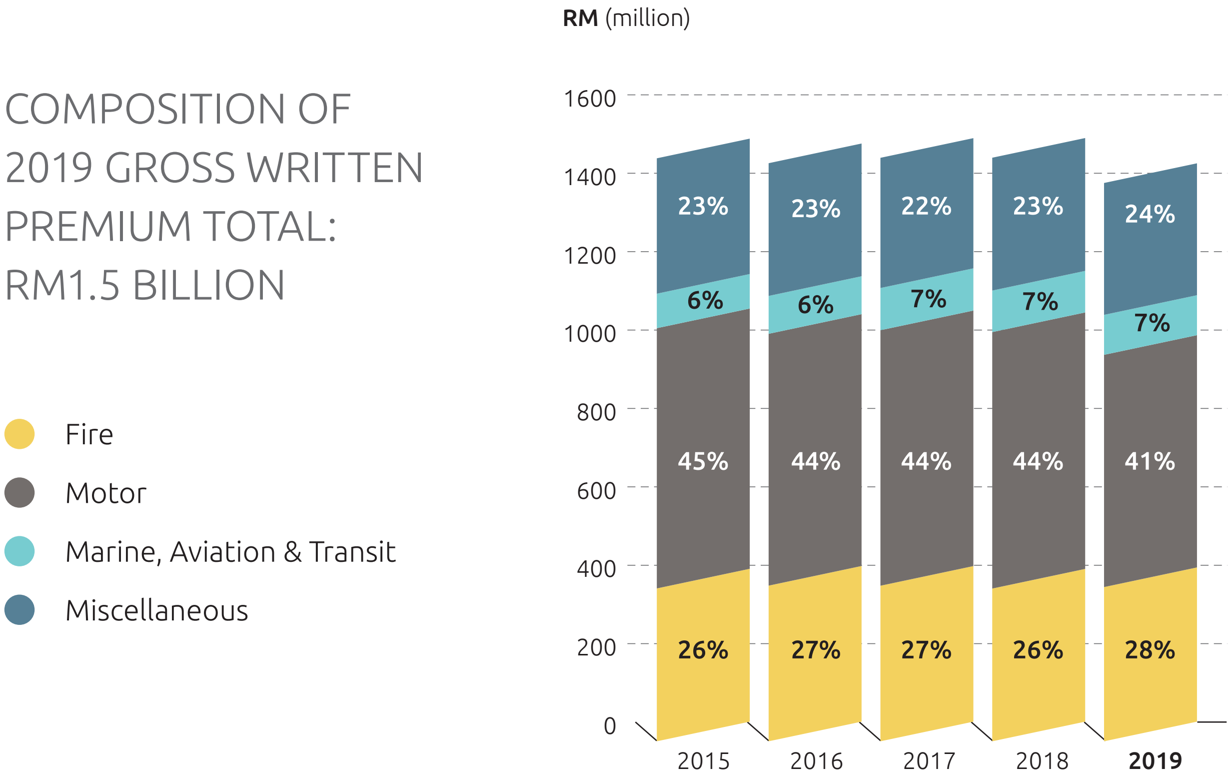
SENIOR VICE PRESIDENT
Underwriting
Amy Tan Gow Hou
B.Econ (Hons), FCII, FMII
Chartered Insurer

SENIOR VICE PRESIDENT
Branch Operations Support, PSD & Administration
Jessica Teh Siew Kheng

SENIOR VICE PRESIDENT
Agency
Teoh Guan Huat
MBA, ANZIIF (Snr Assoc) CIP, DMII

FINANCIAL HIGHLIGHTS

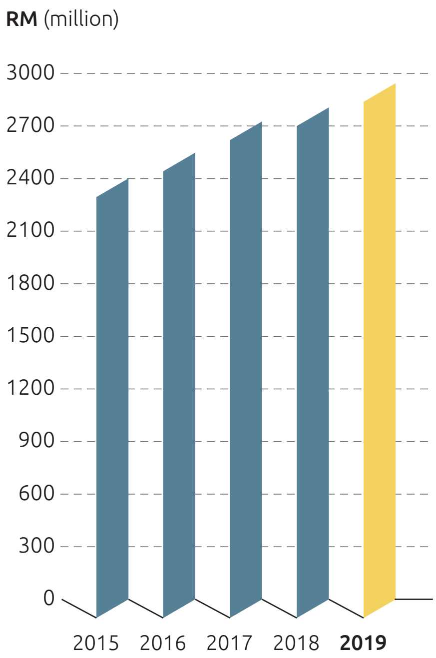
COMPOSITION OF 2019 GROSS WRITTEN PREMIUM TOTAL: RM1.5 BILLION



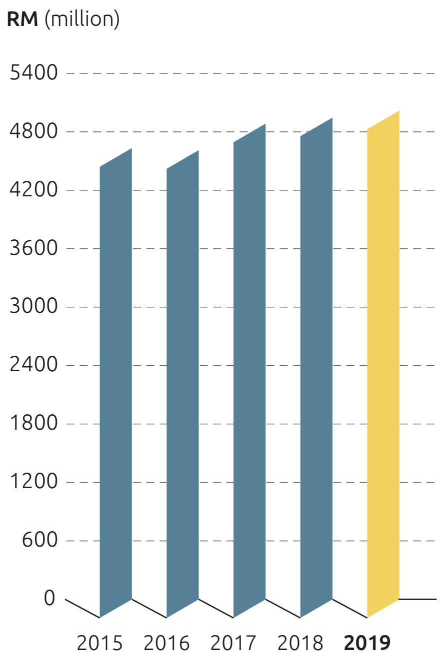
	RM'000				
Year Ended 31 December	**2015**	**2016**	**2017**	**2018**	**2019**
Paid-up Share Capital	333,143	333,143	*1,511,546	*1,511,546	*1,511,546
Total Equity	2,401,381	2,547,953	2,725,511	2,805,726	2,943,664
Total Assets	4,632,954	4,612,182	4,883,740	4,946,486	5,018,277
Gross Written Premium	1,535,370	1,522,503	1,536,673	1,536,931	1,470,388
Net Premium	1,233,630	1,227,640	1,248,539	1,257,240	1,193,634
Underwriting Profit	173,536	206,749	184,061	104,010	173,039
Investment & Other Income	88,299	106,801	124,944	108,321	118,890
Profit Before Taxation	261,835	313,550	309,005	212,331	291,929
Profit After Taxation	200,100	248,800	243,845	177,766	235,616
Earning Per Share (RM)	0.60	0.75	0.73	0.53	0.71
NTA Per Share (RM)	3.78	4.22	4.73	4.97	5.39
Total Workforce	1,149	1,160	1,155	1,118	1,101

** Share premium of RM1,178,403,000 was transferred to Share Capital in accordance with Section 618(2) of Companies Act 2016*

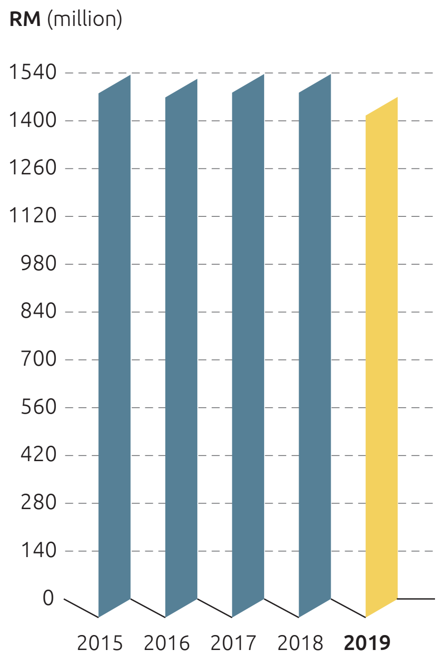
TOTAL EQUITY



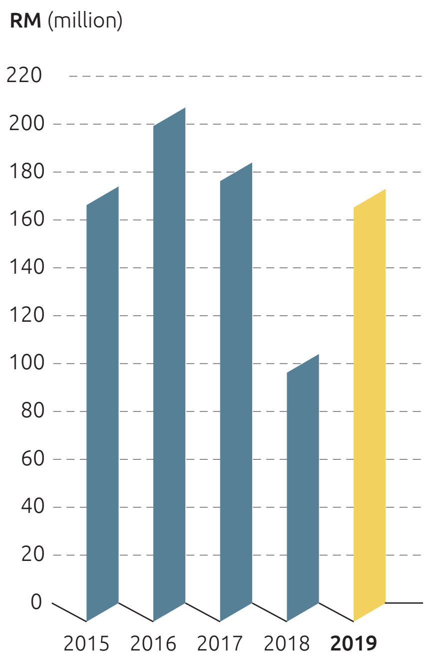
TOTAL ASSETS



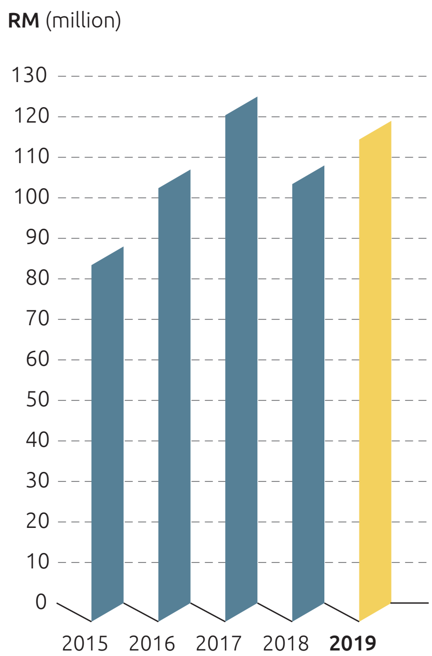
GROSS WRITTEN PREMIUM



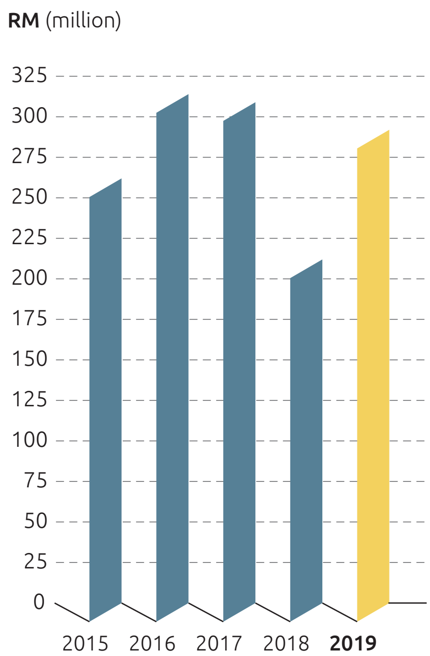
UNDERWRITING PROFIT



INVESTMENT & OTHER INCOME



PROFIT BEFORE TAXATION



FROM GOOD TO GREAT AND SUSTAINABLE

MSIG believes that education is a sustainable tool for the next generation. Reaching out to students in 9 Sabah schools, we actively promoted English literacy through FINCO Reads.

MSIG continually highlights the importance of road safety to Malaysians. As a sustainable effort toward re-enabling lives, we sponsored electronic prosthetic limbs for 3 traffic accident victims.

MSIG understands that a liveable house is a basic human need. We introduced a fire insurance package targeted at social enterprises, beginning with the Epic Homes Orang Asli housing project.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Financial Statements of the Company for the year ended 31 December 2019.

FINANCIAL REVIEW

I am delighted to report that MSIG has delivered a year of strong Underwriting Profit and Profit After Tax in 2019. The result testifies our strength and resilience to deliver despite intense competition within the general insurance industry since the commencement of the phased liberalisation in 2017.

Underwriting Profit
increased
66.4%
to
RM173.0
million

Profit After Tax
increased
32.5%
to
RM235.6
million

Earnings Per Share
increased
32.4%
to
70.7
sen

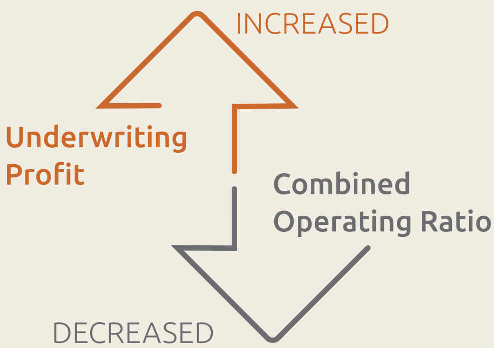
Whilst the Profits are commendable, the Company recorded a lower Gross Written Premium (GWP) of RM1.5 billion, a reduction of 4.3% compared to previous year.

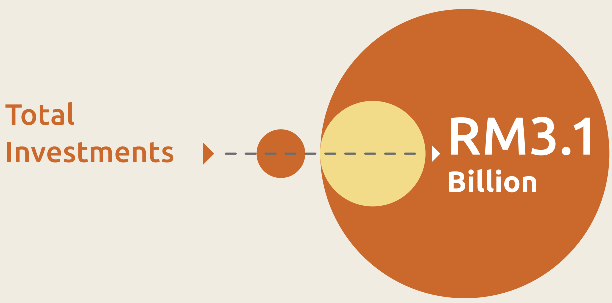
This is attributed mainly by Personal Motor (RM63.8 million) followed by Employers Liability (RM5.4 million) classes of business. The contraction in Personal Motor is contributed by a conscious decision to reduce loss-making franchise portfolios, and in Employers Liability it is led by the change in regulation that requires foreign workers to be insured under SOCSO instead of insurers. On a positive note, the growth in **Personal Property and Public Liability classes of business** has partially negated the contraction.

Noteworthy areas of growth in 2019

The Company's Underwriting Profit of RM173.0 million was significantly higher by RM69.0 million (66.4%) against 2018. The Company's Combined Operating Ratio of 87.1% in 2019 compared favourably to the 91.5% in 2018. This was mainly due to the Company's strategic focus on the bottom line, vigilant management of claims and expenses, and a well-managed transition for the phased liberalisation of motor and property classes of business.

The Company's total investments continued to grow in size to RM3.1 billion; an increase of RM165.3 million. The total investment and other income amounted to RM118.9 million. Investment income increased by RM9.7 million, resulting from higher income from Bonds, Bond Funds and Cash Funds. The Company registered a realised investment profit of RM7.3 million but suffered an investment impairment of RM15.0 million on its Equity portfolio due to the weak equity market.

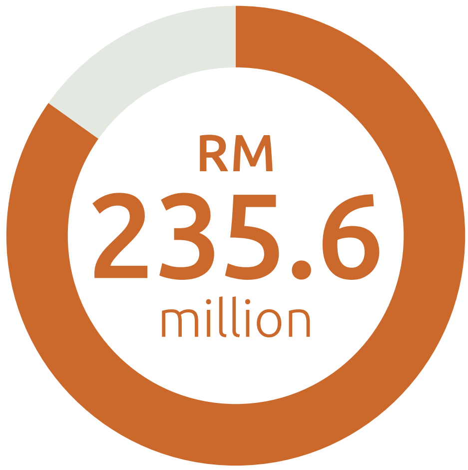




The year's performance has enabled the Company to achieve the following Profit Before & After Tax; reflecting a net earnings per share of 70.7 sen.

Profit Before Tax

Profit After Tax

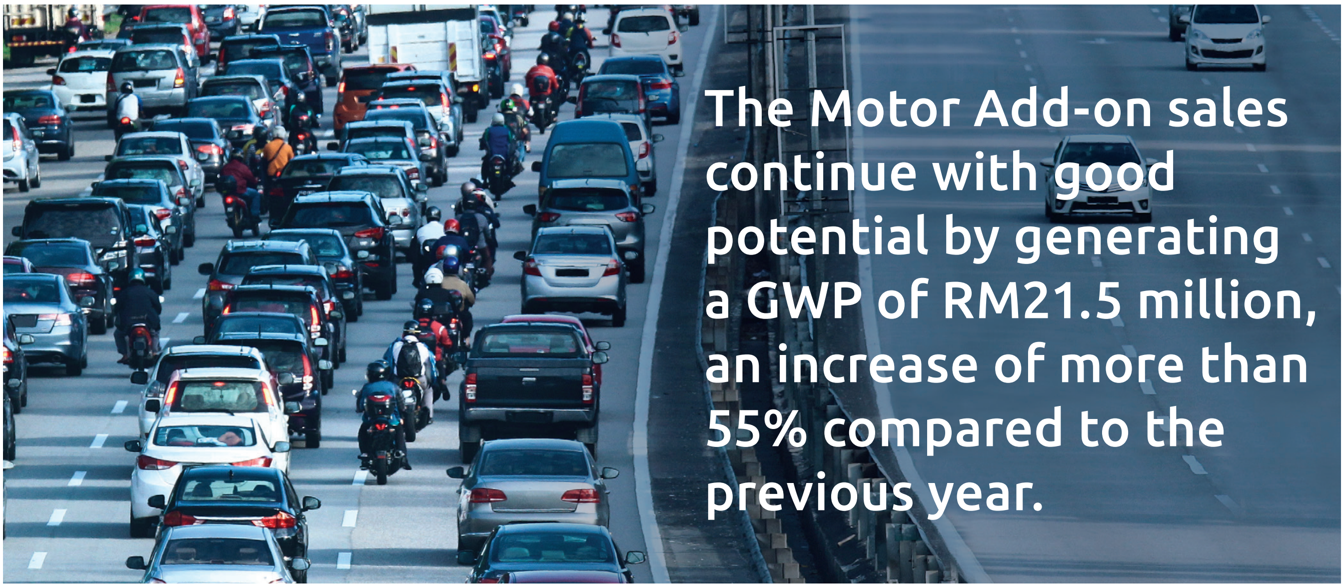


A final dividend of **RM123.3 million** in respect of the financial year 2018 was paid on 8 July 2019.

A single-tier interim dividend totalling **RM93.3 million** in respect of the financial year 2019 was paid on 5 March 2020.

Total Assets, including Goodwill, stood at RM5.02 billion as at financial year ended 2019, a notable increase of RM71.8 million from RM4.95 billion in 2018.

Phased Liberalisation



MSIG Motor Plus

Taking the next step to go beyond customers' evolving expectations, the Company also launched MSIG Motor Plus (MMP) Insurance, a convenient and affordable motor insurance package that provides extensive coverage beyond the basic comprehensive motor policy. It highlights an additional 7 motor add-on to benefit policyholders by protecting the vehicle owner from unexpected expenses and accidental death and injury.

MSIG Online

As we grow with digitally savvy consumers, the Company's digital distribution channel, MSIG Online is gaining positive traction, displaying close to double the previous growth. Consumers today increasingly expect to make their purchases online especially with the phased liberalisation where they tend to research options before deciding on an insurance plan. Additionally, to facilitate growing e-commerce activities, the Company has enhanced the MSIG Online payment capabilities by expanding available options including the Financial Process Exchange (FPX). Consumers have a choice to utilise their existing current or savings accounts, or the trending e-wallet as an alternative payment channel.

Product & Services Enhancement

Cyber SafeGuard

Providing peace of mind is at the core of our business. With growing concerns among enterprises and small business owners, two products were launched to address specific challenges. The first is Cyber SafeGuard, a product supported by renowned cyber insurance specialists MS Amlin, it provides a comprehensive plan-of-action in the event of a cyber-attack.

Post-Lost Benefit

The Company's first add-on for Fire Insurance, Post-Loss Benefit helps ease the burden of out-of-pocket expenses after an incident requiring claims.

Flexi SafeGuard

As the Company set sustainability in its sights, it launched two products aimed at addressing local concerns for specific target groups. The first, and the Company's first partnership with a social enterprise, is Flexi SafeGuard, providing a platform for sponsors of homes built for the underserved to continue supporting the communities with a dedicated fire insurance package tailored to their needs and budget. This aligns the Company, social enterprises, and the sponsors in support of United Nations Sustainable Development Goal (UN SDG) 11 toward building sustainable cities and communities.

Gluco SafeGuard

Gluco SafeGuard provides comprehensive coverage beyond normal health insurance plans for a wider variety of illnesses and treatments with additional protection and assurance for diabetic patients. Additionally, the Gluco SafeGuard is paired with an innovative Diabetes Management App which helps policyholders to monitor and manage their diabetes effectively. It also provides lifestyle and dietary recommendations to help policyholders achieve a healthier blood sugar level. Policyholders who dutifully and consistently perform their tests and enter the results in the App, enjoy a premium reduction of up to 40% upon their next policy renewal, subject to eligibility.

Mini PA

Earning a significant acknowledgement from Bank Negara Malaysia (BNM), the **Mini PA product launched in 2018 is now recognised as a Perlindungan Tenang product**, as it aligns with BNM's direction to ensure more people have easier access to financial protection.

Digitalisation

Redesigned for efficiency

In our efforts to improve customer experience, the Customer Communication Management (CCM) system rolled out the latest motor insurance renewal notices. Redesigned to be simpler and relevant for today's usage, it is part of the continuous process to refine customer touch points.

Toward the next level

In our digitalisation journey, the Company has extended its Application Programming Interface (API) service that allows integration and collaboration with digital partners. This will give the Company more opportunities to leverage these partnerships to expand our customer base, including venturing into marketing opportunities and tie-ups with an e-wallet partner.

BNM also issued a Risk Management in Technology (RMiT) policy document for Financial Institutions to strengthen technological and cyber resilience, and maintain confidence in the financial system. As we expand our digital capabilities, the Company recognises the growing risk and strives to improve our information and cyber security.

Employee Voice Survey

Sustainable Engagement

89%

MSIG Malaysia participated in the 7th MSIG Asia Employee Voice Survey (EVS) conducted from 14 October to 1 November 2019. A total of 1,068 staff or 98% were involved in the exercise. The results were positive in achieving 89% in Sustainable Engagement showing that the sense of enablement and being energised have improved and are strong compared to overall Financial Services Insurance Norm (Global) and the Malaysia Norm. Sustainable Engagement is a new score to measure Employee Engagement, Employee Enablement and Employee Energy correlating to the employees' physical, interpersonal and emotional well-being at work.

What are our key strengths?

It appears that feedback given during the 2017 EVS has been generally well considered and expeditiously acted on by immediate managers. In sum, it shows that our key strengths are in Communication, Efficiency, Collaboration & Teamwork and Learning & Development.

Well done!

Whilst we continue to improve sustainable engagements in the work place, we thank the employees for the encouraging feedback and contributions in achieving the Company's business objectives.

People Development

We believe great people make a great organisation. The Company exceeded the target in ensuring that managers and executives with underwriting or claims authority were insurance qualified by the end of 2019. Efforts have also been made to encourage communication skills and command of the English language to ensure that the best service is rendered to our customers.

Awards & Recognition

MSIG Malaysia awarded in 2019 MS&AD Sustainability Contest

We build on bold ideas. In the 2019 Sustainability Contest organised by the MS&AD Group, MSIG Malaysia shared the Best Prize award for its Flexi SafeGuard Fire Insurance for Social Enterprises (the first partnership with Epic Homes), selected from over 300 sustainability initiatives submitted by group members worldwide. On a mission to "develop a vibrant society and help to secure a sound future for the planet", sustainability is an important topic for the Group. Likewise, the virtue of Creating Shared Value in aligning business and community for mutual benefit.

Sustainability

MSIG Malaysia supports 4 UN SDG

We differentiate by our focus on sustainability. The Company championed 4 UN SDG, one of which being road safety with the goal to halve road traffic fatalities by 2030. Throughout the year, brand related communications were centred around the road safety theme (**UN SDG 3 – Good Health and Well-Being**) to serve as reminders to be responsible road users.

Road safety theme in our communications

Prosthetic limbs for road accident victims

In another initiative, the Company collaborated with self-taught innovative philanthropist, Sujana Rejab and sponsored 3 sets of prosthetic limbs for road traffic accident victims. This exercise is not only to raise awareness on road safety, but to do what insurance does best; restore the confidence and resources to rebuild lives.

Photography by the visually impaired

The Company further extended paid-opportunities to 4 visually impaired photographers to capture their expressions on road safety for the 2020 diary and calendars. This was a dual UN SDG effort to build sustainable communities, promoting equality among members of our society (**UN SDG 11 – Sustainable Cities and Communities**).

Also under UN SDG 11, the Company developed a dedicated fire insurance package for social enterprises to protect the underserved as well as participated in 2 home builds with Epic Homes. In continuous support for our Corporate Social Responsibility (CSR) partner, Food Aid Foundation, the Company has contributed RM10,000 for flood relief in Kota Bharu, Kelantan. The contribution was used to fund mobile kitchens to feed 750 families from 150 villages.

From built homes to fire insurance to flood relief

Together with FINCO we stimulate quality education

The Company continued the partnership with Financial Industry Collective Outreach (FINCO) in their activities – FINCO Reads (promoting English), FINCO Mentor (widening life aspirations of underprivileged children) and FINCO Legend (inspirational video interviews of key financial industry leaders for students). The Company was recognised again by BNM and FINCO for sending the most volunteers to Sabah for the educational efforts in 2019. Now under the banner of **UN SDG 4 - Quality Education**, the relationship with FINCO led to a partnership with MyKASIH foundation sponsoring 130 student bursaries for underprivileged children. The bursaries are for school supplies and food, relieving the burden on families and keeping their children in school.

Pitching in and protecting the mangroves with Malaysian Nature Society

Climate change is a global challenge which both BNM and MSIG Holdings (Asia) are championing. In Malaysia, mangroves are not only a place for biodiversity to thrive but play a vital role in protecting the environment especially in mitigating flood damages in prone areas. The Company ran a pilot project collaborating with Malaysian Nature Society (MNS) in alignment with **UN SDG 13 (Climate Action)** and led a team of 23 staff in a mangrove reforestation event in Pahang. Building on our experience, we will continue to pursue this in 2020.

OUTLOOK

In 2020, the Company will continue to advance in the intense competitive environment arising from the liberalisation of Fire & Motor products. The key areas that will be drivers for 2020 are digitalisation and technology, product development, claims management, robust pricing and the use of data analytics. The Malaysian and global economies continue to face challenges in this modest growth and low interest rates environment. As of late, conditions are further dampened by the COVID-19 pandemic which has greatly affected global communities on an unprecedented scale.

Amidst the ongoing uncertainties, the Company will be vigilant and focus on driving additional value, not only on profitable segments, but also creating shared value in supporting the United Nations Sustainable Development Goals and in alignment with MS&AD's commitment and BNM's direction.

MSIG will remain dedicated to withstand the moderate outlook and reaffirm the commitment to practice sound management and innovation in order to deliver and be responsive to customer needs.

Assessing our strategies and steps as planned, I am confident the Company will ride the tides in 2020 and achieve its strategic goals through prudent action.

2020 Key Drivers

Digitalisation & Technology

Product Development

Claims Management

Robust Pricing

Data Analytics

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank Bank Negara Malaysia and the relevant Regulatory Authorities for their sound guidance and advice.

We would also like to express our gratitude and appreciation to our valued intermediaries, clients and business partners for their strong, continuous support in 2019. The Board also wishes to extend its appreciation to the Senior Management Team and staff for their dedication and commitment to continuous improvements in line with the Company's core values.

I would like to extend my thanks to my fellow Directors for their continued support and valuable inputs in our corporate governance of the Company as I look forward to the year ahead.

Dato' Mohd. Sallehuddin bin Othman
CHAIRMAN

PENYATA PENGERUSI

Bagi pihak Lembaga Pengarah, saya dengan sukacitanya membentangkan Laporan Tahunan dan Penyata Kewangan Syarikat bagi tahun berakhir 31 Disember 2019.

TINJAUAN KEWANGAN

Saya dengan senang hati melaporkan bahawa MSIG telah menyampaikan tahun yang mencapai Keuntungan Taja Jamin dan Keuntungan Selepas Cukai yang kukuh pada tahun 2019. Keputusan ini membuktikan daya kekuatan dan ketahanan kami untuk pencapaian ini walaupun terdapat persaingan yang sengit dalam industri insurans am sejak liberalisasi berfasa bermula pada tahun 2017.

Keuntungan Taja Jamin
meningkat
66.4%
kepada
RM173.0
juta

Keuntungan Selepas Cukai
meningkat
32.5%
kepada
RM235.6
juta

Perolehan Setiap Saham
meningkat
32.4%
kepada
70.7
sen

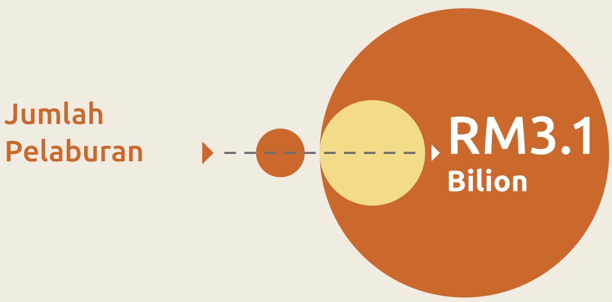
Walaupun Keuntungan terpuji, Syarikat mencatat Premium Bertulis Kasar (GWP) yang lebih rendah sebanyak RM1.5 bilion, iaitu penurunan sebanyak 4.3% berbanding tahun sebelumnya.

Ini berkaitan terutamanya dengan kelas perniagaan Motor Peribadi (RM63.8 juta) diikuti oleh Liabiliti Majikan (RM5.4 juta). Penguncupan dalam Motor Peribadi disumbangkan oleh keputusan sedar untuk mengurangkan portfolio francais yang merugikan, sementara Liabiliti Majikan dipengaruhi oleh perubahan peraturan yang mengehendaki pekerja asing diinsuranskan di bawah PERKESO bukannya syarikat insurans. Secara positif, pertumbuhan **kelas perniagaan Harta Persendirian dan Liabiliti Awam** menyangkal sebahagian penguncupan tersebut.

Bidang pertumbuhan yang patut diberi perhatian pada tahun 2019

Keuntungan Taja Jamin Syarikat sebanyak RM173.0 juta adalah jauh lebih tinggi sebanyak RM69.0 juta (66.4%) berbanding tahun 2018. Kadar Kendalian Digabungkan Syarikat sebanyak 87.1% pada tahun 2019 juga memberangsangkan berbanding dengan 91.5% pada tahun 2018. Ini disebabkan terutamanya oleh fokus Syarikat yang strategik pada perolehan bersih, pengurusan tuntutan dan perbelanjaan yang berhati-hati, dan peralihan yang dikendalikan dengan baik untuk liberalisasi berfasa kelas perniagaan motor dan harta.

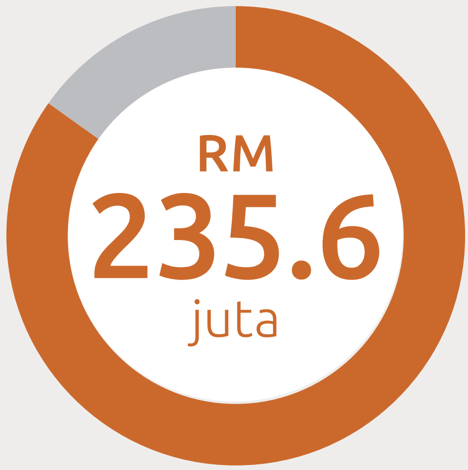
Jumlah pelaburan Syarikat terus meningkat menjadi RM3.1 bilion; peningkatan sebanyak RM165.3 juta. Jumlah pelaburan dan pendapatan lain adalah sebanyak RM118.9 juta. Pendapatan pelaburan meningkat sebanyak RM9.7 juta, berikutan pendapatan yang lebih tinggi daripada Bon, Dana Bon dan Dana Tunai. Syarikat mencatatkan keuntungan pelaburan terealisasi sebanyak RM7.3 juta tetapi mengalami kemerosotan pelaburan sebanyak RM15.0 juta pada portfolio Ekuiti berikutan pasaran ekuiti yang lemah.



Prestasi tahun ini membolehkan Syarikat mencapai Keuntungan Sebelum & Selepas Cukai seperti yang berikut; mencerminkan perolehan bersih setiap saham sebanyak 70.7 sen.

Keuntungan Sebelum Cukai

Keuntungan Selepas Cukai



Dividen akhir berjumlah
RM123.3 juta
bagi tahun kewangan 2018 telah dibayar pada 8 Julai 2019.

Dividen interim satu peringkat berjumlah
RM93.3 juta
bagi tahun kewangan 2019 telah dibayar pada 5 Mac 2020.

Jumlah Aset, termasuk Muhibah, berjumlah RM5.02 bilion pada tahun kewangan berakhir 2019, iaitu peningkatan yang ketara sebanyak RM71.8 juta daripada RM4.95 bilion pada tahun 2018.

Liberalisasi Berfasa

MSIG Motor Plus

Sebagai langkah seterusnya yang diambil untuk melampaui jangkaan pelanggan yang sentiasa berkembang, Syarikat juga melancarkan Insurans MSIG Motor Plus (MMP), iaitu pakej insurans motor yang mudah dan berpatutan yang memberi perlindungan ekstensif melebihi polisi motor menyeluruh asas. Polisi ini menyerlahkan 7 perlindungan tambahan motor untuk memberi manfaat kepada pemegang polisi dengan melindungi pemilik kenderaan daripada perbelanjaan yang tidak dijangka serta kematian dan kecederaan akibat kemalangan.

MSIG Online

Ketika kami berkembang bersama dengan pengguna yang mahir secara digital, saluran pengedaran digital Syarikat, MSIG Online mendapat daya tarikan positif, menunjukkan hampir dua kali ganda pertumbuhan sebelumnya. Pengguna hari ini semakin berharap untuk melakukan pembelian secara dalam talian terutama dengan liberalisasi berfasa dimana mereka cenderung untuk meneliti pilihan sebelum membuat keputusan berkenaan pelan insurans. Selain itu, untuk memudahkan aktiviti e-dagang yang semakin berkembang, Syarikat telah meningkatkan keupayaan pembayaran MSIG Online dengan memperluas pilihan yang tersedia termasuk Financial Process Exchange (FPX). Pengguna mempunyai pilihan untuk menggunakan akaun semasa atau akaun simpanan mereka yang sedia ada, atau e-dompet yang menjadi tren sebagai saluran pembayaran alternatif.

Penambahbaikan Produk & Perkhidmatan

Cyber SafeGuard

Memberi ketenangan minda adalah teras perniagaan kami. Dengan kebimbangan yang semakin meningkat dalam kalangan pengusaha dan pemilik perniagaan kecil, dua produk telah dilancarkan untuk menangani masalah tertentu. Yang pertama ialah Cyber SafeGuard, produk yang disokong oleh pakar insurans siber terkenal MS Amlin, Cyber SafeGuard menyediakan rancangan tindakan yang menyeluruh sekiranya berlaku serangan siber.

Manfaat Pasca-Kerugian

Perlindungan tambahan pertama untuk Insurans Kebakaran Syarikat, Manfaat Pasca-Kerugian membantu meringankan beban perbelanjaan duit poket sendiri selepas berlaku kejadian yang memerlukan tuntutan.

Flexi SafeGuard

Ketika Syarikat terus memberi fokus kepada kemampanan, ia melancarkan dua produk yang bertujuan untuk menangani masalah tempatan untuk kumpulan sasaran tertentu. Yang pertama, dan yang juga merupakan kerjasama kali pertama Syarikat dengan perusahaan sosial, ialah Flexi SafeGuard, yang menyediakan platform untuk penaja kediaman yang dibina bagi mereka yang kurang berkemampuan untuk terus menyokong masyarakat dengan pakej insurans kebakaran khusus yang disesuaikan dengan keperluan dan belanjawan mereka. Ini memberi pelarasan antara Syarikat, perusahaan sosial, dan penaja dalam menyokong Matlamat Pembangunan Mampan Pertubuhan Bangsa-Bangsa Bersatu (UN SDG) 11 ke arah membina bandar dan masyarakat yang mampan.

Gluco SafeGuard

Gluco SafeGuard menyediakan perlindungan menyeluruh melebihi pelan insurans kesihatan biasa untuk pelbagai jenis penyakit dan rawatan dengan perlindungan dan jaminan tambahan untuk pesakit diabetes. Selain itu, Gluco SafeGuard digandingkan dengan Aplikasi Pengurusan Diabetes yang inovatif yang membantu pemegang polisi untuk memantau dan menguruskan diabetes mereka dengan berkesan. Aplikasi ini juga memberikan cadangan gaya hidup dan diet untuk membantu pemegang polisi mencapai tahap gula darah yang lebih sihat. Pemegang polisi yang secara tekun dan konsisten melakukan ujian mereka dan memasukkan hasilnya dalam Aplikasi, boleh menikmati pengurangan premium sehingga 40% ketika pembaharuan semula polisi mereka yang berikutnya, tertakluk kepada kelayakan.

Mini PA

Produk yang mendapat pengiktirafan yang signifikan daripada Bank Negara Malaysia (BNM), iaitu **Mini PA yang dilancarkan pada tahun 2018 kini diakui sebagai produk Perlindungan Tenang**, kerana ia sejajar dengan hala tuju BNM untuk memastikan lebih banyak orang mendapat akses lebih mudah kepada perlindungan kewangan.

Digitalisasi

Direka semula untuk kecekapan

Dalam usaha kami untuk meningkatkan pengalaman pelanggan, sistem Pengurusan Komunikasi Pelanggan (CCM) telah melancarkan notis pembaharuan semula insurans motor terkini. Direka semula untuk menjadi lebih ringkas dan relevan untuk penggunaan hari ini, ia adalah sebahagian proses berterusan untuk memperhalusi titik sentuh pelanggan.

Menuju ke tahap seterusnya

Dalam perjalanan digitalisasi kami, Syarikat telah memperluas perkhidmatan Antara Muka Pengaturcaraan Aplikasi (API) yang membolehkan integrasi dan kerjasama dengan rakan niaga digital. Ini membolehkan Syarikat untuk memanfaatkan lebih banyak peluang perkongsian bagi memperluas pangkalan pelanggan kami, termasuk menceburkan diri dalam peluang pemasaran dan menjalin hubungan dengan rakan niaga e-dompet.

BNM juga mengeluarkan dokumen dasar Pengurusan Risiko dalam Teknologi (RMiT) untuk Institusi Kewangan bagi mengukuhkan daya tahan teknologi dan siber, dan mempertahankan keyakinan terhadap sistem kewangan. Ketika kami mengembangkan keupayaan digital kami, Syarikat menyedari akan risiko yang semakin meningkat dan berusaha untuk menambah baik keselamatan maklumat dan siber kami.

Tinjauan Suara Pekerja

Penglibatan Mampan

89%

MSIG Malaysia mengambil bahagian dalam Tinjauan Suara Pekerja MSIG Asia (EVS) ke-7 yang dijalankan dari 14 Oktober hingga 1 November 2019. Seramai 1,068 kakitangan atau 98% terlibat dalam tinjauan ini. Hasilnya adalah positif dengan pencapaian 89% dalam Penglibatan Mampan yang menunjukkan bahawa rasa kebolehupayaan dan kecergasan telah bertambah baik dan adalah kukuh berbanding keseluruhan Norma Insurans Perkhidmatan Kewangan (Global) dan Norma Malaysia. Penglibatan Mampan adalah skor baharu untuk mengukur Penglibatan Pekerja, Kebolehupayaan Pekerja dan Kecergasan Pekerja yang berkaitan dengan kesejahteraan fizikal, interpersonal dan emosi pekerja di tempat kerja.

Apakah kekuatan utama kami?

Maklum balas yang diberikan semasa EVS 2017 secara umum nampaknya telah dipertimbangkan dengan baik dan diambil tindakan pantas oleh pengurus berkaitan. Ringkasnya, ia menunjukkan bahawa kekuatan utama kami adalah dalam Komunikasi, Kecekapan, Kerjasama & Kerja Berpasukan serta Pembelajaran & Pembangunan.

Tahniah!

Ketika kami terus meningkatkan penglibatan mampan di tempat kerja, kami ingin merakamkan ucapan terima kasih kepada pekerja-pekerja atas maklum balas dan sumbangan yang menggalakkan dalam mencapai objektif perniagaan Syarikat.

Pembangunan Insan

Kami yakin orang yang hebat turut menjadikan sesebuah organisasi itu hebat. Syarikat telah mengatasi sasaran dalam memastikan bahawa pengurus dan eksekutif yang mempunyai kuasa taja jamin atau tuntutan telah memegang tauliah insurans pada akhir tahun 2019. Usaha juga telah dilakukan untuk mendorong kemahiran komunikasi dan penguasaan bahasa Inggeris untuk memastikan perkhidmatan yang terbaik diberikan kepada pelanggan kami.

Anugerah & Pengiktirafan

MSIG Malaysia menerima anugerah dalam Pertandingan Kemampanan MS&AD 2019

Kami berani mengambil idea baharu. Dalam Pertandingan Kemampanan 2019 yang dianjurkan oleh Kumpulan MS&AD, MSIG Malaysia berkongsi anugerah Hadiah Terbaik bagi Insurans Kebakaran Flexi SafeGuard bagi Perusahaan Sosial (kerjasama pertama dengan Epic Homes), yang dipilih daripada lebih 300 inisiatif kemampanan yang dikemukakan oleh ahli kumpulan di seluruh dunia. Dalam misi untuk "membangunkan masyarakat yang cergas dan membantu menjamin masa depan yang baik untuk planet ini", kemampanan ialah topik penting bagi Kumpulan kami. Begitu juga, kebajikan dalam Mewujudkan Nilai Bersama dalam menyelaraskan perniagaan dan masyarakat untuk kepentingan bersama.

Kemampanan

MSIG Malaysia menyokong 4 UN SDG

Fokus kami terhadap kemampanan menjadi dasar yang membezakan kami. Syarikat memperjuangkan 4 UN SDG, salah satunya adalah keselamatan jalan raya dengan tujuan untuk mengurangkan separuh daripada kematian di jalan raya menjelang tahun 2030. Sepanjang tahun ini, komunikasi berkaitan jenama berpusat pada tema keselamatan jalan raya (**UN SDG 3 - Kesihatan dan Kesejahteraan Baik**) untuk dijadikan peringatan kepada pengguna jalan raya untuk lebih bertanggungjawab.

Tema keselamatan jalan raya dalam komunikasi kami

Anggota badan prostetik untuk mangsa kemalangan jalan raya

Dalam inisiatif lain, Syarikat bekerjasama dengan dermawan inovatif yang belajar sendiri, Sujana Rejab dan menaja 3 set anggota badan prostetik untuk mangsa kemalangan jalan raya. Latihan ini bukan hanya untuk meningkatkan kesedaran mengenai keselamatan jalan raya, tetapi melakukan apa yang terbaik dilakukan oleh insurans; mengembalikan keyakinan dan sumber untuk membina semula kehidupan.

Fotografi oleh jurugambar cacat penglihatan

Syarikat memperluas peluang berbayar kepada 4 jurugambar yang cacat penglihatan untuk mengabadikan ekspresi mereka tentang keselamatan jalan raya untuk buku harian dan kalendar 2020. Ini ialah usaha serampang dua mata UN SDG dalam membina masyarakat mampan, mempromosikan kesaksamaan dalam kalangan anggota masyarakat kita (**UN SDG 11 - Bandar dan Masyarakat Mampan**).

Di samping itu, di bawah UN SDG 11, Syarikat telah membangunkan pakej insurans kebakaran khusus bagi perusahaan sosial untuk melindungi mereka yang kurang berkemampuan serta terlibat dalam 2 rumah yang dibina melalui Epic Homes. Sebagai sokongan berterusan untuk rakan Tanggungjawab Sosial Korporat (CSR) kami, Food Aid Foundation, Syarikat telah menyumbang sebanyak RM10,000 untuk bantuan banjir di Kota Bharu, Kelantan. Sumbangan itu digunakan untuk membiayai dapur bergerak yang menyediakan makanan kepada 750 keluarga dari 150 buah kampung.

Dari membina rumah hingga insurans kebakaran dan bantuan banjir

Bersama FINCO kami semarakkan pendidikan berkualiti

Syarikat meneruskan kerjasama dengan Financial Industry Collective Outreach (FINCO) dalam aktiviti mereka - FINCO Reads (mempromosikan bahasa Inggeris), FINCO Mentor (memperluas aspirasi hidup kanak-kanak kurang bernasib baik) dan FINCO Legend (video inspirasi wawancara pemimpin industri kewangan utama untuk pelajar). Syarikat ini sekali lagi menerima pengiktirafan daripada BNM dan FINCO kerana menghantar sukarelawan paling banyak ke Sabah untuk usaha pendidikan pada tahun 2019. Kini di bawah panji **UN SDG 4 - Pendidikan Berkualiti**, hubungan dengan FINCO membawa kepada kerjasama dengan yayasan MyKASIH melalui tajaan dermasiswa untuk 130 orang pelajar yang kurang berkemampuan. Dermasiswa tersebut adalah untuk keperluan sekolah dan makanan, meringankan beban keluarga dan membolehkan anak-anak mereka meneruskan persekolahan.

Menyumbang dan melindungi paya bakau dengan Persatuan Pencinta Alam Malaysia

Perubahan iklim adalah cabaran global yang diperjuangkan oleh BNM dan MSIG Holdings (Asia). Di Malaysia, paya bakau bukan hanya tempat untuk biodiversiti berkembang subur tetapi memainkan peranan penting dalam melindungi alam sekitar terutama dalam mengatasi kerosakan di kawasan yang sering dilanda banjir. Syarikat menjalankan projek rintis secara bekerjasama dengan Persatuan Pencinta Alam (MNS) selaras dengan **UN SDG 13 (Tindakan Iklim)** dan mengetuai sepasukan 23 kakitangan dalam acara penghutanan semula paya bakau di Pahang. Bersandarkan pengalaman kami, kami akan meneruskan usaha ini pada tahun 2020.

TINJAUAN

Pada tahun 2020, Syarikat akan terus maju dalam persekitaran persaingan yang sengit berikutan liberalisasi produk Kebakaran & Motor. Bidang utama yang akan menjadi pemacu bagi 2020 adalah digitalisasi dan teknologi, pembangunan produk, pengurusan tuntutan, harga berkesan dan penggunaan analisis data. Ekonomi Malaysia dan global terus menghadapi cabaran dalam persekitaran pertumbuhan sederhana dan kadar faedah rendah. Sejak akhir-akhir ini, keadaan semakin diburukkan oleh wabak COVID-19 yang telah memberi kesan kepada masyarakat global pada skala yang belum pernah terjadi sebelumnya.

Di tengah-tengah ketidakpastian yang berterusan, Syarikat akan berwaspada dan memberi fokus untuk mendorong nilai tambah, bukan hanya pada segmen yang menguntungkan, tetapi juga mewujudkan nilai bersama dalam menyokong Matlamat Pembangunan Mampan Bangsa-Bangsa Bersatu dan sejajar dengan komitmen MS&AD dan hala tuju BNM.

MSIG akan terus berdedikasi untuk berhadapan dengan tinjauan sederhana dan menegaskan lagi komitmen untuk mengamalkan pengurusan dan inovasi yang mantap agar dapat memenuhi dan responsif terhadap kehendak pelanggan.

Menilai strategi dan langkah kami seperti yang dirancang, saya yakin Syarikat akan mampu mengharungi cabaran pada tahun 2020 dan mencapai matlamat strateginya melalui tindakan yang berhemah.

Pemacu Utama 2020

Digitalisasi & Teknologi

Pembangunan Produk

Pengurusan Tuntutan

Harga Berkesan

Analisis Data

PENGHARGAAN

Bagi pihak Lembaga, saya ingin mengucapkan terima kasih kepada Bank Negara Malaysia dan Pihak Berkuasa Pengawalseliaan berkenaan untuk panduan dan nasihat mereka.

Kami juga ingin merakamkan ucapan terima kasih dan penghargaan kami kepada para perantara, pelanggan dan rakan perniagaan kami yang dihargai atas sokongan kukuh mereka pada tahun 2019. Lembaga Pengarah juga ingin memanjangkan penghargaannya kepada Pasukan Pengurusan Kanan dan kakitangan atas dedikasi dan komitmen mereka terhadap peningkatan berterusan selaras dengan nilai teras Syarikat.

Saya ingin mengucapkan terima kasih kepada rakan-rakan Pengarah saya atas sokongan berterusan dan input berharga mereka dalam tadbir urus korporat Syarikat sambil saya menantikan tahun yang akan datang.

Dato' Mohd. Sallehuddin bin Othman
PENGERUSI

FINANCIAL
STATEMENTS

DIRECTORS' REPORT
for the year ended 31 December 2019

The Directors have pleasure in submitting their report together with the annual audited financial statements of the Company for the financial year ended 31 December 2019.

Principal activities

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

Ultimate holding company

The ultimate holding company is MS&AD Insurance Group Holdings, Inc., a company incorporated in Japan.

Financial results

	RM'000
Profit for the year	235,616

Dividends

Since the end of the previous financial year, the Company paid:

(i) a final dividend of 37 sen per ordinary share totalling RM123,263,000 in respect of the year ended 31 December 2018 on 8 July 2019; and

(ii) a single-tier interim dividend of 28 sen per ordinary share totalling RM93,280,000 in respect of the year ended 31 December 2019 on 5 March 2020.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2019 is 12 sen per ordinary share totalling RM39,977,000. Such dividend, if approved, will be accounted for in the shareholders' equity as an appropriation of retained earnings during financial year ending 31 December 2020.

Directors of the Company

Directors who served during the financial year until the date of this report are:

Dato' Mohd. Sallehuddin bin Othman
Ms. Pearl Chan Siew Cheng
Dato' Muthanna bin Abdullah
Mr. Iichiro Sadamoto
Mr. Lim Tiang Siew
Ms. Loh Guat Lan
Mr. Alan John Wilson

Directors' interests in shares

The interests and deemed interests in the shares of the Company and of its related corporations of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
Shareholdings in which a Director has direct interest	**At 1.1.2019**	**Bought**	**Sold**	**At 31.12.2019**
Related companies:				
BPI/MS Insurance Corporation				
Mr. Alan John Wilson	1	-	-	1
Ueang Mai Co Ltd				
Mr. Alan John Wilson	1	-	-	1
Yardhimar Company Ltd				
Mr. Alan John Wilson	1	-	-	1

Directors' interests in shares (continued)

	Number of options over ordinary shares				
	At 1.1.2019	Granted	Exercised	Lapsed/ cancelled	At 31.12.2019
Director interest:					
Related company:					
MS&AD Insurance Group Holdings, Inc.					
Mr. Alan John Wilson	664	285	-	-	949

None of the other Directors holding office at the end of the financial year had any interest in the ordinary shares of the Company or its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares

There was no change in the authorised, issued and paid-up capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Provision for insurance liabilities

Before the statement of profit or loss and other comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation basis specified in Part D of the Risk-Based Capital Framework for Insurers.

Impaired debts

Before the statement of profit or loss and other comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of impaired debts and the making of impairment allowance for impaired debts and satisfied themselves that all known impaired debts had been written off and adequate impairment allowance had been made for impaired debts.

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

Current assets

Before the statement of profit or loss and other comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business, at their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

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

Valuation methods

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

Contingent and other liabilities

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

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

(ii) any contingent liability in respect of the Company that has arisen since the end of the financial year, other than those disclosed in Note 39 of the financial statements.

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, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

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

Event after the reporting period

Details of the significant event is disclosed in Note 42 to the financial statements.

Change of circumstances

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

Items of an unusual nature

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

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

Indemnity and insurance costs

The Company maintains a Directors' and Officers' Liability Insurance effected for all the Directors and members of Senior Management of the Company. The premium expenses incurred during the financial year approximately RM11,000, pursuant to Section 289(7)(b) disclosure requirements.

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

Corporate governance disclosure

Board of Directors

Membership and meetings of the Committees

The composition of the Board and Board Committees, number of meetings held during the financial year ended 31 December 2019, including number of meetings convened by the Board and each Board Committee with the attendance of each member is as follows:

	Board	Board Audit Committee	Board Nominations Committee	Board Remuneration Committee	Board Compliance & Risk Management Committee	Board Investment Committee
	(Attendance / Number of Meetings)					
Dato' Mohd. Sallehuddin bin Othman *(Non-Independent Non-Executive Director)*	*(Chairman)* 6/6	5/5	3/3	2/2	4/4	6/6
Ms. Pearl Chan Siew Cheng *(Independent Non-Executive Director)*	6/6	5/5	*(Chairman)* 3/3	-	4/4	*(Chairman)* 6/6
Dato' Muthanna bin Abdullah *(Independent Non-Executive Director)*	6/6	5/5	3/3	2/2	*(Chairman)* 4/4	4/5
Mr. Iichiro Sadamoto *(Independent Non-Executive Director)*	6/6	5/5	3/3	*(Chairman)* 2/2	4/4	-
Mr. Lim Tiang Siew *(Independent Non-Executive Director)*	6/6	*(Chairman)* 5/5	-	-	4/4	-
Ms. Loh Guat Lan *(Non-Independent Non-Executive Director)*	6/6	-	-	-	-	5/6
Mr. Alan John Wilson *(Executive Director)*	6/6	-	3/3	-	-	-
Mr. Chua Seck Guan *(Chief Executive Officer)*	-	-	-	-	-	6/6
Mr. Takero Sawamura *(Deputy Chief Executive Officer)*	-	-	-	-	-	3/6

Corporate governance disclosure (continued)

Board of Directors (continued)

Profiles of Directors

The profiles of the Directors of the Company are as follows:

Dato' Mohd. Sallehuddin bin Othman
(Chairman/Non-Independent Non-Executive Director)

Dato' Mohd. Sallehuddin bin Othman joined MSIG Insurance (Malaysia) Bhd as an Independent Non-Executive Director in 2005 and was appointed as the Chairman of the Board in March 2014. He holds professional accounting qualifications in Association of Chartered and Certified Accountants ("ACCA") and Chartered Institute of Management Accountants ("CIMA"), United Kingdom. He also graduated with a Master's Degree from City University, London in 1975. He is registered as a Chartered Accountant with Malaysia Institute of Accountants in 1981 and became a Fellow member of ACCA in 1983.

Dato' Mohd. Sallehuddin bin Othman began his career with brief stints in various audit firms in Malaysia and United Kingdom, a statutory body and a major Government linked company in Malaysia before joining the Asian Development Bank based in Manila, Philippines from 1981 to 1986.

Upon returning to Malaysia in 1986, he joined Permodalan Nasional Berhad in senior positions doing corporate services and human resources until 1994. From mid-1994 to 2000, Dato' Mohd. Sallehuddin was with UMW Holdings Berhad initially as Executive Director and subsequently as Group Managing Director. From 2001 until his retirement in 2006, he served as Group Managing Director of Malaysian Industrial Finance Berhad.

Post retirement, Dato' Mohd. Sallehuddin has served as an Independent Non-Executive Director of a few companies including a foreign Islamic bank. In addition to MSIG Insurance (Malaysia) Bhd, he is currently an Independent Director of a number of companies, notably MUFG Bank (Malaysia) Berhad, and a Public Interest Director in Federation of Investment Managers Malaysia, recognised by the Securities Commission Malaysia as a self-regulatory organisation.

Presently, Dato' Mohd. Sallehuddin serves as a member of the Board Nominations, Remuneration, Audit, Compliance & Risk Management and Investment Committees.

Ms. Pearl Chan Siew Cheng
(Independent Non-Executive Director)

Ms. Pearl Chan Siew Cheng joined the Board of MSIG Insurance (Malaysia) Bhd on 18 March 2014 as an Independent Non-Executive Director. She has 31 years of experience in the Malaysian fund management industry, having managed institutional money such as government funds, insurance funds, pension funds, charitable foundations and unit trust funds throughout her career.

Prior to her retirement in January 2008, she was the Deputy Chief Executive Officer of CIMB Principal Asset Management for one year, after a merger between CIMB and the Southern Bank Group. Before that, she pioneered SBB Asset Management, a wholly-owned subsidiary of the Southern Bank Group, which became the first commercial bank in Malaysia to have an asset management arm. She held the position of CEO for 17 years, and CEO/Chief Investment Officer for the first 14 years, leading a team of equity and fixed income fund managers. Before setting up SBB Asset Management, she was General Manager of Rashid Hussain Asset Management and fund manager with Bumiputra Merchant Bankers Berhad for a total of 13 years.

During her career, she also spearheaded two major corporate integration exercises in 2003 and 2007, where she successfully completed the entire integration process, involving organisation and governance structures, human resources, administrative and technical systems. She is a graduate in Economics from the University of Nottingham, England.

Presently, Ms. Chan serves as Chairman of the Board Nominations and Investment Committees and is a member of the Audit and Compliance & Risk Management Committees.

Corporate governance disclosure (continued)

Board of Directors (continued)

Profiles of Directors (continued)

Dato' Muthanna bin Abdullah
(Independent Non-Executive Director)

Dato' Muthanna bin Abdullah joined the Board of MSIG Insurance (Malaysia) Bhd as an Independent Non-Executive Director on 12 March 2018. He is a Barrister of Middle Temple and an Advocate and Solicitor of the High Court of Malaya. He studied law at the University of Buckingham, England and was called to the Bar of England and Wales in 1982 and to the Malaysian Bar in 1983. He is a Consultant of Abdullah Chan & Co.

Currently, Dato' Muthanna is the Honorary Consul to Kuala Lumpur of the Republic of San Marino.

He is also a Director of Sapura Resources Berhad, Malaysian Life Reinsurance Group Berhad, Malaysian Rating Corporation Berhad, MSM Malaysia Holdings Berhad, a Trustee of The Habitat Foundation and Yayasan Siti Sapura Husin.

Presently, Dato' Muthanna serves as a member of the Board Nominations, Remuneration, Audit, Investment and Compliance & Risk Management Committees.

Mr. Iichiro Sadamoto
(Independent Non-Executive Director)

Mr. Iichiro Sadamoto joined the Board of MSIG Insurance (Malaysia) Bhd as an Independent Non-Executive Director on 1 October 2017. He is currently the Managing Director of Toyota Tsusho (Malaysia) Sdn Bhd. Prior to this, he had been the Group Leader of Parts Assembly Department of Toyota Tsusho Corporation since 2013.

A law graduate of Hiroshima University Japan, Mr. Sadamoto has more than 25 years of working experience in the automotive parts and parts assembly during his tenure in Toyota Tsusho Corporation. His previous work experience includes overseas postings where he worked at the Manila Branch, Philippines from 2002 to 2003 and Toyota Tsusho (Thailand) Co., Ltd from 2003 to 2007. He was also the President of TT Assembly (Thailand) Co., Ltd and TT Assembly East Co., Ltd from 2010 to 2013.

Presently, Mr. Sadamoto is the Chairman of the Board Remuneration Committee and serves as member of the Board Nominations, Audit and Compliance & Risk Management Committees.

Mr. Lim Tiang Siew
(Independent Non-Executive Director)

Mr. Lim Tiang Siew joined MSIG Insurance (Malaysia) Bhd as Independent Non-Executive Director on 15 December 2018. He retired as the Group Chief Internal Auditor of CIMB Group in March 2018, after serving 27 years in CIMB. Mr. Lim's experience and expertise of over 40 years covered internal and external auditing, accounting, corporate finance and advisory, corporate governance, and compliance. For more than half of his tenure in CIMB, Mr. Lim was a member of CIMB's top most management team, and a member of all its major risk committees.

Mr. Lim has been a member of the Malaysian Institute of Certified Public Accountants since January 1981 and is a Chartered Accountant of the Malaysian Institute of Accountants since November 1987. He was an examiner for the Malaysian Institute of Certified Public Accountants professional examinations in respect of a particular subject for some 15 years before being appointed as a reviewer for the same subject, a position which he still holds.

He joined Commerce International Merchant Bankers Berhad (now known as CIMB Investment Bank) in January 1991 as an assistant manager in the Corporate Finance Department before eventually becoming the Head for a number of years. After over 15 years as a Corporate Finance specialist and following the acquisition of Bumiputra-Commerce Bank by CIMB and the subsequent merger of Bumiputra-Commerce Bank with Southern Bank, Mr. Lim was appointed the Group Chief Financial Officer, a position he held for over 2 years before being appointed the Group Chief Internal Auditor.

Presently, Mr. Lim serves as Chairman of the Board Audit Committee and is a member of the Compliance & Risk Management Committee.

Corporate governance disclosure (continued)

Board of Directors (continued)

Profiles of Directors (continued)

Ms. Loh Guat Lan
(Non-Independent Non-Executive Director)

Ms. Loh Guat Lan joined the Board of MSIG Insurance (Malaysia) Bhd ("MSIG") as a Non-Independent Non-Executive Director on 1 October 2010 and is a member of the Board Investment Committee of MSIG. She is currently the Group Managing Director/Chief Executive Officer of Hong Leong Assurance ("HLA"), a subsidiary of HLA Holdings Sdn Bhd ("HLAH") wholly-owned by Hong Leong Financial Group Berhad ("HLFG"), the financial services arm of Hong Leong Group Malaysia. She was appointed to this position on 1 September 2009. She is also a Director of Hong Leong MSIG Takaful Berhad.

Ms. Loh holds a Bachelor of Science in Human Development (majoring in Food Nutrition) and is a Fellow Member of Life Management Institute ("FLMI"), Customer Service Management ("CSM") and Life Office Management ("LOMA"). She is also a Certified Financial Planner ("CFP") and Registered Financial Planner ("RFP").

Ms. Loh has over 30 years of extensive experience in the insurance industry, including agency management, branch management, and agency development and training. She was previously the Chief Operating Officer (Life Division) of HLA and prior to joining HLA, she was with American International Assurance Company Limited where her last position was Vice President & Senior Director of Agency (Malaysia).

Besides her role as the Chairman of HL Assurance Pte Ltd, Singapore, Ms. Loh is also a Director of Hong Leong Insurance (Asia) Limited, Hong Kong. She is currently the President of the Life Insurance Association of Malaysia ("LIAM") for 2019/2020, and a Board Member of the Financial Industry Collective Outreach ("FINCO") and Financial Services Professional Board ("FSPB").

Mr. Alan John Wilson
(Executive Director)

Mr. Alan John Wilson has been the Chief Executive Officer of Singapore-based MSIG Holdings (Asia) since 2008. He also serves as Chairman or Director on the boards (or equivalent) of 18 MSIG related entities around the region, including Chairman of MSIG Berhad. Under Mr. Wilson's leadership, the MSIG network in Asia has expanded to 14 markets. He was honoured to be appointed as the first foreign Executive Officer of Mitsui Sumitomo Insurance Co Ltd (Japan) in April 2015 and became Deputy Head of its International Business Department in January 2020. Mr. Wilson has a sound executive management track record with over 40 years of experience in the insurance industry.

Prior to joining MSIG Asia, Mr. Wilson was the Asia CEO at Allianz from 1999 where he assumed overall responsibility for managing over 20 general, life and health insurance operations across 14 countries, and later served on several boards for Allianz and for other groups such as Parkway in Asia. Mr. Wilson joined Allianz from Guardian Royal Exchange Assurance Group where he was Asia Managing Director. Over the course of his 21 years there, he held various senior positions with progressive responsibilities, where he managed general and life insurance businesses in 11 countries.

A British national and a Singaporean Permanent Resident, Mr. Wilson has lived and worked in Asia since 1982 in various places, including Hong Kong, Indonesia, Pakistan and Singapore.

Mr. Wilson is a Fellow of the Chartered Insurance Institute (UK) and has a BA (Hons) in Economics and Economic History from the University of Liverpool, England.

Presently, Mr. Wilson serves as member of the Board Nominations Committee.

Corporate governance disclosure (continued)

Board of Directors (continued)

Profiles of Directors (continued)

Trainings attended

The trainings provided to the Directors are as follows:-

- Asia 4th Regional Audit Committee Roundtable
- Financial Industry Conference
- Focus Group Discussion – in preparation for the 6th BNM-FIDE FORUM Annual Dialogue
- Reading the Signs: The Next Financial Crisis and Potential Impact on Asia
- BNM-FIDE FORUM Dialogue with the Deputy Governor on the draft Risk Management in Technology Policy
- BNM-FIDE FORUM Masterclass on Cybersecurity: Unseen Threats
- 2nd PIDM-FIDE FORUM Annual Dialogue
- 3rd Distinguished Board Leadership Series: Artificial Intelligence and Its Role in FIs
- 4th Distinguished Board Leadership Series: Digital To The Core
- IT Risk Management Training
- FIDE Core – Insurance Modules A and B
- FIDE Forum Dinner Talk – "Digital Assets: Global Trends, Legal Requirements & Opportunities for Financial Institutions"
- BNM-FIDE Dialogue – Key Aspects of Fintech and Regulations
- Anti-Money Laundering/Counter Financing of Terrorism – Insurance & Takaful Sector
- Leadership in a Disruptive World
- CG Watch: How Does Malaysia Rank
- MSIG In-House Directors' Trainings
- Leadership in a Disruptive World: The Changing Role of Boards

Responsibilities of the Board and Board Committees

(A) The roles and responsibilities of the Board are as follows:

(i) Approve the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company's risk profile.

(ii) Oversee the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Company.

(iii) Oversee the implementation of the Company's governance framework and internal control framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Company's operations.

(iv) Promote, together with Senior Management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour.

(v) Promote sustainability through appropriate environmental, social and governance considerations in the Company's business strategies.

(vi) Oversee and approve the recovery and resolution as well as business continuity plans for the Company to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress.

(vii) Promote timely and effective communication between the Company and Bank Negara Malaysia on matters affecting or that may affect the safety and soundness of the Company.

Corporate governance disclosure (continued)

Responsibilities of the Board and Board Committees (continued)

(B) The roles and responsibilities of the Board Committees are as follows:

Board Audit Committee

The Board Audit Committee's primary role is to support the Board in ensuring that there is a reliable and transparent financial reporting process within the Company, and to provide oversight over the internal and external auditors' discharge of duties to foster quality audits. In fulfilling this role, the Board Audit Committee carries out the following:

(i) Review and approve the Audit Charter and Audit Policies of the Internal Audit Department.

(ii) Review and approve the annual audit plan to ensure the adequacy of its coverage.

(iii) Review and approve the budget of the Internal Audit Department to ensure that it has sufficient and competent resources to carry out its objectives and to ensure that it is distinct and has the appropriate status within the overall Company structure for the internal auditors to achieve their audit objectives.

(iv) Review key audit reports and ensure that Senior Management takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the Internal Audit and other control functions.

(v) Note any significant disagreements between the Chief Internal Auditor and the rest of the Senior Management, irrespective of whether these have been resolved, in order to identify any impact that the disagreements may have on the audit process or findings.

(vi) Approve the appointment, remuneration, performance evaluation, removal and redeployment of the Chief Internal Auditor and senior officers of IAD.

(vii) Establish a mechanism to assess the performance and effectiveness of the internal audit function.

(viii) Make recommendations to the Board on the appointment, removal and remuneration of the external auditors.

(ix) Monitor and assess the independence of the external auditors including approving the provision of non-audit services by the external auditors.

(x) Monitor and assess the effectiveness of the external audit, including meeting with the external auditors without the presence of Senior Management at least once annually.

(xi) Maintain regular, timely, open and honest communication with the external auditors, and require the external auditors to report to the Board Audit Committee on significant matters.

(xii) Ensure that Senior Management takes necessary corrective actions in a timely manner to address external audit findings and recommendations.

(xiii) Review and update the Board on all related party transactions.

(xiv) Review the accuracy and adequacy of the Chairman's statement in the directors' report, corporate governance disclosure, interim financial reports and preliminary announcements in relation to the preparation of financial statements.

(xv) Monitor compliance with the Board's conflicts of interest policy.

(xvi) Review third-party opinions on the design and effectiveness of the Company's internal control framework.

(xvii) Other functions as may be determined by the Board.

Board Nominations Committee

(i) Ensuring a director fulfills all the minimum requirements of Financial Services Act, 2013 ("FSA 2013") and Bank Negara Malaysia ("BNM")'s Policy Document on Corporate Governance ("Corporate Governance") at the time of his appointment and on a continuing basis.

The minimum requirements, where applicable, is also extended to ensuring that Chief Executive Officer, Senior Management and the Company Secretary.

Corporate governance disclosure (continued)

Responsibilities of the Board and Board Committees (continued)

Board Nominations Committee (continued)

(ii) Regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes.

(iii) Establish and regularly review succession plans for the Board to promote Board renewal, address any vacancies, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future.

(iv) Establish a rigorous process for the appointment and removal of directors. Such process must involve the assessment of candidates against the minimum requirements. Direct engagements between a candidate and the Nominations Committee are an important way to ascertain the suitability of each candidate for the Board.

(v) Reviewing the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace.

(vi) Carrying out Annual Board Evaluations to objectively assess the performance and effectiveness of the Board, Board Committees and Individual Directors.

(vii) Establishing a robust succession plan for Senior Management and clearly defined processes for:

- the appointment and removal of the CEO and members of Senior Management;
- assessment of the candidates against the minimum requirements.

Board Remuneration Committee

(i) Setting the Remuneration Policy and/or remuneration system for directors and the Company for the Board's approval. Such policy and/or system must be in line with the Company's business and risk strategies, culture and corporate values, with consideration to BNM's Policy Document on Corporate Governance and Principle 10 of Policy Document on Risk Governance.

(ii) Recommending the remuneration for each director, member of Senior Management and other material risk takers annually for the Board's approval which must commensurate with the performance and contribution made to the Company in line with the approved Remuneration Policy and/or remuneration system.

Board Compliance & Risk Management Committee

Compliance

(i) Promoting a positive, open and strong compliance culture within the Company by ensuring overall compliance with legal, regulatory requirements and operational manuals as well as encouraging ethical conduct.

(ii) Recommending to the Board the appointment, remuneration and dismissal of the CCO and ensuring that the CCO and Compliance Department are provided with appropriate standing, authority and independence, including adequate infrastructure, resources and systems are in place.

(iii) Discussing and resolving Compliance issues regularly and effectively. At least annually, evaluating the effectiveness of the Company's overall management of Compliance risk, having regard to the assessments of Senior Management and internal audit, as well as interactions with the CCO.

(iv) Reviewing, approving and overseeing implementation of the Company's Compliance Policy, Regulations and Guidelines ("PRG") including Compliance Program.

(v) Reviewing periodic Compliance reports and new or revised laws & regulations, including Compliance Risk Assessment, Compliance Risk Profile, Risk Treatment Plan as well as disclosure in regard to Compliance activities in the Company's Annual Report.

(vi) Reviewing and approving Outsourcing Plan and activities.

(vii) Reviewing and providing direction on the Internal Control Program ("ICP") activities.

Corporate governance disclosure (continued)

Responsibilities of the Board and Board Committees (continued)

Board Compliance & Risk Management Committee (continued)

Risk Management

(i) Reviewing the adequacy of Risk Management policy and framework to ensure effective implementation of Policies for Risk Governance.

(ii) Recommending to the Board the appointment, remuneration and dismissal of the CRO for Risk Management function and ensuring that the CRO and Risk Management Department are provided with sufficient stature, authority and independence in the Company including adequate infrastructure, resources and systems are in place.

(iii) Reviewing periodic Company Risk Profile and Risk Monitoring Report, including disclosure in regard to Risk Management activities in the Company's Annual Report.

(iv) Reviewing Internal Capital Adequacy Assessment Process ("ICAAP") activities regularly.

(v) Overseeing IT matters including ex-ante risk assessments on internet insurance services with Chairman's attestation where applicable.

(vi) Reviewing risk activities and reports as required under relevant BNM Policy Documents.

To effect a focused attention on management of compliance and enterprise risk as prescribed by relevant BNM Policy Documents at the management level, the Board Compliance & Risk Management Committee is supported by the Compliance Committee and Enterprise Risk Management Committee comprising the Chief Executive Officer, Deputy Chief Executive Officer and Senior Management Team respectively.

Board Investment Committee

(i) Review and advise on Investment strategies and policies with a view to optimise investment performance in line with MSIG's Investments Risk Appetite Statement.

(ii) Review and monitor the Investment Assets Allocation within the risk and limit permitted under the Investment Policy, BNM Policy Documents and RBC Framework, at least on an annual basis.

(iii) Review and approve the exposure limits for counterparties for Deposits placements.

(iv) Manage and monitor risks associated with investment activities with a view to strengthening the Capital Adequacy Ratio whilst optimising risk adjusted returns.

(v) Ensure proper execution and monitoring of investments by having adequate internal controls for investment assets management, including approval of counterparty limits.

(vi) Review and approve the Investment Plan.

(vii) Set Performance Standards for external Fund Managers and review their actual performance on a regular basis.

(viii) Review and approve the appointment/termination of external Fund Managers, including the Custodians for safekeeping of assets.

(ix) Ensure compliance with the MSIG Malaysia's Investment Policy, BNM's requirements, as well as in compliance with legal, accounting, prudential and liquidity requirements.

Corporate governance disclosure (continued)

Internal control framework

- The Company has an Internal Control Programme ("ICP") comprising of Company Level Control and Process Level Control Documentation to ensure Internal Controls on significant key risk areas in regard to Financial Reporting are adequately designed, documented and functioning effectively at all times.
- ICP is an annual exercise entailing review and update of the ICP documents of the Company's operational processes and controls that include compliance with the requirement of relevant laws and regulations.
- ICP is subject to independent Testing of Design and Operating Effectiveness on annual basis for the evaluation on Internal Control Over Financial Reporting ("ICOFR") to provide assurance on reliability of Financial Reporting.
- The internal control requirement on the key risk areas and compliance with relevant laws and regulations has been embedded in the Company's new Business Process Management system.
- The Risk Management Independent Assessment focusing on the business units' risk management and governance is performed regularly.
- The Company's outsourcing arrangements are reviewed periodically to ensure compliance with the Outsourcing Policy Document issued by Bank Negara Malaysia and its effectiveness in managing the Company's outsourcing activities.
- Beside the framework for internal controls and procedures, the Company puts in place an organisation structure that clearly defines the segregation of roles, responsibilities and authority in the Company.

Remuneration

Remuneration Policy

The Company adopts a fair and competitive Remuneration Policy where rewards commensurate with position responsibilities and individual performance of the job, and to avoid directors and employees from engaging in excessive or inappropriate risk taking.

It is also guided by equal opportunities principles and principles to balance risk and incentives associated with remuneration in order to ensure a sound and appropriate design and operation of the remuneration framework.

Performance and job sizes will be assessed by the consistent application of an objective process to establish job weight and its relative value in the organisation, taking into account the incumbent's experience, performance and the positions' potential risk exposure, ensuring equitable remuneration practices for both existing and new employees.

Remuneration Policy's Key Objectives

1. Success of the organisation is built on a true performance culture. Individual contributions must be recognised and rightfully rewarded to enable the organisation to continue to attract and retain quality staff that will support the Company's operations.
2. The Company believes that an equitable and competitive Remuneration Policy, balanced with the appropriate management of risk exposure will establish the Company as a sustainable and preferred employer, helping us to recruit and motivate employees to deliver business success and build a performance culture.
3. The policy provides a consistent framework to develop the Company's pay policy within the context of statutory requirements, market conditions and business challenges.

Scope of Remuneration Policy

Scope covers all members of staff (including but not limited to permanent employee, contract and temporary staff).

The policy however excludes expatriates assigned to the Company.

Corporate governance disclosure (continued)

Remuneration (continued)

Risk Governance

In compliance with Bank Negara Malaysia Policy Document on Risk Governance, the Company has also incorporated the Principle 10 into its remuneration structure where executive remuneration is aligned with prudent-risk taking and appropriately adjusted for risks.

A guided performance management process is in place to ensure that the payments of variable remuneration are conducted in accordance with the Remuneration Policy.

At this juncture, the Company is satisfied with the existing remuneration structure and performance management process to meet the objectives of the Company's Remuneration Policy. The Company will review the remuneration framework to ensure it continues to meet the Company's long-term objectives.

Remuneration for employees in control functions are structured in a way that is principally based on the achievement of their control objectives and does not compromise their independence.

Pay structure is designed to consider all types of risks and long-term benefits of the Company. Specifically such structure is determined by using market data for the level of remuneration that is sourced from external consultants and by taking into account conditions (such as business structure, organisation, legal system, employment/pay structure/practices), financial position of the entity, existing and potential risks, and the roles and tasks of the jobs.

The Company's key risks are identified through the Risk Management Framework and the Company's 3-year Business Plan, which includes actions plans. Such actions are incorporated into the performance measurements of employees to enforce the performance and competencies through remuneration measures.

In 2019, there were no specific changes to the nature and type of measures.

Performance Management System

The Company uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of the variable remuneration under the Company's Short Term Incentive Plan ("STI").

The financial matrix links the STI to the profits, revenue and other performance measurements of the Company as a whole, and the contributions of the employee in deciding the quantum.

The non-financial matrix captures the performance of the qualitative aspects such as the compliance of Risk Management Policy, adherence to legal, regulatory and other ethical standards, customer's satisfaction, effectiveness and efficiency of support functions.

The overall assessment of the Individual is a combination of Individual Performance and Competencies. The overall scores will be given a weightage which falls into a structured performance banding ranging from Outstanding Performance, Strong Performance, Effective Performance, Marginal Performance and Unsatisfactory Performance. This ensures the employees are appropriately assessed and compensated at the level corresponding to the performance.

For Unsatisfactory Performance, this would impact the salary/bonus of the affected employees and in certain circumstances the Company would not grant bonus or increase in salary.

Remuneration Structure

The Company's Remuneration Policy is limited to cash and benefits-in-kind which commensurate with the position of the officers. There are no shares and/or share-linked instruments, deferring or vesting as part of its remuneration framework.

The Company's Remuneration Policy does not accord the following:

1. Deferral and/or vesting of variable remuneration.
2. Deferred remuneration with claw-back arrangements.

The remuneration for Senior Management, Chief Executive Officer, Executive and Non-Executive Directors for the financial year are disclosed in Note 28 and 29 to the financial statements.

Auditors

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 28 to financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Dato' Mohd. Sallehuddin bin Othman
Director

....

Dato' Muthanna bin Abdullah
Director

Kuala Lumpur,
Date: 16 March 2020

STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Note	2019 RM'000	2018 RM'000
Assets			
Plant and equipment	3	11,931	13,365
Right-of-use assets	4	11,988	-
Investment property	5	127	132
Intangible assets	6	7,587	8,026
Goodwill	7	1,141,224	1,141,224
Available-for-sale financial assets	8	2,221,746	1,901,104
Deferred tax assets	9	5,533	11,844
Tax recoverable		3,527	14,372
Reinsurance assets	10	408,805	440,308
Loans and receivables, excluding insurance receivables	11	771,335	920,914
Insurance receivables	12	185,708	196,035
Deferred acquisition costs	13	71,826	78,057
Cash and cash equivalents	14	176,940	221,105
Total assets		**5,018,277**	**4,946,486**
Equity and liabilities			
Share capital	15	1,511,546	1,511,546
Reserves		1,432,118	1,294,180
Total equity		**2,943,664**	**2,805,726**
Insurance contract liabilities	17	1,856,449	1,928,615
Lease liabilities	18	11,719	-
Other financial liabilities	19	26,099	24,319
Insurance payables	20	103,753	102,953
Other payables	21	76,593	84,873
Total liabilities		**2,074,613**	**2,140,760**
Total equity and liabilities		**5,018,277**	**4,946,486**

The notes on pages 55 to 118 are an integral part of the financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Operating revenue	22	**1,638,183**	**1,648,712**
Gross written premiums	17.2	1,470,388	1,536,931
Change in unearned premiums provision		45,371	(898)
Gross earned premiums		1,515,759	1,536,033
Gross written premiums ceded to reinsurers	17.2	(276,754)	(279,691)
Change in unearned premiums provision		(2,820)	(6,925)
Premiums ceded to reinsurers		(279,574)	(286,616)
Net earned premiums		**1,236,185**	**1,249,417**
Investment income	23	122,424	112,679
Realised gains and losses	24	7,538	13,430
Fair value gains and losses		(14,972)	(18,587)
Commission income	25	43,612	46,885
Other operating income	26	3,900	799
Other income		**162,502**	**155,206**
Gross claims paid	17.1	(829,453)	(904,593)
Claims ceded to reinsurers	17.1	138,681	203,748
Gross change in contract liabilities		26,795	19,467
Change in contract liabilities ceded to reinsurers		(28,683)	(96,775)
Net claims incurred	27	**(692,660)**	**(778,153)**
Commission expense	25	(180,056)	(183,210)
Management expenses	28	(234,042)	(230,929)
Other expenses		**(414,098)**	**(414,139)**
Profit before tax		**291,929**	**212,331**
Tax expense	30	(56,313)	(34,565)
Profit for the year		**235,616**	**177,766**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net gain/(loss) on fair value of available-for-sale financial assets	8	33,665	(16,578)
Tax effect	9	(8,080)	3,978
Other comprehensive income/(loss) for the year, net of tax		**25,585**	**(12,600)**
Total comprehensive income for the year		**261,201**	**165,166**
Basic earnings per share (sen)	31	**70.7**	**53.4**

The notes on pages 55 to 118 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Note	*Attributable to owners of the Company*			
		Non-distributable		*Distributable*	
	Note	**Share capital RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2018		1,511,546	15,303	1,198,662	2,725,511
Fair value of available-for-sale financial assets, net of tax		-	(12,600)	-	(12,600)
Total other comprehensive loss for the year		-	(12,600)	-	(12,600)
Profit for the year		-	-	177,766	177,766
Total comprehensive income for the year		-	(12,600)	177,766	165,166
Dividends paid during the year	32	-	-	(84,951)	(84,951)
At 31 December 2018/1 January 2019		**1,511,546**	**2,703**	**1,291,477**	**2,805,726**
Fair value of available-for-sale financial assets, net of tax		-	25,585	-	25,585
Total other comprehensive income for the year		-	25,585	-	25,585
Profit for the year		-	-	235,616	235,616
Total comprehensive income for the year		-	25,585	235,616	261,201
Dividends paid during the year	32	-	-	(123,263)	(123,263)
At 31 December 2019		**1,511,546**	**28,288**	**1,403,830**	**2,943,664**
		Note 15	Note 16.1	Note 16.2	

The notes on pages 55 to 118 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Cash flows from operating activities			
Profit before tax		291,929	212,331
Adjustments for:			
Amortisation of intangible assets	6	2,842	2,398
Depreciation of plant and equipment	3	5,348	5,642
Depreciation of right-of-use assets	4	10,976	-
Depreciation of investment property	5	5	5
Investment income	23	(122,424)	(112,679)
Realised gains recorded in profit or loss	24	(7,538)	(13,430)
Fair value loss recorded in profit or loss		14,972	18,587
Purchase of available-for-sale financial assets	8	(645,526)	(879,704)
Proceeds from disposal of available-for-sale financial assets		350,699	727,782
Interest on lease liabilities		1,012	-
Re-class from available-for-sale financial assets to loan and receivables		-	1,090
Retirement gratuities charged		503	439
Unrealised foreign exchange loss		-	3
Operating loss before changes in working capital		(97,202)	(37,536)
Change in reinsurance assets		31,503	103,700
Change in insurance receivables		10,327	(11,568)
Change in deferred acquisition costs		6,231	(1,227)
Change in loans and receivables		147,321	94,539
Change in insurance contract liabilities		(72,166)	(18,569)
Change in other financial liabilities		1,780	2,224
Change in insurance payables		800	(10,914)
Change in other payables		(8,783)	17,109
Cash generated from operating activities		19,811	137,758
Dividend income received		78,408	66,356
Interest income received		46,274	48,500
Income tax paid		(49,932)	(58,400)
Income tax refund		2,695	-
Net cash flows from operating activities		**97,256**	**194,214**
Cash flows from investing activities			
Proceeds from disposal of plant and equipment		268	1,016
Purchase of intangible assets	6	(2,403)	(2,552)
Purchase of plant and equipment	3	(3,965)	(4,958)
Net cash flows used in investing activities		**(6,100)**	**(6,494)**
Cash flows from financing activities			
Dividend paid	32	(123,263)	(84,951)
Payment of lease liabilities	18.1	(12,058)	-
Net cash flows used in financing activities		**(135,321)**	**(84,951)**
Net (decrease)/increase in cash and cash equivalents		**(44,165)**	**102,769**
Cash and cash equivalents at beginning of year		221,105	118,336
Cash and cash equivalents at end of year	14	**176,940**	**221,105**

The notes on pages 55 to 118 are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

MSIG Insurance (Malaysia) Bhd is a public limited liability company, incorporated and domiciled in Malaysia. The addresses of its registered office and principal place of business are as follows:

Registered office
Level 12, Menara Hap Seng 2, Plaza Hap Seng,
No.1, Jalan P.Ramlee,
50250 Kuala Lumpur.

Principal place of business
Level 15, Menara Hap Seng 2, Plaza Hap Seng,
No.1, Jalan P.Ramlee,
50250 Kuala Lumpur.

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

The immediate holding company is MSIG Holdings (Asia) Pte. Ltd., a company incorporated in Singapore. The penultimate and ultimate holding companies are Mitsui Sumitomo Insurance Co., Ltd. and MS&AD Insurance Group Holdings, Inc., respectively. Both companies are incorporated in Japan.

The financial statements were authorised for issue by the Board of Directors on 16 March 2020.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the requirements of the Companies Act 2016 and the Financial Services Act, 2013 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments,* MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Company plans to apply the abovementioned accounting standards, interpretations and amendments:

- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, except for MFRS 3 which is not applicable to the Company.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed (continued)

- from the annual period beginning on 1 January 2021 for the accounting standard that is effective for annual periods beginning on or after 1 January 2021.

- from the annual period beginning on 1 January 2022 for the amendment that is effective for annual periods beginning on or after 1 January 2022.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Company except as mentioned below:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The amendments to MFRS 4, *Insurance Contracts* allows two alternatives to address the transitional challenges from different effective dates of MFRS 9 and the new standard on insurance contracts, MFRS 17, *Insurance Contracts*. The amendment introduced two additional voluntary options, namely an overlay approach and a deferral approach to be applied subject to certain criteria being met, which help to address temporary volatility in reported results of entities dealing with insurance contracts.

The overlay approach involves the option to recognise the possible volatility in other comprehensive income, instead of profit or loss, whilst the deferral approach provides temporary exemption from applying MFRS 9 for entities whose activities are predominantly connected with insurance contracts until the earlier of the effective date of the new standard on insurance contracts and the annual reporting periods beginning on or after 1 January 2021.

The Company has elected to apply the temporary exemption from MFRS 9 that permits the Company to apply MFRS 139, *Financial Instruments: Recognition and Measurement* rather than MFRS 9 for its annual periods beginning before 1 January 2021. An insurer may apply the temporary exemption from MFRS 9 if:

(i) it has not previously applied any version of MFRS 9 before; and

(ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The Company has not adopted any version of MFRS 9 as of the date of this financial statements and its carrying amount of an entity's liabilities arising from contracts within MFRS 4's scope is significant. The Company has performed the assessment and it qualifies for the temporary exemption from MFRS 9 under the amendments to MFRS 4. The percentage of the total carrying amount of its insurance liabilities is 95.4%.

Based on the initial assessment undertaken by the Company, the following are the new classification of the financial assets if MFRS 9 was adopted at the end of the reporting period. The new classification on initial application is based on assessment undertaken to date and the actual classification after adopting the standard may change.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments (continued)*

	New classification under MFRS 9
Available-for-sale investments	
Equity securities in corporations	
Quoted in Malaysia	FVTPL
Unquoted in Malaysia	FVTPL
Unit Trusts	FVTPL
Controlled Structured Entities	FVTPL
Government Investment Issues	FVOCI
Government Guaranteed Bonds	FVOCI
Corporate debt securities	
Unquoted in Malaysia	FVOCI
Reinsurance assets, excluding IBNR	Amortised Cost
Loans and receivables, excluding insurance receivables	Amortised Cost
Insurance receivables	Amortised Cost
Cash and cash equivalents	Amortised Cost

MFRS 17, *Insurance Contracts*

MFRS 17 was issued by MASB in August 2017. The standard will replace the existing MFRS 4 and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts.

The Company is currently assessing the financial impact that may arise from adoption of MFRS 17.

(b) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis except as disclosed in Note 2(g)(ii)(b) to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2(h)(iii) and 7 – Valuation of goodwill
- Note 2(o) and 2(t) – Valuation of insurance contract liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

Arising from the adoption of MFRS 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into by the Company as compared to those applied in previous year financial statements. The impact arising from the changes are disclosed in note 40.

(a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on retranslation are recognised in the profit or loss.

(b) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gains or losses on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the plant and equipment and is recognised within "realised gains and losses" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- Office equipment 5 years
- Furniture and fittings 6 - 7 years
- Computers 5 years
- Motor vehicles 5 years

Depreciable amount is determined after deducting the residual value.

Depreciation method, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

2. Significant accounting policies (continued)

(c) Leases

The Company has applied MFRS 16 using the modified retrospective approach, under which the leases previously classified as operating lease applying MFRS 117, on the date of initial application of MFRS 16 are recognised as right-of-use asset and measured at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to the lease. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

(ii) Recognition and initial measurement

As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

2. Significant accounting policies (continued)

(c) Leases (continued)

Current financial year (continued)

(ii) Recognition and initial measurement (continued)

As a lessee (continued)

The Company excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Subsequent measurement

As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Previous financial year

As a lessee

(i) Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition, the leased asset was measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset was accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments were accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment was confirmed.

(ii) Operating lease

Leases, where the Company did not assume substantially all the risks and rewards of ownership were classified as operating leases and the leased assets were not recognised on the statement of financial position.

Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals were charged to profit or loss in the reporting period in which they were incurred.

2. Significant accounting policies (continued)

(d) Intangible assets

Intangible assets comprised customised software, desktop applications and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Cost includes expenditures that are directly attributable to acquisition of the assets such as licences, development, major enhancement, technical knowledge, design and implementation of new processes or systems etc. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortisation.

All intangible assets are amortised from the date they are available for use over the useful economic life. The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of customised software, desktop applications and license are considered to be finite because customised software, desktop application and licenses are susceptible to technology or commercial obsolescence and subject to certain expected capacity and usage beyond which the performance may not be at the optimum level.

The acquired customised software, desktop applications and licenses are amortised using the straight-line method over their estimated useful lives of 5 years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at the end of each reporting date.

(e) Investment property

Investment property carried at cost

Investment property is property which is owned or held under a leasehold interest to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of services or for administrative purposes.

Investment property is initially and subsequently measured at cost and is accounted for similarly to plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(f) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. The goodwill arose from the acquisition of general insurance businesses in 2006 and 2010.

Goodwill represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the business purchased.

Goodwill is measured at cost and is not amortised. Goodwill is allocated to cash-generating units or a group of cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired (see Note 2(h)(iii)).

2. Significant accounting policies (continued)

(g) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

(a) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market and other receivables.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

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

Available-for-sale category comprises investment in equity, debt instruments, unit trust and controlled structured entities that are not held for trading.

Controlled structured entities are in respect of investee funds that the Company invested in and has control over these investee funds. The Company is deemed to control these investee funds as it is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to affect those returns through its power over the entities. Accordingly, the underlying net assets held by these entities are disclosed in Note 8(a) to the financial statements.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

(c) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised costs. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(h)(ii). Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(g)(iii), have been met.

All financial assets, are subject to review for impairment (see Note 2(h)).

Financial liabilities

All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all risks and rewards of the financial asset is transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

(h) Impairment

(i) Financial assets, excluding insurance receivables

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2(h)(ii)) is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in the profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through the profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables that are individually assessed for impairment, is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia.

2. Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Insurance receivables (continued)

Insurance receivables that are individually significant shall be tested for impairment individually. Insurance receivables that are not individually significant shall be tested for impairment collectively as a member of portfolio of assets with similar credit risk characteristics collective assessment.

If it is determined that no objective evidence of impairment exists for an insurance receivable that has been individually assessed (whether individually significant or not), insurance receivable should subsequently be included within a group of financial assets with similar credit risk characteristics and assessed collectively for impairment as prescribed in the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(iii) Other assets

The carrying amounts of other assets (except for deferred tax asset and investment property) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

2. Significant accounting policies (continued)

(i) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

Ordinary shares

Ordinary shares are classified as equity.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less, and are used by the Company in the arrangement of its short-term commitments.

(k) Product classification

The Company issues contracts that transfer insurance risk.

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

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

(l) Reinsurance

Reinsurance enables an insurer to evaluate and transfer exposures to risks that cannot be successfully managed within insurers resources.

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

The risk transfer (ceded reinsurance) does not relieve the Company from its obligations to policyholders. The privacy direct contract is between Company and 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 profit or loss.

The Company also assumes reinsurance risk from other insurers 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 liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contracts.

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

2. Significant accounting policies (continued)

(l) Reinsurance (continued)

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

(m) Commission expense

Gross commission expense, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to profit or loss in the period in which they are incurred or deferred where appropriate as set out in Note 2(n).

(n) General insurance underwriting results

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

Premium income

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

Insurance contract liabilities

These liabilities comprise premium liabilities and claims liabilities.

Premium liabilities

Premium liabilities are 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 ("PRAD").

Unearned Premium Reserves

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

In determining the UPR at the end of the reporting date, the method that most accurately reflects the actual unearned premium is used and is as follows:

Annual policies

(i) 25% method for marine cargo, aviation cargo and transit business.

(ii) 1/24th method for all other classes of Malaysian general policies and overseas inward business.

The UPR calculation is adjusted for additional UPR in respect of premiums ceded to overseas reinsurers as required under the guidelines issued by Bank Negara Malaysia.

Non-annual policies

Premiums are apportioned evenly over the period the policy is on risk.

Unexpired Risk Reserves

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and expenses over unearned premiums. The best estimate of URR is calculated based on the projected claims cost from the unexpired period, indirect claims handling expenses, future maintenance expenses in handling the run-off of unexpired policies and a provision for risk margin.

If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the financial statements by setting up a provision for liability adequacy.

2. Significant accounting policies (continued)

(n) General insurance underwriting results (continued)

Claims liabilities

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the end of reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the end of reporting period. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that included a regulatory risk margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Acquisition costs and deferred acquisition cost ("DAC")

The gross cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Acquisition costs or ceding income which are not recoverable, or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

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

Subsequent to initial recognition, these costs are amortised/allocated to the periods according to the original policies which give rise to income. DAC is incorporated as part of the computation to derive at UPR which is subject to liability adequacy test for each accounting period. Guidelines are prescribed in the RBC Framework.

(o) General insurance contract liabilities

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

These liabilities comprise outstanding claims provision and provision for unearned premiums.

Estimating the outstanding claims provision involves projection of the Company's future claims experience based on current and historical claims experience. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

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

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and DAC over unearned premiums. The best estimate of URR is calculated based on the projected claims cost from the unexpired period, indirect claims handling expenses, future maintenance expenses in handling the run-off of unexpired policies and a provision for risk margin. If this estimate shows that the carrying amount of the unearned premiums less related DAC is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

(p) Tax expense

Tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

2. Significant accounting policies (continued)

(p) Tax expense (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liability is recognised for all taxable temporary differences. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Contingencies

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Other income recognition

(i) Interest income

Interest income from securities with fixed or determinable payment and fixed maturity are recognised using the effective interest rate method.

Interest income on loans and other interest-bearing investments are recognised on an accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six (6) months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

(ii) Rental income

Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six (6) months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from sub-leased property is recognised as “revenue”.

(iii) Dividend income

Dividend income represents gross dividends from quoted and unquoted investments and is recognised in profit or loss when the Company’s right to receive payment is established, which in the case of quoted securities, is the ex-dividend date.

2. Significant accounting policies (continued)

(s) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company's contribution to statutory pension funds is charged to profit or loss in the year to which they relate. Once the contribution has been paid, the Company has no further payment obligations.

(t) Valuation of general insurance contract liabilities

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of reporting period and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period.

It can take a significant period of time before the ultimate claims costs can be established with certainty. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Expected Claims Ratio, Chain Ladder, Payment Per Claim Incurred and Bornhuetter-Ferguson methods.

For older accident periods, the Company has mainly used the incurred and paid Chain Ladder method in establishing the best estimate of the claim liability. This method calculates the ratios of claim development using historical data, and these ratios are then used to project further development in the data. Since this approach takes into account the actual claim information, they are generally simple to apply.

For more recent accident periods where there is little credible data, more reliance is placed on the Expected Claims Ratio method and the Bornhuetter-Ferguson method. The Expected Claims Ratio method is simply the product of the initial expected loss ratio assumption and premium exposure (i.e. net earned premium) across each accident period. The ultimate cost of claims based on this method places no reliance on the emergence of actual claims data. The projected liabilities using the Bornhuetter-Ferguson method is essentially a blending of the estimates from the Chain Ladder method and the Expected Claims Ratio method, where the credibility for blending is based on the expected development.

For accident periods from Motor-Act class which were affected by the Proactive Claims Management initiative which started in November 2013, we have relied on payment based method namely, Payment per Claims Incurred method to estimate the claim liabilities as the payments experience is least affected by Proactive Claims Management.

For the recent accident periods from Motor-Act class which were affected by (1) significant increases in minimum reserves for third party bodily injury claims and (2) a change in premium allocation for Motor classes in 2018, the Expected Claim Ratio method was used to estimate the claims liabilities as the other methods are limited by the relatively slower payment/reporting pattern due to the long-tail nature of Motor-Act claims.

The Company has also relied on payments based method as the payments experience is least affected by the changes.

Historical claims development is analysed by homogeneous business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

2. Significant accounting policies (continued)

(t) Valuation of general insurance contract liabilities (continued)

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

Indirect claims handling expense ("CHE") allowance is included as a part of best estimate of claims liability. CHE is intended to cover the indirect costs of administering outstanding claims until all claims are fully settled.

(u) Earnings per share ("EPS")

The Company presents basic EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(v) Fair value measurements

Fair value of an asset or a liability is determined as 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event of change in circumstances that caused the transfers.

3. Plant and equipment

	Office equipment RM'000	Furniture and fittings RM'000	Computers RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At 1 January 2018	4,791	15,159	16,679	6,841	43,470
Additions	530	913	2,585	930	4,958
Disposals	(208)	(1,099)	(1,612)	(2,492)	(5,411)
At 31 December 2018/1 January 2019	5,113	14,973	17,652	5,279	43,017
Additions	275	525	3,160	5	3,965
Disposals	(55)	(275)	(1,046)	(528)	(1,904)
At 31 December 2019	**5,333**	**15,223**	**19,766**	**4,756**	**45,078**
Accumulated depreciation					
At 1 January 2018	3,876	10,377	11,150	3,760	29,163
Charge for the year	524	1,634	2,294	1,190	5,642
Disposals	(199)	(1,052)	(1,595)	(2,307)	(5,153)
At 31 December 2018/1 January 2019	4,201	10,959	11,849	2,643	29,652
Charge for the year	500	1,456	2,422	970	5,348
Disposals	(54)	(262)	(1,042)	(495)	(1,853)
At 31 December 2019	**4,647**	**12,153**	**13,229**	**3,118**	**33,147**
Carrying amount					
At 1 January 2018	**915**	**4,782**	**5,529**	**3,081**	**14,307**
At 31 December 2018/1 January 2019	**912**	**4,014**	**5,803**	**2,636**	**13,365**
At 31 December 2019	**686**	**3,070**	**6,537**	**1,638**	**11,931**

3. Plant and equipment (continued)

Included in plant and equipment are the following fully depreciated assets which are still in use:

	2019 RM'000	2018 RM'000
At cost:		
Office equipment	4,140	2,411
Furniture and fittings	6,085	5,627
Computers	7,900	6,805
Motor vehicles	66	234

4. Right-of-use assets

	Properties RM'000	Office and other equipment RM'000	Total RM'000
At 1 January 2019	16,212	1,921	18,133
Additions	2,698	2,309	5,007
Depreciation charge	(9,690)	(1,286)	(10,976)
Remeasurement of lease liabilities	(242)	66	(176)
At 31 December 2019	**8,978**	**3,010**	**11,988**

4.1 Extension options

Some leases of office buildings contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

4.2 Significant judgements and assumptions in relation to leases

The Company assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. The Company considers all facts and circumstances including its past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help it determine the lease term. The Company also applied judgement and assumptions in determining the interest rate implicit in the lease.

5. Investment property

	2019 RM'000	2018 RM'000
Cost		
At 1 January/31 December	**233**	**233**
Accumulated depreciation		
At 1 January	94	89
Charge for the year	5	5
At 31 December	**99**	**94**
Accumulated impairment		
At 1 January/31 December	**7**	**7**
Carrying amount		
At 1 January	**132**	**137**
At 31 December	**127**	**132**

Included in the above is:

	2019		2018	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Leasehold building	**127**	**205**	**132**	**205**

The following are recognised in profit or loss in respect of the investment property:

	2019 RM'000	2018 RM'000
Direct operating expenses	**5**	**5**

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

Level 2 fair value of building have been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

5. Investment property (continued)

Transfer between Level 1 and Level 2 fair values

There is no transfer between Level 1 and Level 2 fair values during the financial year.

Fair value information

Fair value disclosed for the investment property is categorised as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2019				
Leasehold building	-	**205**	-	**205**
2018				
Leasehold building	-	**205**	-	**205**

6. Intangible assets

	Computer software 2019 RM'000	Computer software 2018 RM'000
Cost		
At 1 January	20,442	17,901
Additions	2,403	2,552
Disposals	(185)	(11)
At 31 December	**22,660**	**20,442**
Accumulated amortisation		
At 1 January	12,416	10,029
Amortisation charge	2,842	2,398
Disposals	(185)	(11)
At 31 December	**15,073**	**12,416**
Carrying amount		
At 31 December	**7,587**	**8,026**

Included in intangible assets are the cost of the following fully amortised assets which are still in use:

	2019 RM'000	2018 RM'000
At cost:		
Customised software	2,961	2,936
Desktop applications	239	424
Licenses	4,692	4,234

7. Goodwill

	2019 RM'000	2018 RM'000
At 1 January/31 December	**1,141,224**	**1,141,224**

For the purpose of annual impairment testing, goodwill has been allocated to the general insurance business of the Company as one single cash-generating unit which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

The recoverable amount of the general insurance business was based on its value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using estimated operating results which was projected to perpetuity based on the Company's business plan for financial year 2020 to 2022.

The key assumptions used in the value in use calculations are as follows:

	2019	2018
Perpetual growth rate (for terminal value)	3.0%	3.0%
Discount rate	7.6%	7.1%

The values assigned to the key assumptions represent management's assessment of future trends in the general insurance industry and are based on both external sources and internal sources (historical data).

The carrying amount of the unit was determined to be lower than its recoverable amount and accordingly, no impairment loss is required.

Sensitivity to changes in key assumptions

Management considers that it is not reasonably possible for the abovementioned key assumptions to change so significantly that would result in impairment.

8. Available-for-sale ("AFS") financial assets

At fair value	Note	2019 RM'000	2018 RM'000
Equity securities in corporations:			
Quoted in Malaysia		286,662	190,062
Unquoted in Malaysia		602	602
Unit Trusts		750,419	616,609
Controlled Structured Entities	8 (a)	1,025,566	945,692
Government Investment Issues		15,695	30,315
Government Guaranteed Bonds		4,929	-
Corporate debt securities:			
Unquoted in Malaysia		137,873	117,824
Total AFS financial assets		**2,221,746**	**1,901,104**

Estimation of fair value

The fair values of quoted equity securities, unit trusts and controlled structured entities are their quoted mid-market prices at the end of reporting period.

The fair value of the unquoted equity securities in corporations is determined to approximate the carrying amounts as these are immaterial in the context of the financial statements.

The fair value for Government Investment Issues and Government Guaranteed Bonds are based on the indicative mid-market prices quoted by a bond pricing agency at the end of the reporting period.

The estimated fair values of unquoted corporate debt securities are based on the indicative mid-market prices obtained from bond pricing agency.

Carrying value of AFS financial assets	AFS RM'000
At 1 January 2018	1,772,987
Additions	879,704
Disposals	(715,110)
Re-class the MII Bond to loan and receivables	(1,090)
Fair value loss recorded in other comprehensive income	(16,578)
Amortisation	(222)
Provision for impairment loss	(18,587)
At 31 December 2018/1 January 2019	1,901,104
Additions	645,526
Disposals	(343,378)
Fair value gain recorded in other comprehensive income	33,665
Amortisation	(199)
Provision for impairment loss	(14,972)
At 31 December 2019	**2,221,746**

8. Available-for-sale ("AFS") financial assets (continued)

8 (a) Controlled structured entities

The Company has determined that its investment in unit trust funds amounting to RM1,025,565,876 (2018: RM945,691,564) are in essence investment in structured entities ("investee funds"). The Company invests in certain investee funds whose objectives range from achieving short to long-term fixed income. The investee funds are managed by AmFunds Management Berhad, Affin Hwang Asset Management Berhad and Principal Asset Management Berhad which apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund's net assets.

The Company holds 100% or almost 100% of all the investee funds disclosed below, which are all established in Malaysia. The Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Accordingly, the Company has control over these investee funds.

Details of the Company's investment in controlled structured entities are as follows:

		% of ownership interest held by the Company	
Name of unit trust fund	**Principal activities**	**2019**	**2018**
AmCash Premium	Investment in government bonds and deposits	100.00%	100.00%
AmBond Select 1	Investment in government bonds and deposits	100.00%	100.00%
AmBond Select 2	Investment in corporate bonds and deposits	100.00%	100.00%
Affin Hwang Wholesale Government Bond Fund	Investment in government bonds and deposits	100.00%	99.99%
Affin Hwang Wholesale Corporate Bond Fund	Investment in corporate bonds and deposits	100.00%	99.98%
Affin Hwang World Series-Asian Bond Fund	Investment in collective investment scheme, deposits and derivatives	99.99%	99.99%
Principal Institutional Bond Fund 4 *(previously known as CIMB-Principal Institution Bond Fund 4)*	Investment in corporate bonds and deposits	100.00%	100.00%

8. Available-for-sale ("AFS") financial assets (continued)

8 (a) Controlled structured entities (continued)

These investee funds are classified as available-for-sale investments and the change in fair value of each investee fund is included in other comprehensive income of the Company.

The significant components of the Company's holdings in the investee funds amounting to approximately RM1,017 million (2018: RM938 million) are disclosed below:

	AmCash Premium RM'000	AmBond Select 1 RM'000	AmBond Select 2 RM'000	Affin Hwang Wholesale Government Bond Fund RM'000	Affin Hwang Wholesale Corporate Bond Fund RM'000	Affin Hwang World Series-Asian Bond Fund RM'000	Principal Institutional Bond Fund 4 RM'000
Fair value of underlying net assets:							
2019							
Government bonds	20,289	166,136	-	154,378	-	-	-
Corporate bonds	-	-	167,153	-	99,562	-	136,779
Collective Investment Scheme	-	-	-	-	-	22,585	-
Money market deposits	179,279	11,275	10,081	28,448	10,280	-	10,088
Cash and cash equivalents	51	11	6	12	28	433	21
	199,619	**177,422**	**177,240**	**182,838**	**109,870**	**23,018**	**146,888**
2018							
Government bonds	-	151,028	-	160,149	-	-	-
Corporate bonds	-	-	130,025	-	81,282	-	132,313
Collective Investment Scheme	-	-	-	-	-	20,045	-
Money market deposits	196,283	21,014	12,642	20,074	410	120	7,143
Cash and cash equivalents	2	4,232	2	27	33	730	20
	196,285	**176,274**	**142,669**	**180,250**	**81,725**	**20,895**	**139,476**

8. Available-for-sale ("AFS") financial assets (continued)

8 (a) Controlled structured entities (continued)

The Company's exposure to investments in the investee funds is disclosed below (continued):

	AmCash Premium RM'000	AmBond Select 1 RM'000	AmBond Select 2 RM'000	Affin Hwang Wholesale Government Bond Fund RM'000	Affin Hwang Wholesale Corporate Bond Fund RM'000	Affin Hwang World Series-Asian Bond Fund RM'000	Principal Institutional Bond Fund 4 RM'000
2019							
Total fair value gain/(loss) recognised for the financial year	**322**	**1,835**	**4,632**	**4,152**	**5,007**	**745**	**4,568**
2018							
Total fair value gain/(loss) recognised for the financial year	**-**	**134**	**699**	**1,580**	**1,666**	**(1,375)**	**1,683**

The Company's maximum exposure to loss from its interests in the investee funds is equal to the carrying amounts shown above.

9. Deferred tax (assets)/liabilities

Recognised deferred tax (assets)/liabilities

Recognised deferred tax (assets)/liabilities are attributable to the following:

	2019 RM'000	2018 RM'000
Available-for-sale financial assets	8,934	854
Plant and equipment	1,105	686
Provisions	(15,572)	(13,382)
Other items	-	(2)
Deferred tax assets (net)	**(5,533)**	**(11,844)**

Movement in temporary differences during the year:

	At 1.1.2018 RM'000	Recognised in profit or loss (Note 30) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2018/ 1.1.2019 RM'000	Recognised in profit or loss (Note 30) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2019 RM'000
Available-for-sale financial assets	4,832	-	(3,978)	854	-	8,080	8,934
Plant and equipment	885	(199)	-	686	419	-	1,105
Provisions	(11,871)	(1,511)	-	(13,382)	(2,190)	-	(15,572)
Other items	(10)	8	-	(2)	2	-	-
Deferred tax (assets)/liabilities	**(6,164)**	**(1,702)**	**(3,978)**	**(11,844)**	**(1,769)**	**8,080**	**(5,533)**

10. Reinsurance assets

	Note	2019 RM'000	2018 RM'000
Reinsurance of insurance contracts			
Claims liabilities	17.1	299,100	327,783
Premium liabilities	17.2	109,705	112,525
		408,805	**440,308**

11. Loans and receivables, excluding insurance receivables

	2019 RM'000	2018 RM'000
Staff loans:		
Receivable within twelve months	9	34
Receivable after twelve months	108	136
	117	170
Fixed and call deposits with maturity > 3 months with licensed financial institutions:		
- Licensed banks in Malaysia	731,486	867,871
Other receivables:		
Other receivables, deposits and prepayments	18,548	29,530
Income due and accrued	21,056	23,116
Amount due from holding companies	183	264
Amount due from related companies	-	2
	39,787	52,912
Less: Impairment allowance	(55)	(39)
	39,732	52,873
Total loans and receivables, excluding insurance receivables	**771,335**	**920,914**

The amounts due from holding companies and related companies are non-trade in nature, interest free, unsecured and repayable on demand.

The following loans and receivables mature after 12 months:

	2019 RM'000	2018 RM'000
Staff loans	**108**	**136**

Estimation of fair value

The fair values of staff loans and other receivables were determined to approximate the carrying amounts as these are immaterial in the context of the financial statements. The carrying amounts of the fixed and call deposits approximate their fair values.

12. Insurance receivables

	Note	2019 RM'000	2018 RM'000
Due premiums including agents/ brokers, co-insurers and insureds		168,805	187,853
Due from reinsurers and cedants		15,160	5,477
Amount due from holding companies		169	135
Amount due from related companies		86	226
Amount due from affiliated companies		3,762	3,719
		187,982	197,410
Less: Impairment allowance	12.1	(2,274)	(1,375)
		185,708	**196,035**

12.1 During the year, certain outstanding impaired receivables were written off against the allowance for impairment made previously amounted to RM38,000 (2018: RM38,000).

13. Deferred acquisition costs

	Note	2019 RM'000	2018 RM'000
Gross			
At 1 January		91,117	90,937
Movement during the year	25	(5,742)	180
At 31 December		**85,375**	**91,117**
Reinsurance			
At 1 January		(13,060)	(14,107)
Movement during the year	25	(489)	1,047
At 31 December		**(13,549)**	**(13,060)**
Net			
At 1 January		78,057	76,830
Movement during the year		(6,231)	1,227
At 31 December		**71,826**	**78,057**

14. Cash and cash equivalents

	2019 RM'000	2018 RM'000
Fixed and call deposits with licensed banks in Malaysia	161,879	180,821
Cash and bank balances	15,061	40,284
	176,940	**221,105**

The carrying amounts approximate their fair values due to the relatively short term nature of these financial instruments.

15. Share capital

	2019		2018	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Issued and fully paid:				
Ordinary shares	1,511,546	333,143	1,511,546	333,143

16. Reserves

16.1 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired. The fair value reserve is in respect of unrealised gains on securities available-for-sale, net of deferred taxation.

16.2 Retained earnings

The Company may distribute single tier exempt dividends to its shareholders out of its retained earnings. Pursuant to section 51(1) of the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend.

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

17. Insurance contract liabilities

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

	Note	2019 Gross RM'000	2019 Reinsurance RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000
Provision for claims reported by policyholders		1,084,551	(282,299)	802,252	1,092,246	(309,324)	782,922
Provision for IBNR		26,981	(16,801)	10,180	46,081	(18,459)	27,622
Provision for outstanding claims	17.1	1,111,532	(299,100)	812,432	1,138,327	(327,783)	810,544
Provision for unearned premiums	17.2	744,917	(109,705)	635,212	790,288	(112,525)	677,763
		1,856,449	**(408,805)**	**1,447,644**	**1,928,615**	**(440,308)**	**1,488,307**
			Note 10			**Note 10**	

17. Insurance contract liabilities (continued)

17.1 Provision for outstanding claims

	Note	2019 Gross RM'000	2019 Reinsurance RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000
At 1 January		1,138,327	(327,783)	810,544	1,157,794	(424,558)	733,236
Claims incurred in the current accident year		996,844	(214,464)	782,380	1,067,931	(228,466)	839,465
Adjustment to claims incurred in prior accident years		(197,061)	103,792	(93,269)	(206,936)	137,097	(69,839)
Adjustment to claims incurred in the ex-HLA run-off portfolio		359	(25)	334	22,497	(23,988)	(1,491)
Movement in PRAD of claims liabilities at 75% confidence level		(810)	384	(426)	(3,926)	6,627	2,701
Movement in claims handling expenses		3,326	-	3,326	5,560	-	5,560
Claims paid during the year	27	(829,453)	138,681	(690,772)	(904,593)	203,748	(700,845)
Movement in reinsurance default provision		-	315	315	-	1,757	1,757
At 31 December		**1,111,532**	**(299,100)**	**812,432**	**1,138,327**	**(327,783)**	**810,544**

17.2 Provision for unearned premiums

	Note	2019 Gross RM'000	2019 Reinsurance RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000
At 1 January		790,288	(112,525)	677,763	789,390	(119,450)	669,940
Premiums written in the year		1,470,388	(276,754)	1,193,634	1,536,931	(279,691)	1,257,240
Premiums earned during the year	22	(1,515,759)	279,574	(1,236,185)	(1,536,033)	286,616	(1,249,417)
At 31 December		**744,917**	**(109,705)**	**635,212**	**790,288**	**(112,525)**	**677,763**

18. Lease liabilities

Leases as lessee (MFRS16)

	2019 RM'000
Lease liabilities are payable as follows:	
- Within next 12 months	8,493
- After next 12 months	3,226
	11,719

18.1 Reconciliation of movements in lease liabilities to cash flows arising from financing activities

	Note	2019 RM'000
At 1 January 2019	40	18,133
Net changes from financing cash flows		(12,058)
Acquisition of new lease	4	5,007
Interest on lease liabilities	28	1,012
Remeasurement of lease liabilities		(375)
At 31 December 2019		**11,719**

18.2 Amount recognised in statement of cash flows

	Note	2019 RM'000
Included in net cash from operating activities:		
Payment relating to short-term leases	28	(145)
Included in net cash from financing activities:		
Payment of lease liabilities		(12,058)
Total cash outflows for leases		**(12,203)**

19. Other financial liabilities

	Note	2019 RM'000	2018 RM'000
Cash collateral deposits received from policyholders	19.1	21,244	19,814
Deposit received from reinsurers		4,855	4,505
		26,099	**24,319**

19.1 Fixed deposits held as cash collateral for guarantees issued on behalf of policyholders are included in loans and receivables and fixed and call deposits with licensed financial institutions.

The carrying amounts disclosed above approximate their fair values at the end of the reporting period. All amounts are payable within one year except for cash collateral deposit which has no maturity date.

20. Insurance payables

	2019 RM'000	2018 RM'000
Due to reinsurers and cedants	80,395	75,157
Due to agents/brokers, co-insurers and insureds	16,634	20,544
Amount due to holding companies	2,208	1,963
Amount due to related companies	3,613	4,654
Amount due to affiliated companies	903	635
	103,753	**102,953**

The carrying amounts disclosed above approximate fair values at the end of the reporting period. All amounts are payable within one year.

21. Other payables

	2019 RM'000	2018 RM'000
Other payables	28,405	34,204
Accrued expenses	44,553	46,652
Amount due to holding companies	3,238	4,017
Amount due to related companies	397	-
	76,593	**84,873**

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

22. Operating revenue

	Note	Shareholders fund RM'000	General business RM'000	Total RM'000
2019				
Gross earned premiums		-	1,515,759	1,515,759
Investment income	23	432	121,992	122,424
		432	**1,637,751**	**1,638,183**
2018				
Gross earned premiums		-	1,536,033	1,536,033
Investment income	23	1,237	111,442	112,679
		1,237	**1,647,475**	**1,648,712**

23. Investment income

	2019 RM'000	2018 RM'000
AFS financial assets		
Dividend/distribution income:		
- Equity securities quoted in Malaysia	8,856	6,708
- Unquoted equity securities in Malaysia	85	106
- Unit Trusts	25,476	22,081
- Controlled Structured Entities	44,012	37,152
Interest/profit income:		
- Government Investment Issues	1,012	1,348
- Government Guaranteed Bonds	46	-
- Corporate debt securities	6,171	5,314
Amortisation of premiums, net of accretion of discounts	(199)	(222)
Loans and receivables and cash and cash equivalents:		
Interest/profit income	36,965	40,192
	122,424	**112,679**

24. Realised gains and losses

	2019 RM'000	2018 RM'000
Realised gains for:		
Plant and equipment	217	758
AFS financial assets		
Quoted equity securities in Malaysia	6,177	12,301
Unit trust and controlled structured entities	7	164
Government Investment Issues	688	106
Corporate debt securities	449	101
	7,538	**13,430**

25. Commission income/(expense)

	Note	2019 RM'000	2018 RM'000
Commission income			
Commission income		44,101	45,838
Movement in deferred acquisition cost	13	(489)	1,047
		43,612	**46,885**
Commission expense			
Commission expense		(174,314)	(183,390)
Movement in deferred acquisition cost	13	(5,742)	180
		(180,056)	**(183,210)**

26. Other operating income

	2019 RM'000	2018 RM'000
Interest on staff housing loans	6	8
Sundry income	3,894	791
	3,900	**799**

27. Net claims incurred

	2019 RM'000	2018 RM'000
Gross claims paid less salvage	829,453	904,593
Reinsurance recoveries	(138,681)	(203,748)
Net claims paid	690,772	700,845
Net change in claims liabilities:		
At 31 December	812,432	810,544
At 1 January	(810,544)	(733,236)
	692,660	**778,153**

28. Management expenses

	Note	2019 RM'000	2018 RM'000
Employee benefits expenses	28.1	110,387	106,852
Senior Management cash-based remuneration			
- Fixed		4,927	4,835
- Variable		991	1,336
Chief Executive Officer's remuneration	29	2,199	2,276
Non-Executive Directors' remuneration	29	755	847
Allowance/(Writeback) for impairment on insurance and other receivables		952	(879)
Amortisation of intangible assets	6	2,842	2,398
Auditors' remuneration			
- Audit fees		398	407
- Non-audit fees		114	89
Bad debts written off		286	735
Depreciation of investment property	5	5	5
Depreciation of plant and equipment	3	5,348	5,642
Depreciation of right-of-use assets	4	10,976	-
Expenses arising from short-term leases*	18.2	145	-
Interest on lease liabilities	18.1	1,012	-
Rental expense on office premises		-	12,023
Other expenses		92,705	94,363
		234,042	**230,929**

* The Company leases properties with contract terms of 1 month to 5 years. Among those property leases, there are short-term leases that have lease term of 12 months or less in which the Company has elected not to recognise right-of-use assets and lease liabilities.

28.1 Employee benefits expenses

	2019 RM'000	2018 RM'000
Wages, salaries and others	94,797	91,811
Social security contributions	953	959
Contribution to Employees' Provident Fund	14,134	13,643
Contribution to retirement gratuities	503	439
	110,387	**106,852**

29. Key management personnel compensation

Details of the Directors' and Chief Executive Officer's remuneration (including benefits-in-kind) for the financial year 2019 are as follows:

2019	Fees RM'000	Salary RM'000	Bonus RM'000	EPF RM'000	Other RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer							
- Mr. Chua Seck Guan	-	1,445	451	303	-	41	2,240
Executive Director							
- Mr. Alan John Wilson	-	-	-	-	-	-	-
Non-Executive Directors							
- Dato' Mohd. Sallehuddin bin Othman	83	-	-	-	101	-	184
- Ms. Pearl Chan Siew Cheng	66	-	-	-	101	-	167
- Dato' Muthanna bin Abdullah	66	-	-	-	88	-	154
- Mr. Iichiro Sadamoto*	66	-	-	-	58	-	124
- Mr. Lim Tiang Siew	66	-	-	-	60	-	126
- Ms. Loh Guat Lan	-	-	-	-	-	-	-
Total Directors' Remuneration (including benefits-in-kind)	347	-	-	-	408	-	755
Total Chief Executive Officer and Directors' Remuneration (including benefits-in-kind)	347	1,445	451	303	408	41	2,995

* The Director's fee and Meeting fee were paid to Toyota Tsusho (Malaysia) Sdn. Bhd.

29. Key management personnel compensation (continued)

2018	Fees RM'000	Salary RM'000	Bonus RM'000	EPF RM'000	Other RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer							
- Mr. Chua Seck Guan	-	1,363	593	313	7	39	2,315
Executive Director							
- Mr. Alan John Wilson	-	-	-	-	-	-	-
Non-Executive Directors							
- Dato' Mohd. Sallehuddin bin Othman	158	-	-	-	97	-	255
- Datuk Seri Dr. Nik Norzrul Thani bin N Hassan Thani	73	-	-	-	-	-	73
- Ms. Pearl Chan Siew Cheng	126	-	-	-	98	-	224
- Ms. Loh Guat Lan	-	-	-	-	-	-	-
- Dato' Muthanna bin Abdullah	53	-	-	-	54	-	107
- Mr. Iichiro Sadamoto*	126	-	-	-	52	-	178
- Mr. Lim Tiang Siew	3	-	-	-	7	-	10
Total Directors' Remuneration (including benefits-in-kind)	539	-	-	-	308	-	847
Total Chief Executive Officer and Directors' Remuneration (including benefits-in-kind)	539	1,363	593	313	315	39	3,162

* The Director's fee and Meeting fee were paid to Toyota Tsusho (Malaysia) Sdn. Bhd.

30. Tax expense

	Note	2019 RM'000	2018 RM'000
Current tax expense			
Malaysian - current		56,320	37,558
- prior years		1,762	(1,291)
		58,082	36,267
Deferred tax expense			
Malaysian - current		(623)	(1,903)
- prior years		(1,146)	201
	9	(1,769)	(1,702)
Total tax expense		**56,313**	**34,565**
Reconciliation of tax expense			
Profit for the year		235,616	177,766
Tax expense		56,313	34,565
Profit before taxation		**291,929**	**212,331**
Income tax using Malaysian tax rate of 24%		70,063	50,960
Effect of lower tax rates for offshore business and business outside Malaysia		-	(3,193)
Non-deductible expenses		3,778	3,021
Tax exempt income		(18,156)	(15,128)
Other items		12	(5)
		55,697	35,655
Under/(Over) provision in prior years			
- Current tax		1,762	(1,291)
- Deferred tax		(1,146)	201
Tax expense		**56,313**	**34,565**
Income tax recognised directly in equity			
Available-for-sale financial assets		**(8,080)**	**3,978**

31. Earnings per share

Basic earnings per share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders of RM235,616,000 (2018: RM177,766,000) and the weighted average number of ordinary shares outstanding during the year of 333,143,000 (2018: 333,143,000).

32. Dividends

Dividends recognised by the Company are:

	Sen per share net of tax	Total amount RM'000	Date of payment
2019			
Final 2018 - tax-exempt	37.00	123,263	08 Jul 2019
2018			
Final 2017 - tax-exempt	25.50	84,951	04 Jul 2018

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2019 is 12 sen per ordinary share totalling RM39,977,000. These dividends will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2020 upon approval by Bank Negara Malaysia and the shareholders of the Company.

33. Capital expenditure commitments

	2019 RM'000	2018 RM'000
Plant and equipment		
Authorised but not contracted for	1,574	-
Contracted but not provided for	3,628	2,248

34. Significant related party disclosures

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The related parties of the Company are:

(i) Holding companies

The immediate holding company is MSIG Holdings (Asia) Pte. Ltd., a company incorporated in Singapore. The penultimate and ultimate holding companies are Mitsui Sumitomo Insurance Co., Ltd and MS&AD Insurance Group Holdings, Inc., respectively. Both companies are incorporated in Japan.

(ii) Fellow subsidiaries

These are entities which are under common control of the ultimate, penultimate and immediate holding companies.

(iii) Affiliated companies

Affiliated companies comprised of companies having equity interest of between 20% to 50% in the Company and including other corporations related to the first mentioned corporation.

(iv) Key management personnel

Key management personnel include the Company's Chief Executive Officer, Executive and Non-Executive Directors which are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The compensation for Company's Chief Executive Officer, Executive and Non-Executive Directors are disclosed in Note 29.

34. Significant related party disclosures (continued)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Company, other than key management personnel remuneration are shown below. The outstanding balances related to the below transactions are as shown in Notes 11, 12, 20 and 21.

	2019 RM'000	2018 RM'000
Ultimate/Penultimate holding company		
RI premium	51,096	45,480
RI commission	(9,385)	(9,560)
Claims recoveries	(23,462)	(31,417)
Claims settling fee	(452)	(481)
Recovery of expenses paid on behalf	(1,642)	(1,550)
Immediate holding company		
Service fee	3,358	4,731
Recovery of expenses paid on behalf	(270)	(770)
Fellow subsidiary companies		
RI premium	11,807	10,886
RI commission	(2,118)	(2,224)
Claims recoveries	(4,978)	(542)
Affiliated companies		
Premium income	(103,137)	(90,621)
Commission expense	13,452	11,682
Claims	21,339	23,893
Bank merchant fees	2,973	3,214
Surveying fee	451	436
Interest/Dividend income	(5,774)	(6,089)
Marketing expenses	2,183	922
Service/Admin fees	371	279

35. Risk Management Framework

The Company recognises the importance of effective risk management to realise the Company's corporate objectives and responsibilities to achieve financial soundness and capital efficiency.

In this regard, the Board has set out the overall risk management strategies, policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.

The major areas of risk that the Company is exposed to are insurance risks, financial risks and operational risks.

The Company's risk management framework is as follows:

- A Board Compliance and Risk Management Committee ("BCRMC") is established at the Board Committee level to set the direction and to oversee the overall risk management framework as well as to ensure that resources, infrastructure and systems are in place for risk management activities. The BCRMC is supported by Enterprise Risk Management Committee ("ERMC").

- The ERMC comprising of the Senior Management Team members, supports the BCRMC in the process of risk identification, risk assessment and risk mitigation as well as promoting risk management culture and governance across all levels of staff through an effective organisation structure, communication, training as well as clear policies and procedures.

- The Company has an Enterprise Risk Management Department and also makes references to the risk management functions at the Head Office in Japan and Regional Office in Singapore for advice and guidance on risk management approach and best practices.

- The Internal Audit function which is independent from the business operations also provides support in identifying and highlighting key risk areas for improvement.

35. Risk Management Framework (continued)

- The Company has in place an Enterprise Risk Management Policy, Regulations & Guidelines, and maintains a Company Risk Profile to record details of the various risks faced by the Company. The Company has also developed a Company Risk Profile which is subject to periodic review.

- The Company has established an Internal Control Programme comprising Company Level and Process Level Control Documents with regular Testing of Design and Testing of Operating Effectiveness; as well as further Evaluation on Internal Controls Over Financial Reporting ("ICOFR") on annual basis.

Stress Testing

The risk management framework also includes a Stress Testing Policy and Stress Testing Methodology. Stress Testing exercise is conducted at least once a year to identify potential threats due to exceptional but adverse plausible events and to evaluate the sustainability of the Company's capital to withstand the impact.

Internal Capital Adequacy Assessment Process ("ICAAP")

Bank Negara Malaysia ("BNM") issued a Guideline on ICAAP for Insurers on 24 February 2012 with effective date from 1 September 2012.

Among the key elements under ICAAP, insurers are required to put in place:

(i) A Capital Management Framework which includes setting of risk appetite or risk tolerance level as well as determine Individual Target Capital Level ("ITCL") that commensurate with own risk profile and control environment through comprehensive Stress Testing. As at to date, the Company has established a Risk Appetite Statement and performed the comprehensive Stress Testing for ITCL Review required under ICAAP; and

(ii) To maintain a sound Capital Management to ensure insurers operate at a level above ITCL all the time.

Internal Capital Adequacy Assessment Process ("ICAAP") Report

Driven by the BNM requirements on Capital Management as well as Risk Governance, the Company has addressed the necessary performance and issued a report approved by the BCRMC on 12 December 2019 covering the following areas:

Risk Appetite

The Risk Appetite Framework has been established to address the major types of risks that the Company needs to manage in executing its business strategies through the Business Plan.

Individual Target Capital Level ("ITCL") Review

Under the RBC Framework, BNM has set a supervisory target capital level of 130% (Supervisory Capital Adequacy Ratio) and insurer should establish an ITCL which is higher against Supervisory Capital Adequacy Ratio.

The Company has performed a series of Scenario Stress Tests to review and determine appropriate ITCL from actuarial technical stand point which is required to be maintained by the Company in order to withstand the exceptional and adverse plausible events.

Capital Management Plan ("CMP")

The CMP has been established to be in line with the requirements set out in the RBC Framework and formed an integral part of ICAAP. The CMP sets out procedures to implement and maintain an appropriate level of capital which commensurate with risk profile at all times as required under regulatory requirements.

36. Insurance risk

The Company underwrites various classes of general insurance contracts, with a portfolio mix comprising mainly of Motor, Fire, Marine, Aviation and Miscellaneous policies.

The risk under insurance contracts is the possibility of occurrence of an insured event and uncertainty of the amount and timing of resulting claim. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk	-	the possibility that the number of insured events will differ from those expected.
Severity risk	-	the possibility that the cost of the events will differ from those expected.
Development risk	-	the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

36. Insurance risk (continued)

The variability of risk events can be managed by writing a large diversified portfolio of insurance contracts, because a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio. The variability of risk events can also be managed by careful selection of risks and implementation of underwriting strategy and guidelines as well as claims management and control systems.

The objective of the Company is to control and manage insurance risk to reduce volatility of operating profits. The Company manages insurance risk through the following:

- The Company's underwriting approach is governed by an underwriting policy and guidelines which sets out a control framework for risk acceptance and referrals, underwriting capacity and authority limits granted to the various operations.
- The Company's claims philosophy which provides the framework for claims management, regular claims review and claims handling procedures with the objectives to minimise the uncertainty of claims development and inflationary costs as well as to mitigate dubious or fraudulent claims whilst ensuring fair claims settlement.
- Reinsurance is used to limit the Company's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.

The table below sets out the concentration of the Company's insurance business by type of product based on gross and net written premiums.

	Gross RM'000	Reinsurance RM'000	Net RM'000
2019			
Motor	611,662	(19,614)	592,048
Fire	406,170	(150,494)	255,676
Marine Cargo, Aviation Cargo, and Transit	105,253	(31,946)	73,307
Miscellaneous	347,303	(74,700)	272,603
	1,470,388	**(276,754)**	**1,193,634**
2018			
Motor	675,430	(21,537)	653,893
Fire	402,268	(156,834)	245,434
Marine Cargo, Aviation Cargo, and Transit	109,336	(30,609)	78,727
Miscellaneous	349,897	(70,711)	279,186
	1,536,931	**(279,691)**	**1,257,240**

The table below sets out the concentration of the Company's insurance contracts liabilities by type of product.

	Gross RM'000	Reinsurance RM'000	Net RM'000
2019			
Motor	886,001	(20,575)	865,426
Fire	384,979	(193,632)	191,347
Marine Cargo, Aviation Cargo, and Transit	118,774	(59,402)	59,372
Miscellaneous	466,695	(135,196)	331,499
	1,856,449	**(408,805)**	**1,447,644**
2018			
Motor	918,564	(21,532)	897,032
Fire	417,758	(216,202)	201,556
Marine Cargo, Aviation Cargo, and Transit	129,561	(68,509)	61,052
Miscellaneous	462,732	(134,065)	328,667
	1,928,615	**(440,308)**	**1,488,307**

36. Insurance risk (continued)

Key assumptions

The principal assumption underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claims costs, claims handling cost and claims numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example isolated occurrence of large claims as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

No discounting is made to the recommended claims and premium liability provisions. In most cases, no explicit inflation adjustment has been made to claims amounts payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development.

The Company has based the provisions for unexpired risks and insurance claims at a minimum 75% level of sufficiency, according to the requirement set by Bank Negara Malaysia under the RBC Framework.

Sensitivity analysis of insurance liabilities

Estimates of an insurance company's claim and premium liabilities may be affected by future events, which cannot be predicted with any certainty. The assumptions made may well vary from actual experience such that the actual liability may vary considerably from the best estimates.

The Company re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its insurance contracts. The analysis presented in page 98 demonstrates the sensitivity of insurance liability estimates to particular movements in assumptions used in the estimation process. Certain assumptions can be expected to impact the liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The analysis below is performed to assess movements in key assumptions with all other assumptions held constant and ignores changes in values of the related assets. The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

The key assumptions considered in the sensitivity analysis are as follows:

- Initial Expected Loss Ratio ("IELR") for accident year 2019
- Selected Ultimate Loss Ratio ("ULR") for accident year 2019

The IELR is a parameter used in the Expected Claims Ratio and Bornhuetter-Ferguson methods. These methods are usually used by actuaries to estimate the claim liability for more recent accident periods where there is little credible data. The sensitivity test is performed by changing the IELR by -15% multiplicatively to +15% multiplicatively to derive the claim liabilities and the net impact is disclosed in the following table.

The selected ULR is derived from the best estimation of claims reserve, and is a major factor to determine the actuarial unexpired risk reserve which is a component of premium liability. A change in the expected ULR also affects the claim liability as it is a function of ultimate losses. To show the sensitivity of this assumption, the impact of changing ULR by -15% multiplicatively and +15% multiplicatively is shown in the table below. For claims liabilities, 2019 accident year ULRs were changed only. For premium liabilities, the expected ULRs were changed.

36. Insurance risk (continued)

Sensitivity analysis of insurance liabilities (continued)

The results of the sensitivity analysis (net of reinsurance) showing the impact on the claim and premium liabilities are as follows:

	IELR		ULR	
	+15% RM'000	-15% RM'000	+15% RM'000	-15% RM'000
2019				
Premium liabilities	-	-	9,183	-
Claim liabilities	14,792	(14,792)	125,843	(123,680)
Total	**14,792**	**(14,792)**	**135,026**	**(123,680)**
Impact on profit before tax	14,792	(14,792)	135,026	(123,680)
Impact on equity *	11,242	(11,242)	102,620	(93,997)
2018				
Premium liabilities	-	-	10,161	-
Claim liabilities	12,349	(12,349)	135,709	(132,781)
Total	**12,349**	**(12,349)**	**145,870**	**(132,781)**
Impact on profit before tax	12,349	(12,349)	145,870	(132,781)
Impact on equity *	9,385	(9,385)	110,861	(100,914)

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

Claims Development Table

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

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

36. Insurance risk (continued)

Gross general insurance contract liabilities for 2019:

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		921,140	946,043	985,708	1,052,072	1,017,482	1,041,781	1,067,931	996,844	
One year later		784,388	802,475	866,421	961,550	927,017	952,318	935,844		
Two years later		750,668	779,716	800,218	945,176	863,918	915,036			
Three years later		737,419	759,358	793,142	922,370	865,504				
Four years later		740,556	760,058	778,774	916,523					
Five years later		741,185	758,652	775,433						
Six years later		725,578	741,258							
Seven years later		723,300								
Current estimate of cumulative claims incurred		723,300	741,258	775,433	916,523	865,504	915,036	935,844	996,844	
At end of accident year		350,298	352,882	388,474	411,604	446,983	446,741	458,071	452,758	
One year later		620,046	632,151	654,121	773,865	724,731	764,381	732,345		
Two years later		673,309	690,446	714,733	832,312	778,128	819,994			
Three years later		699,668	710,880	730,243	856,957	805,614				
Four years later		705,343	720,415	738,804	863,987					
Five years later		713,470	731,309	742,562						
Six years later		715,575	734,678							
Seven years later		718,588								
Cumulative payments to-date		718,588	734,678	742,562	863,987	805,614	819,994	732,345	452,758	

36. Insurance risk (continued)

Gross general insurance contract liabilities for 2019 (continued):

	Note	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
Gross general insurance liabilities (direct, facultative and treaty inward)		**5,965**	**4,712**	**6,580**	**32,871**	**52,536**	**59,890**	**95,042**	**203,499**	**544,086**	1,005,181
Claims handling expenses											38,296
PRAD at 75% confidence level											68,055
Gross general insurance contract liabilities per statement of financial position	17.1										**1,111,532**

36. Insurance risk (continued)

Gross general insurance contract liabilities for 2018:

Accident year	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year		895,625	921,140	946,043	985,708	1,052,072	1,017,482	1,041,781	1,067,931	
One year later		863,630	784,388	802,475	866,421	961,550	927,017	952,318		
Two years later		840,811	750,668	779,716	800,218	945,176	863,918			
Three years later		837,006	737,419	759,358	793,142	922,370				
Four years later		841,641	740,556	760,058	778,774					
Five years later		843,970	741,185	758,652						
Six years later		820,066	725,578							
Seven years later		817,718								
Current estimate of cumulative claims incurred		817,718	725,578	758,652	778,774	922,370	863,918	952,318	1,067,931	
At end of accident year		343,655	350,298	352,882	388,474	411,604	446,983	446,741	458,072	
One year later		693,618	620,046	632,151	654,121	773,865	724,731	764,381		
Two years later		753,356	673,309	690,446	714,733	832,312	778,128			
Three years later		789,324	699,668	710,880	730,243	856,957				
Four years later		797,854	705,343	720,415	738,804					
Five years later		811,750	713,470	731,309						
Six years later		815,780	715,575							
Seven years later		816,109								
Cumulative payments to-date		816,109	715,575	731,309	738,804	856,957	778,128	764,381	458,072	

36. Insurance risk (continued)

Gross general insurance contract liabilities for 2018 (continued):

	Note	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Gross general insurance liabilities (direct, facultative and treaty inward)		**6,567**	**1,609**	**10,003**	**27,343**	**39,970**	**65,413**	**85,790**	**187,937**	**609,859**	1,034,491
Claims handling expenses											34,970
PRAD at 75% confidence level											68,866
Gross general insurance contract liabilities per statement of financial position	17.1										**1,138,327**

36. Insurance risk (continued)

Net general insurance contract liabilities for 2019:

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		642,619	687,177	725,556	754,510	795,839	792,408	853,349	798,559	
One year later		609,305	647,924	695,209	688,712	730,627	753,959	793,492		
Two years later		595,233	629,521	660,227	668,370	701,786	730,208			
Three years later		581,867	618,735	652,496	662,690	701,734				
Four years later		586,878	616,447	647,986	659,127					
Five years later		583,977	614,401	646,497						
Six years later		574,948	601,537							
Seven years later		571,864								
Current estimate of cumulative claims incurred		571,864	601,537	646,497	659,127	701,734	730,208	793,492	798,559	
At end of accident year		296,611	319,751	346,145	349,673	399,332	420,136	424,354	405,388	
One year later		507,506	536,915	561,016	558,268	604,072	621,758	646,438		
Two years later		544,814	573,094	600,813	597,759	641,438	661,529			
Three years later		558,005	585,042	613,145	616,676	658,457				
Four years later		562,404	591,645	619,870	621,163					
Five years later		566,637	595,167	622,744						
Six years later		567,912	596,782							
Seven years later		568,459								
Cumulative payments to-date		568,459	596,782	622,744	621,163	658,457	661,529	646,438	405,388	

36. Insurance risk (continued)

Net general insurance contract liabilities for 2019 (continued):

	Note	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
Net general insurance liabilities (direct, facultative and treaty inward)		**4,311**	**3,405**	**4,755**	**23,753**	**37,964**	**43,277**	**68,679**	**147,054**	**393,171**	726,369
Claims handling expenses											38,296
PRAD at 75% confidence level											44,942
Reinsurance default provision											2,825
Net general insurance contract liabilities per statement of financial position	17.1										**812,432**

36. Insurance risk (continued)

Net general insurance contract liabilities for 2018:

Accident year	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year		611,593	642,619	687,177	725,556	754,510	795,839	792,408	853,349	
One year later		597,015	609,305	647,924	695,209	688,712	730,627	753,959		
Two years later		583,286	595,233	629,521	660,227	668,370	701,786			
Three years later		590,141	581,867	618,735	652,496	662,690				
Four years later		591,265	586,878	616,447	647,986					
Five years later		588,726	583,977	614,401						
Six years later		570,938	574,948							
Seven years later		569,701								
Current estimate of cumulative claims incurred		569,701	574,948	614,401	647,986	662,690	701,786	753,959	853,349	
At end of accident year		295,855	296,611	319,751	346,145	349,673	399,332	420,136	424,354	
One year later		493,965	507,506	536,915	561,016	558,268	604,072	621,758		
Two years later		529,113	544,814	573,094	600,813	597,759	641,438			
Three years later		559,064	558,005	585,042	613,145	616,676				
Four years later		563,587	562,404	591,645	619,870					
Five years later		566,332	566,637	595,167						
Six years later		568,257	567,912							
Seven years later		568,569								
Cumulative payments to-date		568,569	567,912	595,167	619,870	616,676	641,438	621,758	424,354	

36. Insurance risk (continued)

Net general insurance contract liabilities for 2018 (continued):

	Note	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Net general insurance liabilities (direct, facultative and treaty inward)		**4,619**	**1,132**	**7,036**	**19,234**	**28,116**	**46,014**	**60,348**	**132,201**	**428,995**	727,695
Claims handling expenses											34,970
PRAD at 75% confidence level											45,369
Reinsurance default provision											2,510
Net general insurance contract liabilities per statement of financial position	17.1										**810,544**

37. Financial risks

In addition to insurance risks, the Company is also subjected to financial risks namely credit risk, liquidity risk, market risk (comprising currency risk, interest rate risk and price risk) as well as operational risk arising from its exposure in financial instruments.

In this regard, the Company is guided by a framework of policies and procedures governing credit control and investments as well as general risk management policies in order to mitigate such financial risks. The Company has established robust processes to monitor and address these risks on an ongoing basis.

The policies and measures undertaken by the Company to manage these risks are as set out below:

Credit risk

Credit risk is the risk of a financial loss resulting from the failure of a customer, an intermediary or counterparty to settle its financial and contractual obligations to the Company as and when they fall due.

The Company monitors and manages credit risk exposures with the objective to ensure that it is able to meet policyholder obligations when they are due and maintain adequate capital and solvency requirements.

The Company's primary exposure to credit risk arises through its receivables from sales of insurance policies, obligations of reinsurers through reinsurance contracts and its investment in fixed income securities, deposits and bank balances. The Company has put in place a credit control policy and investment policy as part of its overall credit risk management framework.

The task of monitoring receivables arising from insurance and reinsurance contracts is undertaken by the Credit Control Division of the Finance Department with oversight from the Credit Control Committee to ensure adherence to the Company's credit control policies and procedures. These policies and procedures entail approval requirements for credit period extension for overdue receivables and cancellation processes. The Company also has guidelines to evaluate intermediaries before their appointment.

The Company manages the credit risk of its reinsurers by monitoring the credit quality and financial conditions of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Company cedes business to reinsurers that satisfy the minimum credit rating requirements of the Company.

In relation to its credit risk exposure from fixed income securities, the Company evaluates and assesses an issuer's credit risk by using the ratings assigned by external rating agencies. Proper monitoring and control of credit and concentration risks are carried out by the Investment Division of the Finance Department and regularly reviewed by the Investment Committee and Board of Directors. The Company manages individual exposures as well as concentration of credit risks in its fixed income portfolio through a prescribed framework of asset allocation, minimum credit rating, maximum duration as well as setting maximum permitted exposure to a single counterparty or group of counterparties.

Cash and deposits are placed with financial institutions licensed under the Financial Services Act, 2013 which are regulated by Bank Negara Malaysia, guided by the Company's approved exposure limits and minimum credit rating requirements for each financial institution.

At the end of the reporting period, there was no significant concentration of credit risks.

Credit exposure

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

	2019 RM'000	2018 RM'000
AFS financial assets - Debt instruments	158,497	148,139
Reinsurance assets	408,805	440,308
Loans and receivables, excluding insurance receivables and prepayments	767,253	917,884
Insurance receivables	185,708	196,035
Cash and cash equivalents	176,940	221,105
	1,697,203	**1,923,471**

37. Financial risks (continued)

Credit exposure by credit rating

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

	Not past due RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Total RM'000
2019				
AFS financial assets				
- Debt instruments	158,497	-	-	158,497
Reinsurance assets	408,805	-	-	408,805
Loans and receivables, excluding insurance receivables and prepayments	767,253	-	55	767,308
Insurance receivables	173,070	12,638	2,274	187,982
Cash and cash equivalents	176,940	-	-	176,940
	1,684,565	12,638	2,329	1,699,532
Impairment allowance	-	-	(2,329)	(2,329)
	1,684,565	**12,638**	**-**	**1,697,203**
2018				
AFS financial assets				
- Debt instruments	148,139	-	-	148,139
Reinsurance assets	440,308	-	-	440,308
Loans and receivables, excluding insurance receivables and prepayments	917,884	-	39	917,923
Insurance receivables	180,441	15,594	1,375	197,410
Cash and cash equivalents	221,105	-	-	221,105
	1,907,877	15,594	1,414	1,924,885
Impairment allowance	-	-	(1,414)	(1,414)
	1,907,877	**15,594**	**-**	**1,923,471**

37. Financial risks (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's, Malaysian Rating Corporation Berhad's, A.M. Best Company Rating Services' or Standard and Poor's Rating Services' (where applicable) credit ratings of counterparties. AAA is the highest possible rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB RM'000	B RM'000	Not-rated RM'000	Total RM'000
2019								
AFS financial assets - Debt instruments	37,279	85,341	15,254	-	-	-	20,623	158,497
Reinsurance assets	-	31,905	192,513	-	-	-	184,387	408,805
Loans and receivables, excluding insurance receivables and prepayments	341,019	307,983	82,485	-	-	-	35,766	767,253
Insurance receivables	-	372	481	-	1,368	-	183,487	185,708
Cash and cash equivalents	143,229	29,663	4,019	-	-	-	29	176,940
	521,527	**455,264**	**294,752**	**-**	**1,368**	**-**	**424,292**	**1,697,203**
2018								
AFS financial assets - Debt instruments	35,540	58,375	23,909	-	-	-	30,315	148,139
Reinsurance assets	-	34,268	243,995	-	-	-	162,045	440,308
Loans and receivables, excluding insurance receivables and prepayments	566,581	243,810	57,480	-	-	-	50,013	917,884
Insurance receivables	-	16	343	-	643	-	195,033	196,035
Cash and cash equivalents	124,385	95,082	1,609	-	-	-	29	221,105
	726,506	**431,551**	**327,336**	**-**	**643**	**-**	**437,435**	**1,923,471**

37. Financial risks (continued)

Age analysis of the financial assets past-due but not impaired

	1-30 days RM'000	31-60 days RM'000	61-90 days RM'000	>90 days RM'000	Total RM'000
2019					
Insurance receivables	**5,629**	**2,829**	**2,324**	**1,856**	**12,638**
2018					
Insurance receivables	**9,146**	**2,585**	**1,823**	**2,040**	**15,594**

Impaired financial assets

At 31 December 2019, based on a collective and individual assessment of receivables, there are impaired insurance receivables of RM2,274,000 (2018: RM1,375,000). The Company records impairment allowance for loans and receivables and insurance receivables in separate "Allowance for impairment" accounts. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	Insurance receivables		
RM'000	Individual Impairment RM'000	Collective Impairment RM'000	Total
At 1 January 2018	808	1,039	1,847
Movement during the year	(384)	(88)	(472)
At 31 December 2018/1 January 2019	424	951	1,375
Movement during the year	320	579	899
At 31 December 2019	**744**	**1,530**	**2,274**

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations due to insufficient liquid resources, or would have to incur excessive cost in meeting the obligations. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The Company manages this risk by monitoring daily cash inflows and outflows and by ensuring that a reasonable amount of financial assets are kept in liquid instruments at all times. The Company also observes principles on asset-liability management and ensures that the average investment duration and maturity profiles match the Company's liabilities.

The Company's treaty reinsurance contracts contains a "cash call" clause which enables the Company to call for advance payment from reinsurers in the event of a large claim exceeding an agreed amount.

37. Financial risks (continued)

Maturity profiles

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

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

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	4 - 5 years RM'000	6 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
2019								
Insurance contract liabilities	1,111,532	758,012	308,206	41,209	4,105	-	-	1,111,532
Lease Liabilities	11,719	8,493	2,674	552	-	-	-	11,719
Other financial liabilities	26,099	26,099	-	-	-	-	-	26,099
Insurance payables	103,753	103,753	-	-	-	-	-	103,753
Other payables	76,593	76,593	-	-	-	-	-	76,593
Total liabilities	**1,329,696**	**972,950**	**310,880**	**41,761**	**4,105**	**-**	**-**	**1,329,696**
2018								
Insurance contract liabilities	1,138,327	796,304	299,123	39,062	3,838	-	-	1,138,327
Other financial liabilities	24,319	24,319	-	-	-	-	-	24,319
Insurance payables	102,953	102,953	-	-	-	-	-	102,953
Other payables	84,873	84,873	-	-	-	-	-	84,873
Total liabilities	**1,350,472**	**1,008,449**	**299,123**	**39,062**	**3,838**	**-**	**-**	**1,350,472**

37. Financial risks (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk, i.e. foreign exchange rates (currency risk), market interest rates/profit yields (interest rate/profit yield risk) and market prices (price risk).

The Company manages its market risk by setting policies on asset allocation, investment limits and diversification benchmarks. These policies have been set in line with the Company's investment and risk management policies and in compliance with regulatory requirements in respect of maintenance of assets and solvency.

Investment in derivatives is prohibited, unless specifically approved.

Currency risk

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

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act, 2013 and denominated in the same currency as its insurance and investment contract liabilities.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"), with no significant exposure to foreign currency risks.

Interest rate/profit yield risk

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

Floating rate instruments expose the Company to cash flow interest/profit risk, whereas fixed rates/ yield instruments expose the Company to fair value interest/profit risk.

The Company's exposure to interest rate risk arises primarily from investments in fixed income securities and deposits with licensed institutions.

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

As the Company mainly invests in fixed rate instruments, the impact on profit before tax arising from exposure to interest rate/profit yield risk is insignificant.

Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2019 RM'000	2018 RM'000
Fixed rate instruments		
AFS financial assets - Debt instruments	158,497	148,139
Fixed and call deposits	893,365	1,048,692
	1,051,862	**1,196,831**

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Company does not account the fixed and cash deposits at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss. The AFS financial assets are accounted at fair value through other comprehensive income. The effect of change in interest rates are disclosed in price risk disclosure (see page 113).

37. Financial risks (continued)

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Company's exposure to price risk arises from its investment in quoted equities traded on Bursa Malaysia, government investment issues, government guaranteed bonds and corporate debt securities.

The Company manages its exposure to price risk by setting policies and investment parameters governing asset allocation and investment limits as well as specific review by the Investment Committee for equity investments falling by 20% or more of its cost.

The Company has no significant concentration of price risk.

The analysis below is performed for reasonable possible movements in equity market price or interest rate with all other variables held constant, showing the impact of statement of comprehensive income and equity (due to changes in fair value of AFS financial assets).

		2019		2018	
	Change in variables	Impact on income statement RM'000	Impact on equity* RM'000	Impact on income statement RM'000	Impact on equity* RM'000
Market price	+10%	-	21,786	-	14,445
Market price	-10%	-	(21,786)	-	(14,445)

		2019		2018	
	Change in variables	Impact on income statement RM'000	Impact on equity* RM'000	Impact on income statement RM'000	Impact on equity* RM'000
Interest rate	+25 basis points	-	1,715	-	1,526
Interest rate	-25 basis points	-	(1,715)	-	(1,526)

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

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

Operational risks

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

The Company cannot expect to eliminate all operational risks.

The Company mitigates operational risks by putting in place a framework for controls and procedures, which includes the establishment of a Company Risk Profile, an Internal Control Programme, as well as Business Process Management ("BPM") documenting procedures as well as work instructions, encapsulating effective segregation of duties, access controls, authorisation and reconciliation procedures. Regional and internal audits also play a role in ensuring that operational risks are mitigated.

External events such as interruption of business operation due to disasters may disrupt working environment, facilities and personnel. The Company has developed a Business Continuity Management Framework ("BCM") in line with Bank Negara Malaysia requirements (BNM/RH/GL/013-3 Guidelines on Business Continuity Management (Revised)) with the objectives of protecting the business, customers and all stakeholders by addressing and minimising serious interruption to the business through a structured framework of business and systems recovery plans in the event of a disaster.

Fair value information

It was not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

37. Financial risks (continued)

Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	RM'000	RM'000
2019								
Financial assets								
AFS Financial assets								
Equity securities in corporations:								
Quoted in Malaysia	286,662	-	-	-	-	-	286,662	286,662
Unit trust and controlled structured entities	1,775,985	-	-	-	-	-	1,775,985	1,775,985
Government Investment Issues	-	15,695	-	-	-	-	15,695	15,695
Government Guaranteed Bonds	-	4,929	-	-	-	-	4,929	4,929
Corporate debt securities								
Unquoted in Malaysia	-	137,873	-	-	-	-	137,873	137,873
	2,062,647	**158,497**	**-**	**-**	**-**	**-**	**2,221,144**	**2,221,144**

37. Financial risks (continued)

Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	RM'000	RM'000
2018								
Financial assets								
AFS Financial assets								
Equity securities in corporations:								
Quoted in Malaysia	190,062	-	-	-	-	-	190,062	190,062
Unit trust and controlled structured entities	1,562,301	-	-	-	-	-	1,562,301	1,562,301
Government Investment Issues	-	30,315	-	-	-	-	30,315	30,315
Corporate debt securities								
Unquoted in Malaysia	-	117,824	-	-	-	-	117,824	117,824
	1,752,363	**148,139**	**-**	**-**	**-**	**-**	**1,900,502**	**1,900,502**

37. Financial risks (continued)

Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2018: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

The following table shows a reconciliation of Level 3 fair values:

	2019 RM'000	2018 RM'000
Balance at 1 January	-	2,116
Disposal	-	(1,026)
Re-class the MII Bond to loan and receivables	-	(1,090)
Gains and losses recognised in profit or loss		
Realised gains and losses	-	-
Gains and losses recognised in other comprehensive income		
Net loss on fair value of available-for-sale financial assets	-	-
Balance at 31 December	**-**	**-**

38. Regulatory capital requirements

The Company's Internal Capital Adequacy Assessment Process ("ICAAP") Framework is in place to manage and maintain capital adequacy level that commensurate with its risk profile at all times and to ensure that adequate capital resources are available to maintain Capital Adequacy Ratio ("CAR") above Individual Target Capital Level ("ITCL") and Supervisory Level.

The Company is required to comply with the regulatory capital requirement prescribed in the RBC Framework which is imposed by the Ministry of Finance. Under the RBC Framework guidelines issued by Bank Negara Malaysia, insurance companies are required to satisfy a minimum Capital Adequacy Ratio of 130%. As at year end, the Company has a Capital Adequacy Ratio in excess of the minimum requirement.

38. Regulatory capital requirements (continued)

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

	Note	2019 RM'000	2018 RM'000
Eligible Tier 1 Capital			
Share capital	15	1,511,546	1,511,546
Reserves, excluding fair value reserve		1,403,830	1,291,477
		2,915,376	2,803,023
Tier 2 Capital			
Eligible reserves – Fair value reserve		28,288	2,703
Amount deducted from capital		(1,154,344)	(1,161,094)
Total capital available		**1,789,320**	**1,644,632**

39. Contingent liability

In relation to the proposed decision by the Malaysia Competition Commission ("MyCC") to fine the Company a sum of RM22,567,737 with regard to its investigation into alleged infringement in the agreement between Persatuan Insurans Am Malaysia ("PIAM") and the Federation of Automobile Workshop Owners' Association of Malaysia ("FAWOAM") on trade discount rates for parts for certain vehicle makes and labour hourly rates for PIAM approved repairers scheme workshops. To-date, there has been no decision made by MyCC further to the Company's written representation and oral submission to MyCC.

40. Significant changes in accounting policies

During the year, the Company adopted MFRS 16 with effect from 1 January 2019.

Definition of a lease

On transition to MFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under MFRS 117 and IC Interpretation 4, *Determining whether an Arrangement contains a Lease* were not reassessed. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As the Company is a lessee, the Company applied MFRS 16 using the modified retrospective approach. Under which the leases previously classified as operating lease applying MFRS 117, on the date of initial application of MFRS 16 are recognised as right-of-use asset and measured at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to the lease. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

At 1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's interest rate implicit in the lease. The interest rate applied is 7.6%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

40. Significant changes in accounting policies (continued)

As a lessee (continued)

The Company used the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on financial statements

Since the Company applied the requirements of MFRS 16 retrospectively at 1 January 2019, there are no restatements made to the prior period presented.

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

	RM'000
Operating lease commitments at 31 December 2018 as disclosed in the Company's financial statements	19,149
Discounted balance using the interest rate implicit in the lease	17,842
Extension and termination options reasonably certain to be exercised	291
Lease liabilities recognised at 1 January 2019	18,133

41. Comparative figures

Certain comparative information have been reclassified to conform with current year's presentation:

2018	As previously stated RM'000	Reclassification RM'000	As restated RM'000
Statement of profit or loss and other comprehensive income			
Investment income	94,092	18,587	112,679
Fair value gains and losses	-	(18,587)	(18,587)

42. Event after the reporting period

The coronavirus (Covid-19) pandemic was announced by the World Health Organisation on 11 March 2020 arising from the outbreak of the said virus in various countries around the world including Malaysia. The Company considers the effects related to this event to be non-adjusting as it was not a condition that existed as at 31 December 2019; the end date of the reporting period.

At the date on which the financial statements are authorised for issuance, the Covid-19 situation is still evolving and remained highly uncertain. As a result, it is not practicable for the Company to estimate the financial effects of Covid-19 at this juncture. The Company is actively monitoring and managing the Company's operations to minimise any impact that may arise from Covid-19.

STATEMENT BY DIRECTORS

pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 51 to 118 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2019 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Dato' Mohd. Sallehuddin bin Othman
Director

....

Dato' Muthanna bin Abdullah
Director

Kuala Lumpur
Date: 16 March 2020

STATUTORY DECLARATION

pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Soh Lai Sim**, the Officer primarily responsible for the financial management of MSIG Insurance (Malaysia) Bhd, do solemnly and sincerely declare that the financial statements set out on pages 51 to 118 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Soh Lai Sim, at Kuala Lumpur in the Federal Territory on 16 March 2020.

....

Soh Lai Sim

Before me:

INDEPENDENT AUDITORS' REPORT

to the members of MSIG Insurance (Malaysia) Bhd (Company No. 46983-W) (Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MSIG Insurance (Malaysia) Bhd, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 51 to 118.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, 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 auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' report (but does not include the financial statements of the Company and our auditors' report thereon), which we had obtained prior to the date of this auditors' report, and the Chairman's statement and Financial highlights, which are expected to be made available to us after this date.

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

In connection with our audit of the financial statements of the Company, our responsibility is to read the Directors' report and, in doing so, consider whether the Directors' report 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 on the Directors' report that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of the Directors' report, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's statement and Financial highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate actions in accordance with approved standard on auditing in Malaysia and International Standards on Auditing.

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 ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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 internal control of the Company.
- 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 ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

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 Matter

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.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
Petaling Jaya
Date: 16 March 2020

Khaw Hock Hoe
Approval Number: 02229/04/2020 J
Chartered Accountant

MSIG

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