

MSIG Insurance (Malaysia) Bhd

(Company No. 197901002705) (46983-W)
(Incorporated in Malaysia)

**Condensed Unaudited Interim Financial Statements
For the Financial Period From
1 January 2020 to 30 June 2020**

MSIG Insurance (Malaysia) Bhd

(Company No. 197901002705) (46983-W)
(Incorporated in Malaysia)

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MSIG Insurance (Malaysia) Bhd

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Condensed unaudited statement of financial position as at 30 June 2020

	Note	30.06.2020 RM'000	31.12.2019 RM'000
Assets			
Plant and equipment		11,198	11,931
Right-of-use assets		7,625	11,988
Investment property		125	127
Intangible assets		6,257	7,587
Goodwill		1,141,224	1,141,224
Available-for-sale financial assets	10	2,136,469	2,221,746
Deferred tax assets		-	5,533
Tax recoverable		-	3,527
Reinsurance assets	11	417,141	408,805
Loans and receivables, excluding insurance receivables		777,615	771,335
Insurance receivables		239,416	185,708
Deferred acquisition costs		66,723	71,826
Cash and cash equivalents		291,020	176,940
Total assets		<u>5,094,813</u>	<u>5,018,277</u>
Equity and liabilities			
Share capital		1,511,546	1,511,546
Reserves		1,519,376	1,432,118
Total equity		<u>3,030,922</u>	<u>2,943,664</u>
Insurance contract liabilities	12	1,808,172	1,856,449
Deferred tax liabilities		1,804	-
Lease liabilities		6,990	11,719
Other financial liabilities		23,270	26,099
Insurance payables		140,159	103,753
Other payables		66,931	76,593
Tax payables		16,565	-
Total liabilities		<u>2,063,891</u>	<u>2,074,613</u>
Total equity and liabilities		<u>5,094,813</u>	<u>5,018,277</u>

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

MSIG Insurance (Malaysia) Bhd

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Condensed unaudited statement of profit or loss and other comprehensive income for the 6 months period ended 30 June 2020

	6 months period ended 30.06.2020 RM'000	6 months period ended 30.06.2019 RM'000
Operating revenue	<u>770,942</u>	<u>822,749</u>
Gross written premiums	679,399	751,875
Change in unearned premiums provision	<u>29,786</u>	<u>10,439</u>
Gross earned premiums	<u>709,185</u>	<u>762,314</u>
Gross written premiums ceded to reinsurers	(144,985)	(145,398)
Change in unearned premiums provision	<u>5,821</u>	<u>6,301</u>
Premiums ceded to reinsurers	<u>(139,164)</u>	<u>(139,097)</u>
Net earned premiums	<u>570,021</u>	<u>623,217</u>
Investment income	61,756	60,435
Realised gains	6,292	2,732
Fair value losses	(30,952)	(6,059)
Commission income	22,288	20,185
Other operating (expenses) / income	<u>(793)</u>	<u>3,176</u>
Other income	<u>58,591</u>	<u>80,469</u>
Gross claims paid	(307,197)	(392,420)
Claims ceded to reinsurers	58,046	46,970
Gross change in contract liabilities	18,491	(31,102)
Change in contract liabilities ceded to reinsurers	<u>2,515</u>	<u>32,723</u>
Net claims incurred	<u>(228,145)</u>	<u>(343,829)</u>
Commission expense	(82,860)	(89,404)
Management expenses	<u>(111,777)</u>	<u>(119,295)</u>
Other expenses	<u>(194,637)</u>	<u>(208,699)</u>
Profit before tax	205,830	151,158
Tax expense	<u>(39,663)</u>	<u>(28,368)</u>
Profit for the period	<u><u>166,167</u></u>	<u><u>122,790</u></u>

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Condensed unaudited statement of profit or loss and other comprehensive income for the 6 months period ended 30 June 2020 (continued)

	6 months period ended 30.06.2020 RM'000	6 months period ended 30.06.2019 RM'000
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Net gain on fair value of available-for-sale financial assets	18,909	29,417
Tax effect	<u>(4,538)</u>	<u>(7,060)</u>
Other comprehensive income for the period, net of tax	<u>14,371</u>	<u>22,357</u>
Total comprehensive income for the period	<u>180,538</u>	<u>145,147</u>
Basic earnings per share (sen)	<u>49.9</u>	<u>36.9</u>

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

MSIG Insurance (Malaysia) Bhd

(Company No. 197901002705) (46983-W)

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Condensed unaudited statement of changes in equity for the 6 months period ended 30 June 2020

	/-----Attributable to owners of the Company-----/			
	/----Non-distributable----/	Distributable		
	Share capital RM'000	Fair value reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 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	-	22,357	-	22,357
Total other comprehensive loss for the period	-	22,357	-	22,357
Profit for the period	-	-	122,790	122,790
Total comprehensive income for the period	-	22,357	122,790	145,147
Dividends paid during the period	-	-	(123,263)	(123,263)
At 30 June 2019	1,511,546	25,060	1,291,004	2,827,610
At 1 January 2020	1,511,546	28,288	1,403,830	2,943,664
Fair value of available-for-sale financial assets, net of tax	-	14,371	-	14,371
Total other comprehensive income for the period	-	14,371	-	14,371
Profit for the period	-	-	166,167	166,167
Total comprehensive income for the period	-	14,371	166,167	180,538
Dividends paid during the period	-	-	(93,280)	(93,280)
At 30 June 2020	1,511,546	42,659	1,476,717	3,030,922

MSIG Insurance (Malaysia) Bhd

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Condensed unaudited statement of cash flow for the 6 months period ended 30 June 2020

	6 months period ended 30.06.2020 RM'000	6 months period ended 30.06.2019 RM'000
Cash flows from operating activities		
Profit before tax	205,830	151,158
Adjustments for:		
Amortisation of intangible assets	1,453	1,284
Depreciation of plant and equipment	2,531	2,686
Depreciation of right-of-use assets	5,245	5,523
Depreciation of investment property	2	2
Investment income	(61,757)	(60,435)
Realised gains recorded in profit or loss	(6,292)	(2,732)
Fair value loss recorded in profit or loss	30,952	6,059
Purchase of available-for-sale financial assets	(727,340)	(367,626)
Proceeds from disposal of available-for-sale financial assets	806,704	216,224
Interest on lease liabilities	331	540
Retirement gratuities charged	370	297
Unrealised foreign exchange loss	11	4
Operating gain / (loss) before changes in working capital	258,040	(47,016)
Change in reinsurance assets	(8,337)	(39,024)
Change in insurance receivables	(53,708)	(41,057)
Change in deferred acquisition costs	5,102	2,905
Change in loans and receivables	(8,762)	74,427
Change in insurance contract liabilities	(48,276)	20,663
Change in other financial liabilities	(2,839)	1,214
Change in insurance payables	36,405	21,315
Change in other payables	(10,031)	112,063
Cash generated from operating activities	167,594	105,490
Dividend income received	42,682	37,102
Interest income received	21,597	23,565
Income tax paid	(16,772)	(24,172)
Net cash flows from operating activities	215,101	141,985
Cash flows from investing activities		
Proceeds from disposal of plant and equipment	122	211
Purchase of intangible assets	(122)	(125)
Purchase of plant and equipment	(1,798)	(3,120)
Net cash flows used in investing activities	(1,798)	(3,034)

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Condensed unaudited statement of cash flow for the 6 months period ended 30 June 2020 (continued)

	6 months period ended 30.06.2020 RM'000	6 months period ended 30.06.2019 RM'000
Cash flows from financing activities		
Dividend paid	(93,280)	(123,263)
Payment of lease liabilities	(5,943)	(5,545)
Net cash flows used in financing activities	<u>(99,223)</u>	<u>(128,808)</u>
Net increase in cash and cash equivalents	114,080	10,143
Cash and cash equivalents at beginning of period	<u>176,940</u>	<u>221,105</u>
Cash and cash equivalents at end of period	<u>291,020</u>	<u>231,248</u>

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Notes to the condensed interim financial statements

1. Basis of preparation

Statement of compliance

The condensed interim financial statements of MSIG Insurance (Malaysia) Bhd (“the Company”) are unaudited and have been prepared in accordance with MFRS 134, *Interim Financial Reporting* and with IAS 34, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2019.

The accounting policies and presentation adopted by the Company for the condensed interim financial statements are consistent with those adopted in the Company’s audited financial statements for the financial year ended 31 December 2019, except for the adoption of the following:

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*

The initial application of the aforesaid applicable standards, amendments and interpretations did not have any material financial impacts to the current and prior period financial statements of the Company upon their first adoption.

2. Comments on seasonality or cyclicity

The business operations of the Company were not significantly affected by seasonality or cyclical factors for the financial period under review.

3. Unusual items

There were no items affecting assets, liabilities, equity, net income, or cash flows which are unusual because of their nature, size, or incidence in the current interim period ended 30 June 2020.

4. Changes in estimates

There were no material changes in the basis used for accounting estimates for the current interim period ended 30 June 2020.

5. Debt and equity securities

There were no issuances, cancellation, repurchases, resale and repayments of debt and equity securities by the Company in the current interim period ended 30 June 2020.

6. Dividend

The final ordinary dividend recommended by Directors in respect of the financial year ended 31 December 2019 is 12 sen per ordinary share amounting to RM39,977,000. These dividends will be paid on 5 August 2020.

7. Events after the interim period

There were no material events after the interim period that has not been reflected in this report for the financial period under review.

8. Effect of changes in the composition of the Company

There were no changes in the composition of the Company during the financial period under review.

9. Changes in contingent liabilities or contingent assets

To-date, there has been no decision made by MyCC further to the Company's written representation and oral submission to MyCC, 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.

The Company does not have any other contingent assets and liabilities since the last annual balance sheet date.

10. Available-for-sale (“AFS”) financial assets

	Note	30.06.2020 RM'000	31.12.2019 RM'000
At fair value			
Equity securities in corporations			
Quoted in Malaysia		148,121	286,662
Unquoted in Malaysia		602	602
Unit Trusts		680,067	750,419
Controlled Structured Entities	10 (a)	1,146,846	1,025,566
Government Investment Issues		5,457	15,695
Government Guaranteed Bonds		10,214	4,929
Corporate debt securities:			
Unquoted in Malaysia		145,162	137,873
Total AFS financial assets		<u>2,136,469</u>	<u>2,221,746</u>

Estimation of fair value

The fair value 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 condensed interim financial statements.

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

The estimated fair value 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 2019	1,901,104
Addition	645,526
Disposal	(343,378)
Fair value gain recorded in other comprehensive income	33,665
Amortisation	(199)
Provision for impairment loss	(14,972)
At 31 December 2019/1 January 2020	2,221,746
Additions	727,340
Disposals	(800,534)
Fair value gain recorded in other comprehensive income	18,909
Amortisation	(40)
Provision for impairment loss	(30,952)
At 30 June 2020	<u>2,136,469</u>

10. Available-for-sale (“AFS”) financial assets (continued)

10 (a) Controlled structured entities

The Company has determined that its investment in unit trust funds amounting to RM1,146,845,828 (31.12.2019: RM1,025,565,876) 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:

Name of unit trust fund	Principal activities	% of ownership interest held by the Company	
		30.06.2020	31.12.2019
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%	100.00%
Affin Hwang Wholesale Corporate Bond Fund	Investment in corporate bonds and deposits	100.00%	100.00%
Affin Hwang World Series-Asian Bond Fund	Investment in collective investment scheme, deposits and derivatives	99.99%	99.99%
Principal Institutional Bond Fund 4	Investment in corporate bonds and deposits	100.00%	100.00%

10. Available-for-sale (“AFS”) financial assets (continued)

10 (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 the other comprehensive income of the Company.

The significant components of the Company’s holdings in the investee funds amounting to approximately RM1,122 million (2019: RM1,017 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	Total RM'000
Fair value of underlying net assets:								
30.06.2020								
Government bonds	10,263	208,183	-	211,197	-	-	-	429,643
Corporate bonds	-	-	198,465	-	126,859	-	174,616	499,940
Collective Investment Scheme	-	-	-	-	-	23,220	-	23,220
Money market deposits	110,278	10,670	1,111	8,328	19,682	-	8,913	158,982
Cash and cash equivalents	5	9,072	8	24	24	563	21	9,717
	<u>120,546</u>	<u>227,925</u>	<u>199,584</u>	<u>219,549</u>	<u>146,565</u>	<u>23,783</u>	<u>183,550</u>	<u>1,121,502</u>
31.12.2019								
Government bonds	20,289	166,136	-	154,378	-	-	-	340,803
Corporate bonds	-	-	167,153	-	99,562	-	136,779	403,494
Collective Investment Scheme	-	-	-	-	-	22,585	-	22,585
Money market deposits	179,279	11,275	10,081	28,448	10,280	-	10,088	249,451
Cash and cash equivalents	51	11	6	12	28	433	21	562
	<u>199,619</u>	<u>177,422</u>	<u>177,240</u>	<u>182,838</u>	<u>109,870</u>	<u>23,018</u>	<u>146,888</u>	<u>1,016,895</u>

The Company’s maximum exposure to loss from its interests in the investee funds is equal to the fair value of its investment in the investee funds.

10. Available-for-sale (“AFS”) financial assets (continued)

10 (a) Controlled structured entities (continued)

The total fair value gain recognised in the financial period 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	Total RM'000
30.06.2020								
Total fair value gain recognised for the financial period	24	3,622	7,454	5,493	6,172	1,511	6,670	30,946
31.12.2019								
Total fair value gain recognised for the financial period	322	1,835	4,632	4,152	5,007	745	4,568	21,261

11. Reinsurance assets

	30.06.2020	31.12.2019
	RM'000	RM'000
Reinsurance of insurance contracts		
Claims liabilities	301,615	299,100
Premium liabilities	115,526	109,705
	<u>417,141</u>	<u>408,805</u>

12. Insurance contract liabilities

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

	Note	30.06.2020			31.12.2019		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for claims reported by policyholders		1,086,909	(287,461)	799,448	1,084,551	(282,299)	802,252
Provision for IBNR		6,132	(14,154)	(8,022)	26,981	(16,801)	10,180
Provision for outstanding claims	12.1	1,093,041	(301,615)	791,426	1,111,532	(299,100)	812,432
Provision for unearned premiums	12.2	715,131	(115,526)	599,605	744,917	(109,705)	635,212
		<u>1,808,172</u>	<u>(417,141)</u>	<u>1,391,031</u>	<u>1,856,449</u>	<u>(408,805)</u>	<u>1,447,644</u>

12. Insurance contract liabilities (continued)

12.1 Provision for outstanding claims

	30.06.2020			31.12.2019		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January	1,111,532	(299,100)	812,432	1,138,327	(327,783)	810,544
Claims incurred in the current accident year	375,320	(85,375)	289,945	996,844	(214,464)	782,380
Adjustment to claims incurred in prior accident years	(85,067)	23,639	(61,428)	(197,061)	103,792	(93,269)
Adjustment to claims incurred in the ex-HLA run-off portfolio	(57)	10	(47)	359	(25)	334
Movement in PRAD of claims liabilities at 75% confidence level	(1,240)	1,240	-	(810)	384	(426)
Movement in claims handling expenses	(250)	-	(250)	3,326	-	3,326
Claims paid during the period	(307,197)	58,046	(249,151)	(829,453)	138,681	(690,772)
Movement in reinsurance default provision	-	(75)	(75)	-	315	315
At 30 June	<u>1,093,041</u>	<u>(301,615)</u>	<u>791,426</u>	<u>1,111,532</u>	<u>(299,100)</u>	<u>812,432</u>

12.2 Provision for unearned premiums

	30.06.2020			31.12.2019		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January	744,917	(109,705)	635,212	790,288	(112,525)	677,763
Premiums written	679,399	(144,985)	534,414	1,470,388	(276,754)	1,193,634
Premiums earned	(709,185)	139,164	(570,021)	(1,515,759)	279,574	(1,236,185)
At 30 June	<u>715,131</u>	<u>(115,526)</u>	<u>599,605</u>	<u>744,917</u>	<u>(109,705)</u>	<u>635,212</u>

13. 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 RM166,167,000 (30.06.2019: RM122,790,000) and the weighted average number of ordinary shares outstanding during the period of 333,143,000 (30.06.2019: 333,143,000).

14. Capital expenditure commitments

	30.06.2020 RM'000	31.12.2019 RM'000
Plant and equipment		
Authorised but not contracted for	1,574	1,574
Contracted but not provided for	<u>4,355</u>	<u>3,628</u>

15. Significant related party transactions

The significant related party transactions of the Company are as follows:

	6 months period ended 30.06.2020 RM'000	6 months period ended 30.06.2019 RM'000
Ultimate/Penultimate holding company		
RI premium	31,452	30,231
RI commission	(4,711)	(4,746)
Claims recoveries	(14,590)	(8,031)
Recovery of expenses paid on behalf	(1,117)	(1,239)
Immediate holding company		
Service fee	2,853	2,530
Recovery of expenses paid on behalf	(209)	(353)
Fellow subsidiary companies		
RI premium	7,350	7,359
RI commission	(1,195)	(1,145)
Claims recoveries	(1,059)	(3,647)
Affiliated companies		
Premium	(42,004)	(46,799)
Commission	5,494	6,128
Claims	15,970	13,877
Bank merchant fees	1,117	1,369
Interest/Dividend income	(2,191)	(2,893)
Marketing expenses	742	1,117

16. 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 period end, the Company has a Capital Adequacy Ratio in excess of the minimum requirement.

The capital structure of the Company as at 30 June, as prescribed under the RBC Framework is provided below:

	30.06.2020	31.12.2019
	RM'000	RM'000
Eligible Tier 1 Capital		
Share capital	1,511,546	1,511,546
Reserves, excluding fair value reserve	<u>1,476,717</u>	<u>1,403,830</u>
	<u>2,988,263</u>	<u>2,915,376</u>
Tier 2 Capital		
Eligible reserves – Fair value reserve	<u>42,659</u>	<u>28,288</u>
Amount deducted from capital	<u>(1,147,481)</u>	<u>(1,154,344)</u>
Total capital available	<u><u>1,883,441</u></u>	<u><u>1,789,320</u></u>