

20
20 annual report



A Member of **MS&AD** INSURANCE GROUP

A large, white sailboat is shown from a low angle, sailing on a dark blue sea with white-capped waves. The sky is a clear, bright blue. The boat's white sails are fully deployed and billowing. A person is visible on the deck near the helm. A vertical red line is positioned to the left of the text.

STEADFAST TODAY, SAIL ON TOMORROW



CALM BUT KEENLY ALERT.
CRUISING BUT ALWAYS PREPARED.

At MSIG, we are in the company of strong-minded and strong-willed people. In today's business climate, our ability to navigate around all circumstances is essential for tomorrow's outlook.

Continually, we are committed to deliver our promise to customers and shareholders. Hence, we go above and beyond to develop outstanding products and services to improve lives and lifestyles all year round.

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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 at 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 Audit and Investment Committees of the Company.





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, administrative 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 Remuneration and Compliance & Risk Management Committees of the Company.

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 read 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 Digital Nasional Berhad, Sapura Resources Berhad, MSM Malaysia Holdings Berhad, IHH Healthcare Berhad, Malaysian Life Reinsurance Group Berhad, Malaysian Rating Corporation Berhad and a Trustee of Yayasan Siti Sapura and of the Habitat Foundation.

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



Lichiro Sadamoto

Mr. Lichiro 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 26 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 serves as Chairman of the Board Remuneration Committee and is a member of the Board Audit, Nominations and Compliance & Risk Management Committees of the Company.

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 and eventually become 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 Board Compliance & Risk Management Committee.

He is also an Independent Non-Executive Director of Sapura Energy Berhad and a member of its Board Audit Committee and Board Risk Committee.



Gan Bee Lan

Ms. Gan Bee Lan joined the Board of MSIG Insurance (Malaysia) Bhd on 15 August 2020 as an Independent Non-Executive Director.

Ms. Gan holds a Bachelor in Accountancy from the University of Singapore. Overall, Ms. Gan has 40 years of working experience in diverse disciplines spanning IT/Systems Management, Project Management (IT and non-IT), HR & Admin Management, Process & Workflow Streamlining as well as Legal and Operational Integration arising from various Mergers & Acquisitions (M&A).

Prior to her retirement from MSIG Insurance (Malaysia) Bhd in December 2009, Ms. Gan was a member of the Senior Management Team (SMT) overseeing - at various periods - Information Technology (IT), Information Security, HR & Admin, Service Quality as well as centralised policy administration. During her service with the company, Ms. Gan was also the Integration Manager managing the operational integration during the MSI-Aviva (MSIG) merger as well as the CU-GA (Aviva) merger.

Immediately after retirement, Ms. Gan returned to MSIG Insurance (Malaysia) Bhd in February 2010 as Special Project Manager to support the legal, business transfer and operational integration of Hong Leong general business into MSIG Insurance (Malaysia) Bhd operations. Following that in January 2012, Ms. Gan joined MSIG Insurance (Singapore) Pte. Ltd. for a year to initiate the system migration to the new regional IT system for the Singapore insurance operations.

In January 2016 until July 2018, Ms. Gan joined the Regional Holding Company (RHC) in Singapore as Head of ICT/Consulting Advisor to Regional CEO to manage the regional centralised IT services, system development and infrastructural services/support to country IT in Singapore, Malaysia, Indonesia, Vietnam, Hong Kong, Thailand, Philippines and Australia. During her stint with RHC, Ms. Gan spearheaded the regional cybersecurity initiative as well as the updated regional IT Strategy focusing on new technologies in the digital arena.

Presently, Ms. Gan is a member of the Board Audit and Compliance & Risk Management Committees of the Company.

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 ("GMD/CEO") 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.

Ms. Loh holds a Bachelor of Science in Human Development 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 31 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).

Ms. Loh is the Chairman of HL Assurance Pte Ltd, Singapore, and a Director of HLAH; Hong Leong MSIG Takaful Berhad; Hong Leong Insurance (Asia) Limited, Hong Kong; L.I.A.M. Holding Sdn Bhd and L.I.A.M. Property Sdn Bhd. She is also the President of the Life Insurance Association of Malaysia (LIAM), a Director of The Malaysian Insurance Institute and a Board Member of the Financial Industry Collective Outreach (FINCO).



Alan John Wilson

Mr. Alan Wilson has been the Chief Executive Officer of Singapore-based MSIG Holdings (Asia) Pte. Ltd. ("MSIG Asia") since 2008. He also serves as Chairman or Director on the boards (or equivalent) of 19 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.

BOARD NOMINATIONS COMMITTEE

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

BOARD REMUNERATION COMMITTEE

Chairman: Iichiro Sadamoto
Members: Dato' Muthanna bin Abdullah
Pearl Chan Siew Cheng

BOARD COMPLIANCE & RISK MANAGEMENT COMMITTEE

Chairman: Dato' Muthanna bin Abdullah
Members: Pearl Chan Siew Cheng
Iichiro Sadamoto
Lim Tiang Siew
Gan Bee Lan

BOARD AUDIT COMMITTEE

Chairman: Lim Tiang Siew
Members: Dato' Mohd. Sallehuddin bin Othman
Dato' Muthanna bin Abdullah
Iichiro Sadamoto
Gan Bee Lan

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

Yu Oi
Bachelor of Economics

Ken Shinagawa
Bachelor of Commerce



CHIEF EXECUTIVE OFFICER
Chua Seck Guan
ANZIIF (Snr Assoc)



DEPUTY CHIEF
EXECUTIVE OFFICER
Takero Sawamura
Bachelor of Laws



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

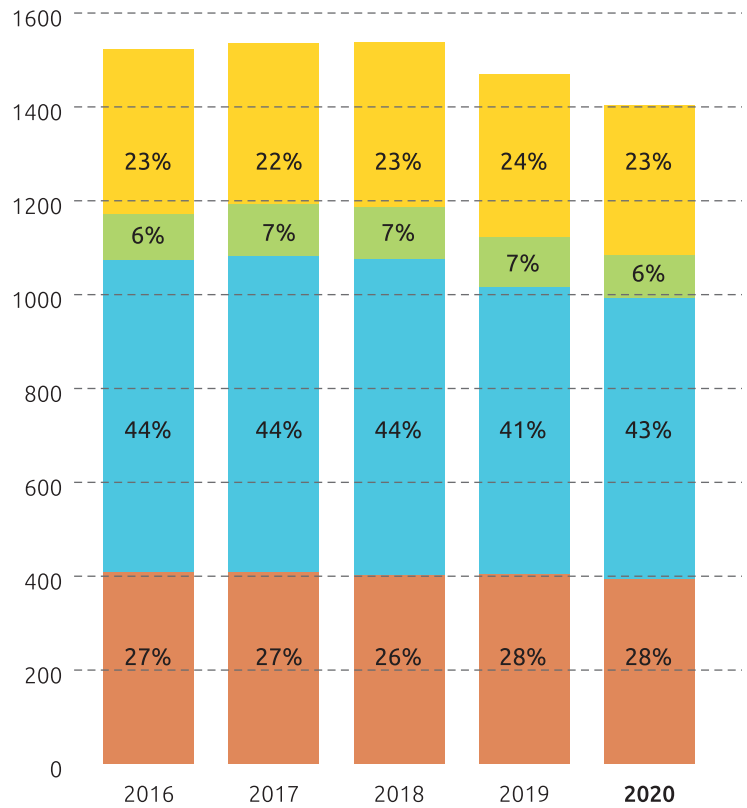


SENIOR VICE PRESIDENT
Agency

Teoh Guan Huat
MBA, ANZIIF (Snr Assoc) CIP, DMII

COMPOSITION OF
2020 GROSS WRITTEN
PREMIUM TOTAL:
RM1.4 BILLION

RM (million)



● Fire

● Motor

● Marine, Aviation & Transit

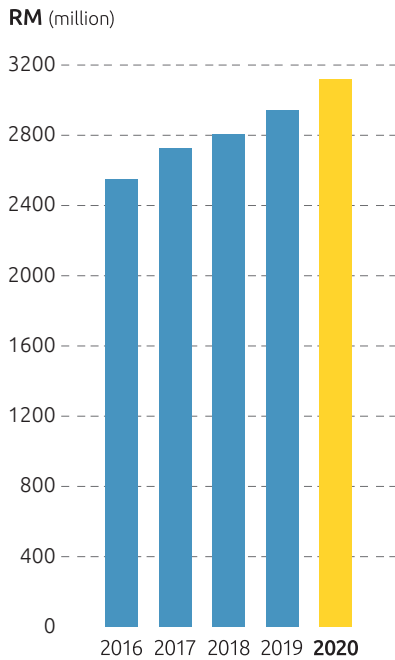
● Miscellaneous

RM'000

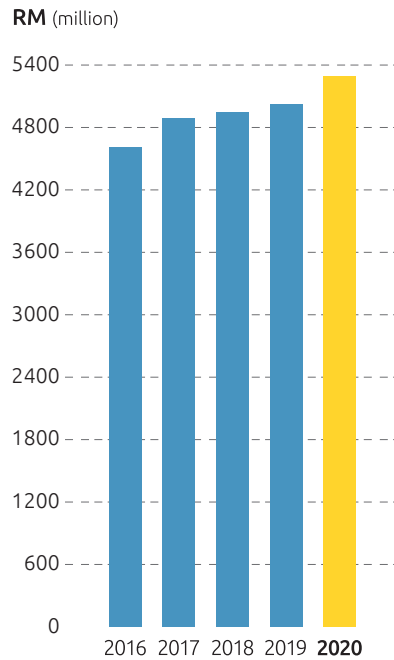
Year Ended 31 December	2016	2017	2018	2019	2020
Paid-up Share Capital	333,143	*1,511,546	*1,511,546	*1,511,546	*1,511,546
Total Equity	2,547,953	2,725,511	2,805,726	2,943,664	3,117,850
Total Assets	4,612,182	4,883,740	4,946,486	5,018,277	5,292,289
Gross Written Premium	1,522,503	1,536,673	1,536,931	1,470,388	1,403,123
Net Premium	1,227,640	1,248,539	1,257,240	1,193,634	1,130,377
Underwriting Results	206,749	184,061	104,010	173,039	254,165
Investment & Other Income	106,801	124,944	108,321	118,890	117,594
Profit Before Taxation	313,550	309,005	212,331	291,929	371,759
Profit After Taxation	248,800	243,845	177,766	235,616	290,589
Earning Per Share (RM)	0.75	0.73	0.53	0.71	0.87
NTA Per Share (RM)	4.22	4.73	4.97	5.39	5.92
Total Workforce	1,160	1,155	1,118	1,101	1,088

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

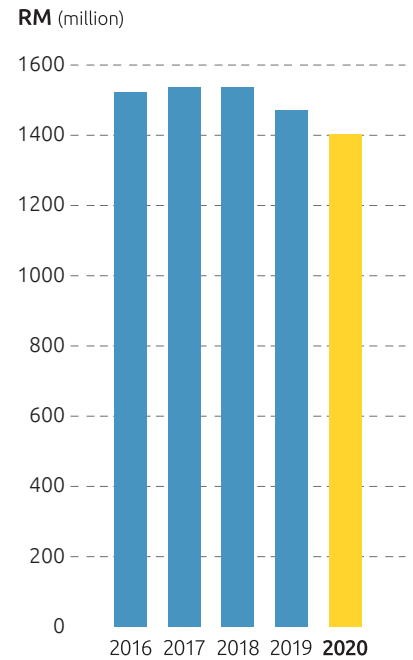
TOTAL EQUITY



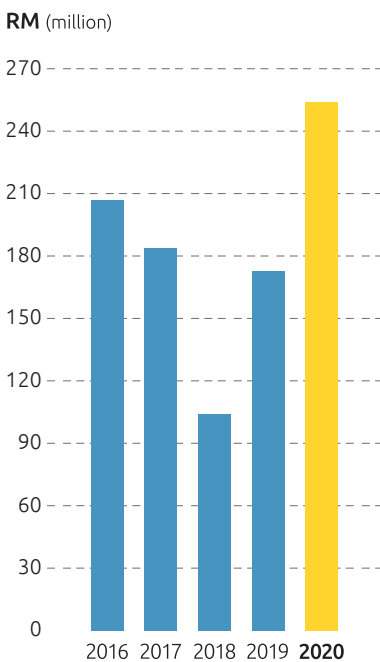
TOTAL ASSETS



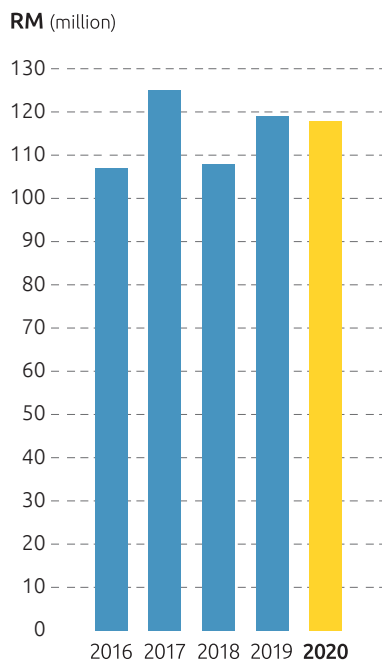
GROSS WRITTEN PREMIUM



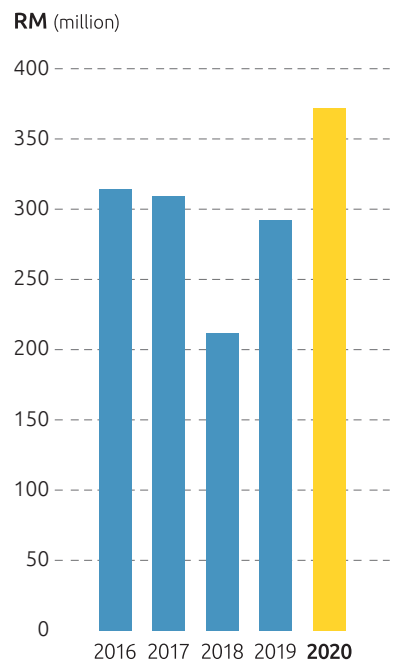
UNDERWRITING RESULTS



INVESTMENT & OTHER INCOME



PROFIT BEFORE TAXATION



A photograph of a sailboat on the ocean. The sail is large and white, and the water is blue. The sky is clear and blue. The text is overlaid on the left side of the image.

NOT SPEED
BUT MOMENTUM
TAKES US
FORWARD

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 2020.



20²⁰ annual report **FINANCIAL REVIEW**

I am delighted to report that MSIG has delivered a year of record Underwriting Results and Profit After Tax in 2020, showing the results of our strength amidst the COVID-19 pandemic and the adverse impact on both the global and Malaysia's economy.

Profit After Tax | Increased **23.3%** to **RM290.6** million

Underwriting Results | Increased **46.9%** to **RM254.2** million

Earnings Per Share | Increased **23.3%** to **87.2** sen

Strong profits reported for the year 2020 were attributed to an unprecedented lower number of claims from Personal Motor as a result of the Movement Control Order (MCO). Similarly, Travel and Healthcare portfolios reported lower claims.

The Company recorded a Gross Written Premium of RM1.40 billion, a reduction of 4.6% compared to the previous year mainly from Personal Other (RM22.6 million), Personal Motor (RM17.5 million) followed by Marine (RM13.9 million) classes of business. The contraction in almost all classes of business was the result from the overall economic and slow growth environment due to the COVID-19 pandemic. Areas that showed improvements are Online sales and Motor Add-on.

With the unprecedented changes and impact in 2020, MSIG Malaysia is now in the No. 4 market position as one of the leading general insurers in Malaysia.

Underwriting
Results
RM254.2
Million

The Company's Underwriting Results of RM254.2 million was significantly higher by RM81.1 million (46.9%) against 2019.

Combined
Operating
Ratio
77.8%

The Company's Combined Operating Ratio of 77.8% in 2020 compared favourably to the 87.1% in 2019.

Total Investments **RM3.3 Billion**

The Company's total investments continued to grow in size to RM3.3 billion; an increase of RM229.7 million. Investment income decreased by RM12.9 million, resulting from the overall low interest rate environment. The Company registered a realised investment profit of RM42.7 million but suffered an investment impairment of RM35.8 million on its Equity portfolio. The Company's total investment and other income amounted to RM117.6 million.

This year's performance has enabled the Company to achieve Profit Before Tax of RM371.8 million and Profit After Tax of RM290.6 million; reflecting a net earnings per share of 87.2 sen.

Total Assets, including Goodwill, stood at RM5.29 billion as at financial year ended 2020, a notable increase of RM274.0 million from RM5.02 billion in 2019.

Pandemic Response

Internal preparedness was a rule of thumb.

The Company had reviewed the pandemic plan in 2019 and shortly afterwards COVID-19 posed a concern. The health and safety of our employees, customers and partners were a key priority, and in the same month we deployed the necessary protocols.

- Working from home capabilities were immediately enabled for a larger pool of employees to ensure business continuity.
- Employees were advised against travelling overseas but encouraged to remain connected and to interact digitally.
- Personal Protective Equipment (PPE) were used as required, and sanitation and disinfection measures were increased.
- Access to MSIG sites were controlled with requirements for all visitors including business partners to make a health declaration prior to entry.
- Handbooks on physical distancing and sanitising guidelines were compiled and distributed.
- Clear information was given to stakeholders on safety, hygiene, remote access and alternative working solutions using digital tools where applicable.

Distribution of handbooks on physical distancing and sanitising guidelines.



Managing uncertainty was a test of leadership.

MSIG's Chief Executive Officer (CEO) and the Senior Management Team were ready and present throughout the year 2020, ensuring decisions and discussions were progressively fulfilled, and charting the Company's performance through the pandemic.

Strong governance and clear directives were key to balance 2 important objectives:

1 The health and safety of employees

2 Uninterrupted delivery of services to our business partners and customers

Product & Services Enhancement

In addition to all planned Products and Services for year 2020, the Company embarked on a proactive approach in response to the pandemic situation.

Claims were mindfully handled with consideration of the challenges faced by the public. Motor Claims were streamlined and small claims were fast-tracked during the MCO.

New and enhanced products



To provide financial relief to both business owners and individual policyholders, several products were newly developed and enhanced to provide COVID-19 coverage.

- **Post-Loss Benefit** was introduced as a one-time inconvenience benefit to employers should their employees test positive for COVID-19.
- A new **Personal Accident add-on** was introduced; the COVID-19/Dengue Hospitalisation Cash Benefit provides daily financial support if a policyholder is hospitalised for either COVID-19 or Dengue.
- TravelRight Domestic (Inbound) Insurance policyholders were introduced to the **COVID-19/Dengue Hospitalisation Allowance**; an optional cover for additional allowance should they test positive for COVID-19 or for Dengue during their travels locally.

Add-on coverage



Additionally, to support the B40 group who rely on motorcycles for personal mobility, the Company produced a personal accident add-on to provide coverage in case of an accident.

- The **Rider's PA add-on** for Motorcycle Insurance is a basic cover extending the policyholder's insurance protection to injuries and death resulting from riding the insured motorcycle.
- **Motorcycle 3PA** was introduced as an affordable package to provide the most basic cover – a Third Party Cover with additional personal accident cover to ensure adequate protection for both the rider and insured vehicle.



Online insurance



The Company's Take It Easy (TIE) digital platform, including MSIG Online, covered great ground, generating a GWP of RM20.5 million, doubling last year's performance.

Motor add-on

Motor add-on sales also received a positive uptick, generating a GWP of RM25.2 million.



Digitalisation

Limited mobility. Digital resiliency.

Business uninterrupted



The Company proceeded to enhance Work From Home (WFH) capabilities during the MCO, equipping key employees with teleworking facilities to ensure uninterrupted work whether from company laptops or from their own personal computers.

Attention to previously office-bound processes was immediate, in order to refine accessibility with new technologies and a fresh approach. Training of digital skills for the new environment continued throughout the year via online workshops and meetings. In tandem to this, the need for information protection and compliance with IT security were carefully considered.

Enhancing customer's experience



For our consumers, additional self-service options were progressively developed and tested. For example, the development of the new MSIG Customer APP and the continued expansion of the Customer Communication Management (CCM) system to improve and streamline the sending of policy schedules and tax invoices.

Managing data



The Company also took a leap forward with data management improvements; beginning with development of the Data Management and Management Information Systems (DMMIS) framework to better manage and govern data within the organisation, and improving the integrity of internal databases for greater efficacy in machine learning.

To improve understanding and management of data, machine learning has been applied in selected initiatives including cross-selling, pricing, and fraud as pilot projects.

Compliance with BNM

Over and above the steps taken to facilitate work process continuity and customer service, the Company also addressed any gaps and produced an action plan to comply with BNM's Guidelines on Risk Management in Technology.

Awards & Recognition



Giving Our Time

Financial Institution Volunteerism Award

The Company continued to be recognised by BNM and the Financial Industry Collective Outreach (FINCO) for efforts in assisting underprivileged children to learn English and to reach their aspirations. We are honoured to be presented with the Financial Institution Volunteerism Award for the most volunteers in FINCO programmes in 2019 (non-bank) and for the most volunteers sent by the local branch in Penang.

Quality Service, That's Us!

Reader's Digest Quality Service Award

Additionally, the Company was recognised as a silver winner for Car Insurance by the Reader's Digest Quality Service Awards in 2020.

Good Efforts To Great Innovation

MSIG Asia Awards 2020

At the MSIG Asia Awards 2020, the Company received the first prize in the General Category for collaboration with Epic Homes in providing fire insurance coverage to houses built by social enterprises, as well as the second prize Innovation Award for its robust Data Analytics journey. On another excellent achievement, one of our claims staff won the MSIG Asia Shine Award for exceptional commitment and improvements to business growth.

Sustainability

MSIG Malaysia supports 4 UN SDG



Throughout 2020, the Company continued to uphold a strong belief and passion for the 4 Sustainable Development Goals that had been identified as important to Creating Shared Value between the Company and the community that it serves.

SDG 3: Good Health and Well-being

Contribution to frontliners & motorcyclists

As the media focused on the plight of our nation's tireless medical frontliners, the Company contributed a total of RM190,000 for Personal Protective Equipment to ensure their safety while serving the greater cause. As a mark of our appreciation and to encourage the community of frontliners, messages from staff and partners were compiled on 3 posters and sent to the Ministry of Health for distribution.



In keeping with our commitment to road safety, the Company gifted new and returning motorcycle insurance policyholders with motorcycle helmets bearing the message Safety Rides With You – a reminder for drivers to buckle their seat belts, and for the riders to safely secure their helmets.

SDG 4: Quality Education

Necessary provisions

As schools closed temporarily during the MCO and beyond, many of the children who were beneficiaries of the bursaries through the MyKasih foundation (partnership with FINCO), were unable to utilise their allotment while their parents were at risk of losing their jobs, or working harder to keep them. Hence, a portion of the bursaries were released to provide food baskets to ease their burden.



SDG 11: Sustainable Cities and Communities

Act of Kindness & B40 community

Act of Kindness was initiated to alleviate the communities' burden triggered by the pandemic. Each MSIG local branch was encouraged to contribute to their local communities to the best of their ability. From contributions of food, medical supplies, monetary, and IT equipment for schoolchildren, a total of RM99,000 was donated through the initiative.

For the year 2021, the MSIG Diary and Calendar featured the photography efforts by an underprivileged group of children from the B40 community. The photographs were sourced and purchased through a community initiative intended to instil photography skills for the children's future endeavours. A visually impaired photographer also made a contribution to the collection.



SDG 13: Climate Action

Mangrove conservation



For MSIG Holdings Asia (MSIG HA), 2020 was a landmark year for championing Biodiversity and forging a partnership with Conservation International (CI). The partnership materialised as an ongoing collaboration with the Malaysian Nature Society (MNS) to replant mangrove saplings in order to protect coastlines and mitigate flood damage to coastal communities. Extending the effort, CI will collaborate with MNS to conduct vital research into the local otter communities as a measure of mangrove conservation.

To date, 1,000 mangrove saplings have been planted in Selangor, Penang, Perak and Perlis. An achievement made possible with the support and contribution of MSIG HA's CSR club, despite the MCO and SOP which made it challenging for staff participation.

Outlook

In 2021, challenges from the COVID-19 pandemic of 2020 will likely continue to be present. Thus, the Company will focus on a sustainable competitive advantage by bringing in more sales, better profit margins and higher customer retentions.

Given the current economic landscape, the Company will remain steadfast together with the management team and employees.

The Company is well positioned to withstand the challenging outlook through sound management and innovation in order to deliver and be responsive to customer needs.

With the Company's strategies and steps planned, I am confident the Company will be able to do well in 2021 and achieve its strategic goals.

2021 Key Drivers

- Digitalisation & Technology
- Product Development
- Profitable Segments
- Impactful Marketing Activities
- Enhance Working From Home Capabilities

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 2020.

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.

The Board is pleased to announce that Ms. Gan Bee Lan has been appointed as an Independent Non-Executive Director with effect from 15 August 2020.

We would like to warmly welcome Ms. Gan to the Board.

Finally, 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 2020.

20
20 laporan tahunan

TINJAUAN KEWANGAN

Bahasa Malaysia

Saya dengan senang hati melaporkan bahawa MSIG telah menyampaikan pencapaian rekod Keputusan Taja Jamin dan Keuntungan Selepas Cukai pada tahun 2020, yang memaparkan daya kekuatan kami ketika pandemik COVID-19 dan impak negatif ke atas ekonomi global dan Malaysia.

Keuntungan
Selepas Cukai

Meningkat **23.3%** kepada **RM290.6** juta

Keputusan
Taja Jamin

Meningkat **46.9%** kepada **RM254.2** juta

Perolehan
Setiap Saham

Meningkat **23.3%** kepada **87.2** sen

Keuntungan yang kukuh dilaporkan bagi tahun 2020 disebabkan oleh bilangan tuntutan Motor Peribadi yang rendah berikutan Perintah Kawalan Pergerakan (PKP). Begitu juga, portfolio Perjalanan dan Kesihatan turut melaporkan tuntutan yang lebih rendah.

Syarikat mencatatkan Premium Taja Jamin Kasar sebanyak RM1.40 bilion, iaitu penguncupan sebanyak 4.6% berbanding dengan tahun sebelumnya terutamanya daripada kelas perniagaan Lain-lain Peribadi (RM22.6 juta), Motor Peribadi (RM17.5 juta) diikuti oleh Marin (RM13.9 juta). Penguncupan dalam hampir kesemua kelas perniagaan adalah akibat daripada keseluruhan ekonomi dan persekitaran pertumbuhan yang lembap disebabkan oleh pandemik COVID-19. Bidang yang menunjukkan peningkatan ialah jualan Dalam Talian dan Perlindungan Tambahan Motor.

Berikutan perubahan dan impak pada tahun 2020, MSIG Malaysia kini berada pada kedudukan pasaran No.4 sebagai salah satu syarikat insurans am terbesar di Malaysia.

Keputusan Taja Jamin Syarikat
RM254.2
Juta

Keputusan Taja Jamin Syarikat sebanyak RM254.2 juta adalah lebih tinggi secara signifikan sebanyak RM81.1 juta (46.9%) berbanding dengan tahun 2019.

Kadar Kendalian Digabungkan Syarikat
77.8%

Kadar Kendalian Digabungkan Syarikat sebanyak 77.8% pada tahun 2020 turut memberangsangkan berbanding dengan 87.1% pada tahun 2019.

Jumlah Pelaburan **RM3.3** Bilion

Jumlah pelaburan Syarikat meningkat kepada RM3.3 bilion; peningkatan sebanyak RM229.7 juta.

Pendapatan pelaburan menurun sebanyak RM12.9 juta, berikutan daripada keseluruhan persekitaran kadar faedah yang rendah. Syarikat mencatatkan keuntungan pelaburan terealisasi sebanyak RM42.7 juta tetapi mengalami kemerosotan nilai pelaburan sebanyak RM35.8 juta pada portfolio Ekuiti. Jumlah pelaburan dan pendapatan lain Syarikat berjumlah RM117.6 juta.

Prestasi tahun ini membolehkan Syarikat mencapai Keuntungan Sebelum Cukai sebanyak RM371.8 juta dan Keuntungan Selepas Cukai sebanyak RM290.6 juta; mencerminkan perolehan bersih setiap saham sebanyak 87.2 sen.

Jumlah Aset, termasuk Muhibah, berjumlah RM5.29 bilion pada tahun kewangan berakhir 2020, iaitu peningkatan yang ketara sebanyak RM274.0 juta daripada RM5.02 bilion pada tahun 2019.

Tindak Balas Pandemik

Persiapan dalaman amalan kebiasaan.

Syarikat telah menyemak rancangan pandemik pada tahun 2019 dan sesudah itu COVID-19 menjadi satu kebimbangan. Kesihatan dan keselamatan kakitangan, pelanggan dan rakan perniagaan kami menjadi keutamaan penting, dan pada bulan yang sama kami menyebarkan protokol yang perlu.

- **Bekerja dari rumah dibolehkan dengan serta-merta bagi sebilangan besar kakitangan untuk menjamin perniagaan diteruskan.**
- **Kakitangan dinasihatkan agar tidak ke luar negara namun digalakkan sentiasa berhubung dan berinteraksi secara digital.**
- **Penggunaan Peralatan Perlindungan Diri (PPE) diwajibkan, dan langkah-langkah sanitasi dan pembasmian kuman dipertingkatkan.**
- **Akses ke premis MSIG dikawal dengan syarat, semua pelawat termasuk rakan perniagaan membuat pengakuan kesihatan sebelum masuk.**
- **Buku panduan mengenai garis panduan penjarakan fizikal dan sanitasi disusun dan diedarkan.**
- **Maklumat yang jelas diberikan kepada pihak berkepentingan mengenai keselamatan, kebersihan, akses jarak jauh dan penyelesaian kerja alternatif dengan menggunakan peralatan digital sekiranya berkenaan.**

Pengedaran buku panduan mengenai garis panduan penjarakan fizikal dan sanitasi.



Mengurus ketidakpastian menjadi cabaran kepimpinan.

Ketua Pegawai Eksekutif (CEO) dan Pasukan Pengurusan Kanan MSIG peka dan bersedia sepanjang tahun 2020, memastikan keputusan dan perbincangan dipenuhi secara progresif, dan mencartakan prestasi Syarikat sepanjang pandemik.

Tadbir urus yang mantap dan arahan yang jelas adalah kunci untuk mengimbangi 2 objektif penting:

1

Kesihatan dan keselamatan kakitangan

2

Penyampaian tanpa gangguan perkhidmatan kepada rakan niaga dan pelanggan kami

Penambahbaikan Produk & Perkhidmatan

Di samping kesemua Produk dan Perkhidmatan yang telah dirancang bagi tahun 2020, Syarikat memulakan langkah proaktif sebagai tindak balas terhadap situasi pandemik.

Tuntutan diuruskan dengan prihatin, mengambil kira cabaran yang dihadapi oleh orang awam.

Tuntutan Motor dipermudahkan dan tuntutan kecil dipercepatkan semasa PKP.

Produk baharu dan ditambahbaik



Beberapa produk baharu diperkenalkan di samping yang lain ditambahbaik untuk memberi perlindungan COVID-19, demi menyediakan kelegaan kewangan kepada kedua-dua pemegang polisi, baik pemilik perniagaan ataupun individu.

- **Manfaat Pasca-Kerugian** diperkenalkan sebagai satu manfaat kesulitan kepada kakitangan sekiranya kakitangan mereka diuji positif COVID-19.
- **Perlindungan Tambahan Kemalangan Diri** baharu telah diperkenalkan; Manfaat Tunai Penghospitalan COVID-19/Denggi memberikan sokongan kewangan harian jika pemegang polisi dimasukkan ke hospital sama ada bagi COVID-19 atau Denggi.
- Pemegang polisi Insurans TravelRight Dalam Negara telah diperkenalkan dengan **Elaun Penghospitalan COVID-19/Denggi**; suatu pilihan perlindungan yang menyediakan elaun tambahan jika mereka diuji positif bagi COVID-19 atau bagi denggi semasa perjalanan mereka di dalam negara.

Perlindungan tambahan



Di samping itu, demi menyokong kumpulan B40 yang bergantung pada motosikal bagi pergerakan harian, Syarikat memperkenalkan perlindungan tambahan kemalangan diri sekiranya berlaku kemalangan.

- **Perlindungan Tambahan Kemalangan Diri** bagi Insurans Motosikal ialah perlindungan asas yang diberikan kepada pemegang polisi terhadap kecederaan dan kematian akibat daripada menunggang motosikal yang diinsuranskan.
- **Motosikal 3PA** diperkenalkan sebagai pakej yang memberi perlindungan paling asas – Perlindungan Pihak Ketiga dengan perlindungan kemalangan diri tambahan untuk menjamin perlindungan yang mencukupi bagi kedua-dua penunggang dan kenderaan yang diinsuranskan.



Insurans dalam talian



Platform digital Syarikat - Take It Easy (TIE), termasuk MSIG Online, meliputi cakupan yang luas, menjanakan GWP sebanyak RM20.5 juta, iaitu menggandakan prestasi tahun lepas.

Perlindungan tambahan motor

Jualan perlindungan tambahan motor juga mencapai peningkatan yang positif, menjanakan GWP sebanyak RM25.2 juta.



Digitalisasi

Pergerakan terbatas. Daya tahan digitalisasi.

Perniagaan tidak terganggu



Syarikat terus mempertingkatkan keupayaan Bekerja Dari Rumah (BDR) semasa PKP, membekalkan kakitangan penting dengan kemudahan kerja menerusi telekomunikasi untuk memastikan kerja tidak terganggu sama ada dari komputer riba syarikat atau dari komputer peribadi masing-masing.

Perhatian pada proses yang sebelumnya berkaitan dengan pejabat adalah segera, untuk menyempurnakan kebolehcapaian dengan teknologi baharu dan pendekatan baharu. Latihan kemahiran digital untuk persekitaran baharu diteruskan sepanjang tahun melalui bengkel dan mesyuarat dalam talian. Selaras dengan ini, keperluan perlindungan maklumat dan pematuhan keselamatan Teknologi Maklumat telah dipertimbangkan dengan teliti.

Menambahbaik pengalaman perniagaan



Bagi pengguna kami, pilihan khidmat diri tambahan dibangunkan dan diuji secara progresif. Sebagai contoh, pembangunan aplikasi mudah alih pengguna yang baharu, iaitu MSIG Customer APP dan pengembangan berterusan sistem Pengurusan Komunikasi Pelanggan (CCM) untuk memperbaiki dan memudahkan pengiriman jadual polisi dan invoice cukai.

Syarikat juga mengambil selangkah ke hadapan berkenaan peningkatan pengurusan data; bermula dengan pengembangan kerangka Sistem Pengurusan Data dan Pengurusan Maklumat (DMMIS) untuk mengurus dan mengawal selia data dengan lebih baik dalam organisasi di samping meningkatkan integriti pangkalan data dalaman untuk lebih berkesan dalam pembelajaran mesin.

Mengurus data



Untuk meningkatkan pemahaman dan pengurusan data, pembelajaran mesin telah diterapkan dalam beberapa inisiatif terpilih termasuk penjualan silang, penetapan harga dan penipuan sebagai projek-projek perintis.

Mematuhi garis panduan BNM

Selain daripada langkah yang diambil untuk memudahkan kesinambungan proses kerja dan perkhidmatan pelanggan, Syarikat juga menangani sebarang jurang yang ada dan menghasilkan pelan tindakan untuk mematuhi Garis Panduan BNM mengenai Pengurusan Risiko dalam Teknologi.

Anugerah & Pengiktirafan



Meluangkan Masa Kami

Anugerah Sukarelawan Institusi Kewangan

Syarikat terus diiktiraf oleh BNM dan Financial Industry Collective Outreach (FINCO) bagi usaha membantu kanak-kanak kurang bernasib baik untuk belajar Bahasa Inggeris dan mencapai aspirasi hidup mereka. Kami berasa bangga dianugerahkan Anugerah Sukarelawan Institusi Kewangan bagi bilangan sukarelawan paling tinggi dalam program FINCO pada tahun 2019 (bukan bank) dan bagi cawangan tempatan yang menghantar paling ramai sukarelawan di Pulau Pinang.

Perkhidmatan Berkualiti, Itulah Kami!

Anugerah Perkhidmatan Kualiti Reader's Digest

Di samping itu, Syarikat diiktiraf sebagai pemenang perak bagi Insurans Kereta oleh Anugerah Perkhidmatan Kualiti Reader's Digest pada tahun 2020.

Usaha Berterusan untuk Berinovasi Tinggi

MSIG Asia Awards 2020

Pada MSIG Asia Awards 2020, Syarikat menerima hadiah pertama dalam Kategori Am bagi kerjasama dengan Epic Homes dalam menyediakan perlindungan insurans kebakaran kepada rumah yang dibina oleh perusahaan sosial serta hadiah kedua Anugerah Inovasi bagi usaha Analisis Data yang berkesan. Pada pencapaian cemerlang yang lain, salah seorang kakitangan Tuntutan kami memenangi Anugerah MSIG Asia Shine atas komitmen dan peningkatan yang luar biasa kepada pertumbuhan perniagaan.

Kemampuan

MSIG Malaysia menyokong 4 UN SDG



Sepanjang tahun 2020, Syarikat terus memegang teguh kepada kepercayaan dan semangat yang kukuh terhadap 4 Matlamat Pembangunan Mampan yang telah dikenal pasti penting untuk Mewujudkan Nilai Bersama antara Syarikat dan masyarakat.

SDG 3: Kesihatan dan Kesejahteraan yang Lebih Baik

Sumbangan kepada barisan hadapan & penunggang motosikal

Ketika liputan media memberi tumpuan pada kesukaran barisan hadapan perubatan negara yang tidak kenal lelah, Syarikat menyumbang sejumlah RM190,000 bagi Peralatan Perlindungan Diri untuk memastikan keselamatan mereka terjaga ketika memberi khidmat untuk usaha yang lebih besar. Sebagai tanda penghargaan kami dan untuk memberi dorongan kepada komuniti barisan hadapan, mesej daripada kakitangan dan rakan kongsi disusun dalam tiga poster dan dihantar kepada Kementerian Kesihatan untuk diedarkan.



Selaras dengan komitmen kami terhadap keselamatan jalan raya, Syarikat memberi topi keledar motosikal kepada pemegang polisi insurans motosikal baharu dan pemegang polisi sedia ada yang memaparkan pesanan Safety Rides With You – sebagai peringatan kepada pemandu untuk memakai tali pinggang keledar mereka dan bagi penunggang motosikal untuk memakai topi keledar mereka dengan selamat.

SDG 4: Pendidikan Berkualiti

Peruntukan yang diperlukan

Sewaktu sekolah ditutup sementara semasa PKP dan selanjutnya, ramai kanak-kanak yang merupakan penerima dermasiswa melalui yaysan MyKasih (kerjasama dengan FINCO), tidak dapat menggunakan peruntukan masing-masing sementara ibu bapa mereka mungkin kehilangan kerja atau perlu bekerja lebih keras untuk mengekalkan kerja mereka. Oleh itu, sebahagian dermasiswa tersebut telah disalurkan untuk membekal bakul makanan demi meringankan beban mereka.



SDG 11: Bandar dan Masyarakat Mampan

Act of Kindness & masyarakat B40

Inisiatif Act of Kindness dimulakan untuk meringankan beban masyarakat yang dicituskan oleh pandemik. Setiap cawangan tempatan MSIG didorong untuk menyumbang kepada masyarakat tempatan dengan sebaik mungkin. Sumbangan berjumlah RM99,000 telah disalurkan melalui inisiatif ini termasuk makanan, bekalan perubatan, wang, dan peralatan IT kepada pelajar sekolah.

Bagi tahun 2021, Diari dan Kalendar MSIG memaparkan usaha fotografi oleh sekumpulan kanak-kanak yang kurang bernasib baik dari kumpulan masyarakat B40. Foto-foto tersebut diperoleh dan dibeli melalui inisiatif masyarakat yang bertujuan untuk menanam kemahiran fotografi untuk usaha masa depan kanak-kanak. Seorang jurugambar yang cacat penglihatan juga memberi sumbangan kepada koleksi ini.



SDG 13: Tindakan Iklim

Pemuliharaan paya bakau



Bagi MSIG Holdings Asia (MSIG HA), 2020 ialah tahun mercu tanda bagi memperjuangkan Biodiversiti dan menjalin kerjasama dengan Conservation International (CI). Kerjasama tersebut terjelma sebagai kerjasama berterusan dengan Persatuan Pencinta Alam Malaysia (MNS) untuk menanam semula anak pokok bakau untuk melindungi pinggir laut dan mengurangkan kemusnahan banjir kepada masyarakat pesisir pantai. Untuk memperluas usaha ini, CI akan bekerjasama dengan MNS untuk melakukan penyelidikan penting terhadap berang-berang setempat sebagai langkah pemuliharaan bakau.

Sehingga hari ini, 1,000 anak pokok bakau telah ditanam di Selangor, Penang, Perak dan Perlis. Pencapaian ini menjadi kenyataan dengan sokongan dan sumbangan kelab CSR MSIG HA, walaupun PKP dan SOP menyebabkan kakitangan lebih sukar menyertai usaha ini.

Tinjauan

Pada tahun 2021, cabaran daripada pandemik COVID-19 pada tahun 2020 dijangka akan berterusan. Oleh itu, Syarikat akan memberi tumpuan pada kelebihan daya saing yang mampan dengan membawa jualan yang lebih banyak, margin keuntungan yang lebih baik serta pengekaln pelanggan yang lebih tinggi.

Memandangkan landskap ekonomi semasa, Syarikat akan terus teguh bersama dengan pasukan pengurusan dan kakitangan.

Syarikat berada pada kedudukan yang baik untuk menghadapi tinjauan yang mencabar melalui pengurusan dan inovasi yang mantap untuk menyampaikan serta responsif terhadap keperluan pelanggan.

Dengan strategi dan langkah terancang Syarikat, saya yakin Syarikat akan berupaya untuk beroperasi dengan baik pada tahun 2021 dan boleh mencapai matlamat strategiknya.

2021 Pemacu Utama

- Digitalisasi & Teknologi
- Pembangunan Produk
- Segmen Keberuntungan
- Aktiviti Pemasaran Yang Berkesan
- Mempertingkatkan Keupayaan Bekerja Dari Rumah

Penghargaan

Bagi pihak Lembaga, saya ingin mengucapkan terima kasih kepada Bank Negara Malaysia dan Pihak Berkuasa Pengawalseliaan berkenaan untuk panduan serta 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 dan berterusan mereka pada tahun 2020.

Lembaga juga ingin memanjangkan penghargaannya kepada Pasukan Pengurusan Kanan dan kakitangan atas dedikasi serta komitmen mereka terhadap peningkatan berterusan selaras dengan nilai teras Syarikat.

Lembaga Pengarah dengan sukacita mengumumkan bahawa Cik Gan Bee Lan telah dilantik sebagai Pengarah Bukan Eksekutif Bebas berkuat kuasa dari 15 Ogos 2020.

Kami mengalu-alukan penyertaan Cik Gan ke dalam Lembaga Pengarah.

Akhir sekali, saya ingin mengucapkan terima kasih kepada rakan-rakan Pengarah atas sokongan berterusan dan input yang berharga dalam tadbir urus korporat Syarikat ketika saya menanti-nantikan tahun akan datang.

Dato' Mohd. Sallehuddin bin Othman
Pengerusi



FINANCIAL STATEMENTS



Directors' Report For The Year Ended 31 December 2020

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 2020.

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

Profit for the year

RM'000

290,589

Dividends

Since the end of the previous financial year, the Company paid a final dividend of 12 sen per ordinary share totalling RM39,977,000 in respect of the year ended 31 December 2019 on 5 August 2020.

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

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. Gan Bee Lan (Appointed on 15 August 2020)
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:

Shareholdings in which a Director has direct interest	Number of ordinary shares			At 31.12.2020
	At 1.1.2020	Bought	Sold	
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 31.12.2020
	At 1.1.2020	Granted	Exercised	Lapsed/ cancelled	
Director interest:					
Related company:					
MS&AD Insurance Group Holdings, Inc.					
Mr. Alan John Wilson	949	-	-	-	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.

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.

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. Pursuant to disclosure requirements under Section 289(7)(b) of Companies Act 2016, the insurance premium incurred during the financial year amounted to RM9,359.

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 2020, 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 (Attendance / Number of Meetings)		Board Remuneration Committee		Board Compliance & Risk Management Committee		Board Investment Committee	
	(Chairman)											
Dato' Mohd. Sallehuddin bin Othman (Non-Independent Non-Executive Director)	6/6	(Chairman)	5/5	3/3*	2/2*	3/3*	6/6	6/6				
Ms. Pearl Chan Siew Cheng (Independent Non-Executive Director)	6/6		4/4**	(Chairman) 3/3	0/0**	4/4	(Chairman) 6/6	4/4				
Dato' Muthanna bin Abdullah (Independent Non-Executive Director)	6/6		5/5	3/3	2/2	(Chairman) 4/4	6/6					
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	-					

*Effective 27 October 2020, Dato' Mohd. Sallehuddin bin Othman has relinquished his memberships in Board Nominations Committee, Board Remuneration Committee and Board Compliance & Risk Management Committee.

**Effective 27 October 2020, Ms. Pearl Chan Siew Cheng has relinquished her membership in Board Audit Committee and was appointed as a new member of Board Remuneration Committee on the same date.

Corporate governance disclosure (continued)

Board of Directors (continued)

Membership and meetings of the Committees (continued)

	Board	Board Audit Committee	Board Nominations Committee	Board Remuneration Committee	Board Compliance & Risk Management Committee	Board Investment Committee
	<i>(Attendance / Number of Meetings)</i>					
Ms. Gan Bee Lan <i>(Independent Non-Executive Director) (Appointed on 15 August 2020)</i>	3/3	1/1	-	-	1/1	-
Ms. Loh Guat Lan <i>(Non-Independent Non-Executive Director)</i>	6/6	-	-	-	-	6/6
Mr. Alan John Wilson <i>(Executive Director)</i>	6/6	-	3/3	-	-	-
Mr. Chua Seck Guan <i>(Chief Executive Officer)</i>	-	-	-	-	-	6/6
Mr. Takero Sawamura <i>(Deputy Chief Executive Officer)</i>	-	-	-	-	-	5/6

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 Audit and Investment Committees of the Company.

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 Remuneration and Compliance & Risk Management Committees of the Company.

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 read 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 Digital Nasional Berhad, Sapura Resources Berhad, MSM Malaysia Holdings Berhad, IHH Healthcare Berhad, Malaysian Life Reinsurance Group Berhad, Malaysian Rating Corporation Berhad and a Trustee of Yayasan Siti Sapura and of the Habitat Foundation.

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

Mr. Ichihiro Sadamoto
(Independent Non-Executive Director)

Mr. Ichihiro 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 26 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 serves as Chairman of the Board Remuneration Committee and is a member of the Board Audit, Nominations and Compliance & Risk Management Committees of the Company.

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 and eventually become 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 Board Compliance & Risk Management Committee of the Company.

He is also an Independent Non-Executive Director of Sapura Energy Berhad and a member of its Board Audit Committee and Board Risk Committee.

Corporate governance disclosure (continued)

Board of Directors (continued)

Profiles of Directors (continued)

Ms. Gan Bee Lan

(Independent Non-Executive Director)

Ms. Gan Bee Lan joined the Board of MSIG Insurance (Malaysia) Bhd on 15 August 2020 as Independent Non-Executive Director.

Ms. Gan holds a Bachelor in Accountancy from the University of Singapore. Overall, Ms. Gan has 40 years of working experience in diverse disciplines spanning IT/Systems Management, Project Management (IT and non-IT), HR & Admin Management, Process & Workflow Streamlining as well as Legal and Operational Integration arising from various Mergers & Acquisitions (M&A).

Prior to her retirement from MSIG Insurance (Malaysia) Bhd in December 2009, Ms. Gan was a member of the Senior Management Team (SMT) overseeing - at various periods - Information Technology (IT), Information Security, HR & Admin, Service Quality as well as centralised policy administration. During her service with the company, Ms. Gan was also the Integration Manager managing the operational integration during the MSI-Aviva (MSIG) merger as well as the CU-GA (Aviva) merger.

Immediately after retirement, Ms. Gan returned to MSIG Insurance (Malaysia) Bhd in February 2010 as Special Project Manager to support the legal, business transfer and operational integration of Hong Leong general business into MSIG Insurance (Malaysia) Bhd operations. Following that in January 2012, Ms. Gan joined MSIG Insurance (Singapore) Pte. Ltd. for a year to initiate the system migration to the new regional IT system for the Singapore insurance operations.

In January 2016 until July 2018, Ms. Gan joined the Regional Holding Company (RHC) in Singapore as Head of ICT/Consulting Advisor to Regional CEO to manage the regional centralised IT services, system development and infrastructural services/support to country IT in Singapore, Malaysia, Indonesia, Vietnam, Hong Kong, Thailand, Philippines and Australia. During her stint with RHC, Ms. Gan spearheaded the regional cybersecurity initiative as well as the updated regional IT Strategy focusing on new technologies in the digital arena.

Presently, Ms. Gan is a member of the Board Audit and Compliance & Risk Management Committees of the Company.

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 ("GMD/CEO") 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.

Ms. Loh holds a Bachelor of Science in Human Development 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 31 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).

Ms. Loh is the Chairman of HL Assurance Pte Ltd, Singapore, and a Director of HLAH; Hong Leong MSIG Takaful Berhad; Hong Leong Insurance (Asia) Limited, Hong Kong; L.I.A.M. Holding Sdn Bhd and L.I.A.M. Property Sdn Bhd. She is also the President of the Life Insurance Association of Malaysia (LIAM), a Director of The Malaysian Insurance Institute and a Board Member of the Financial Industry Collective Outreach (FINCO).

Corporate governance disclosure (continued)

Board of Directors (continued)

Profiles of Directors (continued)

Mr. Alan John Wilson *(Executive Director)*

Mr. Alan Wilson has been the Chief Executive Officer of Singapore-based MSIG Holdings (Asia) Pte. Ltd. ("MSIG Asia") since 2008. He also serves as Chairman or Director on the boards (or equivalent) of 19 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 a member of the Board Nominations Committee.

Directors' trainings

The trainings provided to the Directors are as follows:

- FIDE Forum: Digital Banking – Why Does it Matter?
- FIDE Forum: COVID-19 and Current Economic Reality: Implications for Financial Stability
- FIDE Forum: Outthink The Competition: Excelling in a Post COVID-19 World
- FIDE Forum: Challenging Times: What Role Must the Board Play?
- FIDE Forum: Digital Financial Institutions Series – Managing Virtual Banking and Insurance Businesses
- FIDE Forum: Digital Financial Institutions Series – Fidor's Experience
- FIDE Forum: Risks – A Fresh Look from the Board's Perspective
- BNM-FIDE FORUM Annual Dialogue with Governor of Bank Negara Malaysia
- Asia School of Business: Banking on Governance, Insuring Sustainability
- Ernst & Young: IFRS 17 for Directors: What you need to know
- FIDE Forum: Board Effectiveness Evaluation Project
- KPMG: Captains' Forum Session 1 : Financial Resilience
- KPMG: Captains' Forum Session 2 : Operational Resilience
- FIDE Forum: Green Fintech: Ping An's Use of Technology to Support Green Finance Objectives
- ICLIF: Raising Defenses – Section 17A, MACC Act
- FIDE Forum: Climate Action – The Board's Leadership in Greening the Financial Sector
- MSIG In-House Directors' Trainings

Corporate governance disclosure (continued)

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.

(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 that the Company's system of internal controls, risk management and governance are adequate. In addition, it provides oversight over the internal and external auditors' to foster quality audits. In fulfilling this role, the Board Audit Committee:

- (i) Reviews and approves the annual audit plan.
- (ii) Reviews and approves the Audit Charter and budget of the Internal Audit Department, and ensures that the Internal Audit Department is distinct and has the appropriate status within the overall Company structure for the internal auditors to achieve their audit objectives.
- (iii) Reviews key audit reports and ensures that Senior Management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other observations identified by the Internal Audit, the external auditors and other control functions.
- (iv) Notes any significant disagreements between the Chief Internal Auditor and/ or Head of Internal Audit 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.
- (v) Advises on the appointment, remuneration, performance, evaluation, removal and redeployment of the Chief Internal Auditor and/ or Head of Internal Audit and evaluates their respective performance.
- (vi) Establishes a mechanism to assess the performance and effectiveness of the internal audit function.
- (vii) Makes recommendations to the Board on the appointment, removal and remuneration of the external auditors.
- (viii) Monitors and assesses the independence of the external auditors including approving the provision of non-audit services by the external auditors.

Corporate governance disclosure (continued)

Responsibilities of the Board and Board Committees (continued)

Board Audit Committee (continued)

- (ix) Monitors and assesses the effectiveness of the external audit, including by meeting with the external auditors without the presence of Senior Management at least once annually.
- (x) Maintains regular, timely, open and honest communication with the external auditors, and requires the external auditors to report to the Board Audit Committee on significant matters.
- (xi) Reviews and updates the Board on all related party transactions.
- (xii) Reviews the accuracy and adequacy of the Chairman's statement in the Directors' report, corporate governance disclosure, and interim financial reports.
- (xiii) Monitors compliance with the Board's conflicts of interest policy.
- (xiv) Reviews third-party opinions on the design and effectiveness of the Company's internal control framework.
- (xv) 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 Chief Executive Officer, Senior Management and the Company Secretary.
- (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.

Corporate governance disclosure (continued)

Responsibilities of the Board and Board Committees (continued)

Board Remuneration Committee (continued)

- (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.

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 technology risk and effective implementation of Technology Risk Management Framework (TRMF) and Cyber Resilience Framework (CRF).
- (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.

Corporate governance disclosure (continued)

Responsibilities of the Board and Board Committees (continued)

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 deposit 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.

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.

Corporate governance disclosure (continued)

Remuneration

Remuneration Policy

The Company adopts a fair and competitive Remuneration Policy where rewards commensurate with position responsibilities, 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.

The Remuneration Policy ensures that employees are compensated at a level corresponding to the quality, roles and responsibilities, compliant with local laws and regulations. It sets out guiding principles of remuneration which covers basic concepts, subject positions, pay structure and other relevant matters which shall be approved and reviewed by the Board of Directors.

Employees will be appraised on their yearly performance using the Company's appraisal process and performance management system.

Remuneration for Directors, Senior Management Team, Other Material Risk Takers and any individuals that are defined as highly remunerated under the Company's guidelines with reference to Bank Negara Malaysia's Corporate Governance policy document will be reviewed annually and approved by the Board.

Employee whose work performance which may lead to serious legal, regulatory, disciplinary or internal breaches, will be subjected to reevaluation of the remuneration award through actions such as deferments, adjustments, claw backs where applicable depending on the employee's position and pay grade.

Scope of Remuneration Policy

The scope covers all permanent and contract staff.

The policy however excludes expatriates assigned to the Company, temporary and outsource staff.

For union staff, the Company shall abide by the terms and conditions in the Collective Agreement.

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.

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 structure takes into consideration the types of risks and long term objectives of the Company. Level of remuneration is source from market data taking into consideration the Company's business structure, internal equity, pay practices and financial position of the Company to determine pay level for the roles and tasks of the jobs.

The pay structure is the reference point to establish salary, benefits and positions within the Company.

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

Corporate governance disclosure (continued)

Remuneration (continued)

Fixed Remuneration

The Company shall decide the average salary increment percentage to be paid out every year base on Company's performance and external market references.

Annual salary reviews and increment will follow a consistent performance appraisal process using the Company's Performance Management System.

To promote behaviors that are aligned to the Company's core values and achievement of objectives, recommendations for annual salary increments is based on the overall performance and competency scores of the employee.

Salary increments paid is subject to the Company's employment conditions and criteria.

Variable Remuneration

Variable pay is based on the achievement of the employee's personal objectives, Company's overall achievements, roles, responsibilities and tasks.

The variable pay is designed and operated to take into consideration the following:

- Variable pay ratio to the total remuneration that will not trigger excessive or inappropriate risk-taking or the weight which is in line with the performance and financial position of the Company as well as existing and potential risks.
- Performance indicators that takes into account both Company and employee's performance over the period which risk will be materialised.
- The Company's financial position at the point in time when the amount of variable pay is decided.

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 band. 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.

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

.....
Lim Tiang Siew

Director

Kuala Lumpur,
Date: 23 March 2021

Statement Of Financial Position As At 31 December 2020

	Note	2020 RM'000	2019 RM'000
Assets			
Plant and equipment	3	12,290	11,931
Right-of-use assets	4	41,140	11,988
Investment property	5	123	127
Intangible assets	6	5,669	7,587
Goodwill	7	1,141,224	1,141,224
Available-for-sale financial assets	8	2,478,837	2,221,746
Deferred tax assets	9	1,556	5,533
Tax recoverable		-	3,527
Reinsurance assets	10	453,913	408,805
Loans and receivables, excluding insurance receivables	11	700,295	771,335
Insurance receivables	12	170,806	185,708
Deferred acquisition costs	13	69,516	71,826
Cash and cash equivalents	14	216,920	176,940
Total assets		5,292,289	5,018,277
Equity and liabilities			
Share capital	15	1,511,546	1,511,546
Reserves		1,606,304	1,432,118
Total equity		3,117,850	2,943,664
Insurance contract liabilities	17	1,866,937	1,856,449
Lease liabilities	18	40,500	11,719
Other financial liabilities	19	25,032	26,099
Insurance payables	20	109,358	103,753
Other payables	21	110,251	76,593
Tax payables		22,361	-
Total liabilities		2,174,439	2,074,613
Total equity and liabilities		5,292,289	5,018,277

The notes on pages 57 to 122 are an integral part of the financial statements.

Statement Of Profit Or Loss And Other Comprehensive Income For The Year Ended 31 December 2020

	Note	2020 RM'000	2019 RM'000
Operating revenue	22	1,523,479	1,638,183
Gross written premiums	17.2	1,403,123	1,470,388
Change in unearned premiums provision		10,819	45,371
Gross earned premiums	17.2	1,413,942	1,515,759
Gross written premiums ceded to reinsurers	17.2	(272,746)	(276,754)
Change in unearned premiums provision		(5,974)	(2,820)
Premiums ceded to reinsurers	17.2	(278,720)	(279,574)
Net earned premiums		1,135,222	1,236,185
Investment income	23	109,537	122,424
Realised gains and losses	24	43,216	7,538
Fair value gains and losses		(35,751)	(14,972)
Commission income	25	44,260	43,612
Other operating income	26	592	3,900
Other income		161,854	162,502
Gross claims paid	17.1	(626,037)	(829,453)
Claims ceded to reinsurers	17.1	99,736	138,681
Gross change in contract liabilities		(21,307)	26,795
Change in contract liabilities ceded to reinsurers		51,082	(28,683)
Net claims incurred	27	(496,526)	(692,660)
Commission expense	25	(168,791)	(180,056)
Management expenses	28	(260,000)	(234,042)
Other expenses		(428,791)	(414,098)
Profit before tax		371,759	291,929
Tax expense	30	(81,170)	(56,313)
Profit for the year		290,589	235,616

Statement Of Profit Or Loss And Other Comprehensive Income For The Year Ended 31 December 2020 (continued)

	Note	2020 RM'000	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	8	22,176	33,665
Tax effect	9	(5,322)	(8,080)
Other comprehensive income for the year, net of tax		16,854	25,585
Total comprehensive income for the year		307,443	261,201
Basic earnings per share (sen)	31	87.2	70.7

The notes on pages 57 to 122 are an integral part of the financial statements.

Statement Of Changes In Equity For The Year Ended 31 December 2020

	/-----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 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	-	-	(123,263)	(123,263)		
	1,511,546	28,288	1,403,830	2,943,664		
At 31 December 2019/1 January 2020	-	16,854	-	16,854		
Fair value of available-for-sale financial assets, net of tax	-	16,854	-	16,854		
Total other comprehensive income for the year	-	-	290,589	290,589		
Profit for the year	-	-	290,589	290,589		
Total comprehensive income for the year	-	16,854	290,589	307,443		
Dividends paid during the year	-	-	(133,257)	(133,257)		
	1,511,546	45,142	1,561,162	3,117,850		

Note 15

Note 16.1

Note 16.2

The notes on pages 57 to 122 are an integral part of the financial statements.

Statement Of Cash Flows

For The Year Ended 31 December 2020

	Note	2020 RM'000	2019 RM'000
Cash flows from operating activities			
Profit before tax		371,759	291,929
<i>Adjustments for:</i>			
Amortisation of intangible assets	6	3,007	2,842
Depreciation of plant and equipment	3	5,325	5,348
Depreciation of right-of-use assets	4	10,458	10,976
Depreciation of investment property	5	4	5
Investment income	23	(109,537)	(122,424)
Realised gains recorded in profit or loss	24	(43,216)	(7,538)
Fair value loss recorded in profit or loss		35,751	14,972
Purchase of available-for-sale financial assets	8	(1,540,743)	(645,526)
Proceeds from disposal of available-for-sale financial assets		1,312,778	350,699
Interest on lease liabilities		934	1,012
Retirement gratuities charged		633	503
Operating gain/(loss) before changes in working capital		47,153	(97,202)
Change in reinsurance assets		(45,108)	31,503
Change in insurance receivables		14,902	10,327
Change in deferred acquisition costs		2,310	6,231
Change in loans and receivables		62,447	147,321
Change in insurance contract liabilities		10,488	(72,166)
Change in other financial liabilities		(1,067)	1,780
Change in insurance payables		5,605	800
Change in other payables		33,025	(8,783)
Cash generated from operating activities		129,755	19,811
Dividend income received		77,260	78,408
Interest income received		40,917	46,274
Income tax paid		(63,911)	(49,932)
Income tax refund		7,284	2,695
Net cash flows from operating activities		191,305	97,256
Cash flows from investing activities			
Proceeds from disposal of plant and equipment		572	268
Purchase of intangible assets	6	(1,089)	(2,403)
Purchase of plant and equipment	3	(5,788)	(3,965)
Net cash flows used in investing activities		(6,305)	(6,100)
Cash flows from financing activities			
Dividend paid	32	(133,257)	(123,263)
Payment of lease liabilities	18.1	(11,763)	(12,058)
Net cash flows used in financing activities		(145,020)	(135,321)

Statement Of Cash Flows

For The Year Ended 31 December 2020

(continued)

	Note	2020 RM'000	2019 RM'000
Net increase/(decrease) in cash and cash equivalents		39,980	(44,165)
Cash and cash equivalents at beginning of year		176,940	221,105
Cash and cash equivalents at end of year	14	216,920	176,940

The notes on pages 57 to 122 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.

MSIG Holdings (Asia) Pte. Ltd., which is incorporated in Singapore, was the immediate holding company up until 25 January 2021, the date its shareholding in MSIG Insurance (Malaysia) Bhd was transferred to the Company's penultimate holding company, Mitsui Sumitomo Insurance Co. 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 23 March 2021.

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 of the MFRSs 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 June 2020

- Amendment to MFRS 16, *Leases – COVID-19-Related Rent Concessions*

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

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement*, MFRS 7, *Financial Instruments: Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases – Interest Rate Benchmark Reform – Phase 2*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current and Disclosures of Accounting Policies*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*

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 2021 for those amendments that are effective for annual periods beginning on or after 1 June 2020 and 1 January 2021;
- from the annual period beginning on 1 January 2022 for those amendments that are effective for annual periods beginning on or after 1 January 2022, except for amendments to MFRS 1 and amendments to MFRS 141 which are not applicable to the Company; and
- from the annual period beginning on 1 January 2023 for the accounting standard and amendments that are effective for annual periods beginning on or after 1 January 2023.

The initial application of the abovementioned accounting standards, amendments and interpretations is not expected to have any material impacts to the 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.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments* (continued)

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 as of 31 December 2015 was 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.

	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

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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 of adopting 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.

(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.

2. Significant accounting policies (continued)

(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.

(c) Leases

(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;

2. Significant accounting policies (continued)

(c) Leases (continued)

(i) Definition of a lease (continued)

- 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.

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.

2. Significant accounting policies (continued)

(c) Leases (continued)

(iii) Subsequent measurement (continued)

As a lessee (continued)

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.

(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.

2. Significant accounting policies (continued)

(f) Goodwill

Goodwill arising 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)).

(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.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(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.

(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.

2. Significant accounting policies (continued)

(h) Impairment (continued)

(i) Financial assets, excluding insurance receivables (continued)

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.

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.

2. Significant accounting policies (continued)

(h) Impairment (continued)

(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.

(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.

2. Significant accounting policies (continued)

(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 primary 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.

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).

2. Significant accounting policies (continued)

(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.

2. Significant accounting policies (continued)

(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.

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.

2. Significant accounting policies (continued)

(r) Other income recognition (continued)

(ii) Rental income (continued)

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.

(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.

2. Significant accounting policies (continued)

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

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 2019, 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.

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.

2. Significant accounting policies (continued)

(v) Fair value measurements (continued)

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 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 2019/1 January 2020	5,333	15,223	19,766	4,756	45,078
Additions	128	727	3,800	1,133	5,788
Disposals	(87)	(200)	(1,072)	(1,763)	(3,122)
At 31 December 2020	5,374	15,750	22,494	4,126	47,744
Accumulated depreciation					
At 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 2019/1 January 2020	4,647	12,153	13,229	3,118	33,147
Charge for the year	225	1,502	2,743	855	5,325
Disposals	(87)	(198)	(1,069)	(1,664)	(3,018)
At 31 December 2020	4,785	13,457	14,903	2,309	35,454
Carrying amount					
At 1 January 2019	912	4,014	5,803	2,636	13,365
At 31 December 2019/1 January 2020	686	3,070	6,537	1,638	11,931
At 31 December 2020	589	2,293	7,591	1,817	12,290

3. Plant and equipment (continued)

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

	2020 RM'000	2019 RM'000
At cost:		
Office equipment	4,259	4,140
Furniture and fittings	5,897	6,085
Computers	7,454	7,900
Motor vehicles	58	66

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 2019/1 January 2020	8,978	3,010	11,988
Additions	38,849	77	38,926
Depreciation charge	(9,373)	(1,085)	(10,458)
Remeasurement of lease liabilities	684	-	684
At 31 December 2020	39,138	2,002	41,140

4.1 Extension options

Some leases of properties, office buildings and other equipments contain extension options exercisable by the Company up to six years 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

	2020 RM'000	2019 RM'000
Cost		
At 1 January/31 December	233	233
Accumulated depreciation		
At 1 January	99	94
Charge for the year	4	5
At 31 December	103	99
Accumulated impairment		
At 1 January/31 December	7	7
Carrying amount		
At 1 January	127	132
At 31 December	123	127

Included in the above is:

	2020		2019	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Leasehold building	123	205	127	205

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

	2020 RM'000	2019 RM'000
Direct operating expenses	4	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
2020				
Leasehold building	-	205	-	205
2019				
Leasehold building	-	205	-	205

6. Intangible assets

	Computer software 2020 RM'000	2019 RM'000
Cost		
At 1 January	22,660	20,442
Additions	1,089	2,403
Disposals	-	(185)
At 31 December	23,749	22,660
Accumulated amortisation		
At 1 January	15,073	12,416
Amortisation charge	3,007	2,842
Disposals	-	(185)
At 31 December	18,080	15,073
Carrying amount		
At 31 December	5,669	7,587

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

	2020 RM'000	2019 RM'000
At cost:		
Customised software	2,961	2,961
Desktop applications	309	239
Licenses	5,383	4,692

7. Goodwill

	2020 RM'000	2019 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 of 2021 to 2023 business plan. The growth rate was projected to perpetuity based on the Company's business plan for financial year 2023.

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

	2020	2019
Perpetual growth rate (for terminal value)	3.0%	3.0%
Discount rate	8.1%	7.6%

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

	Note	2020 RM'000	2019 RM'000
At fair value			
Equity securities in corporations:			
Quoted in Malaysia		173,201	286,662
Unquoted in Malaysia		602	602
Unit Trusts		884,751	750,419
Controlled Structured Entities	8 (a)	1,420,283	1,025,566
Government Investment Issues		-	15,695
Government Guaranteed Bonds		-	4,929
Corporate debt securities:			
Unquoted in Malaysia		-	137,873
Total AFS financial assets		2,478,837	2,221,746

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

Estimation of fair value

The fair values of quoted equity securities are their closing 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 of unit trusts and controlled structured entities are their published Net Asset Value (“NAV”) unit prices at the end of reporting period.

In the previous year, the fair values for Government Investment Issues and Government Guaranteed Bonds were based on the indicative mid-market prices quoted by a bond pricing agency at the end of the reporting period.

In the previous year, the estimated fair values of unquoted corporate debt securities were 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
Additions	645,526
Disposals	(343,378)
Fair value gain recorded in other comprehensive income	33,665
Amortisation	(199)
Provision for impairment loss	(14,972)
	<hr/>
At 31 December 2019/1 January 2020	2,221,746
Additions	1,540,743
Disposals	(1,270,030)
Fair value gain recorded in other comprehensive income	22,176
Amortisation	(47)
Provision for impairment loss	(35,751)
	<hr/>
At 31 December 2020	<u>2,478,837</u>

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 RM1,420,283,336 (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	
		2020	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%
Nomura Ringggit Bond Fund 2	Investment in government bonds, corporate bonds and deposits	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 RM1,406 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	Nomura Ringgit Bond Fund 2 RM’000
2020								
Government bonds	10,229	256,413	-	212,944	-	-	-	83,454
Corporate bonds	-	-	209,225	-	136,053	-	170,248	153,746
Collective Investment Scheme	-	-	-	-	-	23,846	-	-
Money market deposits	32,760	16,386	14,471	4,636	11,203	362	14,800	34,609
Cash and cash equivalents	5	15,992	4,398	22	20	29	22	81
	42,994	288,791	228,094	217,602	147,276	24,237	185,070	271,890
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	-

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:

	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	Nomura Ringgit Bond Fund 2 RM’000
2020								
Total fair value gain/(loss) recognised for the financial year	(109)	2,244	7,980	3,606	7,028	2,439	7,178	1,489
2019								
Total fair value gain recognised for the financial year	322	1,835	4,632	4,152	5,007	745	4,568	-

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:

	2020 RM'000	2019 RM'000
Available-for-sale financial assets	14,256	8,934
Plant and equipment	1,728	1,105
Provisions	(17,540)	(15,572)
Deferred tax assets (net)	(1,556)	(5,533)

Movement in temporary differences during the year:

	At 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/ 1.1.2020 RM'000	Recognised in profit or loss (Note 30) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2020 RM'000
Available-for-sale financial assets	854	-	8,080	8,934	-	5,322	14,256
Plant and equipment	686	419	-	1,105	623	-	1,728
Provisions	(13,382)	(2,190)	-	(15,572)	(1,968)	-	(17,540)
Other items	(2)	2	-	-	-	-	-
Deferred tax (assets)/liabilities	(11,844)	(1,769)	8,080	(5,533)	(1,345)	5,322	(1,556)

10. Reinsurance assets

	Note	2020 RM'000	2019 RM'000
Reinsurance of insurance contracts			
Claims liabilities	17.1	350,182	299,100
Premium liabilities	17.2	103,731	109,705
		453,913	408,805

11. Loans and receivables, excluding insurance receivables

	2020 RM'000	2019 RM'000
Staff loans:		
Receivable within twelve months	10	9
Receivable after twelve months	98	108
	108	117
Fixed and call deposits with maturity > 3 months with licensed financial institutions:		
- Licensed banks in Malaysia	675,252	731,486
Other receivables:		
Other receivables, deposits and prepayments	12,326	18,548
Income due and accrued	12,463	21,056
Amount due from penultimate holding company	181	183
	24,970	39,787
Less: Impairment allowance	(35)	(55)
	24,935	39,732
Total loans and receivables, excluding insurance receivables	700,295	771,335

The amount due from penultimate holding company is non-trade in nature, interest free, unsecured and repayable on demand.

The following loans and receivables mature after 12 months:

	2020 RM'000	2019 RM'000
Staff loans	98	108

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	2020 RM'000	2019 RM'000
Due premiums including agents/ brokers, co-insurers and insureds		164,316	168,805
Due from reinsurers and cedants		3,531	15,160
Amount due from penultimate holding company		-	169
Amount due from related companies		249	86
Amount due from affiliated companies		4,651	3,762
		<hr/>	<hr/>
		172,747	187,982
Less: Impairment allowance	12.1	(1,941)	(2,274)
		<hr/>	<hr/>
		170,806	185,708
		<hr/> <hr/>	<hr/> <hr/>

12.1 During the year, certain outstanding impaired receivables were written off against the allowance for impairment made previously amounted to RM733,000 (2019: RM38,000).

13. Deferred acquisition costs

	Note	2020 RM'000	2019 RM'000
Gross			
At 1 January		85,375	91,117
Movement during the year	25	(3,334)	(5,742)
		<hr/>	<hr/>
At 31 December		82,041	85,375
		<hr/> <hr/>	<hr/> <hr/>
Reinsurance			
At 1 January		(13,549)	(13,060)
Movement during the year	25	1,024	(489)
		<hr/>	<hr/>
At 31 December		(12,525)	(13,549)
		<hr/> <hr/>	<hr/> <hr/>
Net			
At 1 January		71,826	78,057
Movement during the year		(2,310)	(6,231)
		<hr/>	<hr/>
At 31 December		69,516	71,826
		<hr/> <hr/>	<hr/> <hr/>

14. Cash and cash equivalents

	2020 RM'000	2019 RM'000
Fixed and call deposits with licensed banks in Malaysia	190,749	161,879
Cash and bank balances	26,171	15,061
	<hr/>	<hr/>
	216,920	176,940
	<hr/> <hr/>	<hr/> <hr/>

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

15. Share capital

	2020		2019	
	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	2020		2019		
		Gross RM'000	Reinsurance RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Provision for claims reported by policyholders		1,127,700	(331,954)	1,084,551	(282,299)	802,252
Provision for IBNR		5,139	(18,228)	26,981	(16,801)	10,180
Provision for outstanding claims	17.1	1,132,839	(350,182)	1,111,532	(299,100)	812,432
Provision for unearned premiums	17.2	734,098	(103,731)	744,917	(109,705)	635,212
		1,866,937	(453,913)	1,856,449	(408,805)	1,447,644

Note 10

Note 10

17. Insurance contract liabilities (continued)**17.1 Provision for outstanding claims**

Note	2020			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	766,170	(182,637)	583,533	996,844	(214,464)	782,380
Adjustment to claims incurred in prior accident years	(124,479)	34,900	(89,579)	(197,061)	103,792	(93,269)
Adjustment to claims incurred in the ex-HLA run-off portfolio	104	24	128	359	(25)	334
Movement in PRAD of claims liabilities at 75% confidence level	2,367	(3,215)	(848)	(810)	384	(426)
Movement in claims handling expenses	3,182	-	3,182	3,326	-	3,326
Claims paid during the year	(626,037)	99,736	(526,301)	(829,453)	138,681	(690,772)
Movement in reinsurance default provision	-	110	110	-	315	315
At 31 December	1,132,839	(350,182)	782,657	1,111,532	(299,100)	812,432

17.2 Provision for unearned premiums

Note	2020			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 in the year	1,403,123	(272,746)	1,130,377	1,470,388	(276,754)	1,193,634
Premiums earned during the year	(1,413,942)	278,720	(1,135,222)	(1,515,759)	279,574	(1,236,185)
At 31 December	734,098	(103,731)	630,367	744,917	(109,705)	635,212

18. Lease liabilities

Leases as lessee

	2020 RM'000	2019 RM'000
Lease liabilities are payable as follows:		
- Within next 12 months	9,417	8,493
- After next 12 months	31,083	3,226
	<u>40,500</u>	<u>11,719</u>

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

	Note	2020 RM'000	2019 RM'000
At 1 January		11,719	18,133
Net changes from financing cash flows		(11,763)	(12,058)
Acquisition of new lease	4	38,926	5,007
Interest on lease liabilities	28	934	1,012
Remeasurement of lease liabilities		684	(375)
At 31 December		<u>40,500</u>	<u>11,719</u>

18.2 Amount recognised in statement of cash flows

	Note	2020 RM'000	2019 RM'000
Included in net cash from operating activities:			
Payment relating to short-term leases	28	(315)	(145)
Included in net cash from financing activities:			
Payment of lease liabilities		(11,763)	(12,058)
Total cash outflows for leases		<u>(12,078)</u>	<u>(12,203)</u>

19. Other financial liabilities

	Note	2020 RM'000	2019 RM'000
Cash collateral deposits received from policyholders	19.1	19,516	21,244
Deposit received from reinsurers		5,516	4,855
		<u>25,032</u>	<u>26,099</u>

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

	2020 RM'000	2019 RM'000
Due to reinsurers and cedants	81,147	80,395
Due to agents/brokers, co-insurers and insureds	23,720	16,634
Amount due to penultimate holding company	1,086	2,208
Amount due to related companies	2,881	3,613
Amount due to affiliated companies	524	903
	109,358	103,753

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

	Note	2020 RM'000	2019 RM'000
Other payables		29,993	28,405
Accrued expenses		60,035	44,553
Provision	39	16,080	-
Amount due to former immediate holding company		3,986	3,238
Amount due to related company		157	397
		110,251	76,593

The amounts due to former immediate holding company and related company 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
2020				
Gross earned premiums		-	1,413,942	1,413,942
Investment income	23	34	109,503	109,537
		34	1,523,445	1,523,479
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

23. Investment income

	2020 RM'000	2019 RM'000
AFS financial assets		
Dividend/distribution income:		
- Equity securities quoted in Malaysia	6,904	8,856
- Unquoted equity securities in Malaysia	170	85
- Unit Trusts	17,815	25,476
- Controlled Structured Entities	52,222	44,012
Interest/profit income:		
- Government Investment Issues	186	1,012
- Government Guaranteed Bonds	151	46
- Corporate debt securities	4,084	6,171
Amortisation of premiums, net of accretion of discounts	(47)	(199)
Loans and receivables and cash and cash equivalents:		
Interest/profit income	28,052	36,965
	109,537	122,424

24. Realised gains and losses

	2020 RM'000	2019 RM'000
Realised gains for:		
Plant and equipment	468	217
AFS financial assets		
Quoted equity securities in Malaysia	32,403	6,177
Unit trust and controlled structured entities	1,027	7
Government Investment Issues	623	688
Government Guaranteed Bonds	481	-
Corporate debt securities	8,214	449
	43,216	7,538

25. Commission income/(expense)

	Note	2020 RM'000	2019 RM'000
Commission income			
Commission income		43,236	44,101
Movement in deferred acquisition cost	13	1,024	(489)
		44,260	43,612
Commission expense			
Commission expense		(165,457)	(174,314)
Movement in deferred acquisition cost	13	(3,334)	(5,742)
		(168,791)	(180,056)

26. Other operating income

	2020 RM'000	2019 RM'000
Interest on staff housing loans	5	6
Sundry income	587	3,894
	<u>592</u>	<u>3,900</u>

27. Net claims incurred

	2020 RM'000	2019 RM'000
Gross claims paid less salvage	626,037	829,453
Reinsurance recoveries	(99,736)	(138,681)
Net claims paid	526,301	690,772
Net change in claims liabilities:		
At 31 December	782,657	812,432
At 1 January	(812,432)	(810,544)
	<u>496,526</u>	<u>692,660</u>

28. Management expenses

	Note	2020 RM'000	2019 RM'000
Employee benefits expenses	28.1	116,086	110,387
Senior Management cash-based remuneration			
- Fixed		5,083	4,927
- Variable		1,302	991
Chief Executive Officer's remuneration	29	2,484	2,199
Non-Executive Directors' remuneration	29	890	755
Allowance for impairment on insurance and other receivables		390	952
Amortisation of intangible assets	6	3,007	2,842
Auditors' remuneration			
- Audit fees		503	398
- Non-audit fees	28.2	43	114
Bad debts written off		7	286
Depreciation of investment property	5	4	5
Depreciation of plant and equipment	3	5,325	5,348
Depreciation of right-of-use assets	4	10,458	10,976
Expenses arising from short-term leases*	18.2	315	145
Interest on lease liabilities	18.1	934	1,012
Other expenses		113,169	92,705
		<u>260,000</u>	<u>234,042</u>

* 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. Management expenses (continued)

28.1 Employee benefits expenses

	2020 RM'000	2019 RM'000
Wages, salaries and others	99,887	94,797
Social security contributions	946	953
Contribution to Employees' Provident Fund	14,620	14,134
Contribution to retirement gratuities	633	503
	<u>116,086</u>	<u>110,387</u>

28.2 Non-audit fees

The non-audit fees of RM10,000 (2019: RM105,000) are borne by the Company's penultimate holding company.

29. Key management personnel compensation

Details of the Directors' and Chief Executive Officer's remuneration (including benefits-in-kind) for the financial year 2020 are as follows:

2020	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	-	1,520	621	343	-	44	2,528
Executive Director - Mr. Alan John Wilson	-	-	-	-	-	-	-
Non-Executive Directors							
- Dato' Mohd. Sallehuddin bin Othman	91	-	-	-	109	-	200
- Ms. Pearl Chan Siew Cheng	73	-	-	-	112	-	185
- Dato' Muthanna bin Abdullah	73	-	-	-	109	-	182
- Mr. Iichiro Sadamoto*	73	-	-	-	64	-	137
- Mr. Lim Tiang Siew	73	-	-	-	62	-	135
- Ms. Gan Bee Lan	27	-	-	-	24	-	51
- Ms. Loh Guat Lan	-	-	-	-	-	-	-
Total Directors' Remuneration (including benefits-in-kind)	410	-	-	-	480	-	890
Total Chief Executive Officer and Directors' Remuneration (including benefits-in-kind)	410	1,520	621	343	480	44	3,418

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

29. Key management personnel compensation (continued)

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. Ichiro 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.

30. Tax expense

	Note	2020 RM'000	2019 RM'000
Current tax expense			
Malaysian - current		80,914	56,320
- prior years		1,601	1,762
		82,515	58,082
Deferred tax expense			
Malaysian - current		(1,806)	(623)
- prior years		461	(1,146)
	9	(1,345)	(1,769)
		81,170	56,313
Reconciliation of tax expense			
Profit for the year		290,589	235,616
Tax expense		81,170	56,313
		371,759	291,929
Income tax using Malaysian tax rate of 24%		89,222	70,063
Non-deductible expenses		7,741	3,778
Tax exempt income		(17,868)	(18,156)
Other items		13	12
		79,108	55,697
Under/(Over) provision in prior years			
- Current tax		1,601	1,762
- Deferred tax		461	(1,146)
		81,170	56,313
Income tax recognised directly in equity			
Available-for-sale financial assets		(5,322)	(8,080)

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 RM290,589,000 (2019: RM235,616,000) and the weighted average number of ordinary shares outstanding during the year of 333,143,000 (2019: 333,143,000).

32. Dividends

Dividends recognised by the Company are:

	Sen per share net of tax	Total amount RM'000	Date of payment
2020			
Interim 2019 - tax-exempt	28.00	93,280	05 Mar 2020
Final 2019 - tax-exempt	12.00	39,977	05 Aug 2020
		<u> </u>	
2019			
Final 2018 - tax-exempt	37.00	123,263	08 Jul 2019
		<u> </u>	

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

33. Capital expenditure commitments

	2020 RM'000	2019 RM'000
Plant and equipment		
Authorised but not contracted for	2,142	1,574
Contracted but not provided for	6,216	3,628
	<u> </u>	<u> </u>

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

MSIG Holdings (Asia) Pte. Ltd., which is incorporated in Singapore, was the immediate holding company up until 25 January 2021, the date its shareholding in MSIG Insurance (Malaysia) Bhd was transferred to the Company's penultimate holding company, Mitsui Sumitomo Insurance Co. 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.

	2020 RM'000	2019 RM'000
Penultimate holding company		
RI premium paid to	51,888	51,096
RI commission received from	(9,273)	(9,385)
Claims recoveries received from	(28,926)	(23,462)
Claims settling fee received from	(343)	(452)
Recovery of expenses paid on behalf received from	(1,516)	(1,642)
Former immediate holding company		
Service fee paid to	3,662	3,358
Recovery of expenses paid on behalf received from	-	(270)
Fellow subsidiary companies		
RI premium paid to	14,603	11,807
RI commission received from	(2,771)	(2,118)
Claims recoveries received from	(3,752)	(4,978)
Affiliated companies		
Premium income received from	(96,189)	(103,137)
Commission expense paid to	12,638	13,452
Claims paid to	22,900	21,339
Bank merchant fees paid to	2,520	2,973
Surveying fee paid to	165	451
Interest/Dividend income received from	(6,214)	(5,774)
Marketing expenses paid to	1,188	2,183
Service/Admin fees paid to	358	371

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.

35. Risk Management Framework (continued)

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

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:

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

MSIG has drawn up ICAAP Policy to ensure sound governance and effective risk management over capital solvency. ICAAP is implemented as part of Enterprise Risk Management Framework to manage and maintain capital adequacy level that is commensurate with risk profile at all times.

MSIG issues an ICAAP Report annually 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.

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 Company is also exposed to risks arising from climate changes, natural disasters, terrorism activities, regulatory changes such as the phased liberalisation of motor and fire tariff and pandemic such as the COVID-19 pandemic.

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
2020			
Motor	598,859	(19,033)	579,826
Fire	395,421	(148,944)	246,477
Marine Cargo, Aviation Cargo, and Transit	90,794	(27,998)	62,796
Miscellaneous	318,049	(76,771)	241,278
	1,403,123	(272,746)	1,130,377
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

36. Insurance risk (continued)

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
2020			
Motor	894,044	(21,153)	872,891
Fire	444,715	(252,155)	192,560
Marine Cargo, Aviation Cargo, and Transit	108,772	(57,390)	51,382
Miscellaneous	419,406	(123,215)	296,191
	1,866,937	(453,913)	1,413,024
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

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. Judgment is further used to assess the extent to which external factors may affect the estimates, such as the impact of COVID-19 pandemic.

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 105 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.

36. Insurance risk (continued)

Sensitivity analysis of insurance liabilities (continued)

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

- Initial Expected Loss Ratio (“IELR”) for accident year 2020
- Selected Ultimate Loss Ratio (“ULR”) for accident year 2020

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, 2020 accident year ULRs were changed only. For premium liabilities, the expected ULRs were changed.

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
2020				
Premium liabilities	-	-	-	-
Claim liabilities	8,696	(8,696)	94,020	(92,758)
Total	8,696	(8,696)	94,020	(92,758)
Impact on profit before tax	8,696	(8,696)	94,020	(92,758)
Impact on equity *	6,609	(6,609)	71,455	(70,496)
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)

* 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 2020:

Accident year	Before							Total
	2013	2013	2014	2015	2016	2017	2018	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	946,043	985,708	1,052,072	1,071,482	1,041,781	1,067,931	996,844	766,170
One year later	802,475	866,421	961,550	927,017	952,318	935,844	899,592	
Two years later	779,716	800,218	945,176	863,918	915,036	912,711		
Three years later	759,358	793,142	922,370	865,504	921,686			
Four years later	760,058	778,774	916,523	869,712				
Five years later	758,652	775,433	917,924					
Six years later	741,258	757,900						
Seven years later	739,559							
Current estimate of cumulative claims incurred	739,559	757,900	917,924	869,712	921,686	912,711	899,592	766,170
At end of accident year	352,882	388,474	411,604	446,983	446,741	458,071	452,758	302,270
One year later	632,151	654,121	773,865	724,731	764,381	732,345	670,035	
Two years later	690,446	714,733	832,312	778,128	819,994	794,294		
Three years later	710,880	730,243	856,957	805,614	847,602			
Four years later	720,415	738,804	863,987	813,486				
Five years later	731,309	742,562	866,221					
Six years later	734,678	745,228						
Seven years later	736,093							
Cumulative payments to-date	736,093	745,228	866,221	813,486	847,602	794,294	670,035	302,270

36. Insurance risk (continued)

Gross general insurance contract liabilities for 2020 (continued):

Note	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
Gross general insurance liabilities (direct, facultative and treaty inward)	10,914	3,466	12,672	51,703	56,226	74,084	118,417	229,557	463,900	1,020,939
Claims handling expenses PRAD at 75% confidence level										41,478
Gross general insurance contract liabilities per statement of financial position										70,422
										1,132,839

17.1

36. Insurance risk (continued)**Gross general insurance contract liabilities for 2019:**

Accident year	Before	2012	2013	2014	2015	2016	2017	2018	2019	Total
	2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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	2013	2014	2015	2016	2017	2018	2019	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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 PRAD at 75% confidence level										38,296
Gross general insurance contract liabilities per statement of financial position										68,055
										1,111,532

17.1

36. Insurance risk (continued)

Net general insurance contract liabilities for 2020:

Accident year	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
At end of accident year		687,177	725,556	754,510	795,839	792,408	853,349	798,559	597,561	
One year later		647,924	695,209	688,712	730,627	753,959	793,492	732,063		
Two years later		629,521	660,227	668,370	701,786	730,208	767,119			
Three years later		618,735	652,496	662,690	701,734	728,926				
Four years later		616,447	647,986	659,127	703,567					
Five years later		614,401	646,497	658,335						
Six years later		601,537	633,552							
Seven years later		599,643								
Current estimate of cumulative claims incurred		599,643	633,552	658,335	703,567	728,926	767,119	732,063	597,561	
At end of accident year		319,751	346,145	349,673	399,332	420,136	424,354	405,388	282,149	
One year later		536,915	561,016	558,268	604,072	621,758	646,438	575,984		
Two years later		573,094	600,813	597,759	641,438	661,529	686,605			
Three years later		585,042	613,145	616,676	658,457	678,555				
Four years later		591,645	619,870	621,163	665,339					
Five years later		595,167	622,744	623,182						
Six years later		596,782	624,936							
Seven years later		597,287								
Cumulative payments to-date		597,287	624,936	623,182	665,339	678,555	686,605	575,984	282,149	

36. Insurance risk (continued)

Net general insurance contract liabilities for 2020 (continued):

Note	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
Net general insurance liabilities (direct, facultative and treaty inward)	7,421	2,356	8,616	35,153	38,228	50,371	80,514	156,079	315,412	694,150
Claims handling expenses PRAD at 75% confidence level										41,478
Reinsurance default provision										44,094
Net general insurance contract liabilities per statement of financial position										2,935
										782,657

17.1

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										Total RM'000
	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	2019 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 PRAD at 75% confidence level										38,296	
Reinsurance default provision										44,942	
Net general insurance contract liabilities per statement of financial position										2,825	
										812,432	

17.1

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.

	2020 RM'000	2019 RM'000
AFS financial assets - Debt instruments	-	158,497
Reinsurance assets	453,913	408,805
Loans and receivables, excluding insurance receivables and prepayments	695,543	767,253
Insurance receivables	170,806	185,708
Cash and cash equivalents	216,920	176,940
	1,537,182	1,697,203

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
2020				
Reinsurance assets	453,913	-	-	453,913
Loans and receivables, excluding insurance receivables and prepayments	695,543	-	34	695,577
Insurance receivables	160,005	10,801	1,941	172,747
Cash and cash equivalents	216,920	-	-	216,920
	1,526,381	10,801	1,975	1,539,157
Impairment allowance	-	-	(1,975)	(1,975)
	1,526,381	10,801	-	1,537,182
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

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. AA 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
2020								
Reinsurance assets	-	36,092	257,262	-	-	373	160,186	453,913
Loans and receivables, excluding insurance receivables and prepayments	369,760	233,000	72,492	-	-	-	20,291	695,543
Insurance receivables	-	192	342	-	641	-	169,631	170,806
Cash and cash equivalents	148,449	61,298	7,144	-	-	-	29	216,920
	518,209	330,582	337,240	-	641	373	350,137	1,537,182
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

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
2020					
Insurance receivables	5,451	1,501	2,613	1,236	10,801
2019					
Insurance receivables	5,629	2,829	2,324	1,856	12,638

Impaired financial assets

At 31 December 2020, based on a collective and individual assessment of receivables, there are impaired insurance receivables of RM1,941,000 (2019: RM2,274,000). 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		
	Individual Impairment RM'000	Collective Impairment RM'000	Total RM'000
At 1 January 2019	424	951	1,375
Movement during the year	320	579	899
At 31 December 2019/1 January 2020	744	1,530	2,274
Movement during the year	623	(956)	(333)
At 31 December 2020	1,367	574	1,941

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
2020								
Insurance contract liabilities	1,132,839	774,361	315,429	39,510	3,539	-	-	1,132,839
Lease liabilities	40,500	9,417	14,994	14,435	1,324	330	-	40,500
Other financial liabilities	25,032	25,032	-	-	-	-	-	25,032
Insurance payables	109,358	109,358	-	-	-	-	-	109,358
Other payables	110,251	110,251	-	-	-	-	-	110,251
Total liabilities	1,417,980	1,028,419	330,423	53,945	4,863	330	-	1,417,980
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

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:

	2020 RM'000	2019 RM'000
Fixed rate instruments		
AFS financial assets - Debt instruments	-	158,497
Fixed and call deposits	866,001	893,365
	866,001	1,051,862

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 120).

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).

	Change in variables	2020		2019	
		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%	-	13,163	-	21,786
Market price	-10%	-	(13,163)	-	(21,786)

	Change in variables	2020		2019	
		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	-	(2,341)	-	(1,715)
Interest rate	-25 basis points	-	2,341	-	1,715

* 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.

37. Financial risks (continued)

Operational risks (continued)

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.

The carrying amount of fixed and call deposits with financial institution, cash and bank balances, short-term receivables and short-term payables reasonably approximate their fair value due to relatively short-term nature of these financial instruments.

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		
2020								
Financial assets								
AFS Financial assets								
Equity securities in corporations:								
Quoted in Malaysia	173,201	-	-	-	-	-	173,201	173,201
Unit trust and controlled structured entities	2,305,034	-	-	-	-	-	2,305,034	2,305,034
	2,478,235	-	-	-	-	-	2,478,235	2,478,235
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	-	137,873	-	-	-	-	137,873	137,873
Unquoted in Malaysia	-	-	-	-	-	-	-	-
	2,062,647	158,497	-	-	-	-	2,221,144	2,221,144

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 (2019: no transfer in either directions).

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	2020 RM'000	2019 RM'000
Eligible Tier 1 Capital			
Share capital	15	1,511,546	1,511,546
Reserves, excluding fair value reserve		1,561,162	1,403,830
		3,072,708	2,915,376
Tier 2 Capital			
Eligible reserves – Fair value reserve		45,142	28,288
Amount deducted from capital		(1,148,449)	(1,154,344)
Total capital available		1,969,401	1,789,320

39. Financial penalty imposed by the Malaysia Competition Commission (“MyCC”)

On 25 September 2020, MSIG Insurance (Malaysia) Bhd (“MSIG”) has received a Notice of Finding of An Infringement (“Final Decision”) by MyCC under Section 40 of the Competition Act 2010. In MyCC’s Final Decision dated 14 September 2020, MyCC has concluded that MSIG together with 21 other members of PIAM have infringed Section 4 of the Competition Act 2010 by participating in an agreement which has, as its object, the prevention, restriction or distortion in relation to the market of motor spare parts trade and labour charges for PIAM Approved Repairers Scheme workshops from 1 January 2012 to 17 February 2017. MyCC has imposed a financial penalty of RM16,079,513 on MSIG for the alleged infringement.

MSIG’s appointed solicitors, had on 14 October 2020 filed a Notice of Appeal with the Competition Appeal Tribunal (“CAT”) against MyCC’s Final Decision and filed a Stay Application with CAT for the grant of a stay of MyCC’s Final Decision on 27 October 2020 in respect of the financial penalty of RM16,079,513 imposed on MSIG.

Based on these developments, MSIG has made provision of RM16,079,513 during the financial year ended 31 December 2020 as disclosed in Note 21 to the financial statements.

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 122 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 2020 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

.....
Lim Tiang Siew
Director

Kuala Lumpur
Date: 23 March 2021

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 122 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 23 March 2021.

.....
Soh Lai Sim

Before me:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MSIG INSURANCE (MALAYSIA) BHD

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 2020, 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 122.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("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: 23 March 2021

Mok Wan Kong
Approval Number: 02877/12/2022 J
Chartered Accountant



MSIG Insurance (Malaysia) Bhd

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