Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2019

(In Ringgit Malaysia)

Domiciled in Malaysia
Principal place of business
Level 29, Menara Allianz Sentral,
203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur

Allianz General Insurance Company (Malaysia) Berhad
(Company No. 735426-V)
(Incorporated in Malaysia)

Contents **Page**

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2019

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

Principal activity

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

Results

	RM'000
Profit for the year	274,553

Dividends

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

(i) a single tier interim dividend of 42.1 sen per ordinary share totalling RM159,629,809.25 in respect of the financial year ended 31 December 2018 on 17 January 2019; and

(ii) a single tier interim dividend of 52.7 sen per ordinary share totaling RM199,821,637.71 in respect of the financial year ended 31 December 2019 on 14 January 2020.

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

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.

Insurance claim liabilities and insurance premium liabilities

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

Bad and doubtful debts

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

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

Current assets

Before the financial statements 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, their values as shown in the financial statements of the Company, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances that would render the value 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 in the financial statements 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

Contingent and other liabilities (continued)

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

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

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

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 that would render any amount stated in the financial statements of the Company misleading.

Items of an unusual nature

In the opinion of the Directors, the results of operations of the Company for the financial year ended 31 December 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

Issue of shares

There were no changes in the issued share 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.

Company No. 735426-V

Indemnity and Insurance for Directors and Officer

The Company maintains a Directors' and Officers' Liability Insurance for the purpose of Section 289(5) of the Companies Act 2016 in Malaysia, throughout the year, which provides appropriate insurance cover for the Directors and Officers of the Company. The amount of insurance premium paid during the financial year amounted to RM17,581.

The Company in its ordinary course of business in underwriting of all classes of general insurance business, provided a Professional Indemnity Insurance to its auditor during the financial year.

Directors of the Company

The Directors of the Company who served during the financial year and during the period from the end of the financial year to the date of this report are:

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairman - Independent Non-Executive Director)
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director)
Goh Ching Yin (Independent Non-Executive Director)
Datuk Gnanachandran A/L S Ayadurai (Independent Non-Executive Director) (Appointed on 1 October 2019)
Zakri Bin Mohd Khir (Non-Independent Executive Director)
Peter Ho Kok Wai (Independent Non-Executive Director) (resigned on 1 October 2019)

Company No. 735426-V

Directors' interests

As the Company is a wholly-owned subsidiary of Allianz Malaysia Berhad ("AMB"), the interests and deemed interests in the shares of AMB and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
Interests in AMB	**At 1.1.2019**	**Bought**	**Sold**	**At 31.12.2019**
Zakri Bin Mohd Khir	100	-	-	100

	Number of Irredeemable Convertible Preference Shares ("ICPS")			
Interests in AMB	**At 1.1.2019**	**Bought**	**Sold**	**At 31.12.2019**
Zakri Bin Mohd Khir	200	-	-	200

Save as disclosed above, none of the other Directors holding office at 31 December 2019 had any interest in the shares of the Company and of 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 those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as disclosed in note 27.2 in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) 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 objective 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.

Corporate governance disclosure

A. Board of Directors

The Board of Directors ("Board") has overall responsibility for reviewing and adopting strategic plans for the Company, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control system.

The detailed responsibilities of the Board are set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

A1. Composition of the Board

The Board is made up of 4 Independent Non-Executive Directors and 1 Non-Independent Executive Director.

The Board comprises members from various fields with a balance of skills and experiences appropriate to the business of the Company.

All members of the Board complied with the minimum criteria of "A Fit and Proper Person" as prescribed under the Financial Services Act, 2013 ("FSA 2013").

The appointments and re-appointments of all Board members were approved by BNM.

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

The profiles of the Board members are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim Chairman - Independent Non-Executive Director	
Working experience	Tan Sri Datuk (Dr.) Rafiah started her career as a lecturer at the Faculty of Law, University of Malaya in 1974. In 1988, she ended her service with the University as the Dean of the Faculty. She then moved on to become the Head of the Legal Department of the Malayan Banking Berhad ("Maybank"). In 1991, she was promoted to the post of General Manager of the Human Resource Department at Maybank. She was then invited to serve in Bank Negara Malaysia as the Assistant Governor for the Security Department, Legal Department and Property and Service Department. Tan Sri Datuk (Dr.) Rafiah's international experience includes holding the position of Assistant Secretary General for Human Resource Management, United Nations, New York, from 1997 to 2002 and was the first Malaysian to be appointed to such a high ranking post in the United Nations system. From 2003 to 2006, she was the Executive Director of the International Centre for Leadership in Finance, now known as The ICLIF Leadership and Governance Centre. In 2006, she was appointed as the ViceChancellor/President of the University of Malaya. She was the Executive Director of NAM Institute for the Empowerment of Women from 2009 to 2013. Tan Sri Datuk (Dr.) Rafiah has been awarded the "Darjah Kebesaran Panglima Jasa Negara" and the "Panglima Setia Mahkota" from His Majesty The Yang di-Pertuan Agong.
Shareholding in the Company	Nil

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz Independent Non-Executive Director	
Working experience	Tunku Zain is Founding President of the Institute for Democracy and Economic Affairs ("IDEAS"); a Trustee of Yayasan Chow Kit, Yayasan Munarah, Jeffrey Cheah Foundation and Genovasi Foundation; an Independent Non-Executive Director of Allianz Malaysia Berhad and Allianz General Insurance Company (Malaysia) Berhad; an advisor or patron to numerous educational and cultural organisations; a committee member of several societies and associations, including the Squash Racquets Association of Malaysia; a columnist in three newspapers; and a Royal fellow of the National University of Malaysia. Tunku Zain was educated at the Kuala Lumpur Alice Smith School, Marlborough College and the London School of Economics and Political Science, where he obtained his MSc in Comparative Politics. He then worked in the UK Houses of Parliament before moving to Washington DC to join the World Bank as a Public Sector Consultant. Upon returning to Malaysia, Tunku Zain worked at the United Nations Development Programme and the KRA Group before becoming a Research Fellow at the Lee Kuan Yew School of Public Policy at the National University of Singapore. In 2006 he co-founded the Malaysia Think Tank which evolved into IDEAS in 2010. Since 2008 he has maintained a newspaper column: firstly Abiding Times in The Sun, then Roaming Beyond the Fence in the Star and Sin Chew, and now Conservatively Speaking Freely in the Malay Mail, Borneo Post and Oriental Daily. From these articles three books have been compiled, the latest being nominated for the Popular Readers' Choice Awards. Tunku Zain is also authored a coffee table book for the Installation of the Eleventh Yang di-Pertuan Besar of Negeri Sembilan and led a major project to revitalise the State Anthem.

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz (continued) **Independent Non-Executive Director**	
Working experience	An Eisenhower Fellow, he has been selected for various leadership programmes by the governments of Australia, France and the European Union. Tunku Zain is often invited to speak on subjects ranging from nation building, public policy, history, culture, law, business ethics and youth development.
Shareholding in the Company	Nil

Goh Ching Yin Independent Non-Executive Director	
Working experience	Goh Ching Yin holds an MBA from the Cranfield University, and has held various leadership and management positions in capital market strategy, development and regulations; investment banking, regional business development, strategic consultancy, corporate recovery and insolvency; and auditing. He started his professional career with Peat Marwick Mitchell (now known as KPMG PLT), and then moved on to consultancy at Price Waterhouse Associates in 1990. Goh Ching Yin commenced his foray into the investment banking industry when he was with RHB Sakura Merchant Bankers Berhad as a General Manager for Corporate Finance from 1995 to 2000. Subsequently, he assumed the roles as the Managing Director of Corporate Finance with the BNP Paribas Group in Malaysia from 2000 to 2004, and as Chief Executive Officer of Southern Investment Bank of the Southern Bank Group from 2005 to 2007. He then held positions as Executive Director in the Chairman's Office, Strategy and Development, and Market Oversight Divisions during his stint with the Securities Commission of Malaysia from 2007 to 2016.

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Goh Ching Yin (continued) Independent Non-Executive Director	
	At the Securities Commission of Malaysia, Goh Ching Yin had led projects on landmark initiatives such as financial technology, sustainability and inclusiveness, Trans Pacific Partnership Agreement, the Capital Market Masterplan 2, the Corporate Governance Blueprint and Code of Corporate Governance 2012; and setting up the Audit Oversight Board in 2010 of which he was a founding Board Member. He was also the Head of Continuing Professional Education Advisory Group and represents the Securities Commission of Malaysia on the Audit Licensing Committee within the Accountant General's office of the Ministry of Finance, and was a member of the Cluster Working Group on Funding Support for the Biotechnology Industry under the Malaysian Biotechnology Corporation (a Ministry of Finance incorporated company). He was also a member of the National Cyber Security Advisory Committee, Ministry of Science, Technology and Innovation Malaysia, and the Intellectual Capital Development Committee, Innovation Agency Malaysia. Goh Ching Yin was appointed by the Government of Malaysia as a Director of Khazanah Nasional Berhad in July 2018.
Shareholding in the Company	Nil

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Datuk Gnanachandran A/L S Ayadurai Independent Non-Executive Director	
Working experience	Datuk Gnanachandran A/L S Ayadurai ("IG Chandran") has nearly 40 years working experience in the audit and accounting profession. He started his career as an audit assistant with KPMG Malaysia in 1973. From 1977 to 1983, he trained in the United Kingdom at the Institute of Chartered Accountants in England and Wales and rejoined KPMG Malaysia as an audit senior in 1984. He rose through the ranks to Senior Manager, Audit Director and was admitted as a Partner of the Firm in the Audit practice in 1994. He was elected as the Partner in Charge of the Advisory Practice in 2004, a position he held until his retirement in September 2007. He had also assumed as the partner in Charge of the Administrative function and also as one of 7 members of the KPMG Executive Committee. After retiring from KPMG Malaysia, he joined KPMG Thailand in October 2007 as the Head of the Advisory Practice until March 2009. Since mid of 2009, IG Chandran has been providing advisory service to the Malaysian Anti-Corruption Commission ("MACC") and he has acted as Special Advisor and as Head of the Forensic Division, a position he held from 2013 until his retirement in November 2016. He has provided advice on several finance-based investigations. He was also Deputy Commissioner in MACC. IG Chandran had been the Chairman of Audit Committee and an Observer of Investment Committee in the Social Security Organisation in early 2019.
Shareholding in the Company	Nil

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Zakri Bin Mohd Khir Chief Executive Officer – Non-Independent Executive Director	
Working experience	Zakri has over 30 years of experience in the insurance industry. He joined Allianz Malaysia Berhad ("AMB") in 2000 as the Head of Industrial Business and subsequently appointed as the Head of Technical Division in 2004. He was the Head of Operations Division of Allianz General Insurance Company (Malaysia) Berhad ("AGIC") before he assumed his current position as the Chief Executive Officer ("CEO") of AGIC in December 2010. He is also the CEO of AMB since 3 September 2014. Prior to his employment with AMB Group, he was the General Manager of the American Malaysian Insurance Berhad. He was appointed by the Government of Malaysia as a council member of Majlis Amanah Rakyat on 1 October 2018 and the Chairman of Social Security Organisation on 8 October 2018.
Shareholding in the Company	Nil

During the financial year, Board members attended various training, amongst others, were as follows:-

- Emerging Risks, the Future Board and Return on Compliance
- IT Risk Management
- International Directors Summit 2019
- Risk Based Capital and Ordinary Life Insurance in Malaysia
- Transfer Pricing
- Board Perspective on Cyber Resilience
- Business Continuity and Crisis Management
- Integrated Reporting Awareness

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A2. Board Meetings

There were 6 Board Meetings held during the financial year ended 31 December 2019 and the attendance of the Directors was as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	6	6
Goh Ching Yin	6	6
Datuk Gnanachandran A/L S Ayadurai	6	2 out of 2 meetings held after his appointment as Director on 1 October 2019
Zakri Bin Mohd Khir	6	6
Peter Ho Kok Wai	6	4 out of 4 meetings held prior to his resignation as Director on 1 October 2019

A3. Board Committees

The following Board Committees are centralised at its immediate holding company, AMB:-

(a) Audit Committee;
(b) Risk Management Committee; and
(c) Nomination and Remuneration Committee.

The Board Committees are operating on the terms of reference approved by the Board of AMB and adopted by the Board of the Company, to assist the Board in the execution of its responsibilities.

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.1 Audit Committee of AMB Board ("AC")

The composition of the AC during the financial year is as follows:-

Dato' Dr. Thillainathan A/L Ramasamy (Chairman-Independent Non-Executive Director of AMB)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)
Peter Ho Kok Wai (Independent Non-Executive Director of AMB) (Appointed as AC member on 1 October 2019)
Foo San Kan (Non-Independent Non-Executive Director of AMB) (Retired on 30 September 2019)

There were 5 AC Meetings held during the financial year ended 31 December 2019 and the attendance of the abovementioned AC members were as follows:-

Name of Members	No. of AC Meetings Held	No. of AC Meetings Attended
Dato' Dr. Thillainathan A/L Ramasamy	5	5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5
Peter Ho Kok Wai	5	1 out of 1 meeting held after his appointment as AC member on 1 October 2019
Foo San Kan	5	4 out of 4 meetings held prior to his retirement as AC member on 30 September 2019

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.1 Audit Committee of AMB Board ("AC") (continued)

The AC is charged with the responsibilities of assisting the Board of AMB and its subsidiaries ("AMB Group" or "Group") in its oversight, amongst others, as follows:-

- support the Board in ensuring that there is a reliable and transparent financial reporting process;
- monitor and evaluate the performance and effectiveness of the external and internal audit functions;
- assess the internal control environment; and
- review and report to the Board of conflict of interest situations and related party transactions.

The detailed terms of reference of the AC is set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

A3.2 Risk Management Committee of AMB Board ("RMC")

The composition of the RMC during the financial year is as follows:-

Peter Ho Kok Wai* (Chairman – Independent Non-Executive Director of AMB)
Goh Ching Yin* (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director of AMB)
Marzida Binti Mohd Noor (Independent Non-Executive Director of AMB) (Appointed as RMC member on 1 October 2019)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director) (Relinquished as RMC member on 1 October 2019)
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director) (Relinquished as RMC member on 1 October 2019)
Foo San Kan (Non-Independent Non-Executive Director of AMB) (Retired on 30 September 2019)

Note:-

* Following Goh Ching Yin's appointment as Chairman of Allianz Life Insurance Malaysia Berhad, he relinquished his position as Chairman of RMC and re-designated as a Member of RMC on 3 October 2019. Peter Ho Kok Wai was appointed as Member and Chairman of RMC on 1 October 2019 and 3 October 2019 respectively.

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.2 Risk Management Committee of AMB Board ("RMC")

There were 4 RMC Meetings held during the financial year ended 31 December 2019 and the attendance of the abovementioned RMC members were as follows:-

Name of Members	No. of RMC Meetings Held	No. of RMC Meetings Attended
Peter Ho Kok Wai	4	1 out of 1 meeting held after his appointment as RMC member on 1 October 2019
Goh Ching Yin	4	4
Dato' Dr. Thillainathan A/L Ramasamy	4	4
Marzida Binti Mohd Noor	4	1 out of 1 meeting held after her appointment as RMC member on 1 October 2019
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	3 out of 3 meetings held prior to her relinquishment as RMC member on 1 October 2019
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	4	3 out of 3 meetings held prior to his relinquishment as RMC member on 30 September 2019
Foo San Kan	4	3 out of 3 meetings held prior to his retirement as RMC member on 30 September 2019

Company No. 735426-V

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.2 Risk Management Committee of AMB Board ("RMC") (continued)

The RMC is responsible for effective risk identification, measurement, monitoring and control of the AMB Group, and oversees the Senior Management's activities in managing the key risk areas of the AMB Group and to ensure that the risk management process is in place and functioning effectively.

The detailed terms of reference of the RMC is set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

A3.3 Nomination and Remuneration Committee of AMB Board ("NRC")

The composition of the NRC during the financial year is as follows:-

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz (Chairman - Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director of AMB)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)
Foo San Kan (Non-Independent Non-Executive Director of AMB) (Retired on 30 September 2019)

There were 5 NRC Meetings held during the financial year ended 31 December 2019 and the attendance of the abovementioned NRC members were as follows:-

Name of Members	No. of NRC Meetings Held	No. of NRC Meetings Attended
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	5	5
Dato' Dr. Thillainathan A/L Ramasamy	5	5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5
Foo San Kan	5	4 out of 4 meetings held prior to his retirement as NRC member on 30 September 2019

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.3 Nomination and Remuneration Committee of AMB Board ("NRC") (continued)

The primary objectives of the NRC are:-

(a) to establish a documented formal and transparent procedure for the appointment and removals of Directors, CEOs and Key Responsible Persons ("KRP(s)") of AMB Group;
(b) to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), CEOs and KRPs of AMB Group on an on-going basis;
(c) to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEOs and KRPs of AMB Group; and
(d) to ensure that the compensation is competitive and consistent with the culture, objective and strategy of AMB Group.

The detailed terms of reference of the NRC is set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

Corporate governance disclosure (continued)

B. Internal Control Framework

B1. Risk Management Framework

The Board recognises the importance of having in place a risk management system to identify key risks and implement appropriate controls to manage such risks as an integral part of the Company's operations. The Company has in place a Risk Management Framework Manual ("RMFM"). The RMFM outlines the guiding principles of the risk management approach, structure, roles, responsibilities, accountabilities, reporting requirements as well as the risk identification, evaluation and monitoring process of the Company. It is designed to formalise the risk management functions and practices across the Company and to increase awareness of the Company's employees to risk identification, measurement, control, on-going monitoring and reporting.

The RMFM is in compliance with the relevant requirements of the guidelines and/or policies issued by BNM and Allianz SE Group.

The system of risk governance process is integrated into the core management processes and forms part of the daily business process so that a value-added contribution in terms of sustainable competitive advantage and improved business performance can be established. Various standards are implemented by the Company, including organisational structure, risk strategy, written policies, authority limits, system documentation and reporting, to ensure accurate and timely flow of risk-related information and a disciplined approach towards decision making and execution.

The Company also adopts the three lines of defence model where the "first line of defence" rests with the business managers. They are responsible in the first instance for both the risks and returns of their decisions.

The "second line of defence" is made up of the oversight functions comprising Compliance and Risk Management that are independent from business operations.

- The Compliance function assists the Board and Senior Management in managing and mitigating the compliance risks due to any non-compliance of the requirements of the law, regulations as well as regulatory and industry guidelines.

- Risk Management function assists the Board and Senior Management to achieve its strategic goals and objectives by implementing risk management activities and controls across the organisation.

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Both the Compliance and Risk Management functions report to the RMC which assists Board to discharge its oversight function effectively. As part of its responsibilities, the Compliance and Risk Management functions advise the Board and Senior Management on compliance, risk and regulatory matters; and promote risk and compliance awareness amongst the Company's employees through trainings and workshops.

In addition to the above oversight functions, Legal and Actuarial functions constitute additional components of the "second line of defence". An appropriate control framework has been established to avoid any potential conflict of interest to fulfil their role as the second line of defence.

- The Legal function seeks to mitigate legal risks arising from legislative changes, major litigation and disputes, regulatory proceedings and unclear contractual terms.

- The Actuarial function contributes towards assessing and managing risks in line with regulatory requirements and reports to the Board and Senior Management. Its scope of work includes coordination and calculation of technical reserves, providing oversight on product pricing and profitability and contribution to the effective implementation of the risk management system.

The RMC drives the risk management framework of the Company and reports quarterly to the Board on its recommendations and/or decisions. The Risk Management Working Committee ("RMWC") is established at the management level and serves as a platform for two way communications between the Management and the RMC on matters relating to risk strategy and management. Through the quarterly reporting from RMWC, the RMC consolidates the status of the risks and presents them to the Board for consideration.

The Governance and Control Committee ("GovCC") supports the Management to fulfil its responsibilities with respect to regulatory governance, organisational and control requirements. The GovCC also provides a platform for structured and institutionalised interaction and collaboration on cross functional and control related topics to facilitate a consistent approach in terms of processes, methodologies, assessments, materiality and others. GovCC members consist of senior management from governance and operation functions. The GovCC reports internal control system related matters to AC and governance related matters to the Senior Management Committee.

Company No. 735426-V

Corporate governance disclosure (continued)

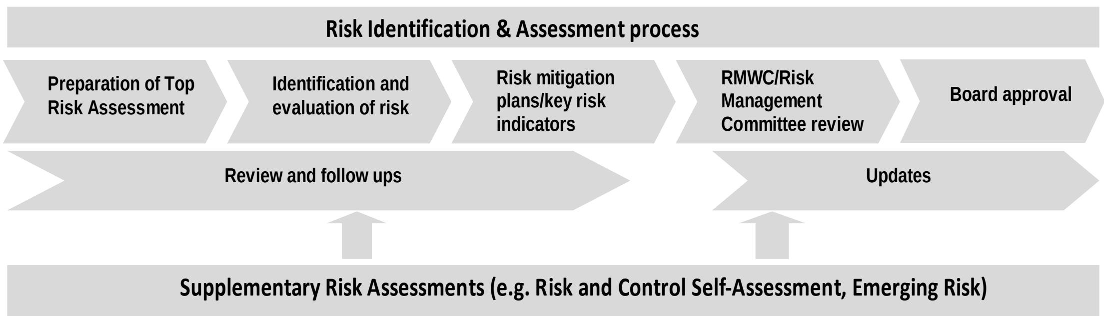
B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process

Risk management is considered and managed as part of the daily process of managing and directing the business. These include the implementation of a limit system, various frameworks, manuals and policies.

Besides the embedded process, the following risk management cycle to identify, assess, mitigate, monitor and report will also be carried out by the Risk Management function together with the respective risk owners: -



(i) Top Risk Assessment ("TRA")

TRA approach is in place to periodically analyse all material quantifiable and non-quantifiable risks, including market, credit, underwriting, business, operational, liquidity, reputational and strategic risks.

The Company identifies and remediates significant threats to financial results, operational viability or the delivery of key strategic objectives, regardless of whether they relate to quantifiable or non-quantifiable risks using the approved TRA Matrix. The identified top risks are assessed quarterly by the assigned risk owners; and the same is reviewed by the RMWC and the RMC and approved by the Board. Key risk indicators are also put in place to monitor changes in risk exposure or control effectiveness for the top risks on a quarterly basis. The key risks and their salient points on how the Company manages these risks are set out below:-

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(i) Top Risk Assessment ("TRA") (continued)

Key risks	Broad Definition	Risk Management Practices
Market	Unexpected losses arising due to changes in market prices or parameters influencing market prices, as well as the resultant risk from options and guarantees that are embedded in contracts or from changes to the net worth of assets and liabilities in related undertakings driven by market parameters. In particular, these include changes driven by equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities. It also includes changes in market prices due to worsening of market liquidity.	• Investment activity is strictly governed by the preapproved limits and appetite and monitored through a front end system. Any exception requires pre-approval. • An asset and liability process has been put in place to manage the risks and returns expected from the insurance obligations. • Selectively using derivative to either hedge the portfolio against adverse market movements or reduce reinvestment risk.
Credit	Unexpected losses in the market value of the portfolio due to deterioration in the credit quality of counterparties including their failure to meet payment obligations or due to non-performance of instruments.	• Credit analyses are conducted prior to purchase and regular review on portfolio. • Investment activity is strictly governed by the pre-approved limits to ensure the diversification of investment portfolio in order to minimise the impact of default by any single counterparty. • Only uses pre-approved reinsurance partners with strong credit profiles.

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(i) Top Risk Assessment ("TRA") (continued)

Key risks	Broad Definition	Risk Management Practices
Underwriting	Unexpected financial losses due to inadequacy of premiums for catastrophe and non-catastrophe risks, due to the inadequacy of reserves or due to the unpredictability of mortality or longevity.	• Managed through a comprehensive and strict standard for underwriting limit guidelines. Where necessary, the risk will be surveyed by the loss control engineers. • Regular monitoring of products, assumptions used against actual industry statistics and re-pricing will be considered if necessary. • Adequate reinsurance is purchased and reviewed annually to ensure adequate continuous cover within acceptable appetite and costs. • New products undergo a robust product development process.
Business	Unexpected decrease in actual results as compared to business assumptions, which leads to a decline in income without a corresponding decrease in expenses; this includes lapse risk.	• Regular monitoring of actual experience. • New products undergo a robust product development review process.

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(i) Top Risk Assessment (“TRA”) (continued)

Key risks	Broad Definition	Risk Management Practices
Legal and Regulatory	Losses arising from a breach of relevant laws and regulations.	• Trainings will be provided and annual declarations required from all staff. • New guidelines will be published in the Group’s staff e-portal and highlighted through e-mails. • Regular reviews are conducted to ensure compliance.
Cyber Threat	Loss of data confidentiality, loss of data integrity, as well as business disruption and loss of availability of services resulting in legal costs, fines, forensic costs, remediation costs, compensation and/or reputation management costs.	• Strict policy and disciplinary action for security breach • Staff awareness on IT Security • Access Control • Regular review on User ID access • Use of virus protection software • Data Loss Prevention solution • Conduct of Annual Penetration Testing by independent party to detect possible external and internal vulnerabilities • IT security controls in place, such as Firewall, Malware Protection and DDOS protection • Privilege Identity Management • Database encryption

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(ii) Operational Risk Management ("ORM")

ORM is a continuous process which includes operational risk identification, measurement, quantification, management and monitoring to mitigate the operational loss resulting from inadequate or failed internal processes, people, system or from external events.

ORM is monitored through a combination of the following activities:-

- Integrated Risk and Control System.
- Analysis of actual loss events reported into the Loss Data Capture database.
- Periodic audits by the Internal Audit Department and reviews by Risk Management function.
- Other key risk indicators and feedback from subject matter experts (for example IT Security Officer, Data Privacy Officer, Business Continuity Management Officers, Anti-Fraud and Anti-Corruption Coordinators, as well as respective operation managers).

(iii) Reputational Risk Management

All activities within Company can influence its reputation, which is determined by the perceptions and beliefs of its stakeholders. Hence, thorough management of any potential reputational risks is required. Any risks that might have significant impact on the Company will be escalated to Allianz SE.

The Company has adopted Allianz SE Group's Allianz Standard for Reputational Risk and Issues Management which establishes a core set of principles and processes for the management of reputational risks and reputational issues within the Company. The management of direct reputational risks requires balancing the benefits of a given business decision against the potential reputational impacts, taking into account the Company's reputational risk strategy and Environmental, Social and Governance approach. Indirect reputational risks are managed through the TRA as well as risk and control self-assessment processes, which apply the same reputational risk assessment methodology used for direct reputational risks.

The Corporate Communications function of the Company actively manages the reputational risk by assessing any potential risk arising from media, social media or any transaction relating to pre-defined sensitive areas.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(iv) Liquidity Risk Management

Liquidity risk is a consequential risk, i.e. another adverse event has to happen before the Company runs into liquidity issues. On this background, the Company has identified various events that might lead to liquidity shortages. To mitigate this, limits on the cash position have been put in place and closely monitored.

In addition, as the Company is operating in insurance business, the following risk evaluation tools are also adopted as part of the Company's risk management framework: -

(a) Internal Capital Adequacy Assessment Process ("ICAAP")

ICAAP is an overall process by which the Company adopted to ensure it has adequate capital to meet its capital requirements which reflects its own risk profile on an on-going basis. The formal assessment is conducted at least on an annual basis and its results are reported to the Board.

The review of the ICAAP coincides with the annual planning process and any changes in the strategic directions and business plans of the Company will be updated in its Risk Strategy and accordingly all risks identified will also be taken into account when computing the Individual Target Capital Level ("ITCL").

The ITCL is validated by stress testing to ensure that it will still be above the Supervisory Target Capital Level imposed by the regulator even after the occurrence of a severe plausible event.

(b) Stress Testing

Stress test is an effective risk management tool and the Company conducts such stress test regularly. The stress test process is designed based on the Company's solvency position, lines of business, current position within the market, investment policy, business plan, and general economic conditions. The results of the stress test will then be incorporated into the Company's capital management plan, in determining the extent of capital affected by the threats arising from adverse events and the actions required to mitigate such threats.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(iv) Liquidity Risk Management (continued)

(b) Stress Testing (continued)

The Board and Management participated actively in providing feedback on its stress test results and appropriateness of its methodology and assumptions adopted to perform the stress test.

B2. Internal Audit

The Internal Audit function, which reports to the AC, undertakes independent reviews or assessments of the Company's operations and its system of internal controls. It provides monitoring of the controls and risk management procedures as well as highlights significant risks impacting the Company. The internal audit personnel form the "third line of defence", are independent from the day-to-day activities of the Company and have unrestricted access to all activities conducted by the Company.

Internal Audit Plan is developed based on annual risk assessment and approved by the AC. The audit scope covers auditable areas encompassing financial operations, underwriting and claims operation, operations supports, corporate actuarial, internal and regulatory compliance audit such as business continuity management, replacement of policy, anti-money laundering and IT systems.

Internal audit findings are discussed at management level. Senior and functional line management are tasked to ensure that management action plans are carried out in accordance with the internal audit recommendations. All internal audit reports are submitted to the AC. The AC deliberates on key audit findings and management actions to address these findings during the AC meetings.

Follow-up audits are also performed to monitor continued compliance and the internal auditors will provide quarterly updates to the AC on the progress of the management action plans as well as progress of the internal audit plan.

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process

The other key processes that the Board has established to provide effective internal controls include:-

Clear and Defined Organisational Structure

The Company has established an organisational structure with clearly defined lines of responsibility, authority limits and accountability aligned to its business and operation requirements and control environment. Relevant Board Committees with specific responsibilities delegated by the Board are established to provide oversight governance over the Company's activities. The Board Committees are centralised at its immediate holding company, AMB. The Board Committees have the authority to examine matters under their terms of reference and report to the Board with their observations and/or recommendations. The ultimate responsibility for the decision on all matters, however, lies with the Board.

Various Management Committees are established by the Management to assist in managing the day-to-day operations and ensure its effectiveness. The Management Committees formulate tactical plans and business strategies, monitor performance and ensure activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

Management Authority Limit

The Board's approving authority is delegated to the Management through formal and defined operational authority limits that governs business procedures and decision making process in the Company. The operational authority limits incorporate segregation of duties and check and balance in delegation of authority.

The Management's authority limits include limits for underwriting of risks, claims settlement, reinsurance, and capital expenditures and are reviewed and updated to ensure relevance to the Company's operations. Such authority limits are documented and made available to all staff via the Group's staff e-portal.

In ensuring that the decision making process is transparent and to the best interest of the Company, all Directors and staff including the CEO are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Company, any circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Policies and Procedures

Clear, formalised and documented internal policies and procedures are in place to ensure continued compliance with internal controls and relevant rules and regulations imposed by the relevant authorities.

These policies and procedures are subject to review and improvement to reflect changing risks and process enhancement, as and when required. Policies and procedures are also made available via the Group's staff e-portal for easy access by the employees.

Annual Business Plan and Performance Review

Annual business plans are submitted to the Board for approval. Financial condition and business performance reports are also submitted to the Board for review during the Board meetings. These reports cover all key operational areas and provide a sound basis for the Board to assess the financial performance of the Company and to identify potential problems or risks faced by the Company, thus enabling the Board to effectively monitor on an on-going basis, the affairs of the Company.

Related Party Transactions

The Company has established the necessary controls and procedures to ensure compliance with the relevant regulatory requirements. Necessary disclosures are made to the Board and where required, prior approval of the Board of the Company and/or shareholders for the transactions will be obtained prior to execution.

A due diligence working group was formed to review the related party transactions prior to the same being submitted to the AC for consideration. The AC will subsequently review the related party transactions and submit its recommendation to the Board for consideration.

The AC also review the related party transaction review procedures on an annual basis to ensure that the procedures and processes are sufficient and adequate to monitor, track and identify related party transactions including recurrent transactions in a timely and orderly manner.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Underwriting and Reinsurance

The Company employs high standards in its underwriting process. This includes among others, risk segmentation and selection, setting adequate pricing and terms and conditions, setting of right retention limit and adequate reinsurance protection.

Underwriting authority is controlled centrally at the Head Office level. Reinsurance is in place primarily to ensure that no single loss or aggregation of losses arising from a single event will have an adverse financial impact on the Company. Reinsurers selection is guided by the guidelines issued by the regulator and the Allianz SE Group. Reinsurance needs are reviewed annually in respect of reinsurance treaties and on case to case basis on facultative arrangements.

Financial Control Procedures

Financial control procedures are put in place and are documented in the procedural workflows of each business unit. These workflows are subject to reviews and improvements to reflect changing risks and process enhancement as and when required.

Investment

The Investment Committee of the Company is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department. The Investment Department is responsible for managing the investment functions of the Company within the pre-determined parameters.

The Company has in place the Investment Manual which sets out the detailed investment procedures and controls, including an Investment Code of Ethics to ensure that the Company's interests prevail over the personal interests of the employees.

The investment limits are set at various levels with limits which are more stringent than the regulatory limits as prescribed by BNM. The investment limits are monitored monthly to ensure compliance with the investment limits as specified in the Risk Based Capital Framework for Insurers issued by BNM.

The investment performance reports are amongst the reports submitted to the Investment Committee and the Board of the Company for review at its quarterly meetings.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Code of Conduct for Business Ethics and Compliance ("COC")

Every employee is required to attest on an annual basis that they understand and comply with the Allianz SE Group's COC. The COC among others, is essential in promoting ethical conduct within the Company and encompasses non-disclosure of the Company's information, accountability and areas on potential conflict of interest.

Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT")

The Company has in place internal policies and procedures relating to AML/CFT to prevent and detect money laundering and terrorism financing activities. The sanctions list screening procedures are in place and any suspicious transactions are reported to the Compliance Department. In respect of education, staff and agents are trained on AML/CFT requirements to promote understanding of their fundamental responsibilities in adhering to the procedures of verifying customers' identities and reporting of suspicious transactions.

Product Development

The Company has in place a Product Development Management Policy ("PDM Policy") which sets out the policies and procedures on product development in accordance with the requirements of the Guideline on Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10) issued by BNM ("BNM Product Guidelines").

The PDM Policy aims to promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risk during the development and marketing stages. The PDM Policy will also assist to ensure that the products developed and marketed by the Company are appropriate to the needs, resources and financial capability of the targeted consumer segments.

The on-going product risk management is embedded within the risk management framework of the Company.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Whistleblowing and Anti-Fraud

The oversight of whistleblowing and fraud matters of the Company is performed by the AMB's Integrity Committee ("InC"). The InC coordinates all activities concerning prevention and detection of fraud and handling of whistleblowing incidents.

The Company has adopted the Allianz SE Group's Anti-Fraud Policy ("AZSE AFP") and the Allianz SE Group's Whistleblowing Policies and Procedures ("AZSE WBPP") to address fraud and whistleblowing issues respectively. The AZSE AFP defines fraud events, investigation process, reporting procedures, fraud risk assessments, training and the roles and responsibilities of Management and employees. The AZSE WBPP on the other hand, describe the Company's Speak-Up Policy, avenues for filing a concern and handling of whistleblowing incidents.

In respect of whistleblowing, the Company has established a whistleblowing mechanism to enable anonymous and non-anonymous reporting of any breach of the COC, any laws, regulations, orders or any internal rules. These whistleblowing cases are assessed confidentially by the InC to determine the validity and appropriate actions to be taken.

The InC reports its findings and recommendations to the AC.

Anti-Corruption

The Company has adopted Allianz SE Group's Anti-Corruption Policy which serves to outline the Company's existing controls and behavioral guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments.

The Vendor Integrity Screening process which is a part of the Allianz SE Group's Anti-Corruption Programme aims at ensuring an integrity based due diligence before any third party vendor is engaged. The screening contains a self-assessment section which among others includes questions on anti-corruption to be answered by the potential vendor and a risk evaluation to be completed by the relevant staff/department in charge. Only those vendors whose screening does not reveal any negative findings will be engaged.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Employees

All staff are required to make an annual declaration that they fulfilled the minimum criteria of “A Fit and Proper Person” as prescribed in Section 59(1), (2) and (3) of the FSA 2013. In addition, all staff are also required to attest that they understand and comply with the requirements of the following internal guidelines and policies:-

(i) Related Party Transaction Declaration;
(ii) Disclosure of Data;
(iii) Conflict of Interest;
(iv) COC;
(v) IT Security Policy and Guideline e-Awareness Declaration;
(vi) Anti-Corruption Policy;
(vii) Anti-Fraud Awareness Declaration; and
(viii) Dealing with Government Clients Declaration (only applicable for marketing employees).

Sales Policy and Sales Agent Code of Conduct

The Company’s insurance intermediaries are guided by the Sales Policy and Sales Agent Code of Conduct in order to promote professional sales conduct of intermediaries representing the Company. The Company has established an Ethics and Compliance Committee to deal with intermediary behaviour that are contrary to the Sales Policy and Sales Agent Code of Conduct.

In addition, agents of the Company are also required to comply with the Code of Ethics and Conduct imposed by General Insurance Association of Malaysia (“PIAM”).

All internal control deficiencies or breaches related to the Sales Policy and Sales Agent Code of Conduct are reported to the Senior Management Committee together with corrective measures.

Agent Sales Compliance Disciplinary Policy

As part of the measures to improve uniformity in disciplining the agency force, the Company has formalised a Sales Compliance Disciplinary Policy detailing definition of types of offences/misconduct and the associated recommended disciplinary actions.

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Business Continuity Management

Business Continuity Plan for the Company has been formulated to ascertain that the Company will recover and restore any interrupted critical functions within a predetermined time upon the occurrence of any disastrous events.

The testing for Business Continuity Plan is conducted at least once a year whilst the Disaster Recovery Plan test for all main application systems is conducted at least twice a year.

Information System

The Company complied with the expectations of BNM's Guidelines on Management of IT Environment (GPIS 1) and Guidelines on Internet Insurance (Consolidated) (BNM/RH/GL/003-5) by establishing a reliable information security system. All employees are required to strictly abide to and comply with the Group Information Security Policy and Standard ("IS Policy") to protect information confidentiality, integrity, availability and non-repudiation.

Following the issuance of the Risk Management in Technology Policy Document ("RMiT Policy") by BNM, which come into effect on 1 January 2020, the Company has conducted a gap analysis and formulated appropriate action plans to meet the expectations and requirements prescribed under the RMiT Policy.

The IT Steering Committee and Digital Transformation Committee of the Company were combined and renamed as IT & Digital Steering Committee ("ITDSC"). The ITDSC is responsible for the overall strategic deployment of IT and digital assets in tandem with the business objectives. Other duties and responsibilities of ITDSC include, establishing effective IT and digital plans, formulation and implementation of technology risks management program, recommending to the respective Senior Management Committee, RMC and Board (whichever applicable) for approval on IT-related expenditure and material deviation from technology-related policies, as well as monitoring the progress of approved IT and digital programs/projects.

Company No. 735426-V

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Data Management Framework

The Group Data Management Framework ("DMF") has been in place to establish and maintain a sound data management and management information system framework. The objective of the DMF is to manage data and disseminate information effectively and efficiently and to maximise the effective use and value of data assets. In addition, the DMF aims to ensure the integrity of data assets by preventing unauthorised or inappropriate use of data and information.

Data Privacy

The Allianz Privacy Standard ("APS"), contains the global minimum requirements applicable within the Allianz SE Group for the processing and transfer of personal data within the Allianz SE Group. The APS takes into account the requirements of the European Union privacy law, the General Data Protection Regulation to facilitate cross-border transfers of personal data originating from or processed in the European Economic Area within the Allianz SE Group. Under the APS, there are functional rules specifying data privacy and protection requirements, including conducting Privacy Impact Assessment to record processing activities that involve handling of personal data and personal data breach incident guideline and workflow. Compliance with the APS adopted by the Company ensures compliance with the Malaysian Personal Data Protection Act, 2010 and is in line with the Code of Practice on Personal Data Protection for Insurance and Takaful in Malaysia.

Human Resources Policies and Procedures

The Company has established proper policies and procedures on human resource management, including recruitment, learning and development, talent development, performance management and employee benefits. These policies and procedures are reviewed as and when the need arises and changes effected are communicated to relevant employees via-email. The policies and procedures are also made available via the Group's staff e-portal for easy access by the employees.

Corporate governance disclosure (continued)

C. Remuneration

The remuneration policy and practices of the Company ("Policy") are established, implemented and maintained in line with the Company's business and risk management strategy, its risk profile, objectives, risk management practices and the long-term interests and performance. This Policy forms a key component of the governance and incentive structure through which the Board and Senior Management drive performance, convey acceptable risk taking behaviour and reinforce the Company's corporate and risk culture.

The remuneration components of employees comprises of fixed and variable compensations. Base salary is the fixed remuneration component and rewards the role and responsibilities taking account of market conditions and providing for a stable source of income. The fixed component of base salary is dependent on position responsibility as well as the experience and qualification of incumbent.

Variable compensation components aim to reward performance and shall not provide incentives for risks which might be incompatible with the risk profile of the Company, including risk limits. Therefore, variable compensation components may not be paid, or payment may be restricted in the case of a breach of risk limits or a compliance breach.

The volume and relative weighting of the variable component shall depend on the level of seniority and the position. Variable components typically consist of annual bonus (short term incentive) and mid-/long-term incentives.

Variable compensation is determined by a combination of assessment of the individual's performance and his business unit as well as overall performance of the Company.

The Company measures performance in an annual process which includes the key steps of agreed priorities, regular feedback, and a mid-year and year-end performance assessment. Personal priorities or targets are agreed for each evaluated employee and reflects financial and non-financial ambitions. The assessment of individual performance is holistic in nature and considers relativity against peers.

Corporate governance disclosure (continued)

C. Remuneration (continued)

The remuneration of KRPs of the Company is not only determined by performance against business objectives but include other factors such as prudent risk-taking and actions affecting the long-term interests of the Company. Remuneration of KRPs is adjusted each year to account for all types of risk and breaches, determined by both quantitative measures and qualitative judgement.

Employees in control functions are measured on the achievement of control function objectives which determine their remuneration. Similar to all employees, actual payout is subject to overall size of bonus pool.

A portion of the variable compensation for CEO contains a deferred component. The deferral period shall be aligned with the nature of the business, its risks, and the activities of the incumbent in question, and adopt a multi-year framework to reflect the time horizon of risks.

Ultimate holding company

The Directors regard Allianz SE, a public listed company incorporated and domiciled in Germany as the Company's ultimate holding company.

Immediate holding company

The immediate holding company is AMB, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Company No. 735426-V

Auditors

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) have expressed their willingness to accept re-appointment as auditors.

The auditors' remuneration is disclosed in note 27 to the financial statements.

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

Tan Sri Datuk (Dr.) Rafiah Binti Salim
Director

Zakri Bin Mohd Khir
Director

Kuala Lumpur,

Date: 27 February 2020

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2019

	Note	2019 RM'000	2018 RM'000
Assets			
Property, plant and equipment	3	63,988	80,427
Right-of-use assets	4	49,951	-
Investment properties	5	16,315	16,074
Intangible assets	6	101,910	87,017
Deferred tax assets	15	-	14,051
Investments	7		
Malaysian government securities		1,462,250	1,531,876
Malaysian government guaranteed bonds		736,147	732,196
Unquoted debt securities		1,255,005	1,470,704
Unquoted equity securities		*	*
Unquoted unit trust in Malaysia		606,101	200,258
Fixed deposits		203,011	123,828
Structured deposits and negotiable instruments of deposit with licensed financial institutions		20,348	61,606
Reinsurance assets	8	857,473	837,426
Insurance receivables	9	143,020	147,401
Loans and other receivables	10	96,603	99,186
Deferred acquisition costs	11	111,423	95,060
Current tax assets		12,584	4,045
Cash and cash equivalents		690,190	490,036
Total assets		6,426,319	5,991,191

* Denotes RM4

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2019 (continued)

	Note	2019 RM'000	2018 RM'000
Equity and liabilities			
Share capital	12	379,168	379,168
Retained earnings	13	1,645,705	1,570,974
Other reserves	13	91,476	30,147
Total equity		2,116,349	1,980,289
Insurance contract liabilities	14	3,658,555	3,505,618
Lease liabilities	16	42,644	-
Insurance payables	17	206,318	196,348
Other payables and accruals	18	388,645	308,936
Deferred tax liabilities	15	13,808	-
Total liabilities		4,309,970	4,010,902
Total equity and liabilities		6,426,319	5,991,191

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Operating revenue	19	2,313,101	2,345,789
Gross earned premiums	20	2,123,417	2,163,480
Premiums ceded to reinsurers	20	(265,009)	(235,806)
Net earned premiums		1,858,408	1,927,674
Investment income	21	189,684	182,309
Realised gains and losses	22	5,394	314
Fair value gains and losses	23	241	-
Fee and commission income	24	53,988	29,521
Other operating income		7,411	4,139
Other income		256,718	216,283
Gross claims paid		(1,169,615)	(1,253,199)
Claims ceded to reinsurers		105,921	129,844
Gross change in claims liabilities		(78,853)	(73,005)
Change in claims liabilities ceded to reinsurers		43,309	18,556
Net claims incurred	25	(1,099,238)	(1,177,804)
Fee and commission expense	26	(271,474)	(263,145)
Management expenses	27	(373,111)	(347,776)
Interest expenses	28	(1,898)	-
Other operating expenses		(4,621)	(3,939)
Other expenses		(651,104)	(614,860)
Profit before tax		364,784	351,293
Tax expense	29.1	(90,231)	(95,166)
Profit for the year		274,553	256,127

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2019 (continued)

	Note	2019 RM'000	2018 RM'000
Profit attributable to:			
Owner of the Company		274,553	256,127
Basic earnings per ordinary share (sen)	30	72.4	67.5

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Profit for the year		274,553	256,127
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Fair value of available-for-sale financial assets			
Net unrealised gains arising during the financial year		85,764	927
Realised gains transferred to Statement of profit or loss		(5,068)	(368)
	7.2	80,696	559
Tax effects thereon	29.3	(19,367)	(135)
Fair value gains, net of tax		61,329	424
Total other comprehensive income for the year, net of tax		61,329	424
Total comprehensive income for the year		335,882	256,551
Total comprehensive income attributable to:			
Owner of the Company		335,882	256,551

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2019

	Note	Non-distributable				Distributable	
		Share capital	**Capital reserve**	**Available-for-sale fair value reserve**	**Asset revaluation reserve**	**Retained earnings**	**Total equity**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2018		379,168	4,523	9,658	15,542	1,498,119	1,907,010
Change in accounting basis		-	-	-	-	(23,642)	(23,642)
At 1 January 2018 (restated)		379,168	4,523	9,658	15,542	1,474,477	1,883,368
Fair value of available-for-sale financial assets		-	-	424	-	-	424
Total other comprehensive income for the year		-	-	424	-	-	424
Profit for the year		-	-	-	-	256,127	256,127
Total comprehensive income for the year		-	-	424	-	256,127	256,551
Contributions by and distributions to owner of the Company							
- Dividends payable to the owner of the Company	31	-	-	-	-	(159,630)	(159,630)
Total transactions with owner of the Company		-	-	-	-	(159,630)	(159,630)
At 31 December 2018		379,168	4,523	10,082	15,542	1,570,974	1,980,289

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2019 (continued)

		Non-distributable				Distributable	
	Note	Share capital RM'000	Capital reserve RM'000	Available-for-sale fair value reserve RM'000	Asset revaluation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2019		379,168	4,523	10,082	15,542	1,570,974	1,980,289
Fair value of available-for-sale financial assets		-	-	61,329	-	-	61,329
Total other comprehensive income for the year		-	-	61,329	-	-	61,329
Profit for the year		-	-	-	-	274,553	274,553
Total comprehensive income for the year		-	-	61,329	-	274,553	335,882
Contributions by and distributions to owner of the Company							
- Dividends payable to the owner of the Company	31	-	-	-	-	(199,822)	(199,822)
Total transaction with owner of the Company		-	-	-	-	(199,822)	(199,822)
At 31 December 2019		379,168	4,523	71,411	15,542	1,645,705	2,116,349
		Note 12	Note 13.1	Note 13.2	Note 13.3	Note 13.4	

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2019

	2019 RM'000	2018 RM'000
Operating activities		
Profit before tax	364,784	351,293
Investment income	(189,684)	(182,309)
Realised gains recorded in profit or loss	(5,394)	(314)
Change in fair value of investment properties	(241)	-
Purchases of available-for-sale investments	(902,708)	(703,300)
Placement of fixed deposits	(231,840)	(142,986)
Proceeds from disposal of available-for-sale investments	231,389	271,978
Maturity of available-for-sale investments	669,000	500,988
Maturity of fixed deposits	153,779	105,321
Non-cash items:		
Depreciation of property, plant and equipment	9,620	10,908
Depreciation of right-of-use assets	14,283	-
Property, plant and equipment written off	994	497
Amortisation of intangible assets	13,474	11,610
Allowance for impairment loss on insurance receivables	224	999
Allowance for impairment loss on reinsurance assets	(29)	2,615
Reversal of impairment loss on other receivables	-	(577)
Bad debts recovered	(54)	(83)
Bad debts written off on insurance receivables	237	1,835
Bad debts written off on other receivables	-	1,245
Interest expense	1,053	690
Interest on lease liabilities	1,898	-
Changes in working capital:		
Change in reinsurance assets	(20,018)	(15,093)
Change in insurance receivables	3,974	45,367
Change in loans and other receivables	6,114	(20,096)
Change in deferred acquisition costs	(16,363)	(1,004)
Change in insurance contract liabilities	152,937	30,844
Change in insurance payables	9,970	(21,184)
Change in other payables and accruals	38,464	27,633
Cash generated from operating activities	305,863	276,877

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2019 (continued)

	2019 RM'000	2018 RM'000
Cash generated from operating activities	305,863	276,877
Interest income received	170,207	179,810
Dividend income from unquoted unit trust	19,266	655
Rental income received	431	316
Interest paid on lease liabilities	(1,898)	-
Income tax paid	(90,279)	(82,235)
Net cash flows generated from operating activities	403,590	375,423
Investing activities		
Proceeds from disposal of property, plant and equipment	5,100	119
Proceeds from disposal of intangible assets	6,375	-
Purchase of property, plant and equipment	(7,602)	(7,573)
Purchase of intangible assets	(34,742)	(11,702)
Net cash flows used in investing activities	(30,869)	(19,156)
Financing activities		
Dividends paid to owners of the Company	(159,630)	(79,625)
Repayment of lease liabilities	(12,937)	-
Net cash flows used in financing activities	(172,567)	(79,625)
Net increase in cash and cash equivalents	200,154	276,642
Cash and cash equivalents at beginning of year	490,036	213,394
Cash and cash equivalents at end of year	690,190	490,036
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months)	680,021	484,639
Cash and bank balances	10,169	5,397
	690,190	490,036

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2019 (continued)

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

Included in the fixed and call deposits are RM69,091,000 (2018: RM74,414,000) held as cash collateral for guarantees issued on behalf of the policyholders (see Note 17).

Reconciliation of liabilities arising from financing activities

	Lease Liabilities RM'000
At 31 December 2018, as previously reported	-
Effects of adoption of MFRS 16	55,298
At 1 January 2019, as restated	55,298
Cash flows	(14,835)
Interest charge	1,898
Lease additions	283
At 31 December 2019	42,644

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Notes to the financial statements

Principal activities and general information

Allianz General Insurance Company (Malaysia) Berhad ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Company is as follows:

Level 29, Menara Allianz Sentral,
203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 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 this activity during the financial year.

The immediate holding company is Allianz Malaysia Berhad ("AMB"), a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

The financial statements were authorised for issue by the Board of Directors on 27 February 2020.

1. Basis of preparation

1.1 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 in Malaysia.

The following are accounting standards, amendments, and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") for the financial year beginning on or after 1 January 2019 and adopted by the Company:

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, Leases, IC Interpretation 4, Determining whether an Arrangement contains a Lease, IC Interpretation 115, Operating Leases – Incentives and IC Interpretation 127, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

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

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

The Company has applied MFRS 16 with the date of initial application of 1 January 2019 by applying the simplified retrospective transition method. On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had been previously classified as 'operating leases' under the principles of MFRS 117. These lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates as at 1 January 2019.

Under the simplified retrospective transition method, the 2018 comparative information was not restated. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117, Leases and IC Interpretation 4, Determining whether an Arrangement Contains a Lease.

In applying MFRS 16 for the first time, the Company has applied the following practical expedients permitted by MFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

Company No. 735426-V

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRS 16, *Leases*

The adoption of MFRS 16, Leases has resulted in changes in the accounting policies. The effects arising from these changes on the statement of financial position of the Company are as follows:

	31 December 2018 RM'000	Effects of adoption of MFRS 16 RM'000	1 January 2019 RM'000
Assets			
Property, plant and equipment	80,427	(10,085)	70,342
Right-of-use assets	-	65,383	65,383
Liabilities			
Lease liabilities	-	55,298	55,298

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.83% per annum.

The reconciliation between the operating lease commitment disclosed as at 31 December 2018 and lease liabilities recognised at 1 January 2019 is as follows:

	RM'000
Operating lease commitments as at 31 December 2018	18,013
Discounted at the incremental borrowing rate	(4,606)
Add: Adjustments as a result of a different treatment of extension options	41,891
Lease liabilities as at 1 January 2019	55,298

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

Except as disclosed above, the adoption of new standards, amendments to standards and interpretations by the Company for the first time for the financial year beginning on or after 1 January 2019 did not have any material impact on the current and/or prior periods and is not likely to affect future periods.

The following are accounting standards, amendments to standards and interpretations that have been issued by MASB but not yet effective and have not been early adopted by the Company:

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

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101, *Presentation of Financial Statements – Definition of Material*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS3, *Business Combinations – Definition of a Business*

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

- MFRS 17, *Insurance Contracts*

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRS 17, *Insurance Contracts*

MFRS 17 replaces the guidance in MFRS 4, *Insurance Contracts*

MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 'Revenue from Contracts with Customers'. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that related to financial risks either in profit or loss or in other comprehensive income.

Alternative measurement models are provided for the different insurance coverages:

a) Simplified Premium Allocation Approach if the insurance coverage period is a year or less;
b) Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims. Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

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

Except as mentioned above, the initial application of the other new standards, amendments to standards or interpretations issued by MASB effective for periods subsequent to 1 January 2020 are not expected to have any material financial impact to the current period and prior period financial statements of the Company.

1. Basis of preparation (continued)

1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the financial statements.

1.3 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.

1.4 Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs 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 estimates are revised and in any future periods affected.

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

- Note 2.8 – Determination of the recoverable amounts of other intangible assets
- Note 2.14 – Valuation of insurance contract liabilities

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.23.

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.

2.1 Foreign currency transactions

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in RM, which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period 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 period 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 currency differences arising from settlement of foreign currency transactions and from retranslation of monetary assets and liabilities are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment except for work-in-progress are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses. Work-in-progress is stated at cost less accumulated impairment losses.

The Company revalues its properties comprising land and buildings every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

The revalued amounts of property are determined by using the comparison method. The comparison method entails critical analysis of recent evidence of values of comparable properties in the neighbourhood and making adjustments for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics. Valuation of properties involves a degree of judgement before arriving at the respective property's revalued amount. As such, the revalued amount of the properties may be different from its actual market price.

Surpluses arising from revaluation are credited to revaluation reserve account via the statement of other comprehensive income. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

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. The cost of self-constructed assets also includes the cost of materials and direct labour.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(a) Recognition and measurement (continued)

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 property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "realised gains and losses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(b) Subsequent costs

The cost of replacing a component of an item of property, 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 property, plant and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Work-in-progress are not depreciated until the assets are ready for their intended use.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(c) Depreciation (continued)

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

Leasehold land	Over lease period
Buildings	50 years
Office equipment, computers, furniture and fittings	2 to 10 years
Motor vehicles	5 years
Office renovations and partitions	10 years

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

2.3 Investment properties

(a) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administration purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

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)

2.3 Investment properties (continued)

(b) Reclassification to/from investment properties

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

(c) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment properties portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from its actual market price.

2. Significant accounting policies (continued)

2.4 Intangible assets

(a) Development costs

Expenditure incurred on software development is capitalised, only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use the asset.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(b) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, measured at cost less any accumulated amortisation and any accumulated impairment losses.

(c) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(d) Amortisation

Intangible assets with finite useful lives are amortised from the date that they are available for use. Amortisation is based on the cost of an intangible asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for the current and comparative periods is as follows:

Capitalised software development costs	5 years
Other intangible assets	6 - 18 years

Amortisation methods, useful life and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2. Significant accounting policies (continued)

2.5 Leases

(a) Accounting by lessee – Accounting policies applied from 1 January 2019

From 1 January 2019, leases are recognised as right-of-use ('ROU') asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Company is a lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

Lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Company reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities.

ROU assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at valuation/cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

2. Significant accounting policies (continued)

2.5 Leases (continued)

(a) Accounting by lessee – Accounting policies applied from 1 January 2019 (continued)

While the Company revalues land and building (presented as part of property, plant and equipment) that it owns, it has chosen not to revalue the ROU building held by the Company.

The Company applies the fair value model to ROU assets that meet the definition of investment property of MFRS 140 consistent with those investment properties owned by the Company. Refer to Note 2.3 for accounting policy on investment properties.

The Company presents ROU assets that meet the definition of investment property in the statement of financial position as investment property. ROU assets that are not investment properties are presented as a separate line item in the statement of financial position.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. Significant accounting policies (continued)

2.5 Leases (continued)

(a) Accounting by lessee – Accounting policies applied from 1 January 2019 (continued)

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the interest expenses in profit or loss in the statement of profit or loss.

Short term leases and leases of low value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise photocopiers. Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

(b) Accounting by lessee – Accounting policies applied until 31 December 2018

Finance lease

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

2. Significant accounting policies (continued)

2.5 Leases (continued)

(b) Accounting by lessee – Accounting policies applied until 31 December 2018 (continued)

Operating lease

Leases where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position.

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

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

2.6 Financial instruments

(a) 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 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.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

(i) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market that include staff loans, other receivables and cash and cash equivalents.

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

(ii) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

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 and foreign exchange gains and losses arising from monetary items 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.

(iii) Insurance receivables

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

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

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

Financial assets (continued)

(iii) Insurance receivables (continued)

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 cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.7(b).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.6(d), have been met.

All financial assets of the Company are subject to review for impairment (See Note 2.7).

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date; and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(d) 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 of the risks and rewards of ownership of the financial asset are 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 or 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.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets

(a) Financial assets, excluding insurance receivables

All financial assets (except for fixed and call deposits) 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 impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2.7(b) below) is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the financial asset's acquisition cost (net of any principal repayment and amortisation) and the financial 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 other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity 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 financial 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 are not reversed through 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 the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the financial 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)

2.7 Impairment of financial assets (continued)

(b) 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 is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

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

2.8 Impairment of other assets

The carrying amounts of other assets (except for deferred tax assets and investment properties that are measured at fair value) 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 the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that largely independent of the cash inflows of other assets or groups of assets (known as "cash-generating unit").

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 units are allocated to reduce the carrying amounts of the assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

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

2. Significant accounting policies (continued)

2.9 Equity instruments

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

(a) Ordinary share capital

Ordinary share capital is classified as equity.

(b) Dividends on ordinary share capital

Dividends on ordinary share capital are recognised as a liability and deducted from equity when they are declared and appropriately authorised.

Dividends for the year that are approved after the end of the reporting period are dealt with as a subsequent event.

2.10 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 as 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.

2. Significant accounting policies (continued)

2.11 Reinsurance

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums ceded and claims recoveries are recognised in the same accounting period as the original policy/contract in which the reinsurance relates, and presented on a gross basis for both ceded and assumed reinsurance in the statement of profit or loss and statement of financial position.

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 in the normal course of business for general insurance contracts 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 contract.

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.

2. Significant accounting policies (continued)

2.12 Commission and agency expenses

Gross commission and agency expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurance 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 2.13(e).

2.13 General insurance underwriting results

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

(a) Gross premiums

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

(b) Reinsurance premiums

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

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

2. Significant accounting policies (continued)

2.13 General insurance underwriting results (continued)

(c) Unearned premium reserves

Unearned premium reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

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

- 25% method for marine cargo, aviation cargo and transit
- $1/24^{th}$ method (or other more accurate) for all other classes of Malaysian general policies
- $1/8^{th}$ method for all other classes of overseas inward treaty business
- Non-annual policies are time-apportioned over the period of the risks

(d) Claims and expenses

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

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the end of the reporting period.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the end of the reporting period, using a mathematical method of estimation.

(e) Acquisition costs and deferred acquisition cost ("DAC")

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

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

Subsequent to initial recognition, deferred acquisition cost is amortised/ allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

2. Significant accounting policies (continued)

2.13 General insurance underwriting results (continued)

(e) Acquisition costs and deferred acquisition cost ("DAC") (continued)

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. DAC is also considered in the liability adequacy test for each accounting period.

DAC is derecognised when the related contracts are either settled or disposed of.

2.14 Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities

Claims liabilities are recognised in respect of both direct insurance and inward reinsurance. Claims liabilities refer to the obligation by the Company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date (See Note 2.23). These include provision for claims reported, claims incurred but not reported ("IBNR"), claims incurred but not enough reserved ("IBNER") together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation ("PRAD") at a 75% confidence level as required by BNM calculated at the overall Company level. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserve is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

2. Significant accounting policies (continued)

2.14 Insurance contract liabilities (continued)

Premium liabilities

Premium liabilities is the higher of the aggregate of the UPR and the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the PRAD at a 75% confidence level as required by BNM calculated at the overall Company level.

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.

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred for administering these policies and settling the relevant claims, and expected future premium refunds.

2.15 Other revenue recognition

The following specific recognition criteria must also be met before revenue is recognised.

(a) Rental income

Rental income from investment properties and self-occupied properties are recognised in profit or loss on a straight-line basis over the term of the lease.

(b) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss.

(c) Dividend income

Dividend income is recognised in profit or loss on the date the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

2. Significant accounting policies (continued)

2.15 Other revenue recognition (continued)

(d) Realised gains and losses on investments

Realised gains and losses recorded in profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the differences between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

2.16 Income tax

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

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

Deferred tax is recognised in full 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 if the temporary difference arises from 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2.3, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are not discounted.

2. Significant accounting policies (continued)

2.16 Income tax (continued)

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, 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 assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

2.17 Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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 statement 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. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

2. Significant accounting policies (continued)

2.18 Employee benefits

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.

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

2.19 Other financial liabilities and insurance payables

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

2.20 Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hand, balances and deposits held at call with financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 2.6(b)(i).

2. Significant accounting policies (continued)

2.21 Earnings per ordinary share

The Company presents basic earnings per share ("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.

No diluted EPS is disclosed in these financial statements as there are no dilutive potential ordinary shares.

2.22 Fair value measurement

Fair value of an asset or a liability, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group 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 or change in circumstances that caused the transfers.

2. Significant accounting policies (continued)

2.23 Significant accounting judgements, estimates and assumptions

(a) Valuation of general insurance claims liabilities

For general insurance contracts, claims liabilities are the outstanding claims reserve required for the future settlement of losses on claims which have occurred but have yet to be fully settled. Claims liabilities fall into two categories: expected ultimate cost of claims reported and expected ultimate cost of claims incurred but not yet reported at the end of the reporting period.

It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The expected ultimate cost of claims reported are based on estimates of future payments that will be made with respect to individual claims. Such estimates are made on a case-by-case basis, based on the information available at the time the reserves are established. The estimates reflect the informed judgement of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim.

These reserves are regularly re-evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available. IBNR reserves are established to recognise the estimated cost of losses that have occurred but where the Company has not yet been notified. The valuation of IBNR reserves is carried out by an Appointed Actuary approved by BNM using professional judgement in applying actuarial methodology and assumptions, based on the Company's current and past claims experience, taking into account the Company's underwriting practice and industry experience. IBNR reserves are estimated based on actuarial statistical projections of the expected cost of the ultimate settlement and administration of claims. The projections are based on available information at the time and include factors such as trends in claims frequency, severity and speed of settlement. IBNR reserves are reviewed and revised quarterly as additional information becomes available with the actual claims development.

2. Significant accounting policies (continued)

2.23 Significant accounting judgements, estimates and assumptions (continued)

(a) Valuation of general insurance claims liabilities (continued)

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience. These uncertainties may arise from changes in the underlying risks, changes in the spread of risk, changes in the speed of reporting and settlement of claims as well as the suitability of the methodology used in the projection model and its underlying assumptions.

(b) Determination of recoverable amount of other intangible asset

The Company assesses the recoverable amount of other intangible assets when there is indication of impairment in accordance with its accounting policy in Note 2.8. The recoverable amount of the other intangible asset is determined based on the value in use method, which requires the use of estimates for cash flow projections. The key assumptions used in the assessment are disclosed in Note 6.

Company No. 735426-V

3. Property, plant and equipment

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Cost/Valuation									
At 1 January 2018		19,406	37,259	1,659	83,666	1,492	26,882	3,156	173,520
Additions		-	-	-	2,679	-	98	4,796	7,573
Disposals		-	-	-	(47)	(435)	-	-	(482)
Reclassification		-	-	-	5,277	-	-	(5,277)	-
Transfer to intangible assets	6	-	-	-	-	-	-	(1,243)	(1,243)
Written off		-	-	-	(1,773)	-	(6,763)	-	(8,536)
At 31 December 2018, as previously reported		19,406	37,259	1,659	89,802	1,057	20,217	1,432	170,832
Effects of adoption of MFRS 16	4	(10,437)	-	-	-	-	-	-	(10,437)
At 1 January 2019, as restated		8,969	37,259	1,659	89,802	1,057	20,217	1,432	160,395
Additions		-	-	-	3,612	65	1,231	2,694	7,602
Disposals		(2,069)	(1,451)	-	(60)	(140)	-	-	(3,720)
Reclassification		-	-	-	1,836	-	1,150	(2,986)	-
Written off		-	-	-	(14,748)	-	(4,844)	-	(19,592)
At 31 December 2019		6,900	35,808	1,659	80,442	982	17,754	1,140	144,685

Company No. 735426-V

3. Property, plant and equipment (continued)

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Depreciation									
At 1 January 2018		189	1,643	84	67,582	725	17,623	-	87,846
Depreciation for the year	27	163	1,147	21	7,742	240	1,595	-	10,908
Disposals		-	-	-	(22)	(288)	-	-	(310)
Written off		-	-	-	(1,636)	-	(6,403)	-	(8,039)
At 31 December 2018, as previously reported		352	2,790	105	73,666	677	12,815	-	90,405
Effects of adoption of MFRS 16	4	(352)	-	-	-	-	-	-	(352)
At 1 January 2019, as restated		-	2,790	105	73,666	677	12,815	-	90,053
Depreciation for the year	27	-	1,483	37	6,450	157	1,493	-	9,620
Disposals		-	(256)	-	(59)	(63)	-	-	(378)
Written off		-	-	-	(14,449)	-	(4,149)	-	(18,598)
At 31 December 2019		-	4,017	142	65,608	771	10,159	-	80,697

Company No. 735426-V

3. Property, plant and equipment (continued)

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Carrying amounts									
At 1 January 2018		19,217	35,616	1,575	16,084	767	9,259	3,156	85,674
At 31 December 2018/ 1 January 2019		19,054	34,469	1,554	16,136	380	7,402	1,432	80,427
At 31 December 2019		6,900	31,791	1,517	14,834	211	7,595	1,140	63,988

* The carrying amounts of land and buildings are not segregated as the required information is not available.

Included in property, plant and equipment are fully depreciated assets which are still in use costing RM52,661,000 (2018 : RM61,374,000).

Company No. 735426-V

3. Property, plant and equipment (continued)

3.1 Revaluation of properties

The Company's land and buildings were revalued by C H Williams Talhar & Wong Sdn Bhd and Rahim & Co International Sdn Bhd, independent professional qualified valuers using the Comparison Method in 2016. This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, the land and buildings are compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered. There is no material change in fair value in 2019.

Had the land and buildings of the Company been carried under the cost model, their carrying amounts would have been as follows:

	2019 RM'000	2018 RM'000
Land	2,575	7,973
Buildings	26,959	28,169
Land and buildings	1,253	1,270
	30,787	37,412

3.2 Fair value information

Fair value of land and buildings of the Company are categorised as follows:

	2019			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	-	6,900	6,900
Buildings	-	-	31,791	31,791
Land and buildings	-	-	1,517	1,517
	-	-	40,208	40,208

	2018			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	-	19,054	19,054
Buildings	-	-	34,469	34,469
Land and buildings	-	-	1,554	1,554
	-	-	55,077	55,077

Company No. 735426-V

3. Property, plant and equipment (continued)

3.2 Fair value information (continued)

Level 3 fair value

The Level 3 unobservable input used in the valuation of land and building is the price per square foot ("psf") which is adjusted for differences in location, property size, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building, finishes and services and other relevant characteristics.

The estimated fair value would increase/(decrease) if the price per square foot were higher or lower and the historical sales transaction value were higher or lower.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique used	2019 Fair Value (RM'000)	2019 Adjusted psf RM/psf	2018 Fair Value (RM'000)	2018 Adjusted psf RM/psf
Sales comparison approach	40,208	283 – 2,643	55,077	283 – 2,643

4. Right-of-use assets

	Leasehold land RM'000	Buildings and equipment RM'000	Total RM'000
Valuation/Cost			
31 December 2018	-	-	-
Effects of adoption of MFRS 16	10,437	55,298	65,735
1 January 2019	10,437	55,298	65,735
Additions	-	391	391
Disposal	(1,514)	(159)	(1,673)
At 31 December 2019	8,923	55,530	64,453
Depreciation			
31 December 2018	-	-	-
Effects of adoption of MFRS 16	352	-	352
1 January 2019	352	-	352
Depreciation for the year	267	14,016	14,283
Disposal	(82)	(51)	(133)
At 31 December 2019	537	13,965	14,502

4. Right-of-use assets (continued)

	Leasehold land RM'000	Buildings and equipment RM'000	Total RM'000
Carrying amounts			
At 31 December 2018/1 January 2019	10,085	55,298	65,383
At 31 December 2019	8,386	41,565	49,951

The Company leases a number of buildings for its office space and branches. The leases typically run for a period of 1 to 5 years, but may have extension options.

In 2019, the total cash outflow for leases amounting to RM14,835,000 and income from subleasing right-of-use assets amounting to RM2,499,000.

4.1 Right-of-use assets under the revaluation model

The leasehold land was last revalued in 2019 by external independent professional qualified valuers using the Comparison Method. This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, the leasehold is compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered.

Had the leasehold land been carried at historical cost less accumulated amortisation, the carrying amounts would have been RM156,000.

4.2 Fair value information

Fair value of leasehold land is categorised as level 3 of the fair value hierarchy.

Level 3 fair value

The Level 3 unobservable input used in the valuation of leasehold land is the price per square foot ("psf") which is adjusted for differences in location, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building erected thereon and other relevant characteristics.

The estimated fair value would increase/(decrease) if the price per square foot were higher or lower and the historical sales transaction value were higher or lower.

Company No. 735426-V

4. Right-of-use assets (continued)

4.2 Fair value information (continued)

The following table shows the valuation technique used in the determination of fair values within Level 3, as well as the significant unobservable input used in the valuation model.

Valuation technique used	2019 Fair Value (RM'000)	2019 Adjusted psf RM/psf	2018 Fair Value (RM'000)	2018 Adjusted psf RM/psf
Sales comparison approach	8,386	278 – 1,334	10,085	250 – 1,285

5. Investment properties

	Note	2019 RM'000	2018 RM'000
At 1 January		16,074	16,074
Change in fair value recognised in profit or loss	23	241	-
At 31 December		16,315	16,074

Included in the above is:

	2019 RM'000	2018 RM'000
At fair value:		
Buildings	16,315	16,074

The fair values of investment properties are determined by Rahim & Co., independent professional qualified valuers using the Comparison Method at the end of each financial year. The investment properties are for capital appreciation and do not generate any rental income.

Fair value information

Fair values of investment properties are categorised as follows:

	2019			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Buildings	-	-	16,315	16,315

Company No. 735426-V

5. Investment properties (continued)

Fair value information (continued)

	2018			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Buildings	-	-	16,074	16,074

Level 3 fair value

The fair values of the investment properties as at 31 December 2019 and 31 December 2018 were determined by external independent valuers. This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, the investment properties are compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered.

The Level 3 unobservable input used in the valuation of investment properties is the price per square foot ("psf") which is adjusted for differences in location, property size, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building, finishes and services and other relevant characteristics.

The estimated fair value would increase/(decrease) if the price per square foot were higher or lower and the historical sales transaction value were higher or lower.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique used	2019 Fair Value (RM'000)	2019 Adjusted psf RM/psf	2018 Fair Value (RM'000)	2018 Adjusted psf RM/psf
Sales comparison approach	16,315	1,015	16,074	1,100

6. Intangible assets

	Note	Software development costs RM'000	Other intangible asset RM'000	Total RM'000
Cost				
At 1 January 2018		42,170	67,000	109,170
Additions		11,702	-	11,702
Transfer from property, plant and equipment	3	1,243	-	1,243
At 31 December 2018/ 1 January 2019		55,115	67,000	122,115
Additions		7,242	27,500	34,742
Disposal		(6,375)	-	(6,375)
At 31 December 2019		55,982	94,500	150,482
Amortisation				
At 1 January		21,255	2,233	23,488
Amortisation for the year	27	7,143	4,467	11,610
At 31 December 2018/ 1 January 2019		28,398	6,700	35,098
Amortisation for the year	27	8,289	5,185	13,474
At 31 December 2019		36,687	11,885	48,572
Carrying amounts				
At 1 January 2018		20,915	64,767	85,682
At 31 December 2018/ 1 January 2019		26,717	60,300	87,017
At 31 December 2019		19,295	82,615	101,910

The software development costs are in relation to internal development expenditures incurred for the Alternate Front End System, Open Product Underwriting System and Business Intelligence System. These systems are designed to improve the efficiency of the business activities of the Company.

Other intangible assets are in relation to the exclusive Bancassurance Agreement which is effective from 1 July 2017 and Marketing Agreement which is effective from 1 October 2019 for the distribution of the Company's insurance products.

For the Bancassurance Agreement, the fee for the exclusive right is amortised over its useful life of 18 years using the straight-line method, whereas for the Marketing Agreement, the fee for the exclusive right is amortised over its useful life of 6 years using the straight-line method.

6. Intangible assets (continued)

The Company conducts impairment assessment during the year in accordance with its accounting policies in Note 2.8. In the impairment assessment conducted by the Company, the future economic benefits that are attributable to the Bancassurance Agreement was valued at the present value of projected future cash flows to be derived from the remaining tenure of the agreement of 16 years, using the discounted cash flow model.

The following key assumptions have been used in cash flow projections in respect of Bancassurance Agreement:

Key assumptions	2019	2018
Bancassurance average annualised gross written premium growth rate	12.0%	14.0%
Discount rate - pre tax	10.8%	10.6%

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.

Company No. 735426-V

7. Investments

	2019 RM'000	2018 RM'000
Malaysian government securities	1,462,250	1,531,876
Malaysian government guaranteed bonds	736,147	732,196
Unquoted debt securities	1,255,005	1,470,704
Unquoted equity securities	*	*
Unquoted unit trust in Malaysia	606,101	200,258
Fixed deposits	203,011	123,828
Structured deposits and negotiable instruments of deposit with licensed financial institutions	20,348	61,606
	4,282,862	4,120,468

* Denotes RM4

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

	2019 RM'000	2018 RM'000
Loans and receivables ("L&R")	203,011	123,828
Available-for-sale financial assets ("AFS")	4,079,851	3,996,640
	4,282,862	4,120,468

7. Investments (continued)

7.1 The Company's financial investments are summarised by categories as follows: (continued)

	2019		2018	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Loans and receivables				
Fixed deposits	203,011	203,011	123,828	123,828
Available-for-sale financial assets				
Malaysian government securities	1,462,250	1,462,250	1,531,876	1,531,876
Malaysian government guaranteed bonds	736,147	736,147	732,196	732,196
Unquoted unit trust in Malaysia	606,101	606,101	200,258	200,258
Unquoted debt securities	1,255,005	1,255,005	1,470,704	1,470,704
Unquoted equity securities	*	-	*	-
Structured deposits and negotiable instruments of deposit with licensed financial institutions	20,348	20,348	61,606	61,606
	4,079,851	4,079,851	3,996,640	3,996,640
	4,282,862	4,282,862	4,120,468	4,120,468

* Denotes RM4

Company No. 735426-V

7. Investments (continued)

7.2 The movements in carrying values of the financial investments are as follows:

	L&R RM'000	AFS RM'000	Total RM'000
At 1 January 2018	85,555	4,064,458	4,150,013
Purchases	142,986	703,300	846,286
Maturities	(105,321)	(500,988)	(606,309)
Disposals	-	(271,610)	(271,610)
Fair value loss recorded in other comprehensive income	-	559	559
Accretion	-	4,465	4,465
Amortisation	-	(1,649)	(1,649)
Movement in income due and accrued	608	(1,895)	(1,287)
At 31 December 2018/1 January 2019	123,828	3,996,640	4,120,468
Purchases	231,840	902,708	1,134,548
Maturities	(153,779)	(669,000)	(822,779)
Disposals	-	(226,321)	(226,321)
Fair value gain recorded in other comprehensive income	-	80,696	80,696
Accretion	-	766	766
Amortisation	-	(986)	(986)
Movement in income due and accrued	1,122	(4,652)	(3,530)
At 31 December 2019	203,011	4,079,851	4,282,862

8. Reinsurance assets

	Note	2019 RM'000	2018 RM'000
Non-current			
Reinsurance of insurance contracts			
Claims liabilities		268,049	271,333
Current			
Reinsurance of insurance contracts			
Claims liabilities		492,307	445,743
Allowance for impairment	37.1.3	(2,586)	(2,615)
		489,721	443,128
Premium liabilities	14.2	99,703	122,965
		589,424	566,093
		857,473	837,426

9. Insurance receivables

	Note	2019 RM'000	2018 RM'000
Current			
Due premiums including agent, brokers and co-insurers balances		138,586	111,945
Due from reinsurers and cedants		57,852	61,494
		196,438	173,439
Allowance for impairment	37.1.3	(55,675)	(55,451)
		140,763	117,988
Due from related companies	9.1	2,257	29,413
		143,020	147,401

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting period due to the relatively short term nature of these financial instruments.

9.1 Amounts due from related companies

The amounts due from related companies are unsecured, interest free and repayable on demand.

9. Insurance receivables (continued)

9.2 Financial assets

There is no netting off of gross amount of recognised financial assets against the gross amount of financial liabilities in the statement of financial position. There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2018: Nil).

10. Loans and other receivables

	Note	2019 RM'000	2018 RM'000
Non-current			
Staff loans			
Mortgage loans		5,088	4,889
Other secured loans		1,153	978
		6,241	5,867
Other receivables			
Other receivables, deposits and prepayments		4,145	4,006
Malaysian Institute of Insurance ("MII") bonds		-	490
		4,145	4,496
		10,386	10,363
Current			
Staff loans			
Mortgage loans		595	549
Other secured loans		367	329
		962	878
Other receivables			
Deposits		4,211	4,575
Malaysian Motor Insurance Pool ("MMIP")		48,889	52,898
Other receivables and prepayments		32,903	31,181
Allowance for impairment	37.1.3	(1,410)	(1,410)
		84,593	87,244
Due from related companies	10.1	662	701
		85,255	87,945
		86,217	88,823
Total loans and other receivables		96,603	99,186

10. Loans and other receivables (continued)

The carrying amounts of other receivables reasonably approximate their fair values at the end of the reporting period due to the relatively short term nature of these financial instruments.

10.1 Amounts due from related companies

The amounts due from related companies are unsecured, interest free and repayable on demand.

11. Deferred acquisition costs

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2018		107,725	(13,669)	94,056
Movement during the year	24,26	(922)	1,926	1,004
At 31 December 2018/ 1 January 2019		106,803	(11,743)	95,060
Movement during the year	24,26	13,955	2,408	16,363
At 31 December 2019		120,758	(9,335)	111,423

12. Share capital

	2019		2018	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares issued and fully paid				
At 1 January/31 December	379,168	379,168	379,168	379,168

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

13. Retained earnings and other reserves

13.1 Capital reserve

The capital reserve comprises the equity portion of financial instruments issued.

13.2 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.

13.3 Revaluation reserve

The revaluation reserve represents the surplus on revaluation of owner occupied properties.

13.4 Retained earnings

Restriction on payment of dividends

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

Pursuant to the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend with effect from the financial year beginning 1 January 2014.

Company No. 735426-V

14. Insurance contract liabilities

General insurance contract liabilities consist of:

	Note	2019 Gross RM'000	2019 Reinsurance RM'000 (Note 8)	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000 (Note 8)	2018 Net RM'000
Provision for claims reported by policyholders		1,872,966	(537,797)	1,335,169	1,734,155	(517,351)	1,216,804
Provision for incurred but not reported claims ("IBNR")		681,278	(222,559)	458,719	741,236	(199,725)	541,511
		2,554,244	(760,356)	1,793,888	2,475,391	(717,076)	1,758,315
Allowance for impairment		-	2,586	2,586	-	2,615	2,615
Provision for outstanding claims	14.1	2,554,244	(757,770)	1,796,474	2,475,391	(714,461)	1,760,930
Provision for unearned premiums	14.2	1,104,311	(99,703)	1,004,608	1,030,227	(122,965)	907,262
		3,658,555	(857,473)	2,801,082	3,505,618	(837,426)	2,668,192

Company No. 735426-V

14. Insurance contract liabilities (continued)

14.1 Provision for outstanding claims - movements

		2019			2018		
	Note	Gross RM'000	Reinsurance RM'000 (Note 8)	Net RM'000	Gross RM'000 (Note 8)	Reinsurance RM'000	Net RM'000
At 1 January	25	2,475,391	(714,461)	1,760,930	2,402,386	(695,905)	1,706,481
Claims incurred in the current accident year		1,505,454	(230,305)	1,275,149	1,468,163	(143,773)	1,324,390
Other movements in claims incurred in prior accident years		(256,986)	81,075	(175,911)	(141,959)	(4,627)	(146,586)
Claims paid during the year	25	(1,169,615)	105,921	(1,063,694)	(1,253,199)	129,844	(1,123,355)
At 31 December	25	2,554,244	(757,770)	1,796,474	2,475,391	(714,461)	1,760,930

14. Insurance contract liabilities (continued)

14.2 Provision for unearned premiums - movements

	Note	2019 Gross RM'000	2019 Reinsurance RM'000 (Note 8)	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000 (Note 8)	2018 Net RM'000
At 1 January		1,030,227	(122,965)	907,262	1,072,388	(129,043)	943,345
Premiums written in the year	20	2,197,501	(241,747)	1,955,754	2,121,319	(229,728)	1,891,591
Premiums earned during the year	19	(2,123,417)	265,009	(1,858,408)	(2,163,480)	235,806	(1,927,674)
At 31 December		1,104,311	(99,703)	1,004,608	1,030,227	(122,965)	907,262

Company No. 735426-V

15. Deferred tax assets/(liabilities)

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

	Assets		Liabilities		Net	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Property, plant and equipment						
- Capital allowance	-	-	(906)	(1,986)	(906)	(1,986)
- Revaluation reserve	-	-	(3,493)	(3,493)	(3,493)	(3,493)
- Impairment	250	250	-	-	250	250
Intangible assets	-	-	(19,877)	(15,253)	(19,877)	(15,253)
Investment properties - impairment	1,002	1,059	-	-	1,002	1,059
Allowance for impairment on insurance receivables	12,551	12,483	-	-	12,551	12,483
Other payables and accruals	17,438	19,675	-	-	17,438	19,675
Investments						
- Fair value reserve	-	-	(22,551)	(3,184)	(22,551)	(3,184)
- Impairment	1,778	1,778	-	-	1,778	1,778
Other items	-	2,722	-	-	-	2,722
Offset of tax	(33,019)	(23,916)	33,019	23,916	-	-
Net deferred tax assets	-	14,051	(13,808)	-	(13,808)	14,051

Company No. 735426-V

15. Deferred tax assets/(liabilities) (continued)

15.2 Movement in temporary differences during the year

	At 1 January 2018	Recognised in profit or loss (Note 29.1)	Recognised in other comprehen-sive income (Note 29.3)	At 31 December 2018/At 1 January 2019	Recognised in profit or loss (Note 29.1)	Recognised in other comprehen-sive income (Note 29.3)	At 31 December 2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment							
- Capital allowance	(2,125)	139	-	(1,986)	1,080	-	(906)
- Revaluation reserve	(3,493)	-	-	(3,493)	-	-	(3,493)
- Impairment	250	-	-	250	-	-	250
Investment properties							
- Impairment	1,059	-	-	1,059	(57)	-	1,002
Intangible assets	-	(15,253)	-	(15,253)	(4,624)	-	(19,877)
Allowance for impairment on insurance receivables	11,549	934	-	12,483	68	-	12,551
Other payables and accruals	17,398	2,277	-	19,675	(2,237)	-	17,438
Investments							
- Fair value reserve	(3,049)	-	(135)	(3,184)	-	(19,367)	(22,551)
- Impairment	1,778	-	-	1,778	-	-	1,778
Other items	(92)	2,814	-	2,722	(2,722)	-	-
	23,275	(9,089)	(135)	14,051	(8,492)	(19,367)	(13,808)

Company No. 735426-V

16. Lease liabilities

	2019 RM'000	2018 RM'000
Non-current	28,456	-
Current	14,188	-
	42,644	-

17. Insurance payables

	Note	2019 RM'000	2018 RM'000
Non-current			
Performance bond deposits	17.1	24,292	24,132
Current			
Due to reinsurers and cedants		54,303	60,868
Due to agents and intermediaries		36,978	36,392
Performance bond deposits	17.1	44,799	50,282
Due to related companies	17.2	45,946	24,674
		182,026	172,216
		206,318	196,348

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting period due to relatively short term nature of these financial instruments.

17.1 Performance bond deposits

Performance bond deposits are interest bearing collateral deposits received from policyholders for guarantees issued on behalf of policyholders.

17.2 Amounts due to related companies

The amounts due to related companies are unsecured, interest free and repayable on demand.

17.3 Financial liabilities

There is no netting off of gross amount of recognised financial liabilities against the gross amount of financial assets in the statement of financial position. There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received. (2018: Nil)

18. Other payables and accruals

	Note	2019 RM'000	2018 RM'000
Current			
Due to ultimate holding company	18.1	5,105	13,362
Due to immediate holding company	18.1	4,434	9,494
Other payables		74,549	42,611
Accrued expenses		104,735	83,839
Dividend payable	31	199,822	159,630
		388,645	308,936

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting period due to the relatively short term nature of these financial instruments.

18.1 Amounts due to ultimate/immediate holding company

The amounts due to ultimate/immediate holding company are unsecured, interest free and repayable on demand.

19. Operating revenue

	Note	2019 RM'000	2018 RM'000
Gross earned premiums	20	2,123,417	2,163,480
Investment income	21	189,684	182,309
		2,313,101	2,345,789

20. Net earned premiums

	Note	2019 RM'000	2018 RM'000
Gross premiums	14.2	2,197,501	2,121,319
Change in unearned premiums provision		(74,084)	42,161
Gross earned premiums	14.2, 19	2,123,417	2,163,480
Gross premiums ceded	14.2	(241,747)	(229,728)
Change in unearned premiums provision		(23,262)	(6,078)
Premiums ceded to reinsurers	14.2	(265,009)	(235,806)
Net earned premiums	14.2	1,858,408	1,927,674

21. Investment income

	Note	2019 RM'000	2018 RM'000
Rental income		431	316
Available-for-sale financial investments:			
Interest income from			
Malaysian government securities		59,363	66,248
Malaysian government guaranteed bonds		29,734	33,385
Unquoted bonds of corporations in Malaysia		61,593	65,694
Structured deposits and negotiable instruments of deposit with licensed financial institutions		1,409	3,335
Gross dividend from unquoted unit trust in Malaysia		19,266	655
Loans and receivables financial investments:			
Interest income from			
Fixed deposits		5,680	3,396
Loans and other receivables and cash and cash equivalents		12,208	9,280
	19	189,684	182,309

Company No. 735426-V

22. Realised gains and losses

	2019 RM'000	2018 RM'000
Property, plant and equipment		
Realised gain/ (loss)	326	(54)
Available-for-sale financial investments		
Realised gains:		
Malaysian government securities	1,797	315
Malaysian government guaranteed bonds	317	73
Corporate bond	2,954	-
	5,068	388
Realised losses:		
Corporate bond	-	(20)
	-	(20)
Net realised gains for available-for-sale financial investments	5,068	368
	5,394	314

23. Fair value gains and losses

	Note	2019 RM'000	2018 RM'000
Investment properties	5	241	-
		241	-

24. Fee and commission income

	Note	2019 RM'000	2018 RM'000
Reinsurance commission income		41,218	16,669
Deferred acquisition costs	11	2,408	1,926
Service charges		10,362	10,926
		53,988	29,521

Company No. 735426-V

25. Net claims incurred

	Note	2019 RM'000	2018 RM'000
Gross claims paid less salvage	14.1	1,169,615	1,253,199
Claims ceded to reinsurers	14.1	(105,921)	(129,844)
Net claims paid	14.1	1,063,694	1,123,355
Gross change in claims liabilities:			
At 31 December	14.1	2,554,244	2,475,391
At 1 January	14.1	(2,475,391)	(2,402,386)
		78,853	73,005
Change in claims liabilities ceded to reinsurers:			
At 31 December	14.1	(757,770)	(714,461)
At 1 January	14.1	714,461	695,905
		(43,309)	(18,556)
		1,099,238	1,177,804

26. Fee and commission expense

	Note	2019 RM'000	2018 RM'000
Gross direct commission		285,429	262,223
Deferred acquisition costs	11	(13,955)	922
		271,474	263,145

Company No. 735426-V

27. Management expenses

	Note	2019 RM'000	2018 RM'000
Employee benefit expenses	27.1	169,369	153,194
Executive directors' emoluments	27.2	5,182	2,296
Non-executive directors' emoluments	27.2	920	1,226
Auditors' remuneration:			
- Audit fees		342	365
- Non-Audit fees		61	111
Depreciation of property, plant and equipment	3	9,620	10,908
Depreciation of right-of-use	4	14,283	-
Amortisation of intangible assets	6	13,474	11,610
Allowance for impairment loss on insurance receivables		224	999
Reversal of impairment loss on other receivables		-	(577)
Bad debts recovered		(54)	(83)
Bad debts written off on insurance receivables		237	1,835
Bad debts written off on other receivables		-	1,245
Advertising expenses		10,831	11,293
Rental of office equipment		172	5,438
Rental of premises		637	8,200
Other expenses		147,813	139,716
		373,111	347,776

27.1 Employee benefit expenses

	Note	2019 RM'000	2018 RM'000
Wages and salaries		96,259	91,553
Bonus		52,376	43,689
Social security contributions		1,097	1,061
Contribution to Employees' Provident Fund		18,812	15,811
Other benefits		825	1,080
	27	169,369	153,194

Company No. 735426-V

27. Management expenses (continued)

27.2 Key management personnel compensation

	2019 RM'000	2018 RM'000
Executive director:		
Salaries and other emoluments	2,263	1,520
Bonus	2,919	776
Estimated monetary value of benefits-in-kind	85	24
	5,267	2,320
Non-executive directors:		
Fees	713	877
Other emoluments	207	349
Estimated monetary value of benefits-in-kind	-	180
	920	1,406
Other key management personnel* :		
Short-term employee benefits	4,845	4,381
	11,032	8,107

* Other key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

The details of remuneration receivable by the Chief Executive Officer during the year are as follows:

	Note	2019 RM'000	2018 RM'000
Salaries and other emoluments		2,263	1,520
Bonus		2,919	776
Estimated monetary value of benefits-in-kind		85	24
		5,267	2,320
Amount included in employee benefit expenses	27	5,182	2,296

27. Management expenses (continued)

27.2 Key management personnel compensation (continued)

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors are as follows:

2019	Fees RM'000	Salaries RM'000	Bonus RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
Executive Director/Chief Executive Officer						
- Zakri Bin Mohd Khir	-	1,000	2,919	1,263	85	5,267
Non-Executive Directors of the Company						
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	189	-	-	160	-	349
- Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	152	-	-	16	-	168
- Goh Ching Yin	137	-	-	16	-	153
- Peter Ho Kok Wai	99	-	-	10	-	109
- Datuk Gnanachandran A/L S Ayadurai	29	-	-	5	-	34
	606	-	-	207	-	813
Total Directors' Remuneration of the Company (including benefits-in-kind)	606	1,000	2,919	1,470	85	6,080
Non-Executive Directors of the holding company *						
- Foo San Kan	35	-	-	-	-	35
- Dato' Dr. Thillainathan A/L Ramasamy	69	-	-	-	-	69
- Marzida Binti Mohd Noor	3	-	-	-	-	3
Total Directors' Remuneration (including benefits-in-kind)	713	1,000	2,919	1,470	85	6,187

*Fees (and other emoluments) for their roles as members of the Board Committees.

Company No. 735426-V

27. Management expenses (continued)

27.2 Key management personnel compensation (continued)

2018	Fees RM'000	Salaries RM'000	Bonus RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
Executive Director/Chief Executive Officer						
- Zakri Bin Mohd Khir	-	1,000	776	520	24	2,320
Non-Executive Directors						
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	197	-	-	118	4	319
- Tan Sri Razali Bin Ismail	65	-	-	132	176	373
- Foo San Kan	122	-	-	17	-	139
- Dato' Dr. Thillainathan A/L Ramasamy	145	-	-	17	-	162
- Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	159	-	-	28	-	187
- Goh Ching Yin	140	-	-	26	-	166
- Peter Ho Kok Wai	49	-	-	11	-	60
	877	-	-	349	180	1,406
Total Directors' Remuneration (including benefits-in-kind)	877	1,000	776	869	204	3,726

28. Interest expense

	Note	2019 RM'000	2018 RM'000
Interest expense on lease liabilities		1,898	-

29. Tax expense

29.1 Recognised in profit or loss

	Note	2019 RM'000	2018 RM'000
Current tax expense			
Current year		92,382	100,868
Over provision in prior year		(10,643)	(14,791)
		81,739	86,077
Deferred tax expense/(income)			
Origination and reversal of temporary differences		4,474	(5,383)
Under provision in prior year		4,018	14,472
	15.2	8,492	9,089
Tax expense		90,231	95,166

29.2 Reconciliation of tax expense

	2019 RM'000	2018 RM'000
Profit before tax	364,784	351,293
Tax at Malaysian tax rate of 24% (2018: 24%)	87,548	84,310
Non-deductible expenses	14,638	11,381
Non-taxable income	(4,648)	(157)
Other items	(682)	(49)
	96,856	95,485
Over provision in prior year	(6,625)	(319)
Tax expense	90,231	95,166

29. Tax expense (continued)

29.3 Income tax recognised directly in other comprehensive income

	Note	2019 RM'000	2018 RM'000
Tax effects on Available-for-sale fair value reserve			
At 1 January		3,184	3,049
Net gain arising from change in fair value	15.2	19,367	135
At 31 December		22,551	3,184

30. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholder and a weighted average number of ordinary shares outstanding during the year calculated as follows:

	2019 RM'000	2018 RM'000
Profit for the year attributable to ordinary shareholder	274,553	256,127

	2019 '000	2018 '000
Weighted average number of ordinary shares during the year	379,168	379,168

Basic earnings per ordinary share	72.4	67.5

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the end of the reporting period.

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

Company No. 735426-V

31. Dividends

Dividend declared in each financial year by the Company as appropriation of profits is as follows:

	Sen per share (single tier)	Total amount RM'000	Date of payment
2019			
Interim 2019 ordinary	52.7	199,822	14 January 2020
2018			
Interim 2018 ordinary	42.1	159,630	17 January 2019

32. Operating leases

Leases as lessee

Total future minimum lease payments under operating leases are as follows:

	2019 RM'000	2018 RM'000
Less than one year	-	13,090
Between one and five years	-	4,923
	-	18,013

The leases typically run for an initial period of three years, with an option to renew the leases. None of the leases included contingent rentals.

From 1 January 2019, the Company has recognised right-of-use assets for these leases, except for short-term and low-value leases. (see Note 1.1 and Note 4 for further information).

33. Capital expenditure commitments

	2019 RM'000	2018 RM'000
Property, plant and equipment		
Contracted but not provided for	1,120	2,696
Software development		
Contracted but not provided for	83	1,275

Company No. 735426-V

34. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating 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.

Related Parties	Relationship
Allianz SE, Munich	Ultimate holding company
Allianz Malaysia Berhad	Holding company
Allianz Life Insurance Malaysia Berhad	Related company
Allianz Technology SE [Formerly known as Allianz Managed & Operations Services SE]	Related company
Allianz Investment Management SE	Related company
Allianz Investment Management Singapore Pte Ltd	Related company
Euler Hermes Singapore Services Pte Ltd	Related company
Euler Hermes Deutschland AG, Singapore branch	Related company
PT Asuransi Allianz Utama Indonesia Ltd	Related company
Allianz SE General Reinsurance Branch Labuan	Related company
Allianz Global Corporate & Specialty SE Hong Kong Branch	Related company
Allianz Global Corporate & Specialty SE	Related company
AWP Services Sdn Bhd	Related company
Rapidpro Consulting Sdn Bhd	Related company - Company connected to Director

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company and certain members of senior management of the Company. Compensation of key management personnel have been disclosed in Note 27.2. Apart from this, there are no other transactions with key management personnel.

Company No. 735426-V

34. Related parties (continued)

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

	Amount transacted for the year ended 31 December 2019 RM'000	Amount transacted for the year ended 31 December 2018 RM'000
Non-trade		
Ultimate holding company		
Payment of global marketing costs	(1,528)	(1,404)
Payment of HR consulting fee	-	(45)
Payment of training and other fees	(81)	(7)
Payment of software license fees	(38)	-
Payment of business building and regional investment	1,135	(5,052)
Payment of global technical support fees	(1,858)	(943)
Reimbursement of expenses made on behalf	(13)	(29)
Payment of Employee Share Purchase Plan	(1,217)	-
Immediate holding company		
Payment of expenses related to common resources	(10,697)	(10,058)
Receipt of rental of office premises	447	61
Payment of expenses made on behalf	(642)	(333)
Related companies*		
Payment of expenses related to common resources	(1,996)	(1,252)
Reimbursement of expenses made on behalf	15,084	5,560
Receipt of rental of office premises	103	156
Payment for Insurance premium	(410)	(382)
Payment of investment advisory fees	(782)	(1,190)
Payment of service fees	(1,776)	(1,098)

Company No. 735426-V

34. Related parties (continued)

	Amount transacted for the year ended 31 December 2019 RM'000	Amount transacted for the year ended 31 December 2018 RM'000
Non-trade (continued)		
Related companies* (continued)		
Payment of consultancy fees	-	(1,135)
Payment of training and other fees	(20)	(21)
Payment of software license fees	(4,900)	-
Payment of professional fees	(12)	-
Related party – Company connected with Director		
Payment of training and other fees	(1,162)	(966)
Trade		
Related companies*		
Reinsurance premiums ceded	(147,801)	(117,698)
Reinsurance commission income	12,874	9,570

* Related companies are companies within the Allianz SE group.

Related party transactions have been entered into the normal course of business under normal trade term.

Significant related party balances related to the above transactions are disclosed in Notes 9, 10, 17 and 18.

35. Risk management framework

As a provider of insurance services, the Company considers risk management to be one of its core competencies. It is an integral part of the Company's business process. In order to protect its assets, the Company has established a risk management framework to promote a strong risk management culture supported by a robust risk governance structure.

This framework ensures that risks are identified, analysed and evaluated. Risk appetite is defined by the Company's risk strategy and limit structure. Close monitoring and reporting allows the Company to detect deviations from its risk tolerance limits at an early stage.

The Allianz risk management framework consists of the following four primary components:

Risk underwriting and identification

A sound risk underwriting and identification framework including risk assessment, risk standards, and clear targets form the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, strategic or tactical asset allocation.

Risk reporting and monitoring

The Company's qualitative and quantitative risk reporting and controlling framework provides transparency and risk indicators to senior management with regards to its overall risk profile and whether the profile is within the delegated limits and authorities.

Risk strategy and risk appetite

The Company's risk strategy clearly defines its risk appetite. It ensures that returns are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into management and decision making process. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within its risk appetite.

Communication and transparency

Finally, a transparent and robust risk disclosure provides a basis for communicating this strategy to the Company's internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

35. Risk management framework (continued)

Risk governance structure

The Board of Directors of the Company ("the Board") assumes the ultimate responsibility over the effectiveness of the Company's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the responsibility to establish and supervise the operation of the risk management framework to the Risk Management Committee ("RMC") to discharge its oversight function effectively.

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Company. RMC also oversees the Senior Management's activities in managing the key risk areas of the Company and to ensure that risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of Allianz Malaysia Berhad Group of companies ("AMB Group") and to report to the Board on its recommendations and/or decisions. Through structured reporting from the Risk Management Working Committee ("RMWC"), RMC will consolidate the status of the risks and present them to the Board for consideration.

RMWC serves as and provides a platform for two way communications between the management and the RMC on matters of the AMB Group's risk management framework and its strategies. RMWC is responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendations to the Board. RMWC determines the allocation of risks by cascading and/or escalating to the relevant owners. RMWC also oversees the compliance of all risk management process by all departments of the Company and provides pre-emptive recommendations to ensure timely action is taken in managing and mitigating the identified risks.

Governance and regulatory framework

The Company is required to comply with the requirements of the Financial Services Act ("FSA"), 2013, relevant laws and guidelines required by BNM and Persatuan Insurans Am Malaysia ("PIAM").

The Company is also required to comply with all Allianz SE Group's policies and standards. If there is any conflict with the local laws or regulations, the local law or regulations have priority while the stricter will apply where possible.

36. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims, frequency and severity and risk of change in the legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks through a formalised reinsurance arrangement with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines, limits and standards.

The insurance risk of general insurance contracts consists of premium and reserve risks. Premium risk represents the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Reserve risks represent the risk of loss resulting from deviations between payments for incurred losses that have not yet been settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves.

The table below sets out the concentration of the general insurance risk based on the provision for outstanding claims (before impairment of reinsurance assets) as at the end of the reporting period by class of business.

	2019			2018		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Fire	360,755	(165,609)	195,146	349,196	(173,342)	175,854
Motor	1,368,723	(94,522)	1,274,201	1,427,041	(129,604)	1,297,437
Marine, aviation, cargo and transit	208,890	(173,930)	34,960	162,879	(133,120)	29,759
Miscellaneous	615,876	(326,295)	289,581	536,275	(281,010)	255,265
Total	2,554,244	(760,356)	1,793,888	2,475,391	(717,076)	1,758,315

36. Insurance risk (continued)

Key assumptions

The principal assumption underlying the liability estimates 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 one-off occurrence as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

No discounting is made to the recommended claims and premium liability provisions as a prudent measure. In addition, no explicit inflation adjustment has been made to claims amount payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development. It is worthwhile to note that discounting is unlikely to result in any material impact due to the short tail nature of almost all classes, coupled with the low prevailing interest rate environment.

The Company has based its risk margin for adverse deviation ("PRAD") for the unexpired risks reserves and insurance claims at the minimum 75% confidence level of sufficiency, according to the requirement set by BNM under the Risk-Based Capital ("RBC") Framework for Insurers.

Sensitivities

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 table presented below demonstrates the sensitivity of the insurance contract liabilities estimates to particular movements in assumptions used in the estimation process.

The analysis below is performed for reasonable possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

36. Insurance risk (continued)

Sensitivities (continued)

	Change in assumptions	Impact on Gross Liabilities	Impact on Net Liabilities	Impact on Profit after Tax	Impact on Equity*
31 December 2019		**RM'000**	**RM'000**	**RM'000**	**RM'000**
Average claim cost	+10%	254,536	181,949	(138,281)	(138,281)
Average number of claims	+10%	300,307	237,923	(180,822)	(180,822)
Average claim settlement period	Increased by 6 months	30,293	22,305	(16,952)	(16,952)
31 December 2018					
Average claim cost	+10%	253,224	178,746	(135,847)	(135,847)
Average number of claims	+10%	300,059	222,071	(168,774)	(168,774)
Average claim settlement period	Increased by 6 months	39,759	23,715	(18,023)	(18,023)

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

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

36. Insurance risk (continued)

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the 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 of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The management of the Company believes that the estimate of total claims outstanding as of 31 December 2019 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Company No. 735426-V

36. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 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		951,237	1,145,412	1,251,432	1,349,116	1,430,684	1,471,640	1,465,757	1,509,464	
One year later		848,149	1,182,773	1,193,164	1,278,469	1,368,219	1,406,527	1,380,596	-	
Two years later		835,047	1,119,096	1,154,151	1,256,084	1,352,452	1,362,861	-	-	
Three years later		834,615	1,096,339	1,141,005	1,235,679	1,325,371	-	-	-	
Four years later		824,626	1,167,402	1,141,354	1,224,698	-	-	-	-	
Five years later		822,964	1,157,674	1,135,385	-	-	-	-	-	
Six years later		811,411	1,132,788	-	-	-	-	-	-	
Seven years later		770,745	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		770,745	1,132,788	1,135,385	1,224,698	1,325,371	1,362,861	1,380,596	1,509,464	

36. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2019: (continued)

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		259,072	344,439	375,685	387,586	514,882	561,727	541,747	575,409	
One year later		544,612	729,326	771,098	861,538	924,136	979,473	946,706	-	
Two years later		648,982	857,382	924,769	1,013,855	1,054,371	1,104,991	-	-	
Three years later		711,572	916,928	986,338	1,070,252	1,116,845	-	-	-	
Four years later		731,860	1,065,902	1,017,591	1,092,007	-	-	-	-	
Five years later		740,708	1,072,513	1,024,854	-	-	-	-	-	
Six years later		741,565	1,077,989	-	-	-	-	-	-	
Seven years later		743,512	-	-	-	-	-	-	-	
Cumulative payments to-date		743,512	1,077,989	1,024,854	1,092,007	1,116,845	1,104,991	946,706	575,409	
Gross general insurance claims liabilities (direct and facultative)	100,624	27,233	54,799	110,531	132,691	208,526	257,870	433,890	934,055	2,260,219
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										44,839
Best estimate of claims liabilities										2,305,058
Claims handling expenses										23,858
PRAD at 75% confidence level										225,328
Gross general insurance claims liabilities										2,554,244

Company No. 735426-V

36. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2018:

Accident year	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year		863,518	951,237	1,145,412	1,251,432	1,349,116	1,430,684	1,471,640	1,465,757	
One year later		784,223	848,149	1,182,773	1,193,164	1,278,469	1,368,219	1,406,527	-	
Two years later		754,245	835,047	1,119,096	1,154,151	1,256,084	1,352,452	-	-	
Three years later		749,694	834,615	1,096,339	1,141,005	1,235,679	-	-	-	
Four years later		739,602	824,626	1,167,402	1,141,354	-	-	-	-	
Five years later		731,371	822,964	1,157,674	-	-	-	-	-	
Six years later		728,218	811,410	-	-	-	-	-	-	
Seven years later		714,082	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		714,082	811,410	1,157,674	1,141,354	1,235,679	1,352,452	1,406,527	1,465,757	

Company No. 735426-V

36. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2018: (continued)

Accident year	**Before 2011 RM'000**	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**	**2014 RM'000**	**2015 RM'000**	**2016 RM'000**	**2017 RM'000**	**2018 RM'000**	**Total RM'000**
At end of accident year		244,889	259,072	344,439	375,685	387,586	514,882	561,727	541,747	
One year later		520,198	544,612	729,326	771,098	861,538	924,136	979,473	-	
Two years later		620,775	648,982	857,382	924,769	1,013,855	1,054,371	-	-	
Three years later		656,267	711,572	916,928	986,338	1,070,252	-	-	-	
Four years later		668,021	731,860	1,065,902	1,017,591	-	-	-	-	
Five years later		675,224	740,708	1,072,513	-	-	-	-	-	
Six years later		678,145	741,565	-	-	-	-	-	-	
Seven years later		679,393	-	-	-	-	-	-	-	
Cumulative payments to-date		679,393	741,565	1,072,513	1,017,591	1,070,252	1,054,371	979,473	541,747	
Gross general insurance claims liabilities (direct and facultative)	103,065	34,689	69,845	85,161	123,763	165,427	298,081	427,054	924,010	2,231,095
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										12,613
Best estimate of claims liabilities										2,243,708
Claims handling expenses										20,967
PRAD at 75% confidence level										210,716
Gross general insurance claims liabilities										2,475,391

Company No. 735426-V

36. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 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		675,019	875,651	971,458	1,101,455	1,200,101	1,279,931	1,316,381	1,288,646	
One year later		616,026	817,971	932,778	1,073,872	1,123,821	1,228,773	1,250,031	-	
Two years later		611,364	811,555	906,323	1,049,986	1,097,165	1,198,917	-	-	
Three years later		612,798	799,099	897,675	1,021,432	1,075,612	-	-	-	
Four years later		605,242	798,047	888,196	1,014,846	-	-	-	-	
Five years later		605,079	791,855	882,916	-	-	-	-	-	
Six years later		594,527	768,990	-	-	-	-	-	-	
Seven years later		571,148	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		571,148	768,990	882,916	1,014,846	1,075,612	1,198,917	1,250,031	1,288,646	

36. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2019: (continued)

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		216,325	294,253	326,832	356,733	468,300	518,300	507,250	551,634	
One year later		424,771	572,157	638,954	746,891	817,863	896,008	888,891	-	
Two years later		497,895	667,310	743,920	872,368	925,817	998,910	-	-	
Three years later		533,335	704,910	790,073	918,932	972,070	-	-	-	
Four years later		546,263	724,817	809,772	934,819	-	-	-	-	
Five years later		551,615	729,683	815,608	-	-	-	-	-	
Six years later		553,220	733,553	-	-	-	-	-	-	
Seven years later		554,799	-	-	-	-	-	-	-	
Cumulative payments to-date		554,799	733,553	815,608	934,819	972,070	998,910	888,891	551,634	
Net general insurance claims liabilities (direct and facultative)	15,079	16,349	35,437	67,308	80,027	103,542	200,007	361,140	737,012	1,615,901
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										41,020
Best estimate of claims liabilities										1,656,921
Claims handling expenses										23,857
PRAD at 75% confidence level										115,696
Net general insurance claims liabilities										1,796,474

36. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2018:

Accident year	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year		622,921	675,019	875,651	971,458	1,101,455	1,200,101	1,279,931	1,316,381	
One year later		570,923	616,026	779,429	932,778	1,073,872	1,123,821	1,228,773	-	
Two years later		558,132	593,496	790,197	906,323	1,049,986	1,097,165	-	-	
Three years later		545,581	601,511	784,588	897,675	1,021,432	-	-	-	
Four years later		540,200	597,496	788,068	888,196	-	-	-	-	
Five years later		535,768	598,829	783,298	-	-	-	-	-	
Six years later		534,241	589,308	-	-	-	-	-	-	
Seven years later		525,067	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		525,067	589,308	783,298	888,196	1,021,432	1,097,165	1,228,773	1,316,381	

Company No. 735426-V

36. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2018: (continued)

Accident year	Before 2011 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year		201,756	216,325	294,253	326,832	356,733	468,300	518,300	507,250	
One year later		390,265	424,771	572,157	638,954	746,891	817,863	896,008	-	
Two years later		462,811	497,895	667,310	743,920	872,368	925,817	-	-	
Three years later		487,222	533,335	704,910	790,073	918,932	-	-	-	
Four years later		496,026	546,263	724,817	809,772	-	-	-	-	
Five years later		501,189	551,615	729,683	-	-	-	-	-	
Six years later		504,060	553,220	-	-	-	-	-	-	
Seven years later		504,999	-	-	-	-	-	-	-	
Cumulative payments to-date		504,999	553,220	729,683	809,772	918,932	925,817	896,008	507,250	
Net general insurance claims liabilities (direct and facultative)	16,629	20,068	36,088	53,615	78,424	102,500	171,348	332,765	809,131	1,620,568
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										(92)
Best estimate of claims liabilities										1,620,476
Claims handling expenses										20,967
PRAD at 75% confidence level										119,487
Net general insurance claims liabilities										1,760,930

37. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate risk, equity price risk) and operational risks arises in the normal course of the Company's business. The Company is guided by its risk management framework as well as policies and guidelines from the ultimate holding company, Allianz SE which sets out its general risk management philosophy. Through financial risk management, business strategies are evaluated to ensure their appropriateness to the strategic, operational and financial risks tolerance.

37.1 Credit risk

Credit risk involves the potential losses that may result from the default of counterparties to meet their contractual obligations. The Company is exposed to credit risk from the underwriting of general insurance business and investment in fixed income instruments. Financial losses may materialise when the counterparties failed to meet payment obligations for various reasons.

The Company has policies in place to mitigate the credit risk from underwriting of insurance business and it is monitored on an ongoing basis. Reinsurance is prioritised to local insurers or reinsurers, and if the Company has to place overseas, only counterparties with a credit rating that is acceptable based on Allianz Guideline for Reinsurance Security are used.

With effect from 12 September 2008, all new bond investments must carry a minimum rating of AA- or P1 by rating agencies established in Malaysia or minimum rating of BBB- by any internationally recognised rating agency as outlined in the Company's Investment Mandate which is approved by the Board of Directors.

The Company considers ratings of BBB and above as investment grades and ratings below BBB as non-investment grades. Assets which are not rated by rating agencies are classified as non-rated.

Company No. 735426-V

37. Financial risks (continued)

37.1 Credit risk (continued)

37.1.1 Credit exposure

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

	Neither past-due nor impaired				
	Investment grade RM'000	Non-investment grade RM'000	Non-rated RM'000	Past-due but not impaired RM'000	Total RM'000
31 December 2019					
Loans and receivables					
Loans and other receivables	-	-	96,603	-	96,603
Fixed deposits	203,011	-	-	-	203,011
Cash and cash equivalents	690,115	-	75	-	690,190
Available-for-sale financial investments					
Malaysian government securities	-	-	1,462,250	-	1,462,250
Malaysian government guaranteed bonds	-	-	736,147	-	736,147
Unquoted debt securities	1,255,005	-	-	-	1,255,005
Structured deposits and negotiable instruments of deposit with licensed financial institutions	20,348	-	-	-	20,348
Reinsurance assets (reported claims)	464,078	-	73,719	-	537,797
Insurance receivables	40,034	-	88,835	14,151	143,020
	2,672,591	-	2,457,629	14,151	5,144,371

Company No. 735426-V

37. Financial risks (continued)

37.1 Credit risk (continued)

37.1.1 Credit exposure (continued)

	Neither past-due nor impaired				
	Investment grade RM'000	Non-investment grade RM'000	Non-rated RM'000	Past-due but not impaired RM'000	Total RM'000
31 December 2018					
Loans and receivables					
Loans and other receivables	-	-	99,186	-	99,186
Fixed deposits	123,828	-	-	-	123,828
Cash and cash equivalents	489,956	-	80	-	490,036
Available-for-sale financial investments					
Malaysian government securities	-	-	1,531,876	-	1,531,876
Malaysian government guaranteed bonds	-	-	732,196	-	732,196
Unquoted debt securities	1,470,704	-	-	-	1,470,704
Structured deposits and negotiable instruments of deposit with licensed financial institutions	61,606	-	-	-	61,606
Reinsurance assets (reported claims)	451,753	-	65,598	-	517,351
Insurance receivables	73,109	-	49,553	24,739	147,401
	2,670,956	-	2,478,489	24,739	5,174,184

Company No. 735426-V

37. Financial risks (continued)

37.1 Credit risk (continued)

37.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company by classifying financial assets according to rating agencies' credit ratings of counterparties. AAA is the highest possible rating. Financial assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2019							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	96,603	96,603
Fixed deposits	100,693	102,318	-	-	-	-	203,011
Cash and cash equivalents	452,388	237,727	-	-	-	75	690,190
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,462,250	1,462,250
Malaysian government guaranteed bonds	-	-	-	-	-	736,147	736,147
Unquoted debt securities	746,213	474,257	30,786	3,749	-	-	1,255,005
Negotiable instruments of deposit with licensed financial institutions	20,348	-	-	-	-	-	20,348
Reinsurance assets (reported claims)	-	370,190	93,857	31	-	73,719	537,797
Insurance receivables	-	3,044	36,990	-	-	102,986	143,020
	1,319,642	1,187,536	161,633	3,780	-	2,471,780	5,144,371

37. Financial risks (continued)

37.1 Credit risk (continued)

37.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2018							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	99,186	99,186
Fixed deposits	72,963	50,865	-	-	-	-	123,828
Cash and cash equivalents	391,381	97,301	1,274	-	-	80	490,036
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,531,876	1,531,876
Malaysian government guaranteed bonds	-	-	-	-	-	732,196	732,196
Unquoted debt securities	816,513	650,442	-	3,749	-	-	1,470,704
Structured deposits and negotiable instruments of deposit with licensed financial institutions	61,606	-	-	-	-	-	61,606
Reinsurance assets (reported claims)	-	356,317	95,408	28	-	65,598	517,351
Insurance receivables	-	37,100	36,007	2	-	74,292	147,401
	1,342,463	1,192,025	132,689	3,779	-	2,503,228	5,174,184

37. Financial risks (continued)

37.1 Credit risk (continued)

37.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company according to the Company's categorisation of counterparties by credit rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2019							
Investment grade	1,319,642	1,187,536	161,633	3,780	-	-	2,672,591
Non-investment grade	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	2,457,629	2,457,629
Past-due but not impaired	-	-	-	-	-	14,151	14,151
	1,319,642	1,187,536	161,633	3,780	-	2,471,780	5,144,371

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2018							
Investment grade	1,342,463	1,192,025	132,689	3,779	-	-	2,670,956
Non-investment grade	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	2,478,489	2,478,489
Past-due but not impaired	-	-	-	-	-	24,739	24,739
	1,342,463	1,192,025	132,689	3,779	-	2,503,228	5,174,184

37. Financial risks (continued)

37.1 Credit risk (continued)

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

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past-due but not impaired as at the reporting date is as follows:

	1 to 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	More than 90 days RM'000	Total RM'000
31 December 2019					
Insurance receivables	3,572	2,294	2,171	6,114	14,151
31 December 2018					
Insurance receivables	3,964	8,775	1,423	10,577	24,739

Company No. 735426-V

37. Financial risks (continued)

37.1 Credit risk (continued)

37.1.3 Impaired financial assets

At 31 December 2019, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables amounting to RM55,675,000 (2018: RM55,451,000), loans and other receivables of RM1,410,000 (2018: RM1,410,000) and reinsurance assets of RM2,586,000 (2018: RM2,615,000). No collateral is held as security for any past-due or impaired assets. The Company records impairment allowance for insurance receivables and loans and other receivables in separate 'Allowance for Impairment' accounts and impairment allowance for reinsurance assets in net claims incurred. The movements of the allowance for impairment losses for insurance receivables and loans and other receivables are as follows:

	Insurance receivables		**Reinsurance assets**		**Loans and other receivables**	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
At 1 January	55,451	54,452	2,615	-	1,410	1,987
Impairment loss recognised	461	2,834	(29)	2,615	-	668
Written off during the year	(237)	(1,835)	-	-	-	(1,245)
At 31 December	55,675	55,451	2,586	2,615	1,410	1,410

37. Financial risks (continued)

37.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Company, refinancing is only possible at higher interest rates or assets may have to be liquidated at a discount.

Besides monitoring the liquidity position of the Company on a daily basis, the investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets in the portfolio. Some other tools used by the Company include ensuring that its assets and liabilities are adequately matched and drawing down of funds to meet claims payment should the claims event exceed a certain amount as provided for in the reinsurance contracts.

37.2.1 Maturity profiles

The tables below summarise the maturity profile of the financial liabilities of the Company at the end of the reporting period based on remaining undiscounted contractual obligations, including interest/profit payable.

For provision for claims, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

37. Financial risks (continued)

37.2 Liquidity risk (continued)

37.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2019								
Provision for claims (reported claims)	1,872,966	1,184,299	573,917	94,135	20,615	-	-	1,872,966
Lease liabilities	42,644	15,148	29,886		-	-	-	45,034
Insurance payables	206,318	182,026	24,076	216	-	-	-	206,318
Other payables and accruals	388,645	388,645	-	-	-	-	-	388,645
Total financial liabilities	2,510,573	1,770,118	627,879	94,351	20,615	-	-	2,512,963

Company No. 735426-V

37. Financial risks (continued)

37.2 Liquidity risk (continued)

37.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2018								
Provision for claims (reported claims)	1,734,155	1,067,899	538,667	107,578	20,011	-	-	1,734,155
Insurance payables	196,348	172,216	23,660	472	-	-	-	196,348
Other payables and accruals	308,936	308,936	-	-	-	-	-	308,936
Total financial liabilities	2,239,439	1,549,050	562,328	108,050	20,011	-	-	2,239,439

37. Financial risks (continued)

37.3 Market risk

Market risk is the risk of loss arising from changes in market prices or parameters influencing market prices. This includes changes in market prices due to a worsening of market liquidity. Market risk comprises of currency risk, interest rate risk and equity price risk.

The following risk mitigation actions are in place to control and monitor such risk:
- Investment Committee actively monitors the investment activities undertaken by the Company;
- The Investment Policy and Mandate which formulated the single counterparty limits, group limits and sector limits are in place. Compliance to such limits is monitored closely and reported to RMWC/RMC on a quarterly basis;
- Stress tests are performed as and when needed;
- Stop loss policy is in place.

37.3.1 Currency risk

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

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). 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 hence, primarily denominated in the same currency as its insurance contract liabilities. Thus, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

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

37. Financial risks (continued)

37.3 Market risk (continued)

37.3.2 Interest rate risk

The Company is affected by changes in market interest rates which will impact the fair value of available-for-sale financial instruments and will incur an economic loss when the interest rates increase.

Interest rate sensitivity analysis
The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit after tax and equity.

	Change in variables	Impact on Profit after Tax	Impact on Equity*
31 December 2019		**RM'000**	**RM'000**
Interest rate	+ 100 basis points	-	(88,665)
Interest rate	+ 50 basis points	-	(44,332)
Interest rate	- 100 basis points	-	88,665
Interest rate	- 50 basis points	-	44,332
31 December 2018			
Interest rate	+ 100 basis points	-	(95,994)
Interest rate	+ 50 basis points	-	(47,997)
Interest rate	- 100 basis points	-	95,994
Interest rate	- 50 basis points	-	47,997

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

It should be noted that movements in these variables are non-linear.

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

37. Financial risks (continued)

37.3 Market risk (continued)

37.3.3 Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market prices (other than those arising from changes in interest rates or foreign exchange rates), whether those changes are caused by factors specific to individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk policy requires it to prioritise capital preservation besides setting limits on overall portfolio, single security and sector holdings. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of equity price risk.

37.4 Operational risk

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

Relevant operational risks and control weaknesses are identified and evaluated via a structured self-assessment. Besides, operational risk events are collected so that significant losses can be used to analyse and provide measures aimed at avoiding or reducing future losses.

The Company puts in place the following controls to monitor and mitigate such risk:

- Effective segregation of duties;
- Access controls, authorisation and reconciliation procedures;
- Automation of processes where possible;
- Staff training; and
- Evaluation procedures such as internal audit.

37. Financial risks (continued)

37.5 Fair value of financial instruments

The basis of estimation of fair values for financial instruments is as follows:

(a) The fair values of structured deposits and negotiable instruments of deposit are based on the indicative market prices from the issuing banks.

(b) The fair values of Malaysian government securities, Malaysian government guaranteed bonds and unquoted debt securities are based on the fair values provided by the Company's custodian bank.

(c) The fair values of unquoted unit trust in Malaysia are based on the net asset values of the unquoted unit trust in Malaysia as at the date of the statements of assets and liabilities obtained from fund managers.

(d) The carrying amounts of fixed deposits are assumed to reasonably approximate their fair values.

(e) The carrying amounts of cash and cash equivalents, insurance receivables and other receivables, insurance payables, and other payables and accruals reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Company's investment in unquoted equity securities due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

Company No. 735426-V

37. Financial risks (continued)

37.5 Fair value of financial instruments (continued)

37.5.1 Fair value hierarchy

The tables below analyse financial instruments carried at fair value in the statement of financial position by the various levels within the fair value hierarchy.

	Fair value of financial instruments carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
31 December 2019						
Financial assets						
Malaysian government securities	-	1,462,250	-	1,462,250	1,462,250	1,462,250
Malaysian government guaranteed bonds	-	736,147	-	736,147	736,147	736,147
Unquoted debt securities	-	1,255,005	-	1,255,005	1,255,005	1,255,005
Unquoted unit trust in Malaysia	-	606,101	-	606,101	606,101	606,101
Negotiable instruments of deposit with licensed financial institutions	-	20,348	-	20,348	20,348	20,348
	-	4,079,851	-	4,079,851	4,079,851	4,079,851

37. Financial risks (continued)

37.5 Fair value of financial instruments (continued)

37.5.1 Fair value hierarchy (continued)

	Fair value of financial instruments carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
31 December 2018						
Financial assets						
Malaysian government securities	-	1,531,876	-	1,531,876	1,531,876	1,531,876
Malaysian government guaranteed bonds	-	732,196	-	732,196	732,196	732,196
Unquoted debt securities	-	1,470,704	-	1,470,704	1,470,704	1,470,704
Unquoted unit trust in Malaysia	-	200,258	-	200,258	200,258	200,258
Structured deposits and negotiable instruments of deposit with licensed financial institutions	-	61,606	-	61,606	61,606	61,606
	-	3,996,640	-	3,996,640	3,996,640	3,996,640

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 (2017: no transfer in either directions).

38. Capital management

The RBC Framework was first issued on 1 January 2009 and with the latest update that takes effect from 17 December 2018. Under the RBC Framework, insurance companies need to maintain a capital adequacy level that commensurate with their risk profiles. All insurance companies are required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130% and an internal target capital level required by BNM or level determined under the Internal Capital Adequacy Assessment Process. The internal target will include additional capacity to absorb unexpected losses beyond those that are covered under the minimum required CAR.

The Company has been in compliance with the said requirement by maintaining a CAR that is in excess of minimum requirement.

Regulatory capital requirements

The capital structure of the Company as at 31 December 2019, as prescribed under the RBC Framework is provided below:

	2019 RM'000	2018 RM'000
Tier 1 Capital		
Paid up share capital	379,168	379,168
Retained earnings	1,645,705	1,570,974
	2,024,873	1,950,142
Tier 2 Capital		
Reserves	91,476	30,147
	91,476	30,147
Amounts deducted from capital		
Intangible assets	(101,910)	(87,017)
Deferred tax assets	(18)	(14,051)
	(101,928)	(101,068)
Total capital available	2,014,421	1,879,221

39. Contingencies

On 10 August 2016, the Malaysia Competition Commission ("MyCC") commenced an investigation into an alleged infringement by Persatuan Insurans Am Malaysia ("PIAM") and all 22 general insurers including the Company of Section 4(2)(a) of the Competition Act 2010 ("CA"). The alleged infringement is in relation to the agreement reached between PIAM and the Federation Of Automobile Workshop Owners' Association Of Malaysia ("FAWOAM") in relation to trade discount rates for parts for certain vehicle makes and labour hourly rates for PIAM Approved Repairers Scheme workshops. These rates were applied by the Company pursuant to a members' circular issued by PIAM, which arose from Bank Negara Malaysia ("BNM")'s directive to PIAM to engage FAWOAM to resolve the issues of parts trade discounts and labour hourly rate.

On 22 February 2017, the Company received MyCC's notice of proposed decision ("Proposed Decision") that the Company and all the other 21 general insurers who are members of PIAM have infringed one of the prohibitions under Part II of the CA. The Proposed Decision includes a proposed financial penalty of RM213,454,814 on all the 22 general insurers. The Company, as one of the members of PIAM, will have a share of RM27,480,883 of the proposed penalty.

On 5 April and 25 April 2017, the Company submitted the written representations as requested by MyCC. The first session for the Hearing of the Oral Representation took place on 16 October 2017 (on preliminary issues) and 17 October 2017 (on PIAM's Oral Representation). The second session took place on 12 December 2017 and 14 December 2017 wherein other insurers had submitted their Oral Representations. The Company's oral representation took place on 29 January 2018 and the remaining insurers submitted their Oral Representations on 30 January 2018, bringing the Oral Representations of all insurers to a close. Due to the changes of the Members of Commission who heard the Company's Oral Representation, the Company's solicitors had requested MyCC to hold *de novo* (new) proceedings in relation to the Company's Oral Representation before the new Members of Commission. The Company's Oral Representation sessions took place on 19 and 20 February 2019. PIAM commenced its Oral Representation on 21 February 2019. BNM's Oral Representation took place on 13 May 2019 followed by Oral Representations by several counsel covering 6 insurers. The session on 14 May 2019 was vacated and the Oral Representation of PIAM's Competition Economist (RBB Economics) and the remaining insurer's counsel were heard over 17 and 18 June 2019. No indication was given as to the timeline of the delivery of the decision.

The Proposed Decision is not final as at the date of this report, and the Company in consultation with its legal advisers will take such appropriate actions to defend its position that it has not been in infringement of Section 4(2)(a) of the CA.

Saved as disclosed above, the Company does not have any other contingent assets and liabilities since the last annual balance sheet date.

40. Material litigation

Virginia Surety Company Labuan Branch (“VSC”) had provided reinsurance support to Commerce Assurance Berhad (now known as Bright Mission Berhad and which has since wound up) (“CAB”) previously in respect of CAB’s Extended Warranty Program (“EWP”).

The Company took over the general insurance business of CAB on 1 January 2009 and this included the reinsurance business relating to the EWP.

A dispute arose between both parties on the continuing subsistence of the reinsurance agreement from 1 October 2011 onwards. The Company’s legal position is that the reinsurance continued to remain in force from 1 October 2011 and determined only on 30 September 2013. This is disputed by VSC who claim that the treaty reinsurance lapsed on 30 September 2011.

On 11 December 2013, the Company commenced arbitration proceedings against VSC seeking, inter alia:

(a) A declaration that the reinsurance subsisted until 30 September 2013;
(b) A declaration that VSC will pay and/or indemnify the Company for its claims and losses arising from the reinsurance for the period from 1 October 2011 to 30 September 2013; and
(c) Damages to be assessed including for loss of profits and breach of contract.

The Closing Submissions and Reply Submissions were filed on 30 August 2017 and 27 September 2017 respectively and the Oral Submissions took place on 12 October 2017 and 13 October 2017. Both parties then filed further written submissions bringing the arbitration proceedings to an end.

An Arbitration Award dated 8 February 2018 was received on 20 February 2018. The award, made by 2 arbitrators of the Panel of 3 arbitrators, was in favour of VSC (“Award”) whilst the Dissenting Arbitrator found in favour of the Company.

The Award ordered AGIC to pay the following:

(a) RM30,593.64 as reimbursement of payment in respect of the Kuala Lumpur Regional Centre for Arbitration’s administrative expenses;
(b) RM425,324.32 as reimbursement of payment in respect of fees and expenses of the arbitral tribunal;
(c) RM668,160. 69 for costs and expenses incurred by VSC; and
(d) USD10,969.31 as reimbursement for costs incurred in respect of VSC’s ex-employee.

40. Material litigation (continued)

As the Company's solicitors were of the view that there were reasonable grounds to seek a review of the majority decision, an Originating Summons was filed in the Kuala Lumpur High Court on 29 March 2018 to set aside the Award under section 37(2)(b)(ii) of the Arbitration Act 2005 ("the Act") and for a Reference of Questions of law under section 42 of the Act. The matter was heard on 18 February 2019 and hearing continued on 13 March 2019 and concluded on 18 April 2019. On 28 June 2019, the Court declined AGIC's application to set aside the Award ("Decision"). Based on the Company's solicitors' advice, a Notice of Appeal against the Decision was filed on 15 July 2019 at the Court of Appeal. At the first case management on 4 September 2019, the Court of Appeal fixed the next case management for 9 October 2019 and since then the matter has since come up for case management on 20 November 2019 and 13 January 2020. On 13 January 2020, the Court of Appeal fixed a further case management for 19 February 2020, as the Company's solicitors have yet to receive the High Court's substantive Grounds of Decision. On 17 February 2020, the Court of Appeal wrote to parties' solicitors to give notice that the case management fixed for 19 February 2020 has been rescheduled to 26 February 2020. On 26 February 2020, the Court of Appeal was informed that AGIC's solicitors have yet to receive the High Court's substantive Grounds of Decision. As such, a further case management was fixed for 8 April 2020.

Meanwhile, VSC's solicitors had filed an Originating Summons dated 11 September 2019 ("VSC's OS") to recognise and enforce the Award against AGIC requiring AGIC to pay VSC all the costs ordered by the Award. AGIC's solicitors then filed a stay application on VSC's OS. On 25 October 2019, as VSC's solicitors had no objections to AGIC's stay application, a further case management date was fixed for 7 November 2019, in order for the stay order to be formally recorded before a Judge. On 7 November 2019, the Judge allowed AGIC's stay application and ordered VSC's enforcement proceedings be stayed pending the final determination of the appeal at the Court of Appeal. As the Judge was of the view that VSC'S OS should be withdrawn and filed afresh (should VSC succeed in dismissing the appeal), a further case management was fixed for 9 December 2019 in order for VSC's solicitors to obtain VSC's instructions. At the case management on 9 December 2019, as VSC's solicitors confirmed that they had instructions to withdraw VSC's OS, the Judge ordered that VSC's OS be struck out with liberty to file afresh.

41. *Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 Insurance Contracts ("the Amendments")*

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, effective for annual periods beginning on or after 1 January 2018.

The Company has applied the temporary exemption under Amendments to MFRS 4 - Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts which enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2021 at the latest. Hence, the Company has not adopted MFRS 9 for the financial year beginning on or after 1 January 2018.

An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018 and may start applying the overlay approach when it applies MFRS 9 for the first time.

The Amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9, Financial Instruments before the forthcoming new insurance contracts standard.

The Amendments provide 2 different approaches for the Company:

(i) temporary exemption from MFRS 9 for entities that meet specific requirements; and

(ii) the overlay approach. Both approaches are optional

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

The Company's business activity is predominantly insurance as the liabilities connected with the Company's insurance businesses made up of approximately 90% of the Company's total liabilities. Hence, the Company qualifies for the temporary exemption from applying MFRS 9 and will defer and adopt MFRS 9 together with MFRS 17, Insurance Contracts for the financial year beginning on or after 1 January 2021.

The following additional disclosures, required by Amendments to MFRS 4 for entity qualified and elected the temporary exemption from applying MFRS 9, present the Company's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

41. *Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts (continued)*

Fair value as at 31 December 2019	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total
Malaysian government securities	1,462,250	-	1,462,250
Malaysian government guaranteed bonds	736,147	-	736,147
Unquoted debt securities	1,255,005	-	1,255,005
Unquoted unit trust in Malaysia	-	606,101	606,101
Structured deposits and negotiable instruments of deposit with licensed financial institutions	20,348	-	20,348
Fixed deposits	203,011	-	203,011
Loans and other receivables	96,603	-	96,603
Cash and cash equivalents	690,190	-	690,190
Total financial assets	4,463,554	606,101	5,069,655

* Insurance receivables and reinsurance assets have been excluded from the above assessment as they will be under the scope of MFRS 17, Insurance Contracts.

Other than the financial assets included in the table above and assets that are within the scope of MFRS 17, *Insurance Contracts*, all other assets in the statement of financial position are non-financial assets.

Changes in fair value during the year	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total
Malaysian government securities	30,283	-	30,283
Malaysian government guaranteed bonds	23,091	-	23,091
Unquoted debt securities	26,706	-	26,706
Unquoted unit trust in Malaysia	-	723	723
Structured deposits and negotiable instruments of deposit with licensed financial institutions	(107)	-	(107)
Total financial assets	79,973	723	80,696

Company No. 735426-V

41. **Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4 *Insurance Contracts* (continued)**

Financial assets with SPPI cash flows

Gross carrying amounts under MFRS MFRS 139 by credit risk rating grades	**AAA RM'000**	**AA RM'000**	**A RM'000**	**BBB RM'000**	**Non-investment grade RM'000**	**Non-rated RM'000**	**Past-due but not impaired RM'000**	**Total RM'000**
Investments								
Malaysian government securities	-	-	-	-	-	1,462,250	-	1,462,250
Malaysian government guaranteed bonds	-	-	-	-	-	736,147	-	736,147
Unquoted debt securities	746,213	474,257	30,786	11,097	-	-	-	1,262,353
Negotiable instruments of deposit with licensed financial institutions	20,348	-	-	-	-	-	-	20,348
Fixed deposits	100,693	102,318	-	-	-	-	-	203,011
Loans and other receivables	-	-	-	-	-	96,603	-	96,603
Cash and cash equivalents	452,388	237,727	-	-	-	75	-	690,190
	1,319,642	814,302	30,786	11,097	-	2,295,075	-	4,470,902

Financial assets with SPPI cash flows

All financial assets with SPPI cash flows of the Company as at 31 December 2019 have low credit risk.

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

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 39 to 158 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 at 31 December 2019 and of its financial performance and cash flows for the financial year then ended.

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

Tan Sri Datuk (Dr.) Rafiah Binti Salim

Zakri Bin Mohd Khir

Kuala Lumpur,

Date: 27 February 2020

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

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

I, **Zakri Bin Mohd Khir**, the Director primarily responsible for the financial management of Allianz General Insurance Company (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 39 to 158 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 Zakri Bin Mohd Khir, I/C No: 631004-08-6325, at Kuala Lumpur in the Federal Territory on 27 February 2020.

Zakri Bin Mohd Khir

Before me:

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANZ GENERAL INSURANCE COMPANY (MALAYSIA) BERHAD

(Incorporated in Malaysia)
(Company No. 735426-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Allianz General Insurance Company (Malaysia) Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 39 to 158.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Company No. 735426-V

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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

Company No. 735426-V

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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:

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

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

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

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

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

Company No. 735426-V

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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

OTHER MATTERS

This report is made solely to the member 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.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2021 J
Chartered Accountant

Kuala Lumpur
27 February 2020