

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

**Financial statements for the year ended  
31 December 2018**  
(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)

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## Allianz General Insurance Company (Malaysia) Berhad

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

### Directors' report for the financial year ended 31 December 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2018.

#### 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

	<b>RM'000</b>
Profit for the year	<u>256,127</u>

#### Dividends

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

- (i) a single tier interim dividend of 21.0 sen per ordinary share totalling RM79,625,320.53 in respect of the financial year ended 31 December 2017 on 18 January 2018; and
- (ii) a single tier interim dividend of 42.1 sen per ordinary share totaling RM159,629,809.25 in respect of the financial year ended 31 December 2018 on 17 January 2019.

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.

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## **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 action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

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 at 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 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

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## **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 36 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 2018 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.

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## **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 RM17,560.

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)  
(Appointed as Chairman on 23 May 2018)

Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director)

Goh Ching Yin (Independent Non-Executive Director)

Peter Ho Kok Wai (Independent Non-Executive Director) (Appointed on 1 August 2018)

Zakri Bin Mohd Khir (Non-Independent Executive Director)

Tan Sri Razali Bin Ismail (Chairman - Non-Independent Non-Executive Director) (Retired on 22 May 2018)

Foo San Kan (Non-Independent Non-Executive Director) (Resigned on 1 August 2018)

Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director) (Resigned on 1 August 2018)

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## Directors' interests

As the Company is a wholly-owned subsidiary of 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			
	At 1.1.2018	Bought	Sold	At 31.12.2018
Interests in AMB				
Zakri Bin Mohd Khir	100	-	-	100

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	Number of Irredeemable Convertible Preference Shares ("ICPS")			
	At 1.1.2018	Bought	Sold	At 31.12.2018
Interests in AMB				
Zakri Bin Mohd Khir	200	-	-	200

Save as disclosed above, none of the other Directors holding office at 31 December 2018 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 25.2 in the financial statements or the fixed salary of a full time employee of the Company or of related companies/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.

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## 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’s website, [allianz.com.my](http://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.



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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

The profiles of the Board members are as follows:-

<b>Tan Sri Datuk (Dr.) Rafiah Binti Salim</b> Chairman - Independent Non-Executive Director	
Working experience	<p>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 BNM as the Assistant Governor for the Security Department, Legal Department and Property and Service Department.</p> <p>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 Vice-Chancellor/President of the University of Malaya.</p> <p>She was the Executive Director of NAM Institute for the Empowerment of Women from 2009 to 2013.</p> <p>Tan Sri Datuk (Dr.) Rafiah has been awarded the “Darjah Kebesaran Panglima Jasa Negara (“PJN”)” and the “Panglima Setia Mahkota (“PSM”)” from His Majesty The Yang di-Pertuan Agong.</p>
Shareholding in the Company	Nil

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Tunku Zain Al-Abidin Ibni Tuanku Muhriz</b> Independent Non-Executive Director	
Working experience	<p>Tunku Zain Al-'Abidin is Founding President of the Institute for Democracy and Economic Affairs; a Trustee of Yayasan Chow Kit, Yayasan Munarah, Jeffrey Cheah Foundation and Genovasi Foundation; an Independent Non-Executive Director of Allianz Malaysia Berhad, Allianz General Insurance Company (Malaysia) Berhad and Kian Joo Can Factory 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.</p> <p>Tunku Zain Al-'Abidin 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 Al-'Abidin 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.</p> <p>In 2006 he co-founded the Malaysia Think Tank which evolved into the Institute for Democracy and Economic Affairs (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 Al-'Abidin 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.</p>

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Tunku Zain Al-Abidin Ibni Tuanku Muhriz (continued)</b> <b>Independent Non-Executive Director</b>	
Working experience	<p>An Eisenhower Fellow, Tunku Zain Al-'Abidin has been selected for various leadership programmes by the governments of Australia, France and the European Union. Tunku Zain Al-'Abidin has been recognised with the Rotary Young Integrity Award in 2013 and a Top 10 Most Impactful Young Leaders Award in 2015.</p> <p>Tunku Zain Al-'Abidin is often invited to speak on subjects ranging from nation building, public policy, history, culture, law, business ethics and youth development.</p>
Shareholding in the Company	Nil

<b>Goh Ching Yin</b> <b>Independent Non-Executive Director</b>	
Working experience	<p>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.</p> <p>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.</p>

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Goh Ching Yin (continued)</b> <b>Independent Non-Executive Director</b>	
	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 the 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.
Shareholding in the Company	Nil

<b>Peter Ho Kok Wai</b> <b>Independent Non-Executive Director</b>	
Working experience	<p>Peter Ho Kok Wai is a Member of the Malaysian Institute of Accountants, Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Malaysian Institute of Certified Public Accountants.</p> <p>Peter Ho Kok Wai forged his early career with Everett Pinto &amp; Co., a central London Firm of Chartered Accountants and qualified as a Chartered Accountant in 1984.</p>

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Peter Ho Kok Wai (continued)</b> Independent Non-Executive Director	
	<p>Subsequently, in 1987, Peter Ho Kok Wai joined KPMG Kuala Lumpur where he progressed to Head of Department in 1992. He was transferred to KPMG Ipoh in 1993 to head the branch and was admitted as Partner in 1995. He was transferred back to KPMG Kuala Lumpur in 2005, where he had, at various times, headed the Technical Committee, Audit Function and Marketing Department.</p> <p>He has more than 35 years of auditing experience in a wide range of companies including public listed companies and multinationals, with particular emphasis in manufacturing, distribution and financial services. Peter Ho Kok Wai retired from KPMG in December 2014.</p>
Shareholding in the Company	Nil

<b>Zakri Bin Mohd Khir</b> Chief Executive Officer – Non-Independent Executive Director	
Working experience	<p>Zakri Bin Mohd Khir has over 30 years of experience in the insurance industry. He joined the Company 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 the Company before he assumed his current position as the Chief Executive Officer (“CEO”) of the Company in December 2010. Zakri Bin Mohd Khir is also the CEO of Allianz Malaysia Berhad (“AMB”) since September 2014. Prior to his employment with AMB Group, he was the General Manager of The American Malaysian Insurance Berhad.</p> <p>Zakri Bin Mohd Khir was appointed as a council member of Majlis Amanah Rakyat on 1 October 2018 and the Chairman of Social Security Organisation on 8 October 2018.</p>
Shareholding in the Company	Nil

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

During the financial year, the Company organised the following trainings to the Board:-

- Malaysian Financial Reporting Standard 17, 'Insurance Contracts'
- Sales and Services Tax
- FinTech Industry Update
- Integrated Reporting
- Cybersecurity

#### A2. Board Meetings

There were 10 Board Meetings held during the financial year ended 31 December 2018 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	10	10
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	10	10
Goh Ching Yin	10	10
Peter Ho Kok Wai	10	4 out of 4 meetings held after his appointment as Director on 1 August 2018
Zakri Bin Mohd Khir	10	10
Tan Sri Razali Bin Ismail	10	4 out of 5 meetings held prior to his retirement as Chairman and Director on 22 May 2018
Foo San Kan	10	6 out of 6 meetings held prior to his resignation as Director on 1 August 2018
Dato' Dr. Thillainathan Ramasamy A/L	10	6 out of 6 meetings held prior to his resignation as Director on 1 August 2018

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## Corporate governance disclosure (continued)

### A. Board of Directors (continued)

#### A3. Board Committees

The Company has since 1 January 2008 formally used the services of the below mentioned Board Committees of 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. These Board Committees shall have the authorities to examine particular issues and report to the Board with their observations and recommendations. The ultimate responsibility for the decision on all matters, however, lies with the entire Board.

#### 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)

Foo San Kan (Non-Independent Non-Executive Director of AMB)

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)

There were 5 AC Meetings held during the financial year ended 31 December 2018 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
Foo San Kan	5	5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5

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## 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’s website, [allianz.com.my](http://allianz.com.my).

##### A3.2 Risk Management Committee of AMB Board (“RMC”)

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

Goh Ching Yin (Chairman-Independent Non-Executive Director)  
 Foo San Kan (Non-Independent Non-Executive Director of AMB)  
 Dato’ Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director of AMB)  
 Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)  
 Tunku Zain Al-’Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director)

There were 4 RMC Meetings held during the financial year ended 31 December 2018 and the attendance of the abovementioned RMC members were as follows:-

<b>Name of Members</b>	<b>No. of RMC Meetings Held</b>	<b>No. of RMC Meetings Attended</b>
Goh Ching Yin	4	4
Foo San Kan	4	4
Dato’ Dr. Thillainathan A/L Ramasamy	4	4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	4
Tunku Zain Al-’Abidin Ibni Tuanku Muhriz	4	4



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## 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 functions 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's website, [allianz.com.my](http://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)

Foo San Kan (Non-Independent Non-Executive Director of AMB)

Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director of AMB)

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)

Tan Sri Razali Bin Ismail (Non-Independent Non-Executive Director) (Retired on 22 May 2018)

There were 7 NRC Meetings held during the financial year ended 31 December 2018 and the attendance of the abovementioned NRC members was as follows:-

Name of Members	No. of NRC Meetings Held	No. of NRC Meetings Attended
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz*	7	7
Foo San Kan	7	7
Dato' Dr. Thillainathan A/L Ramasamy	7	7
Tan Sri Datuk (Dr.) Rafiah Binti Salim*	7	7
Tan Sri Razali Bin Ismail	7	3 out of 3 meetings held prior to his retirement as Chairman and Director on 22 May 2018

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## **Corporate governance disclosure (continued)**

### **A. Board of Directors (continued)**

#### **A3. Board Committees (continued)**

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

Note:

- \* Tan Sri Datuk (Dr.) Rafiah Binti Salim relinquished her position as Chairman of NRC and was re-designated as a member of NRC on 23 May 2018. Tunku Zain Al-'Abidin Ibni Tuanku Muhriz was appointed as Chairman of the NRC on 23 May 2018 in place of Tan Sri Datuk (Dr.) Rafiah Binti Salim.

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's website, [allianz.com.my](http://allianz.com.my).

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## 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 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 BNM and Allianz SE Group's guidelines and policies.

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 Legal, Compliance, and Risk Management that are independent from business operations.

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

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B1. Risk Management Framework (continued)**

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

Both the Compliance and Risk Management functions report to the RMC which assists Board members 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, Actuarial function constitutes additional components of the "second line of defence". 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. An appropriate control framework has been established to avoid any potential conflict of interest to fulfil its role as the second line of defence.

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.

During the year, a Governance and Control Committee ("GOVCC") has been set up to provide a platform for a 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. The GOVCC comprises of senior management from the governance and operations functions. The GOVCC will report to the AC on matters relating to internal control system while the governance related matters will be reported to the Senior Management Committee.

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## Corporate governance disclosure (continued)

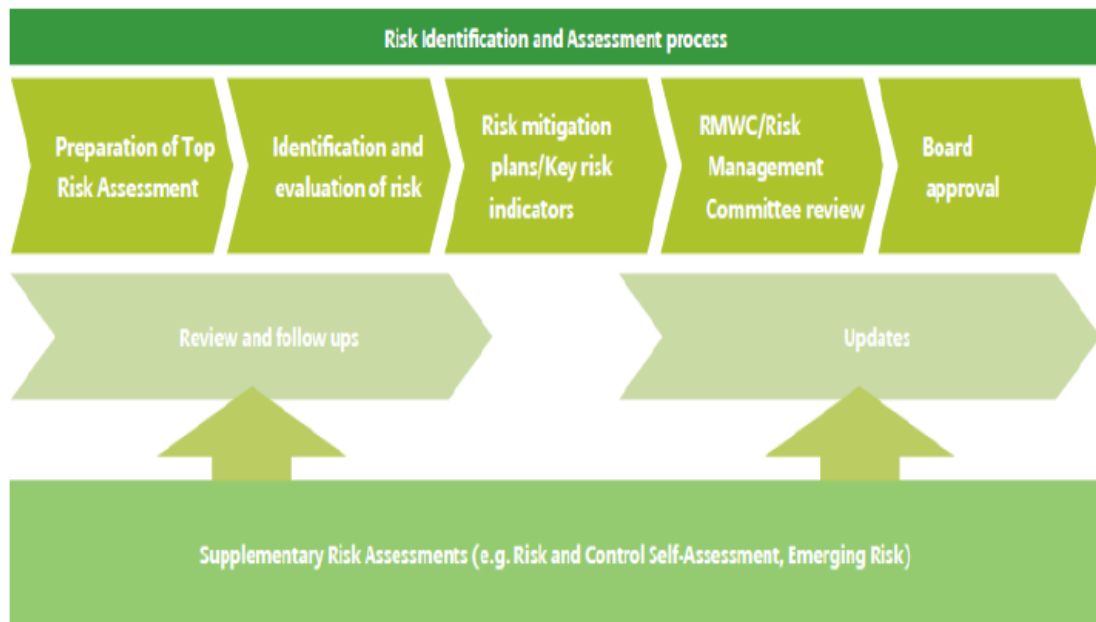
### B. Internal Control Framework (continued)

#### 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: -



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## Corporate governance disclosure (continued)

### B. Internal Control Framework (continued)

#### B1. Risk Management Framework (continued)

##### Risk Management Process (continued)

##### (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:-

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.	<ul style="list-style-type: none"> <li>Investment activity is strictly governed by the preapproved limits and appetite and monitored through a front end system. Any exception requires pre-approval.</li> <li>An asset and liability process has been put in place to manage the risks and returns expected from the insurance obligations.</li> </ul>

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## 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
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.	<ul style="list-style-type: none"> <li>• Credit analyses are conducted prior to purchase and regular review on portfolio.</li> <li>• Investment activity is strictly governed by the limits to ensure the diversification of investment portfolio to minimise the impact of default by any single counterparty.</li> <li>• Only uses pre-approved reinsurance partners with strong credit profiles.</li> </ul>
Underwriting	Unexpected financial losses due to inadequacy of premiums for catastrophe and non-catastrophe risks or due to the inadequacy of reserves.	<ul style="list-style-type: none"> <li>• Managed through a comprehensive and strict standard for underwriting limit guidelines. Where necessary, the risk will be surveyed by the loss control engineers.</li> <li>• Regular monitoring of products, assumptions used against actual industry statistics and re-pricing will be considered if necessary.</li> <li>• Adequate reinsurance is purchased and reviewed annually to ensure adequate continuous cover within acceptable appetite and costs.</li> <li>• New products undergo a robust product development process.</li> </ul>

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## 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
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.	<ul style="list-style-type: none"> <li>• Regular monitoring of actual experience.</li> <li>• New products undergo a robust product development.</li> </ul>
Legal and Compliance	Losses arising from a breach of relevant laws and regulations.	<ul style="list-style-type: none"> <li>• Trainings will be provided and annual declarations required from all staff.</li> <li>• New guidelines will be published in the Group's staff e-portal and highlighted through e-mails.</li> <li>• Regular reviews are conducted to ensure compliance.</li> </ul>
Cyber	Business disruption, data loss and leakage and loss of availability of services due to: <ul style="list-style-type: none"> <li>• Cyber-attack performed by internal or external parties including but not limited to criminal gangs, nation states or hacker activists</li> <li>• Social engineering including phishing, inserting subversive into organizations, interpersonal manipulation</li> <li>• Resource depletion (DoS, DDoS)</li> <li>• Web site defacement</li> </ul>	<ul style="list-style-type: none"> <li>• Strict policy and disciplinary action for security breach</li> <li>• Staff awareness on IT Security</li> <li>• Access Control</li> <li>• Regular review on User ID access.</li> <li>• Use of virus protection software</li> <li>• Data Loss Prevention solution</li> <li>• Conduct of Annual Penetration Testing by independent party to detect possible external and internal vulnerabilities.</li> <li>• IT security controls in place, such as Firewall, Malware Protection and DDOS protection</li> <li>• Privilege Identity Management</li> </ul>



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## 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
Cyber (continued)	<ul style="list-style-type: none"> <li>• Inadequate response plan and procedures for security incidents               <ul style="list-style-type: none"> <li>- Malicious physical damage -attacks (incl. unauthorized physical access) or tampering with information system</li> <li>- Misuse of privileged access rights and systems</li> </ul> </li> </ul> <p>resulting in compensation payments, or incremental operational costs, or legal costs, or reputation management costs.</p>	

##### (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 ("IAD") and reviews by risk management function.
- Other key risk indicators and feedback from subject matter experts (e.g. IT Security Officer, Data Privacy Officer, Business Continuity Management Officers, Anti-Fraud and Anti-Corruption Coordinators, as well as respective operation managers).

## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B1. Risk Management Framework (continued)**

##### **Risk Management Process (continued)**

###### **(iii) Reputational Risk Management**

All activities within the Company can influence its reputation, which is determined by the perceptions and beliefs of its stakeholders. Hence, thorough management of reputational risks is required. Any risks that might have significant impact on the Company or the Allianz SE Group 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 and 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 Group actively manages the reputational risk by assessing any potential risk arising from media press or any transaction relating to pre-defined sensitive areas.

###### **(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.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B1. Risk Management Framework (continued)**

##### **Risk Management Process (continued)**

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: -

##### **(i) 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 of the respective companies and business plans will be updated into the 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 even after the occurrence of a severe plausible event.

##### **(ii) 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.

The Board and Management participated actively in providing feedback on its results and appropriateness of its methodology and assumptions.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **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" and 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, sales operations, operation supports, corporate actuarial, customer service, internal and regulatory compliance audit such as business continuity management, replacement of policy anti-money laundering and information technology ("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 internal audit recommendations. All internal audit reports are submitted to the AC. The AC deliberates on the 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 audit plan.

#### **B3. Other Key Internal Control Process**

The other key processes that the Board has established to provide effective internal control 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 Company has formally used the service of the Board Committees of its immediate holding company, AMB.

## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Clear and Defined Organisational Structure (continued)**

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 covers 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.

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## **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 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 reviewed by the Senior Management Committee before submitting to the Board for approval. Financial condition and business performance reports are also submitted to the Board for review during the 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 were made to the Board and where required, prior approval of the Board and/or shareholders for the transactions had also been obtained.

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 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.

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## **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 respective 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.

The Company has in place the Group 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 RBC Framework for Insurers issued by BNM.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Investment (continued)**

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

##### **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 sanction list screening procedures are in place and any suspicious transactions are reported to the Compliance Department. In respect of education, staffs of the Company are trained on AML/CFT requirements to promote understanding of their fundamental responsibilities in adhering to the procedures of 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.



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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Product Development (continued)**

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

##### **Whistleblowing and Anti-Fraud**

The oversight of whistleblowing and fraud matters of the Company is performed by the AMB 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 an established whistleblowing mechanism in place to enable anonymous and non-anonymous reporting of any breach of 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.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **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 is aimed 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.

##### **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 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 for Business Ethics and Compliance;
- (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 (for employees under Sales Department only).

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Sales Policy and Sales Agent Code of Conduct**

The Company is 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 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 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.

##### **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 testing for Disaster Recovery Plan test for all main application systems is conducted at least twice a year.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Information System**

The Company complied with the 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 and a Group Information Security Policy and Standard ("Policy") to protect information confidentiality, integrity, availability and non-repudiation. All employees are required to strictly abide by and comply with the Policy.

An IT Steering Committee is established and responsible for the overall strategic deployment of IT in tandem with the business objectives of the Company, establishing effective IT plans, recommending to the Senior Management Committee for approval on IT-related expenditure and monitoring the progress of approved IT projects.

##### **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.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Data Privacy**

The Allianz Privacy Standard (“APS”), which superseded and replaced the Allianz Standard for Data Protection and Privacy, 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 that came into effect in May 2018, as well as additional requirements to facilitate cross-border transfers of personal data originating from or processed in the European Economic Area within the Allianz SE Group. The Company adopted the APS in May 2018 and signed the binding corporate rules, which is a legally recognised mechanism for legitimising and facilitating such cross-border transfers. 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 Practise 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.

The Company aims to fill open positions with internal employees who have the relevant knowledge, skills and aspiration to learn a new area. In the event that these positions cannot be filled by internal employees, the process of recruiting external candidates will begin. Candidates are sought from various sources and go through a selection process which comprises interviews, job-specific assessments as well as background and reference checks.

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## **Corporate governance disclosure (continued)**

### **B. Internal Control Framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Human Resources Policies and Procedures (continued)**

The Company aims to equip employees with the relevant knowledge, skills and competencies required for their roles and responsibilities through structured learning and development programmes. These include a combination of classroom training, on-the-job attachment, professional examinations, project assignments and mentorship programme. Employees are encouraged to embrace the culture of continuous learning for personal competency and career development.

Talent development is another key focus area of the Company. As part of on-going efforts in promoting a culture of high performance and in retaining key staff, the Company has embarked on a systematic approach for identifying and developing these talents. Key talent and high potentials are invited to attend a Development Centre to better gauge their strengths, areas for development and career aspiration. Through the Career Development Conference, the Management team is updated on the career and development progress of these individuals.

### **C. Remuneration**

The remuneration policy of the Company is approved by the Board and subject to periodic review. The remuneration system takes into account overall business objectives in line with the Company's mission and corporate values. Business objectives are set annually within the regulatory and risk framework within which the Company operates.

All recommendation for approval to the Board are first deliberated and reviewed by the NRC.

The remuneration components of employees are fixed and variable compensation. The fixed component of base salary is dependent on position responsibility as well as the experience and qualification of incumbent. The variable compensation is determined by individual performance against expectations and increases along level of accountability.

Company No. 735426-V
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## Corporate governance disclosure (continued)

### C. Remuneration (continued)

The Company adopts a 'pay-for-performance' philosophy and strives to ensure that employees are equitably remunerated for their contribution to overall business objectives. Based on targets set out at the start of each year, employees are evaluated on their performance against these targets. To ensure a fair standard of assessment, an overall performance calibration is undertaken by the Company. The quantum of remuneration is decided based on the outcome of the performance calibration. The size of the bonus pool is also determined by overall performance of the Company. All bonus payouts are subject to employee's compliance to all relevant internal and external codes of conduct, regulations and guidelines.

The remuneration of key senior officers ("Key Responsible Persons" or "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.

Remuneration payout schedule for the CEO reflects the time horizon of risks and takes account of the potential for financial risks to crystallise over a longer period of time. The remuneration of the CEO comprises a mix of cash and equity. A portion of the CEO's remuneration is deferred over a 3-year period. Adjustments to these portions are made in the event of poor performance or serious legal, regulatory or internal policy breaches. The deferment of payment is currently being reviewed for the KRPs.

### 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 25 to the financial statements.

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

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**Tan Sri Datuk (Dr.) Rafiah Binti Salim**  
Director

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**Zakri Bin Mohd Khir**  
Director

Kuala Lumpur,

Date: 21 February 2019



# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of financial position as at 31 December 2018

	Note	31.12.2018 RM'000	31.12.2017 RM'000 Restated	1.1.2017 RM'000 Restated
<b>Assets</b>				
Property, plant and equipment	3	80,427	85,674	82,930
Investment properties	4	16,074	16,074	26,497
Intangible assets	5	87,017	85,682	10,725
Deferred tax assets	14	14,051	23,275	14,613
Investments	6			
Malaysian government securities		1,531,876	1,685,537	1,648,419
Malaysian government guaranteed bonds		732,196	786,731	690,354
Unquoted debt securities		1,470,704	1,498,473	1,296,126
Unquoted equity securities		*	*	*
Unquoted unit trust in Malaysia		200,258	-	-
Fixed deposits		123,828	85,555	259,122
Structured deposits and negotiable instruments of deposit with licensed financial institutions		61,606	93,718	93,776
Reinsurance assets	7	837,426	824,948	909,050
Insurance receivables	8	147,401	196,187	219,515
Loans and other receivables	9	99,186	79,044	80,743
Deferred acquisition costs	10	95,060	94,056	86,928
Current tax assets		4,045	7,885	1,998
Cash and cash equivalents		490,036	213,394	174,150
<b>Total assets</b>		<b>5,991,191</b>	<b>5,776,233</b>	<b>5,594,946</b>

\* Denotes RM4

# Allianz General Insurance Company (Malaysia) Berhad

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

## Statement of financial position as at 31 December 2018 (continued)

	Note	31.12.2018 RM'000	31.12.2017 RM'000 Restated	1.1.2017 RM'000 Restated
<b>Equity and liabilities</b>				
Share capital	11	379,168	379,168	379,168
Retained earnings	12	1,570,973	1,474,477	1,367,018
Other reserves	12	30,148	29,723	17,747
<b>Total equity</b>		<b>1,980,289</b>	<b>1,883,368</b>	<b>1,763,933</b>
<hr/>				
Insurance contract liabilities	13	3,505,618	3,474,774	3,420,542
Insurance payables	15	196,348	217,532	219,576
Other payables and accruals	16	308,936	200,559	190,895
<b>Total liabilities</b>		<b>4,010,902</b>	<b>3,892,865</b>	<b>3,831,013</b>
<hr/>				
<b>Total equity and liabilities</b>		<b>5,991,191</b>	<b>5,776,233</b>	<b>5,594,946</b>

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 2018

	Note	31.12.2018 RM'000	31.12.2017 RM'000
			<b>Restated</b>
<b>Operating revenue</b>	17	2,345,789	2,253,969
Gross earned premiums	18	2,163,480	2,084,144
Premiums ceded to reinsurers	18	(235,806)	(271,163)
<b>Net earned premiums</b>		1,927,674	1,812,981
Investment income	19	182,309	169,825
Realised gains and losses	20	314	1,296
Fair value gains and losses	21	-	(2,409)
Fee and commission income	22	29,521	37,707
Other operating income		4,139	5,642
<b>Other income</b>		216,283	212,061
Gross claims paid		(1,253,199)	(1,366,531)
Claims ceded to reinsurers		129,844	291,729
Gross change in claims liabilities		(73,005)	(2,564)
Change in claims liabilities ceded to reinsurers		18,556	(57,957)
<b>Net claims incurred</b>	23	(1,177,804)	(1,135,323)
Fee and commission expense	24	(263,145)	(260,925)
Management expenses	25	(347,776)	(371,722)
Other operating expenses		(3,939)	(3,102)
<b>Other expenses</b>		(614,860)	(635,749)
<b>Profit before tax</b>		351,293	253,970
Tax expense	26	(95,166)	(66,886)
<b>Profit for the year</b>		256,127	187,084

# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of profit or loss for the year ended 31 December 2018 (continued)

	Note	31.12.2018 RM'000	31.12.2017 RM'000 Restated
<b>Profit attributable to:</b>			
Owner of the Company		256,127	187,084
		<hr/>	<hr/>
<b>Basic earnings per ordinary share (sen)</b>	27	67.5	49.3
		<hr/> <hr/>	<hr/> <hr/>

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 2018

	Note	31.12.2018 RM'000	31.12.2017 RM'000
<b>Profit for the year</b>		256,127	187,084
<b>Other comprehensive income</b>			<b>Restated</b>
<b>Item that may be reclassified subsequently to profit or loss</b>			
Fair value of available-for-sale financial assets	6.2		
Net unrealised gains arising during the financial year		927	17,014
Realised gains transferred to Statement of profit or loss		(368)	(1,256)
		<hr/> 559	<hr/> 15,758
Tax effects thereon	26.3	(135)	(3,782)
Fair value gains, net of tax		<hr/> 424	<hr/> 11,976
<b>Total other comprehensive income for the year, net of tax</b>		<hr/> 424	<hr/> 11,976
<b>Total comprehensive income for the year</b>		<hr/> <hr/> 256,551	<hr/> <hr/> 199,060
<b>Total comprehensive income attributable to:</b>			
Owner of the Company		<hr/> <hr/> 256,551	<hr/> <hr/> 199,060

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 2018

	← Non-distributable →				Distributable	
	Share capital	Capital reserve	Available-for-sale fair value reserve	Asset revaluation reserve	Retained earnings	Total equity
Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2017</b>	379,168	4,523	(2,318)	15,542	1,376,249	1,773,164
Change in accounting basis	-	-	-	-	(9,231)	(9,231)
<b>At 1 January 2017 (restated)</b>	379,168	4,523	(2,318)	15,542	1,367,018	1,763,933
Fair value of available-for-sale financial assets	-	-	11,976	-	-	11,976
<b>Total other comprehensive income for the year</b>	-	-	11,976	-	-	11,976
Profit for the year	-	-	-	-	187,084	187,084
<b>Total comprehensive income for the year</b>	-	-	11,976	-	187,084	199,060
<i>Contributions by and distributions to owner of the Company</i>						
- Dividends payable to the owner of the Company	-	-	-	-	(79,625)	(79,625)
<b>Total transactions with owner of the Company</b>	-	-	-	-	(79,625)	(79,625)
<b>At 31 December 2017</b>	379,168	4,523	9,658	15,542	1,474,477	1,883,368

# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of changes in equity for the year ended 31 December 2018 (continued)

	Note	← Non-distributable →			Distributable		Total equity RM'000
		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	
<b>At 1 January 2018</b>		379,168	4,523	9,658	15,542	1,498,119	1,907,010
Change in accounting basis		-	-	-	-	(23,642)	(23,642)
<b>At 1 January 2018 (restated)</b>		379,168	4,523	9,658	15,542	1,474,477	1,883,368
Fair value of available-for-sale financial assets		-	-	424	-	-	424
<b>Total other comprehensive income for the year</b>		-	-	424	-	-	424
Profit for the year		-	-	-	-	256,127	256,127
<b>Total comprehensive income for the year</b>		-	-	424	-	256,127	256,551
<i>Contributions by and distributions to owner of the Company</i>							
- Dividends payable to the owner of the Company	28	-	-	-	-	(159,630)	(159,630)
<b>Total transaction with owner of the Company</b>		-	-	-	-	(159,630)	(159,630)
<b>At 31 December 2018</b>		379,168	4,523	10,082	15,542	1,570,974	1,980,289
		Note 11	Note 12.1	Note 12.2	Note 12.3	Note 12.4	

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 2018

	31.12.2018	31.12.2017
	RM'000	RM'000
		Restated
<b>Operating activities</b>		
<b>Profit before tax</b>	351,293	253,970
Investment income	(182,309)	(169,825)
Realised gains recorded in profit or loss	(314)	(1,296)
Change in fair value of investment properties	-	2,409
Purchases of available-for-sale investments	(703,300)	(746,812)
Placement of fixed deposits	(142,986)	(4,586)
Proceeds from disposal of available-for-sale investments	271,978	208,678
Maturity of available-for-sale investments	500,988	227,000
Maturity of fixed deposits	105,321	174,400
<b>Non-cash items:</b>		
Depreciation of property, plant and equipment	10,908	11,539
Property, plant and equipment written off	497	7
Amortisation of intangible assets	11,610	6,850
Allowance for impairment loss on insurance receivables	999	38,380
Allowance for impairment loss on reinsurance assets	2,615	-
Reversal of impairment loss on other receivables	(577)	-
Bad debts recovered	(83)	(193)
Bad debts written off on insurance receivables	1,835	1,517
Bad debts written off on other receivables	1,245	-
Interest expense/ (income)	690	(139)
<b>Changes in working capital:</b>		
Change in reinsurance assets	(15,093)	84,102
Change in insurance receivables	45,367	(16,376)
Change in loans and other receivables	(20,096)	1,839
Change in deferred acquisition costs	(1,004)	(7,128)
Change in insurance contract liabilities	30,844	54,232
Change in insurance payables	(21,184)	(2,044)
Change in other payables and accruals	27,633	(9,673)
Cash generated from operating activities	276,877	106,851



# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of cash flows for the year ended 31 December 2018 (continued)

	31.12.2018 RM'000	31.12.2017 RM'000 Restated
Cash generated from operating activities	276,877	106,851
Interest income received	179,810	165,859
Dividend income from unquoted unit trust	655	-
Rental income received	316	82
Income tax paid	(82,235)	(85,217)
<b>Net cash flows generated from operating activities</b>	<u>375,423</u>	<u>187,575</u>
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	119	61
Purchase of property, plant and equipment	(7,573)	(7,396)
Purchase of intangible assets	(11,702)	(80,708)
<b>Net cash flows used in investing activities</b>	<u>(19,156)</u>	<u>(88,043)</u>
<b>Financing activities</b>		
Dividends paid to owners of the Company	(79,625)	(60,288)
<b>Net cash flows used in financing activities</b>	<u>(79,625)</u>	<u>(60,288)</u>
Net increase in cash and cash equivalents	276,642	39,244
Cash and cash equivalents at beginning of year	213,394	174,150
Cash and cash equivalents at end of year	<u>490,036</u>	<u>213,394</u>
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months)	484,739	212,937
Cash and bank balances	5,397	457
	<u>490,036</u>	<u>213,394</u>

# Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)

(Incorporated in Malaysia)

## Statement of cash flows for the year ended 31 December 2018 (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 RM74,414,000 (2017: RM78,350,000) held as cash collateral for guarantees issued on behalf of the policyholders (see Note 15).

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

# 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 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 21 February 2019.

## 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 2018 and adopted by the Company:

*MFRS 15, Revenue from Contracts with Customers*

*MFRS 9, Financial Instruments*

*Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts*

*Amendments to MFRS 2 - Share-based Payment – Classification and Measurement of Share-based Payment Transactions*

*Amendments to MFRS 140, Investment Property – Transfers of Investment Property*

#### **MFRS 15, Revenue from Contracts with Customers**

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risks and rewards.

The initial application of MFRS 15 does not have any material financial impacts to the current period and prior period financial statements of the Company as the Company's main source of revenue stream is arising from insurance contracts and investment related revenues that are scoped out of the Standard.

## 1. Basis of preparation (Continued)

### 1.1 Statement of compliance (continued)

#### **MFRS 9, *Financial Instruments***

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities and on hedge accounting.

The Company's business activities are predominantly insurance and hence qualify for the temporary exemption from applying MFRS 9 under the Amendments to MFRS 4, Insurance Contracts. Hence, the Company will defer and adopt MFRS 9 together with MFRS 17, Insurance Contracts on 1 January 2021.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9 and intends to adopt MFRS 9 together with MFRS 17 on 1 January 2021.

#### **Amendments to MFRS 4 - Applying MFRS 9 - *Financial Instruments* with MFRS 4 - *Insurance Contracts***

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. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

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.

## 1. Basis of preparation (continued)

### 1.1 Statement of compliance (continued)

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

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 Company's business activity is predominantly insurance as the liabilities connected with the Company's insurance businesses made up of more than 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"):

Financial assets *	Fair value as at 31.12.2018 RM'000	Change in fair value RM'000	Cash flows characteristic
Malaysian government securities	1,531,876	(5,633)	SPPI
Malaysian government guaranteed bonds	732,196	3,119	SPPI
Unquoted debt securities	1,470,704	3,545	SPPI
Unquoted unit trust in Malaysia	200,258	(397)	Non- SPPI
Structured deposits and negotiable instruments of deposit with licensed financial institutions	61,606	(75)	SPPI
Fixed deposits	123,828	-	SPPI
Loans and other receivables	99,186	-	SPPI
Cash and cash equivalents	490,036	-	SPPI
	4,709,690	559	

\* 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.

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## 1. Basis of preparation (continued)

### 1.1 Statement of compliance (continued)

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

Changes in fair value during the year	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total* RM'000
Investments			
Malaysian government securities	(5,633)	-	(5,633)
Malaysian government guaranteed bonds	3,119	-	3,119
Unquoted debt securities	3,545	-	3,545
Unquoted unit trust in Malaysia	-	(397)	(397)
Structured deposits and negotiable instruments of deposit with licensed financial institutions	(75)	-	(75)
Fixed deposits	-	-	-
Loans and other receivables	-	-	-
Cash and cash equivalents	-	-	-
<b>Total financial assets</b>	<b>956</b>	<b>(397)</b>	<b>559</b>

Company No. 735426-V
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## 1. Basis of preparation (continued)

### 1.1 Statement of compliance (continued)

#### 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	-	-	-	-	-	1,531,876	-	1,531,876
Malaysian government guaranteed bonds	-	-	-	-	-	732,196	-	732,196
Unquoted debt securities	816,513	650,442	-	11,097	-	-	-	1,478,052
Structured deposits and negotiable instruments of deposit with licensed financial institutions	61,606	-	-	-	-	-	-	61,606
Fixed deposits	72,963	50,865	-	-	-	-	-	123,828
Loans and other receivables	-	-	-	-	-	99,186	-	99,186
Cash and cash equivalents	391,381	97,301	1,274	-	-	80	-	490,036
	<u>1,342,463</u>	<u>798,608</u>	<u>1,274</u>	<u>11,097</u>	<u>-</u>	<u>2,363,338</u>	<u>-</u>	<u>4,516,780</u>

##### Financial assets with SPPI cash flows

All financial assets with SPPI cash flows of the Company as at 31 December 2018 have low credit risk.



## 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 2018 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 2019***

MFRS 16, *Leases*

IC Interpretation 23, *Uncertainty over Income Tax Treatments*

Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*

Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*

#### **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*.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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.

## 1. Basis of preparation (continued)

### 1.1 Statement of compliance (continued)

#### **MFRS 16, Leases (continued)**

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 is in the midst of finalising the initial assessment of the potential impact on its financial statements. The impact of applying MFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate, the composition of the lease portfolio at that date, the latest assessment of whether the Company will exercise any lease renewal options, and the extent to which the Company chooses to use practical expedients and recognition exemptions. The most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases. As at 31 December 2018, the Company's future minimum lease payments under non-cancellable operating leases amounting to RM13,388,000 on an undiscounted basis (see note 29). The Company will adopt MFRS 16 on 1 January 2019, using the modified retrospective approach.

#### ***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*

#### ***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.

## **1. Basis of preparation (continued)**

### **1.1 Statement of compliance (continued)**

The initial application of the abovementioned new standards, amendments to standards or interpretations issued by MASB effective for periods subsequent to 1 January 2019 are not expected to have any material financial impact to the current period and prior period financial statements of the Company except as mentioned above.

### **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 Ringgit Malaysia, 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	15 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 Leased assets**

#### **(a) 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.

#### **(b) 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. Significant accounting policies (continued)**

### **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.

#### **(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.

## **2. Significant accounting policies (continued)**

### **2.6 Financial instruments (continued)**

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

##### **Financial assets (continued)**

##### **(ii) Available-for-sale financial assets (continued)**

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.

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(e), have been met.

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

## **2. Significant accounting policies (continued)**

### **2.6 Financial instruments (continued)**

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

##### **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.

#### **(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.

## **2. Significant accounting policies (continued)**

### **2.6 Financial instruments (continued)**

#### **(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.

### **2.7 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.

## **2. Significant accounting policies (continued)**

### **2.7 Impairment of financial assets (continued)**

#### **(a) Financial assets, excluding insurance receivables (continued)**

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 approved by the Company's shareholder. Interim dividends are deducted from equity when they are paid.

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 inception 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<sup>th</sup> method (or other more accurate) for all other classes of Malaysian general policies
- 1/8<sup>th</sup> 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 5.

### **2.24 Restatement of comparatives**

During the financial year, the Company revised the accounting in relation to the deferment of reinsurance premium for non-proportionate reinsurance to better reflect the recognition of the loss occurring coverage in line with the terms of the reinsurance arrangements. In the prior periods, non-proportional unearned reinsurance premium reserves were determined based on the terms of the underlying policies.

As such, comparatives have been restated as disclosed in Note 38 to the financial statements.

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## 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
<b>Cost/Valuation</b>									
At 1 January 2017		19,406	29,245	1,659	79,507	1,266	25,931	2,442	159,456
Additions		-	-	-	3,507	325	404	3,160	7,396
Disposals		-	-	-	(4)	(99)	-	-	(103)
Reclassification		-	-	-	794	-	553	(1,347)	-
Transfer from investment properties	4	-	8,014	-	-	-	-	-	8,014
Transfer to intangible assets	5	-	-	-	-	-	-	(1,099)	(1,099)
Written off		-	-	-	(138)	-	(6)	-	(144)
At 31 December 2017/ 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	5	-	-	-	-	-	-	(1,243)	(1,243)
Written off		-	-	-	(1,773)	-	(6,763)	-	(8,536)
At 31 December 2018		19,406	37,259	1,659	89,802	1,057	20,217	1,432	170,832

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### 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
<b>Depreciation</b>									
At 1 January 2017		26	496	63	59,869	506	15,566	-	76,526
Depreciation for the year	25	163	1,147	21	7,844	301	2,063	-	11,539
Disposals		-	-	-	-	(82)	-	-	(82)
Written off		-	-	-	(131)	-	(6)	-	(137)
At 31 December 2017/ 1 January 2018		189	1,643	84	67,582	725	17,623	-	87,846
Depreciation for the year	25	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		352	2,790	105	73,666	677	12,815	-	90,405



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### 3. Property, plant and equipment (continued)

				Office equipment, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work-in- progress	Total
Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Carrying amounts</b>								
At 1 January 2017	19,380	28,749	1,596	19,638	760	10,365	2,442	82,930
At 31 December 2017/ 1 January 2018	19,217	35,616	1,575	16,084	767	9,259	3,156	85,674
At 31 December 2018	19,054	34,469	1,554	16,136	380	7,402	1,432	80,427

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

### 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. There is no material change in fair value in 2018.

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Land	7,973	8,036
Buildings	28,169	29,034
Land and buildings	1,270	1,286
	<u>37,412</u>	<u>38,356</u>

#### 3.2 Fair value information

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

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

	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Land	-	-	19,217	19,217
Buildings	-	-	35,616	35,616
Land and buildings	-	-	1,575	1,575
	<u>-</u>	<u>-</u>	<u>56,408</u>	<u>56,408</u>

### 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 ("per sq foot") 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 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	2018 Fair Value (RM'000)	2018 Adjusted Price per sq foot RM/psf	2017 Fair Value (RM'000)	2017 Adjusted Price per sq foot RM/psf
Sales comparison approach	55,077	283 – 2,643	56,408	283 – 2,643

### 4. Investment properties

	Note	2018 RM'000	2017 RM'000
At 1 January		16,074	26,497
Change in fair value recognized in profit or loss	21	-	(2,409)
Transfer to property, plant and equipment	3	-	(8,014)
At 31 December		<u>16,074</u>	<u>16,074</u>

#### Included in the above is:

	2018 RM'000	2017 RM'000
At fair value: Buildings	<u>16,074</u>	<u>16,074</u>

#### 4. Investment properties (continued)

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:

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

	2017			
	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 2018 and 31 December 2017 were determined by external independent valuers.

The Level 3 unobservable input used in the valuation of investment properties is the price per square foot ("per sq foot") 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 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	2018	2018	2017	2017
	Fair Value (RM'000)	Adjusted Price per sq foot RM/psf	Fair Value (RM'000)	Adjusted Price per sq foot RM/psf
Sales comparison approach	16,074	1,100	16,074	1,100

## 5. Intangible assets

	Note	Software development costs RM'000	Other intangible asset RM'000	Total RM'000
<b>Cost</b>				
At 1 January 2017		27,363	-	27,363
Additions		13,708	67,000	80,708
Transfer from property, plant and equipment	3	1,099	-	1,099
At 31 December 2017/ 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		55,115	67,000	122,115
<b>Amortisation</b>				
At 1 January		16,638	-	16,638
Amortisation for the year	25	4,617	2,233	6,850
At 31 December 2017/ 1 January 2018		21,255	2,233	23,488
Amortisation for the year	25	7,143	4,467	11,610
At 31 December 2018		28,398	6,700	35,098
<b>Carrying amounts</b>				
At 1 January 2017		10,725	-	10,725
At 31 December 2017/ 1 January 2018		20,915	64,767	85,682
At 31 December 2018		26,717	60,300	87,017

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 asset is in relation to the exclusive Bancassurance Agreement which is effective from 1 July 2017 for the distribution of the Company's insurance products.

## 5. Intangible assets (continued)

The fee for this exclusive right is amortised over its useful life of 15 years using the straight-line method. The Company conducts impairment assessment when there is an indication of impairment 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 tenure of the agreement of 15 years using the discounted cash flow model.

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

<b>Key assumptions</b>	<b>2018</b>	<b>2017</b>
Bancassurance average annualised gross written premium growth rate	14.0%	19.0%
Discount rate - pre tax	10.6%	11.2%

### **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.

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## 6. Investments

	2018 RM'000	2017 RM'000
Malaysian government securities	1,531,876	1,685,536
Malaysian government guaranteed bonds	732,196	786,731
Unquoted debt securities	1,470,704	1,498,473
Unquoted equity securities	*	*
Unquoted unit trust in Malaysia	200,258	-
Fixed deposits	123,828	85,555
Structured deposits and negotiable instruments of deposit with licensed financial institutions	61,606	93,718
	<u>4,120,468</u>	<u>4,150,013</u>

\* Denotes RM4

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

	2018 RM'000	2017 RM'000
Loans and receivables ("L&R")	123,828	85,555
Available-for-sale financial assets ("AFS")	3,996,640	4,064,458
	<u>4,120,468</u>	<u>4,150,013</u>

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## 6. Investments (continued)

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

	2018		2017	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
<b>Loans and receivables</b>				
Fixed deposits	123,828	123,828	85,555	85,555
<b>Available-for-sale financial assets</b>				
Malaysian government securities	1,531,876	1,531,876	1,685,536	1,685,536
Malaysian government guaranteed bonds	732,196	732,196	786,731	786,731
Unquoted unit trust in Malaysia	200,258	200,258	-	-
Unquoted debt securities	1,470,704	1,470,704	1,498,473	1,498,473
Unquoted equity securities	*	-	*	-
Structured deposits and negotiable instruments of deposit with licensed financial institutions	61,606	61,606	93,718	93,718
	<u>3,996,640</u>	<u>3,996,640</u>	<u>4,064,458</u>	<u>4,064,458</u>
	<u>4,120,468</u>	<u>4,120,468</u>	<u>4,150,013</u>	<u>4,150,013</u>

\* Denotes RM4



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## 6. Investments (continued)

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

	L&R RM'000	AFS RM'000	Total RM'000
<b>At 1 January 2017</b>	259,121	3,728,676	3,987,797
Purchases	4,586	746,812	751,398
Maturities	(174,400)	(227,000)	(401,400)
Disposals	-	(207,422)	(207,422)
Fair value loss recorded in other comprehensive income	-	15,758	15,758
Accretion	-	5,449	5,449
Amortisation	-	(1,982)	(1,982)
Movement in income due and accrued	(3,752)	4,167	415
<b>At 31 December 2017/1 January 2018</b>	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 gain 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)
<b>At 31 December 2018</b>	123,828	3,996,640	4,120,468

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## 7. Reinsurance assets

	Note	31.12.2018 RM'000	31.12.2017 RM'000 Restated	1.1.2017 RM'000 Restated
<b>Non-current</b>				
<b>Reinsurance of insurance contracts</b>				
Claims liabilities		271,333	264,972	300,522
<b>Current</b>				
<b>Reinsurance of insurance contracts</b>				
Claims liabilities		445,743	430,933	453,340
Allowance for impairment	34.1.3	(2,615)	-	-
		443,128	430,933	453,340
Premium liabilities	13.2	122,965	129,043	155,188
		566,093	559,976	608,528
		837,426	824,948	909,050

## 8. Insurance receivables

	Note	2018 RM'000	2017 RM'000
<b>Current</b>			
Due premiums including agent, brokers and co-insurers balances		111,945	148,123
Due from reinsurers and cedants		61,494	71,333
		173,439	219,456
Allowance for impairment	34.1.3	(55,451)	(54,452)
		117,988	165,004
Due from related companies	8.1	29,413	31,183
		147,401	196,187

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.

### 8.1 Amounts due from related companies

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

**8. Insurance receivables (continued)****8.2 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. (2017: Nil)

**9. Loans and other receivables**

	Note	2018 RM'000	2017 RM'000
<b>Non-current</b>			
<b>Staff loans</b>			
Mortgage loans		4,889	4,644
Other secured loans		978	906
		<u>5,867</u>	<u>5,550</u>
<b>Other receivables</b>			
Other receivables, deposits and prepayments		4,006	5,324
Malaysian Institute of Insurance ("MII") bonds		490	490
		<u>4,496</u>	<u>5,814</u>
		<u>10,363</u>	<u>11,364</u>
<b>Current</b>			
<b>Staff loans</b>			
Mortgage loans		549	490
Other secured loans		329	299
		<u>878</u>	<u>789</u>
<b>Other receivables</b>			
Deposits		4,575	4,630
Malaysian Motor Insurance Pool ("MMIP")		52,898	45,354
Other receivables and prepayments		31,181	17,788
Allowance for impairment	34.1.3	(1,410)	(1,987)
		<u>87,244</u>	<u>65,785</u>
Due from related companies	9.1	701	1,106
		<u>87,945</u>	<u>66,891</u>
		<u>88,823</u>	<u>67,680</u>
Total loans and other receivables		<u>99,186</u>	<u>79,044</u>

**9. 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.

**9.1 Amounts due from related companies**

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

**10. Deferred acquisition costs**

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2017		99,983	(13,055)	86,928
Movement during the year	22,24	7,742	(614)	7,128
At 31 December 2017/ 1 January 2018		107,725	(13,669)	94,056
Movement during the year	22,24	(922)	1,926	1,004
At 31 December 2018		106,803	(11,743)	95,060

**11. Share capital**

	2018		2017	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
<b>Ordinary shares issued and fully paid</b>				
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.

## **12. Retained earnings and other reserves**

### **12.1 Capital reserve**

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

### **12.2 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.

### **12.3 Revaluation reserve**

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

### **12.4 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.

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### 13. Insurance contract liabilities

General insurance contract liabilities consist of:

	Note	Gross RM'000	31.12.2018 Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	31.12.2017 Reinsurance RM'000 Restated (Note 7)	Net RM'000	Gross RM'000	1.1.2017 Reinsurance RM'000 Restated (Note 7)	Net RM'000
Provision for claims reported by policyholders		1,734,155	(517,351)	1,216,804	1,690,486	(477,442)	1,213,044	1,677,124	(544,462)	1,132,662
Provision for incurred but not reported claims ("IBNR")		741,236	(199,725)	541,511	711,900	(218,463)	493,437	722,698	(209,400)	513,298
		<u>2,475,391</u>	<u>(717,076)</u>	<u>1,758,315</u>	<u>2,402,386</u>	<u>(695,905)</u>	<u>1,706,481</u>	<u>2,399,822</u>	<u>(753,862)</u>	<u>1,645,960</u>
Allowance for impairment		-	2,615	2,615	-	-	-	-	-	-
Provision for outstanding claims	13.1	2,475,391	(714,461)	1,760,930	2,402,386	(695,905)	1,706,481	2,399,822	(753,862)	1,645,960
Provision for unearned premiums	13.2	1,030,227	(122,965)	907,262	1,072,388	(129,043)	943,345	1,020,720	(155,188)	865,532
		<u>3,505,618</u>	<u>(837,426)</u>	<u>2,668,192</u>	<u>3,474,774</u>	<u>(824,948)</u>	<u>2,649,826</u>	<u>3,420,542</u>	<u>(909,050)</u>	<u>2,511,492</u>

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**13. Insurance contract liabilities (continued)****13.1 Provision for outstanding claims - movements**

	Note	Gross RM'000	31.12.2018 Reinsurance RM'000	Net RM'000	Gross RM'000	31.12.2017 Reinsurance RM'000	Net RM'000	Gross RM'000	1.1.2017 Reinsurance RM'000	Net RM'000
			(Note 7)			Restated (Note 7)			Restated (Note 7)	
At 1 January	23	2,402,386	(695,905)	1,706,481	2,399,822	(753,862)	1,645,960	2,460,011	(878,371)	1,581,640
Claims incurred in the current accident year		1,468,163	(143,773)	1,324,390	1,460,953	(196,008)	1,264,945	1,399,877	(205,960)	1,193,917
Other movements in claims incurred in prior accident years		(141,959)	(4,627)	(146,586)	(91,858)	(37,764)	(129,622)	(208,773)	93,009	(115,764)
Claims paid during the year	23	(1,253,199)	129,844	(1,123,355)	(1,366,531)	291,729	(1,074,802)	(1,251,293)	237,460	(1,013,833)
At 31 December	23	2,475,391	(714,461)	1,760,930	2,402,386	(695,905)	1,706,481	2,399,822	(753,862)	1,645,960

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### 13. Insurance contract liabilities (continued)

#### 13.2 Provision for unearned premiums - movements

	Note	Gross RM'000	31.12.2018 Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	31.12.2017 Reinsurance RM'000 Restated (Note 7)	Net RM'000	Gross RM'000	1.1.2017 Reinsurance RM'000 Restated (Note 7)	Net RM'000
At 1 January		1,072,388	(129,043)	943,345	1,020,720	(155,188)	865,532	1,020,899	(185,859)	835,040
Premiums written in the year	18	2,121,319	(229,728)	1,891,591	2,135,812	(245,018)	1,890,794	2,082,923	(321,305)	1,761,618
Premiums earned during the year	18	(2,163,480)	235,806	(1,927,674)	(2,084,144)	271,163	(1,812,981)	(2,083,102)	351,976	(1,731,126)
At 31 December		<u>1,030,227</u>	<u>(122,965)</u>	<u>907,262</u>	<u>1,072,388</u>	<u>(129,043)</u>	<u>943,345</u>	<u>1,020,720</u>	<u>(155,188)</u>	<u>865,532</u>



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#### 14. Deferred tax assets/(liabilities)

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

	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property, plant and equipment						
- Capital allowance	-	-	(1,986)	(2,125)	(1,986)	(2,125)
- Revaluation reserve	-	-	(3,493)	(3,493)	(3,493)	(3,493)
- Impairment	250	250	-	-	250	250
Intangible assets	-	-	(15,253)	-	(15,253)	-
Investment properties - impairment	1,059	1,059	-	-	1,059	1,059
Allowance for impairment on insurance receivables	12,483	11,549	-	-	12,483	11,549
Other payables and accruals	19,675	17,398	-	-	19,675	17,398
Investments						
- Fair value reserve	-	-	(3,184)	(3,049)	(3,184)	(3,049)
- Impairment	1,778	1,778	-	-	1,778	1,778
Other items	2,722	-	-	(92)	2,722	(92)
Offset of tax	(23,916)	(8,759)	23,916	8,759	-	-
Net deferred tax assets	14,051	23,275	-	-	14,051	23,275

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#### 14. Deferred tax assets/(liabilities) (continued)

##### 14.2 Movement in temporary differences during the year

	At 1 January 2017 RM'000	Recognised in profit or loss (Note 26.1) RM'000	Recognised in other comprehen- sive income (Note 26.3) RM'000	At 31 December 2017/At 1 January 2018 RM'000	Recognised in profit or loss (Note 26.1) RM'000	Recognised in other comprehen- sive income (Note 26.3) RM'000	At 31 December 2018 RM'000
Property, plant and equipment							
- Capital allowance	(2,576)	451	-	(2,125)	139	-	(1,986)
- Revaluation reserve	(3,493)	-	-	(3,493)	-	-	(3,493)
- Impairment	250	-	-	250	-	-	250
Investment properties							
- Impairment	482	577	-	1,059	-	-	1,059
Intangible assets	(1,091)	1,091	-	-	(15,253)	-	(15,253)
Allowance for impairment on insurance receivables	2,254	9,295	-	11,549	934	-	12,483
Other payables and accruals	14,830	2,568	-	17,398	2,277	-	19,675
Investments							
- Fair value reserve	733	-	(3,782)	(3,049)	-	(135)	(3,184)
- Impairment	1,778	-	-	1,778	-	-	1,778
Other items	1,446	(1,538)	-	(92)	2,814	-	2,722
	<b>14,613</b>	<b>12,444</b>	<b>(3,782)</b>	<b>23,275</b>	<b>(9,089)</b>	<b>(135)</b>	<b>14,051</b>

**15. Insurance payables**

	Note	2018 RM'000	2017 RM'000
<b>Non-current</b>			
Performance bond deposits	15.1	24,132	25,351
<b>Current</b>			
Due to reinsurers and cedants		60,868	62,488
Due to agents and intermediaries		36,392	42,233
Performance bond deposits	15.1	50,282	52,999
Due to related companies	15.2	24,674	34,461
		<u>172,216</u>	<u>192,181</u>
		<u>196,348</u>	<u>217,532</u>

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.

**15.1 Performance bond deposits**

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

**15.2 Amounts due to related companies**

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

**15.3 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. (2017: Nil)

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**16. Other payables and accruals**

	Note	2018 RM'000	2017 RM'000
<b>Current</b>			
Due to ultimate holding company	16.1	13,362	13,816
Due to immediate holding company	16.1	9,494	764
Other payables		42,611	10,658
Accrued expenses		83,839	95,696
Dividend payable	28	159,630	79,625
		<u>308,936</u>	<u>200,559</u>

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.

**16.1 Amounts due to ultimate/immediate holding company**

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

**17. Operating revenue**

	Note	2018 RM'000	2017 RM'000
Gross earned premiums	18	2,163,480	2,084,144
Investment income	19	182,309	169,825
		<u>2,345,789</u>	<u>2,253,969</u>

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**18. Net earned premiums**

	Note	2018 RM'000	2017 RM'000 Restated
Gross premiums	13.2	2,121,319	2,135,812
Change in unearned premiums provision		42,161	(51,668)
Gross earned premiums	13.2, 17	2,163,480	2,084,144
Gross premiums ceded	13.2	(229,728)	(245,018)
Change in unearned premiums provision		(6,078)	(26,145)
Premiums ceded to reinsurers	13.2	(235,806)	(271,163)
Net earned premiums	13.2	1,927,674	1,812,981

**19. Investment income**

	Note	2018 RM'000	2017 RM'000
Rental income		316	82
<b>Available-for-sale financial investments:</b>			
Interest income from			
Malaysian government securities		66,248	61,661
Malaysian government guaranteed bonds		33,385	30,765
Unquoted bonds of corporations in Malaysia		65,694	62,540
Structured deposits and negotiable instruments of deposit with licensed financial institutions		3,335	3,801
Gross dividend from unquoted unit trust in Malaysia		655	-
<b>Loans and receivables financial investments:</b>			
Interest income from			
Fixed deposits		3,396	5,957
Loans and other receivables and cash and cash equivalents		9,280	5,019
	17	182,309	169,825

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**20. Realised gains and losses**

	2018 RM'000	2017 RM'000
<b>Property, plant and equipment</b>		
Realised (loss)/gain	(54)	40
<b>Available-for-sale financial investments</b>		
Realised gains:		
Unquoted bonds of corporations in Malaysia	-	-
Malaysian government securities	315	1,250
Malaysian government guaranteed bonds	73	6
	<u>388</u>	<u>1,256</u>
Realised losses:		
Malaysian government guaranteed bonds	-	-
Corporate bond	(20)	-
	<u>(20)</u>	<u>-</u>
Net realised gains for available-for-sale financial investments	<u>368</u>	<u>1,256</u>
	<u>314</u>	<u>1,296</u>

**21. Fair value gains and losses**

	2018 RM'000	2017 RM'000
<b>Note</b>		
Investment properties	-	(2,409)
	<u>-</u>	<u>(2,409)</u>

**22. Fee and commission income**

	2018 RM'000	2017 RM'000
<b>Note</b>		
Reinsurance commission income	16,669	27,431
Deferred acquisition costs	1,926	(614)
Service charges	10,926	10,890
	<u>29,521</u>	<u>37,707</u>

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**23. Net claims incurred**

	Note	2018 RM'000	2017 RM'000
Gross claims paid less salvage	13.1	1,253,199	1,366,531
Claims ceded to reinsurers	13.1	(129,844)	(291,729)
Net claims paid	13.1	<u>1,123,355</u>	<u>1,074,802</u>
Gross change in claims liabilities:			
At 31 December	13.1	2,475,391	2,402,386
At 1 January	13.1	(2,402,386)	(2,399,822)
		<u>73,005</u>	<u>2,564</u>
Change in claims liabilities ceded to reinsurers:			
At 31 December	13.1	(714,461)	(695,905)
At 1 January	13.1	695,905	753,862
		<u>(18,556)</u>	<u>57,957</u>
		<u>1,177,804</u>	<u>1,135,323</u>

**24. Fee and commission expense**

	Note	2018 RM'000	2017 RM'000
Gross direct commission		262,223	268,667
Deferred acquisition costs	10	922	(7,742)
		<u>263,145</u>	<u>260,925</u>

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**25. Management expenses**

	Note	2018 RM'000	2017 RM'000
Employee benefit expenses	25.1	153,194	153,327
Executive directors' emoluments	25.2	2,296	1,997
Non-executive directors' emoluments	25.2	1,226	1,274
Auditors' remuneration:			
- Audit fees		365	369
- Non-Audit fees		111	203
Depreciation of property, plant and equipment	3	10,908	11,539
Amortisation of intangible assets	5	11,610	6,850
Allowance for impairment loss on insurance receivables		999	38,380
Reversal of impairment loss on other receivables		(577)	-
Bad debts recovered		(83)	(193)
Bad debts written off on insurance receivables		1,835	1,517
Bad debts written off on other receivables		1,245	-
Advertising expenses		11,293	5,327
Rental of office equipment		5,438	4,565
Rental of premises		8,200	7,964
Other expenses		139,716	138,603
		347,776	371,722

**25.1 Employee benefit expenses**

	Note	2018 RM'000	2017 RM'000
Wages and salaries		91,553	92,755
Bonus		43,689	40,187
Social security contributions		1,061	1,001
Contribution to Employees' Provident Fund		15,811	17,201
Other benefits		1,080	2,183
	25	153,194	153,327



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## 25. Management expenses (continued)

### 25.2 Key management personnel compensation

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Executive director:		
Salaries and other emoluments	1,520	1,231
Bonus	776	766
Estimated monetary value of benefits-in-kind	24	29
	<u>2,320</u>	<u>2,026</u>
Non-executive directors:		
Fees	877	971
Other emoluments	349	303
Estimated monetary value of benefits-in-kind	180	74
	<u>1,406</u>	<u>1,348</u>
Other key management personnel* :		
Short-term employee benefits	4,381	4,144
	<u>8,107</u>	<u>7,518</u>

\* 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:

	<b>2018</b>	<b>2017</b>
<b>Note</b>	<b>RM'000</b>	<b>RM'000</b>
Salaries and other emoluments	1,520	1,231
Bonus	776	766
Estimated monetary value of benefits-in-kind	24	29
	<u>2,320</u>	<u>2,026</u>
Amount included in employee benefit expenses	25	<u>2,296</u>
		<u>1,997</u>

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## 25. Management expenses (continued)

### 25.2 Key management personnel compensation (continued)

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

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
- Tun Zain Al-Abidin Ibni Tuanku Muhriz	159	-	-	28	-	187
- Goh Ching Yin	140	-	-	26	-	166
- Peter Ho Kok Wei	49	-	-	11	-	60
	877	-	-	349	180	1,406
Total Directors' Remuneration (including benefits-in-kind)	877	1,000	776	869	204	3,726

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## 25. Management expenses (continued)

### 25.2 Key management personnel compensation (continued)

2017	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	766	231	29	2,026
Non-Executive Directors						
- Tan Sri Razali Bin Ismail	163	-	-	223	74	460
- Foo San Kan	170	-	-	16	-	186
- Dato' Dr. Thillainathan A/L Ramasamy	184	-	-	16	-	200
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	177	-	-	14	-	191
- Tun Zain Al-Abidin Ibni Tuanku Muhriz	141	-	-	16	-	157
- Goh Ching Yin	136	-	-	18	-	154
- Peter Ho Kok Wei	-	-	-	-	-	-
	971	-	-	303	74	1,348
Total Directors' Remuneration (including benefits-in-kind)	971	1,000	766	534	103	3,374

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## 26. Tax expense

### 26.1 Recognised in profit or loss

	Note	2018 RM'000	2017 RM'000 Restated
<b>Current tax expense</b>			
Current year		100,868	83,506
Over provision in prior year		(14,791)	(4,176)
		<u>86,077</u>	<u>79,330</u>
<b>Deferred tax expense/(income)</b>			
Origination and reversal of temporary differences		(5,383)	(9,708)
Under/(Over) provision in prior year		14,472	(2,736)
	14.2	<u>9,089</u>	<u>(12,444)</u>
<b>Tax expense</b>		<u>95,166</u>	<u>66,886</u>

### 26.2 Reconciliation of tax expense

	2018 RM'000	2017 RM'000 Restated
Profit before tax	351,293	253,970
Tax at Malaysian tax rate of 24% (2017: 24%)	84,310	60,953
Non-deductible expenses	11,224	9,315
Other items	(49)	3,530
	<u>95,485</u>	<u>73,798</u>
Over provision in prior year	(319)	(6,912)
<b>Tax expense</b>	<u>95,166</u>	<u>66,886</u>

### 26.3 Income tax recognised directly in other comprehensive income

	Note	2018 RM'000	2017 RM'000
<b>Tax effects on Available-for-sale fair value reserve</b>			
At 1 January		3,049	(733)
Net gain arising from change in fair value	14.2	<u>135</u>	<u>3,782</u>
At 31 December		<u>3,184</u>	<u>3,049</u>

**27. 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:

	<b>2018</b> <b>RM'000</b>	<b>2017</b> <b>RM'000</b> <b>Restated</b>
Profit for the year attributable to ordinary shareholder	<u>256,127</u>	<u>187,084</u>
	<b>2018</b> <b>'000</b>	<b>2017</b> <b>'000</b>
Weighted average number of ordinary shares during the year	<u>379,168</u>	<u>379,168</u>
Basic earnings per ordinary share	<u>67.5</u>	<u>49.3</u>

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.

**28. Dividends**

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

	<b>Sen per share</b> <b>(single tier)</b>	<b>Total amount</b> <b>RM'000</b>	<b>Date of payment</b>
<b>2018</b>			
Interim 2018 ordinary	42.1	<u>159,630</u>	17 January 2019
<b>2017</b>			
Interim 2017 ordinary	21.0	<u>79,625</u>	18 January 2018

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## 29. Operating leases

### Leases as lessee

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Less than one year	8,465	4,396
Between one and five years	4,923	4,693
	<u>13,388</u>	<u>9,089</u>

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.

## 30. Capital expenditure commitments

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Property, plant and equipment</b>		
Contracted but not provided for	<u>2,696</u>	<u>634</u>
<b>Software development</b>		
Contracted but not provided for	<u>1,275</u>	<u>1,779</u>

**31. 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.

<b>Related Parties</b>	<b>Relationship</b>
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
Mondial Assistance (Asia) Pte Ltd	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 25.2. Apart from this, there are no other transactions with key management personnel.

**31. Related parties (continued)**

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

	<b>Amount transacted for the year ended 31 December 2018 RM'000</b>	<b>Amount transacted for the year ended 31 December 2017 RM'000</b>
<b>Non-trade</b>		
<b>Ultimate holding company</b>		
Payment of global marketing costs	(1,404)	(1,126)
Payment of HR consulting fee	(45)	-
Payment of training and other fees	(7)	(39)
Payment of license fees	-	(34)
Payment of business building and regional investment	(5,052)	(12,600)
Payment of global technical support fees	(943)	(989)
Reimbursement of expenses made on behalf	(29)	-
<b>Non-trade</b>		
<b>Immediate holding company</b>		
Payment of expenses related to common resources	(10,058)	(10,238)
Receipt of rental of office premises	61	48
Payment of expenses made on behalf	(333)	(273)
<b>Related companies*</b>		
Payment of expenses related to common resources	(1,252)	(1,824)
Reimbursement of expenses made on behalf	5,560	3,971
Receipt of/(Payment for) rental of office premises	156	(133)
Payment for Insurance premium	(382)	(376)
Payment of investment advisory fees	(1,190)	(1,185)
Payment of service fees	(1,098)	(7,454)



**31. Related parties (continued)**

	<b>Amount transacted for the year ended 31 December 2018 RM'000</b>	<b>Amount transacted for the year ended 31 December 2017 RM'000</b>
<b>Non-trade (continued)</b>		
<b>Related companies* (continued)</b>		
Payment of consultancy fees	(1,135)	-
Payment of E-HR success factor fees	-	(20)
Payment of training and other fees	(21)	(4)
<b>Related party – Company connected with Director</b>		
Payment of training and other fees	(966)	(103)
<b>Trade</b>		
<b>Related companies*</b>		
Reinsurance premiums ceded	(117,698)	(128,463)
Reinsurance commission income	9,570	12,270

\* 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 8, 9, 15 and 16.

## 32. 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.

## 32. 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.

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### 33. 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.

	2018			2017		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Fire	349,196	(173,342)	175,854	317,250	(186,555)	130,695
Motor	1,427,041	(129,604)	1,297,437	1,500,842	(159,393)	1,341,449
Marine, aviation, cargo and transit	162,879	(133,120)	29,759	94,378	(65,787)	28,591
Miscellaneous	536,275	(281,010)	255,265	489,916	(284,170)	205,746
Total	2,475,391	(717,076)	1,758,315	2,402,386	(695,905)	1,706,481

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### 33. 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.

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### 33. Insurance risk (continued)

#### Sensitivities (continued)

	Change in assumptions	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000	Impact on Profit after Tax RM'000	Impact on Equity* RM'000
<b>31 December 2018</b>					
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)
<b>31 December 2017</b>					
Average claim cost	+10%	218,278	166,827	(126,788)	(126,788)
Average number of claims	+10%	280,238	237,552	(180,540)	(180,540)
Average claim settlement period	Increased by 6 months	16,088	19,474	(14,801)	(14,801)

\* 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.

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### 33. 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 2018 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.

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### 33. 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	811,411	-	-	-	-	-	-	
Seven years later		714,082	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		714,082	811,411	1,157,674	1,141,354	1,235,679	1,352,452	1,406,527	1,465,757	



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## 33. Insurance risk (continued)

## Claims development table (continued)

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

Accident year	Before	2011	2012	2013	2014	2015	2016	2017	2018	Total
	2011 RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>		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
<b>Gross general insurance claims liabilities</b>										<b>2,475,391</b>

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### 33. Insurance risk (continued)

#### Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2017:

Accident year	Before 2010 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
At end of accident year		808,271	863,518	951,235	1,145,412	1,251,433	1,349,116	1,430,684	1,471,640	
One year later		828,768	784,221	848,149	1,182,773	1,193,164	1,278,469	1,368,219	-	
Two years later		810,356	754,244	835,047	1,119,096	1,154,151	1,256,084	-	-	
Three years later		800,033	749,694	834,615	1,096,339	1,141,005	-	-	-	
Four years later		805,627	739,601	824,627	1,167,402	-	-	-	-	
Five years later		796,137	731,371	822,964	-	-	-	-	-	
Six years later		773,413	728,218	-	-	-	-	-	-	
Seven years later		747,757	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		747,757	728,218	822,964	1,167,402	1,141,005	1,256,084	1,368,219	1,471,640	

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## 33. Insurance risk (continued)

## Claims development table (continued)

## Gross general insurance claims liabilities as at 31 December 2017: (continued)

Accident year	Before	2010	2011	2012	2013	2014	2015	2016	2017	Total
	2010									
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		214,460	244,889	259,072	344,439	375,685	387,586	514,882	561,727	
One year later		454,277	520,198	544,612	729,326	771,098	861,538	924,136	-	
Two years later		580,037	620,775	648,982	857,382	924,768	1,013,855	-	-	
Three years later		612,202	656,267	711,572	916,928	986,338	-	-	-	
Four years later		650,174	668,021	731,860	1,065,902	-	-	-	-	
Five years later		654,652	675,224	740,708	-	-	-	-	-	
Six years later		657,660	678,145	-	-	-	-	-	-	
Seven years later		670,526	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>		670,526	678,145	740,708	1,065,902	986,338	1,013,855	924,136	561,727	
Gross general insurance claims liabilities (direct and facultative)	44,803	77,231	50,073	82,256	101,500	154,667	242,229	444,083	909,913	2,106,755
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										56,698
Best estimate of claims liabilities										2,163,453
Claims handling expenses										20,952
PRAD at 75% confidence level										217,981
<b>Gross general insurance claims liabilities</b>										<b>2,402,386</b>

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### 33. 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	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		<b>525,067</b>	<b>589,308</b>	<b>783,298</b>	<b>888,196</b>	<b>1,021,432</b>	<b>1,097,165</b>	<b>1,228,773</b>	<b>1,316,381</b>	

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## 33. Insurance risk (continued)

## Claims development table (continued)

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

Accident year	Before	2011	2012	2013	2014	2015	2016	2017	2018	Total
	2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>			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
<b>Net general insurance claims liabilities</b>										<u>1,760,930</u>

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### 33. Insurance risk (continued)

#### Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2017:

Accident year	Before 2010 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
At end of accident year		517,803	622,921	675,017	875,651	971,458	1,101,454	1,200,101	1,279,931	
One year later		494,994	570,921	616,026	779,429	932,778	1,073,872	1,123,821	-	
Two years later		502,000	558,132	593,496	790,197	906,323	1,049,986	-	-	
Three years later		498,434	545,582	601,511	784,588	897,675	-	-	-	
Four years later		492,329	540,200	597,496	788,068	-	-	-	-	
Five years later		488,023	535,768	598,829	-	-	-	-	-	
Six years later		482,876	534,241	-	-	-	-	-	-	
Seven years later		473,683	-	-	-	-	-	-	-	
<b>Current estimate of cumulative claims incurred</b>		473,683	534,241	598,829	788,068	897,675	1,049,986	1,123,821	1,279,931	

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### 33. Insurance risk (continued)

#### Claims development table (continued)

#### Net general insurance claims liabilities as at 31 December 2017: (continued)

Accident year	Before	2010	2011	2012	2013	2014	2015	2016	2017	Total
	2010	2010	2011	2012	2013	2014	2015	2016	2017	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		188,247	201,756	216,325	294,253	326,831	356,733	468,300	518,300	
One year later		352,308	390,265	424,771	572,157	638,954	746,891	817,863	-	
Two years later		418,534	462,811	497,895	667,310	743,920	872,368	-	-	
Three years later		444,732	487,223	533,335	704,910	790,073	-	-	-	
Four years later		455,224	496,026	546,263	724,817	-	-	-	-	
Five years later		458,162	501,189	551,615	-	-	-	-	-	
Six years later		459,895	504,060	-	-	-	-	-	-	
Seven years later		460,867	-	-	-	-	-	-	-	
<b>Cumulative payments to-date</b>		460,867	504,060	551,615	724,817	790,073	872,368	817,863	518,300	
Net general insurance claims liabilities (direct and facultative)	16,733	12,816	30,181	47,214	63,251	107,602	177,618	305,958	761,631	1,523,004
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										43,259
Best estimate of claims liabilities										1,566,263
Claims handling expenses										20,952
PRAD at 75% confidence level										119,266
<b>Net general insurance claims liabilities</b>										<b>1,706,481</b>

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## **34. 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.

### **34.1 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.



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### 34. Financial risks (continued)

#### 34.1 Credit risk (continued)

##### 34.1.1 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			Past-due but not impaired RM'000	Total RM'000
	Investment grade RM'000	Non-investment grade RM'000	Non-rated RM'000		
<b>31 December 2018</b>					
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
	<u>2,670,956</u>	<u>-</u>	<u>2,478,489</u>	<u>24,739</u>	<u>5,174,184</u>

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### 34. Financial risks (continued)

#### 34.1 Credit risk (continued)

##### 34.1.1 Credit exposure (continued)

	Neither past-due nor impaired			Past-due but not impaired RM'000	Total RM'000
	Investment grade RM'000	Non-investment grade RM'000	Non-rated RM'000		
<b>31 December 2017</b>					
Loans and receivables					
Loans and other receivables	-	-	79,043	-	79,043
Fixed deposits	85,555	-	-	-	85,555
Cash and cash equivalents	213,226	-	169	-	213,395
Available-for-sale financial investments					
Malaysian government securities	-	-	1,685,536	-	1,685,536
Malaysian government guaranteed bonds	-	-	786,731	-	786,731
Unquoted debt securities	1,498,473	-	-	-	1,498,473
Structured deposits and negotiable instruments of deposit with licensed financial institutions	93,718	-	-	-	93,718
Reinsurance assets (reported claims)	412,898	-	64,544	-	477,442
Insurance receivables	84,242	-	106,043	5,902	196,187
	<u>2,388,112</u>	<u>-</u>	<u>2,722,066</u>	<u>5,902</u>	<u>5,116,080</u>

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### 34. Financial risks (continued)

#### 34.1 Credit risk (continued)

##### 34.1.1 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
<b>31 December 2018</b>							
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
	<u>1,342,463</u>	<u>1,192,025</u>	<u>132,689</u>	<u>3,779</u>	<u>-</u>	<u>2,503,228</u>	<u>5,174,184</u>

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### 34. Financial risks (continued)

#### 34.1 Credit risk (continued)

##### 34.1.1 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
<b>31 December 2017</b>							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	79,043	79,043
Fixed deposits	30,083	55,472	-	-	-	-	85,555
Cash and cash equivalents	152,835	58,787	1,604	-	-	169	213,395
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,685,536	1,685,536
Malaysian government guaranteed bonds	-	-	-	-	-	786,731	786,731
Unquoted debt securities	784,009	710,714	-	3,750	-	-	1,498,473
Structured deposits and negotiable instruments of deposit with licensed financial institutions	93,718	-	-	-	-	-	93,718
Reinsurance assets (reported claims)	-	312,544	100,351	3	-	64,544	477,442
Insurance receivables	-	43,725	40,517	-	-	111,945	196,187
	<u>1,060,645</u>	<u>1,181,242</u>	<u>142,472</u>	<u>3,753</u>	<u>-</u>	<u>2,727,968</u>	<u>5,116,080</u>

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### 34. Financial risks (continued)

#### 34.1 Credit risk (continued)

##### 34.1.1 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
<b>31 December 2018</b>							
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
	<u>1,342,463</u>	<u>1,192,025</u>	<u>132,689</u>	<u>3,779</u>	<u>-</u>	<u>2,503,228</u>	<u>5,174,184</u>

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
<b>31 December 2017</b>							
Investment grade	1,060,645	1,181,242	142,472	3,753	-	-	2,388,112
Non-investment grade	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	2,722,066	2,722,066
Past-due but not impaired	-	-	-	-	-	5,902	5,902
	<u>1,060,645</u>	<u>1,181,242</u>	<u>142,472</u>	<u>3,753</u>	<u>-</u>	<u>2,727,968</u>	<u>5,116,080</u>

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### 34. Financial risks (continued)

#### 34.1 Credit risk (continued)

##### 34.1.2 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:

	<b>1 to 30 days RM'000</b>	<b>31 to 60 days RM'000</b>	<b>61 to 90 days RM'000</b>	<b>More than 90 days RM'000</b>	<b>Total RM'000</b>
<b>31 December 2018</b>					
Insurance receivables	3,964	8,775	1,423	10,577	24,739
<b>31 December 2017</b>					
Insurance receivables	1,531	589	591	3,191	5,902

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### 34. Financial risks (continued)

#### 34.1 Credit risk (continued)

##### 34.1.3 Impaired financial assets

At 31 December 2018, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables amounting to RM55,451,000 (2017: RM54,452,000), loans and other receivables of RM1,410,000 (2017: RM1,987,000) and reinsurance assets of RM2,615,000 (2017: Nil). 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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	54,452	16,072	-	-	1,987	1,987
Impairment loss recognised	2,834	39,897	2,615	-	668	-
Written off during the year	(1,835)	(1,517)	-	-	(1,245)	-
At 31 December	55,451	54,452	2,615	-	1,410	1,987

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## **34. Financial risks (continued)**

### **34.2 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.

#### **34.2.1 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.



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### 34. Financial risks (continued)

#### 34.2 Liquidity risk (continued)

##### 34.2.1 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
<b>31 December 2018</b>								
Provision for claims (reported claims)	1,734,155	1,067,899	538,667	107,578	20,011	-	-	1,734,155
Insurance payables	196,348	172,215	23,661	472	-	-	-	196,348
Other payables and accruals	308,936	308,936	-	-	-	-	-	308,936
<b>Total financial liabilities</b>	<b>2,239,439</b>	<b>1,549,050</b>	<b>562,328</b>	<b>108,050</b>	<b>20,011</b>	<b>-</b>	<b>-</b>	<b>2,239,439</b>

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### 34. Financial risks (continued)

#### 34.2 Liquidity risk (continued)

##### 34.2.1 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
<b>31 December 2017</b>								
Provision for claims (reported claims)	1,690,486	1,040,967	537,750	99,340	12,429	-	-	1,690,486
Insurance payables	217,532	207,674	9,858	-	-	-	-	217,532
Other payables and accruals	200,559	200,559	-	-	-	-	-	200,559
<b>Total financial liabilities</b>	<b>2,108,577</b>	<b>1,449,200</b>	<b>547,608</b>	<b>99,340</b>	<b>12,429</b>	<b>-</b>	<b>-</b>	<b>2,108,577</b>

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## 34. Financial risks (continued)

### 34.3 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.

#### 34.3.1 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.

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### 34. Financial risks (continued)

#### 34.3 Market risk (continued)

##### 34.3.2 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 RM'000	Impact on Equity* RM'000
<b>31 December 2018</b>			
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
<b>31 December 2017</b>			
Interest rate	+ 100 basis points	-	(107,801)
Interest rate	+ 50 basis points	-	(53,900)
Interest rate	- 100 basis points	-	107,801
Interest rate	- 50 basis points	-	53,900

\* 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.

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## **34. Financial risks (continued)**

### **34.3 Market risk (continued)**

#### **34.3.3 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.

## **34.4 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.

**34. Financial risks (continued)****34.5 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.

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### 34. Financial risks (continued)

#### 34.5 Fair value of financial instruments (continued)

##### 34.5.1 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
<b>31 December 2018</b>						
<b>Financial assets</b>						
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

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### 34. Financial risks (continued)

#### 34.5 Fair value of financial instruments (continued)

##### 34.5.1 Fair value hierarchy (continued)

	Fair value of financial instruments carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
<b>31 December 2017</b>					
<b>Financial assets</b>					
Malaysian government securities	-	1,685,536	-	1,685,536	1,685,536
Malaysian government guaranteed bonds	-	786,731	-	786,731	786,731
Unquoted debt securities	-	1,498,473	-	1,498,473	1,498,473
Structured deposits and negotiable instruments of deposit with licensed financial institutions	-	93,718	-	93,718	93,718
	-	4,064,458	-	4,064,458	4,064,458

#### 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).



### 35. Capital management

The RBC Framework was first issued on 1 January 2009 and with the latest update that takes effect from 1 June 2017. 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 2018, as prescribed under the RBC Framework is provided below:

	2018 RM'000	2017 RM'000
<b>Tier 1 Capital</b>		
Paid up share capital	379,168	379,168
Retained earnings	1,570,973	1,474,477
	<u>1,950,141</u>	<u>1,853,645</u>
<b>Tier 2 Capital</b>		
Reserves	30,148	29,723
	<u>30,148</u>	<u>29,723</u>
<b>Amounts deducted from capital</b>		
Intangible assets	(87,017)	(85,682)
Deferred tax assets	(14,051)	(23,275)
	<u>(101,068)</u>	<u>(108,957)</u>
<b>Total capital available</b>	<u>1,879,221</u>	<u>1,774,411</u>

### 36. 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’s (“BNM”) 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 which took place on 19 and 20 February 2019 have concluded. PIAM is expected to submit its Oral Representation on 21 February 2019.

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.

### 37. 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 hearing on liability has concluded and the Closing Submissions and Reply Submissions were filed on 30 August 2017 and 27 September 2017 respectively. The Oral Submissions took place on 12 October 2017 and 13 October 2017, during which the Tribunal sought some clarification in response to which the Company's solicitors prepared and filed the Company's Further Written Submissions. VSC's solicitors then responded with VSC's Further Written Submissions. The Company's solicitors then prepared and filed the Company's Rebuttal Submissions to clarify VSC's citation of certain cases.

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 (the "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.

**37. Material litigation (continued)**

The Company's solicitors are of the view that there are reasonable grounds to seek a review of the majority decision, including to set aside the Award.

On this basis, an Originating Summons has been 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 Court has fixed the latest Hearing Date on 18 February 2019 and has also directed parties to file and exchange their respective Written Submissions by 11 February 2019. The Company's solicitors presented their Oral Submissions (partially) at the Hearing on 18 February 2019. Two further dates have been fixed for continued Hearing, namely 13 March 2019 and 18 April 2019.

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### 38. Effects on restatement of comparatives

The change in the accounting of unearned reinsurance premium have been adjusted for retrospectively. The effects of the change are as follows:

	1 January 2017			31 December 2017		
	As previously reported	Effect of change in accounting basis	Restated balance	As previously reported	Effect of change in accounting basis	Restated balance
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Statement of financial position</b>						
Reinsurance assets	920,936	(11,886)	909,050	855,672	(30,724)	824,948
Retained earnings	1,376,249	(9,231)	1,367,018	1,498,119	(23,642)	1,474,477
Current tax assets	-	1,998	1,998	803	7,082	7,885
Current tax liabilities	657	(657)	-	-	-	-
<b>Effect to the financial year ended 31 December 2017</b>						
	As previously reported	Effect of change in accounting basis	Restated balance			
	RM'000	RM'000	RM'000			
<b>Statement of profit or loss</b>						
Premium ceded to reinsurers	(252,325)	(18,838)	(271,163)			
Net earned premium	1,831,819	(18,838)	1,812,981			
Profit before tax	272,808	(18,838)	253,970			
Profit for the year	201,495	(14,411)	187,084			
Tax expense	(71,313)	4,427	(66,886)			
Basic earnings per ordinary share (sen)	53.1	(3.8)	49.3			

## **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 155 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 2018 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:

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**Tan Sri Datuk (Dr.) Rafiah Binti Salim**

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**Zakri Bin Mohd Khir**

Kuala Lumpur,

Date: 21 February 2019

## **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 155 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 21 February 2019.

-----  
**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 2018, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2018, 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 39 to 155.

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.



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## 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 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
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## 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 represent the underlying transactions and events in a manner that achieves fair presentation.

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## 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

SOO HOO KHOON YEAN  
02682/10/2019 J  
Chartered Accountant

Kuala Lumpur  
21 February 2019