Zurich General Insurance Malaysia Berhad

ZURICH

Report And Statutory Financial Statement

For The Financial Period From 3 October 2017 (Date of Incorporation) to 31 December 2018

About Zurich General Insurance in Malaysia

Zurich General Insurance Malaysia Berhad (ZGIMB), as part of Zurich Insurance Group, is an established general insurer headquartered in Kuala Lumpur. ZGIMB caters to the protection needs of individuals and business owners through a wide range of general insurance solutions covering motor, travel, property, financial and personal lines, small to medium enterprises as well as large industrial risks. Together with its dedicated employees, agency force, distributors and partners, supported by more than 35 branches nationwide, ZGIMB is committed to help its customers understand and protect their valuable assets and businesses from risks. Additionally, shariah-compliant general takaful solutions are made available to customers through its sister company, Zurich General Takaful Malaysia Berhad.

Company No.

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ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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ZURICH GENERAL INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)

CORPORATE GOVERNANCE STATEMENT

Introduction

Zurich General Insurance Malaysia Berhad (“ZGIMB” or “the Company”) is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability.

The Board of Directors (“the Board”) is satisfied that the Company has complied with all prescriptive requirements of, and adopts the Corporate Governance policy document (BNM/RH/PD 029-9) issued by Bank Negara Malaysia (“BNM”). The Board has continued its commitment in ensuring that the highest principles and best practices in corporate governance are practised as a fundamental part of discharging its responsibilities to protect and enhance shareholders value and the financial performance of the Company.

The Board

The Board is responsible for the overall governance of the Company by ensuring strategic guidance, internal control, risk management and reporting procedure are in place. The Board exercises due diligence and care in discharging its duties and responsibilities to ensure compliance with relevant rules, regulations directives and guidelines in addition to adopting best practices and act in the best interest of its shareholders.

The Board Charter

The Board Charter set out the Board’s roles, responsibilities and procedures of the Board and the Board Committees of the Company in accordance with the principles of corporate governance prescribed in the Corporate Governance Policy Document issued by BNM. The Board regularly reviews the Charter and ensure it remains consistent and relevance to the Board’s objectives and responsibilities, and all regulations/laws in connection thereto.

Composition of the Board

The Directors of the Company in office since the date of incorporation to the date of the report are as follows:

Name of Directors	Designation
Nabil Nazih El-Hage (appointed on 1 January 2018)	Chairman, Independent Non-Executive Director
David Jerry Fike (First Director^)	Chief Executive Officer & Executive Director
Wan Zamri bin Wan Zain (First Director^)	Independent Non-Executive Director
Kevin John Wright (appointed on 1 January 2018)	Independent Non-Executive Director
Datin Sunita Mei-Lin Rajakumar (appointed on 2 July 2018)	Independent Non-Executive Director
Onn Kien Hoe (appointed on 1 January 2018) (resigned on 19 April 2018)	Independent Non-Executive Director

^appointment took effect on 1 January 2018 subsequent to approval from BNM on 28 December 2017.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Composition of the Board (continued)

The Board comprises four (4) Independent Non-Executive Directors and one (1) Executive Director, each from diverse backgrounds and qualifications and bring a wide range of professional skills and operational experience to the Board. Collectively, they provide the necessary business acumen, knowledge, capabilities and competencies to the Company. The roles and activities of the Chairman and Chief Executive Officer are distinct and separate.

Roles and Responsibilities of the Board

The Board sets the strategic direction and vision of the Company. It has an overall responsibility for promoting the sustainable growth and financial soundness of the Company, and for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes a consideration of long-term implications of the Board's decisions on the Company and its customers, officers and general public. In fulfilling this role, the Board shall:

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

b) oversee the selection, performance, remuneration, succession plans of the Chief Executive Officer ("CEO"), control function heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operation of the Company;

c) oversee the implementation of the Company's governance framework and Internal Control Framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Company's operations;

d) promote together with Senior Management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;

e) promote sustainability through appropriate environmental, social and governance considerations in the Company's business strategies;

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

g) promote timely and effective communication between the Company and BNM and other relevant regulatory bodies on matters affecting of that may affect the safety and soundness of the Company.

Profile of Directors and Chief Executive Officer

Nabil Nazih El-Hage
American, Male
Independent Non-Executive Director / Chairman

Mr. Nabil Nazih El-Hage graduated ‘cum laude’ in Electronic Engineering from Yale University in 1980. He then earned his Master of Business Administration (“MBA”) with the highest honours – as a Baker Scholar – from Harvard Business School in 1984, where he was awarded the Henry Ford Foundation Award for the Best First-Year academic record, the Loeb-Rhoades Fellowship for Excellence in Finance, the Copeland (Marketing) Award nomination, and a Dean’s Doctoral Fellowship.

Mr. Nabil is the founder and chairman of the AEE International, dba Academy of Executive Education (“AEE”), which provides high-quality executive education programmes to corporate clients. AEE (and its predecessor companies) also developed a highly-acclaimed corporate governance programme for Malaysian financial institutions, as commissioned by Bank Negara Malaysia. He is also the Programme Director for Bank Negara Malaysia’s Financial Institutions Directors’ Education (“FIDE”) programme.

Mr. Nabil has served on several boards of directors of private and public listed companies. From 2003 to 2010, Mr. Nabil was on the faculty of Harvard Business School, where he was, at various times, Professor of Management Practice, Thomas Henry Carroll / Ford Foundation Adjunct Professor of Business Administration, and Senior Associate Dean for External Relations. At Harvard Business School, Mr. Nabil taught courses on Private Equity, Corporate Finance, and Corporate Governance.

Mr. Nabil also serves as the Contracts Committee Chairman of the MassMutual mutual fund group (USD35 billion under management), member of its Audit Committee, and designated "Financial Expert”. His previous appointments include chairman of the Audit Committee of an NYSE-listed Property and Casualty insurance company. He has served on the boards of directors of over 15 companies, including six public listed ones. He has also served on the Audit Committee of several companies and was a past president of The Yale Club of Boston.

Mr. Nabil is also the Independent Non-Executive Director/Chairman of Zurich General Takaful Malaysia Berhad.

Mr. Nabil resigned as a member of the Audit Committee, Risk Management Committee and Nomination & Remuneration Committee of the Company on 1 January 2019.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

David Jerry Fike
American, Male
Chief Executive Officer & Executive Director

Mr. David Jerry Fike was educated in United States of America where he pursued qualifications in Liberal Arts and Economics. He received his Bachelor of Science in Economics from Allegheny College, Meadville, Pennsylvania in year 1988.

Mr. Fike is an experienced insurance professional with over 30 years of experience in the financial services sector across the United States of America, Europe (Turkey) as well as the Asia Pacific ("APAC") region, including Singapore, Hong Kong and Malaysia. He also possesses a high degree of familiarity with other APAC markets such as China and Japan.

Mr. Fike has a solid executive management background with cross-functional experience in Marketing, Distribution, Business Development, Operations and Product Development. Prior to joining Zurich in Malaysia, Mr Fike was the Chief Executive Officer and General Manager of Cigna Finans Emeklilik, a joint venture between Cigna and Finansbank (Turkey's 5th largest private bank). In that role, he managed employees and direct retail sales force advisors across 8 regional offices in the development and sales of life insurance and private pension products through retail channels as well as Finansbank's distribution channels.

Mr. Fike is, additionally, the Executive Director of Zurich General Takaful Malaysia Berhad. He also holds a position within the Management Committee of the Persatuan Insurans Am Malaysia ("PIAM") and serves as the Convenor of the Distribution Management sub-committee.

Wan Zamri Wan Zain
Malaysian, Male
Independent Non-Executive Director
Chairman of Risk Management Committee
Member of Nomination and Remuneration Committee
Member of Audit Committee

Encik Wan Zamri Wan Zain is a graduate in Finance and Business Economics from the Southern Illinois University, Carbondale, Illinois, USA. He received his Master of Business Administration (Financial Management and Management Information System) from West Coast University, Los Angeles, USA in year 1984.

Encik Wan Zamri is an experienced finance professional with extensive experience in the finance and banking sector, having held various executive management roles in AmMetlife Takaful Berhad, AIA Takaful International Berhad, HSBC Amanah Takaful (Malaysia) Berhad, HSBC Malaysia and HSBC Hong Kong. His recent appointments include the Chief Executive Officer of AmMetlife Takaful Berhad from 2011 to 2015 and Chief Executive Officer of AIA Takaful International Berhad from 2008 to 2011.

Encik Wan Zamri currently serves as an Independent Director at Bank Kerjasama Rakyat Malaysia Berhad.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

Kevin John Wright
Australian, Male
Independent Non-Executive Director
Chairman of Nomination and Remuneration Committee
Member of Risk Management Committee
Member of Audit Committee

Mr. Kevin John Wright has vast experience in the financial services sector in New Zealand and Australia as well as South East Asia covering Malaysia, Indonesia, Singapore, Thailand, Philippines, Hong Kong and India. Mr Wright possesses a high degree of familiarity with other Asia Pacific markets such as South Korea and Japan. Mr. Wright has over 34 years' experience in Life and Non-Life Insurance, 15 years of which were in international markets with a focus on South East Asia, Asia Pacific and India.

Mr. Wright has solid executive management with cross-functional experience in Development, Management of operations, Strategic Planning and execution, Business and Financial Management, Relationship Building, Organizational Leadership, Customer Relationship Management and Team Development & Leadership, capable of performing in a broad range of executive, financial and commercially oriented positions.

Mr. Wright has held a number of diverse roles in other financial institutions such as the Chief Executive Officer ("CEO") South East Asia and India of AXA Asia and responsible for operations in Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore and Thailand between years 2011 to 2014. He also served as a Board Member for all the above mentioned countries and Member of Regional Executive Committee of AXA Asia. Prior to this he held various other senior executive roles within Australia and Asia Pacific region.

Mr. Wright currently serves as an Independent Director at Zurich Australia Limited, Zurich Australian Insurance Limited and Zurich Life Insurance Malaysia Berhad.

Mr. Wright is also a former wicket-keeper who represented Australia in 10 test matches.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

Datin Sunita Mei-Lin Rajakumar
Malaysian, Female
Independent Non-Executive Director
Chairperson of Audit Committee
Member of Risk Management Committee
Member of Nomination and Remuneration Committee

Datin Sunita Mei-Lin Rajakumar graduated from University Bristol in 1990 with a degree in Law (LLB Hons) and qualified as a Member of the Institute of Chartered Accountants of England and Wales in February 1994. Her working experience included 4 years in Ernst & Young, London, and 6 years at RHB Investment Bank Berhad, Kuala Lumpur, before she established her own firm, Artisan Encipta (M) Sdn Bhd, to manage a government-owned foreign technology venture fund from 2002 to 2008. Since then, she has consulted on national competitiveness by improving national innovation ecosystems.

Currently Datin Sunita is the Chair (Independent Non-Executive Director) of a public listed company, namely Caring Pharmacy Group Berhad, and Independent Non-Executive Director of two other public listed companies, namely Hai-O Enterprise Berhad and MCIS Insurance Berhad. Datin Sunita also sits in the Board of Trustees of Hai-O Foundation, Yayasan Usman Awang, Yayasan myNadi and Yayasan Seni Berdaftar which is registered with the Prime Minister's Department.

Other than Mr. David Jerry Fike, none of the Directors hold shares in the Company and/or its holding companies.

Directors' Training

All Directors have attended a formal induction programme to familiarise themselves with the Company's strategy and operations, financial highlights, risk management strategy, internal control environment, legal and compliance requirements, and human resource initiatives. The induction programme is conducted by the Chief Executive Officer and various Head of Departments. The Directors are also informed of their duties under the Companies Act, Board Charter, Constitution and Board Committees' Terms of Reference.

As required by BNM, the Directors have also attended the Financial Institutions Directors' Education (FIDE) Programme accredited by The ICLIF Leadership and Governance Centre.

The Directors are encouraged to attend programmes and seminars to keep abreast with the latest developments in the industry and marketplace and to enhance the discharge of their duties.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Meetings

The Board is scheduled to meet at least six (6) times a year with additional meetings being convened as necessary. For the financial period from 3 October 2017 to 31 December 2018, the Board met eight (8) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings.

The number of meetings attended by each member of the Board is as follows:

Name of Directors	**No. of Board Meetings Attended**
Nabil Nazih El-Hage, Chairman	7/7
David Jerry Fike	8/8
Wan Zamri bin Wan Zain	8/8
Onn Kien Hoe (resigned on 19 April 2018)	3/3
Datin Sunita Mei-Lin Rajakumar (appointed on 2 July 2018)	3/3
Kevin John Wright	7/7

Board Committees

The Board delegates specific responsibilities to a number of Board Committees. The Board Committees are the Audit Committee, the Nomination and Remuneration Committee, and the Risk Management Committee. The Board Committees are chaired by a Non-Independent Non-Executive Director.

Each Board Committee operates within defined terms of reference. The Board Committees have the authority to examine particular issues, but they report to the Board with their decisions and/or recommendations and the ultimate responsibility on all matters rests with the Board.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Audit Committee ("AC")

The principal objectives of the AC are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company. The AC meets regularly with senior management, the internal auditors and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

The AC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of AC are:

(i) To approve internal auditors' audit plan, review the adequacy of the scope, functions, resources and competency and that it has the necessary authority to carry out its work;

(ii) To review the results of internal audit process and ensure that appropriate actions are taken on the recommendations given by the internal auditors;

(iii) To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;

(iv) To discuss with the external auditors before the audit commences, the nature and scope of audit;

(v) To provide assurance that the financial information presented by management is relevant, reliable and timely;

(vi) To oversee compliance with relevant laws and regulations and observance of a proper code of conduct; and

(vii) To determine the quality, adequacy and effectiveness of the Company's internal control environment.

The AC meets at least once every quarter, or more frequently as circumstances dictate. During the financial period from 3 October 2017 to 31 December 2018, the AC held five (5) meetings to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance

The members and number of meetings attended by each member of the AC is as follows:

Members	**No. of AC Meetings Attended**
Datin Sunita Mei-Lin Rajakumar, Chairman (appointed on 9 July 2018)	3/3
Kevin John Wright	5/5
Wan Zamri bin Wan Zain	5/5
Nabil Nazih El-Hage	4/5
Onn Kien Hoe (resigned on 19 April 2018)	2/2

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Nomination and Remuneration Committee ("NRC")

The NRC assist the Board in fulfilling its fiduciary responsibilities relating to assessment of the nomination and selection process of Board members and Senior Management, review of the remuneration framework of Board members and Senior Management, annual review of the effectiveness of the Board, Board Committees, individual Director and Chief Executive Officer. In considering the right candidate for appointment to the Board, the NRC takes into account the required mix of skills, experience and other core competencies that are necessary to enable the Company to achieves its corporate objectives and fulfil its fiduciary responsibilities.

The NRC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of NRC are:

(i) To develop and recommend a formal, clear and transparent remuneration policy and framework for fixing the remuneration for Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) of the Company.

(ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) of the Company.

(iii) To review and assess the nomination and selection of the Board, Senior Management (including Chief Executive Officer and Expatriates) and Company Secretary, the performance of the Board and Chief Executive Officer, fit and proper assessments, succession planning and training and development needs.

The members and number of meetings attended by each member of the NRC during the financial period from 3 October 2017 to 31 December 2018 is as follows:

Members	**No. of NRC Meetings Attended**
Kevin John Wright, Chairman	5/5
Nabil Nazih El-Hage	5/5
Wan Zamri bin Wan Zain	5/5
Datin Sunita Mei-Lin Rajakumar (appointed on 9 July 2018)	2/2
Onn Kien Hoe (resigned on 19 April 2018)	3/3

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Risk Management Committee ("RMC")

The RMC reviews the risk management framework of the Company to ensure risks at all levels are managed effectively. It also reviews risk management policies, action plans and evaluates the adequacy of overall risk management policies and procedures.

The RMC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of RMC are as follows:

(i) To review and recommend risk management strategies, policies and risk tolerance to the Board for approval;

(ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks;

(iii) To ensure that there are adequate infrastructure, resources and systems in place for an effective risk management; and

(iv) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The members and number of meetings attended by each member of the Risk Management Committee during the financial period from 3 October 2017 to 31 December 2018 is as follows:

Members	**No. of RMC Meetings Attended**
Kevin John Wright	5/5
Nabil Nazih El-Hage	3/5
Wan Zamri bin Wan Zain, Chairman	5/5
Datin Sunita Mei-Lin Rajakumar (appointed on 9 July 2018)	3/3
Onn Kien Hoe (resigned on 19 April 2018)	2/2

Other Key Elements of Risk Management and Internal Control

Organisational structure and management accountability

The Company has an organisation structure showing all reporting lines as well as clearly documented job description for all management and executive employees. The officers of the Company have knowledge of their respective authority and operating limits, which are documented in the Company's Internal Control Procedures.

The human resource procedures of the Company provides for the setting of goals and training of each staff. The Company conducts formal appraisals for each staff on an annual basis.

The Company has established procedures to avoid and to deal with any conflict of interest situation. None of the Directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Part B, paragraph 14 of BNM Guidelines on Corporate Governance, and paragraph 58 of the Financial Services Act, 2013 ("FSA").

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Other Key Elements of Risk Management and Internal Control (continued)

Corporate independence

The Company has complied with the requirements of BNM’s Guidelines on Related Party Transactions (BNM/RH/GL018-6) in respect of all its related party undertakings. Necessary disclosures were made to the Board and where required, the Board’s prior approval for the transaction has also been obtained. All material related party transactions have been disclosed in the financial statements.

Internal controls

The responsibility of maintaining a system of internal controls rests with the Board. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as safeguarding the assets of the Company and stakeholders' interest.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner. The internal audit function reports directly to the Board through the Audit Committee, and its findings and recommendations are communicated to the senior management and all levels of staff concerned. The Chief Internal Auditor has unrestricted access to the Chairman and members of the Audit Committee, and the internal audit function performs their duties within the ambit of the Audit Charter approved by the Audit Committee and the Board.

The ITSC is responsible for establishing effective information technology and information systems plans, authorising information technology (“IT”) related expenditure based on authority limits, and monitoring the progress of approved projects. The Company has increased the security controls for the IT systems, and have put in place business resumption and contingency plans to ensure continued operations of mission critical functions. The requirements of BNM’s Guidelines on Management of IT Environment (GPIS-1) and Guidelines on Business Continuity Management (BNM/RH/GL/013-3) have been complied.

Risk management

The RMC meets regularly, at least four (4) times a year, to review risk management reports of the Company. The RMC has categorised risks into six (6) risk types affecting the Company namely Property and Casualty Risk, Market Risk, Credit Risk, Operational Risk, Strategic Risk and Reputation Risk and Capital Management / Liquidity Risk.

The Company has established, within its risk management framework, a structural approach to enterprise-wide risk management. The process involves risk identification and assessment process whereby all department heads of the Company are required to assess their operations and identify risks affecting their operations, identify existing controls in place to mitigate those risks and the probability of the risks occurring and its impact severity.

Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff and agents of the Company are required to comply with the Code of Ethics and Conduct.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Other Key Elements of Risk Management and Internal Control (continued)

Financial reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at the Board, Executive Committee and Management Committee meetings. Financial statements and reports are lodged with the regulatory and supervisory authorities, and annual financial statements prepared in accordance with applicable regulations and approved accounting standards are audited.

REMUNERATION POLICY

The Company's remuneration policy is based on Zurich Insurance Group Limited ("ZIGL')'s remuneration philosophy. The Company operates a balanced and effectively managed remuneration system, which is aligned with risk considerations and provides for competitive total remuneration opportunities to attract, retain, motivate and reward employees to deliver outstanding performance.

The remuneration system is also an important element of the risk management framework and is designed to not encourage inappropriate risk taking through effective governance and a clearly defined performance management process which supports the overall business strategy and plans. Aligned with the Company's corporate governance standards, there are separate responsibilities for the business planning and performance management process and for the implementation of the remuneration system.

The Board of Directors reviews and approves the remuneration rules regularly, at least once a year, and amends them, as necessary, from time to time. The Board of Directors may approve amendments to the remuneration architecture in general or to the applicable plans including exceptions to the short-term incentive plan and/or long-term incentive plan target amounts, to the performance criteria, vesting and/or performance periods and related retention periods.

With respect to the regular review and the oversight of the implementation of the Remuneration Rules, the Board of Directors is supported by the Nomination and Remuneration Committee and respective monitoring process.

The guiding principles of the remuneration philosophy as set out in the Company's Remuneration Rules are as follows:

- The remuneration architecture is simple, transparent and can be put into practice
- Remuneration is tied to long-term results for individuals who have a material impact on the Company's risk profile
- The structure and level of total remuneration are aligned with the Company's risk policies and risk-taking capacity
- A high performance culture is promoted by differentiating total remuneration based on the relative performance of business and individuals
- Expected performance is clearly defined through a structured system of performance management and this is used as the basis for remuneration decision
- Variable remuneration awards are linked to key performance factors which include the performance of the Company, business units, functions, as well as individual achievements.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

REMUNERATION POLICY (CONTINUED)

- The Company's Short Team Incentive Plan ("STIP"), General Insurance Performance Plan ("GIPP") and Long Term Incentive Plan ("LTIP"), used for variable remuneration, are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with its long term economic performance.
- The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration.
- Employees are provided with a range of benefits based on local market practices, taking into account the ZIGL's risk capacity on pension funding and investments.

Total remuneration and its composition may be influenced by factors such as scope and complexity of the role, level of responsibility, risk exposure, business performance and affordability, individual performance, internal equity, and legal requirements.

Total remuneration can include elements of base salary and variable remuneration.

- Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed regularly. Overall base salary structures are positioned to manage salaries around the relevant market medians. Key factors to be taken into account are the individual's overall experience and performance.

- The variable remuneration architecture is aligned with the achievement of the key financial objectives and the execution of the business strategy, risk management framework and operational plans, via short-term and long-term incentive plans. The plan designs are reviewed regularly by the Nomination and Remuneration Committee and the Board of Directors. The incentive plans are discretionary and can be terminated, modified, changed or revised, at any time, except for previously awarded grants.

- Variable remuneration is structured such that on average there is a higher weighting towards the longer term sustainable performance for the most senior employees of the Company, including the individuals with the most impact on the Company's risk profile for key risk takers. This ensures that a significant portion of the variable pay for the senior group is deferred to promote the risk awareness of the participants and to encourage the participants to operate the business in a sustainable manner.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial period from 3 October 2017 (date of incorporation) to 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is a public limited liability company incorporated under the Companies Act, 2016 on 3 October 2017 and domiciled in Malaysia. It commenced its principal activity of underwriting of all classes of general insurance business on 1 January 2018 following the transfer of the general insurance business from Zurich Life Insurance Malaysia Berhad to the Company pursuant to a Business Transfer Scheme ("Business Transfer") approved and confirmed by the High Court of Malaya in accordance with Financial Services Act 2013 ("FSA") on 5 December 2017. Details of the Business Transfer Scheme are as disclosed in Note 3 to the financial statements.

Other than as disclosed above, there has been no significant change in the nature of this principal activity during the financial period.

FINANCIAL RESULTS

	RM'000
Net profit for the financial period	45,735

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial period other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Company during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

No dividend was declared or paid by the Company during the financial period. The Directors do not recommend the payment of any dividend for the current financial period.

DIRECTORS' REPORT (CONTINUED)

SHARE CAPITAL

The ordinary shares were issued and fully paid by cash as follows:

Date	**Share Capital RM**
3 October 2017	2
28 November 2017	100,000,000
	100,000,002

The Company was incorporated with a share capital of RM2.00 being 2 ordinary shares. On 28 November 2017, the Company increased its share capital to RM100,000,002 by the allotment of 100,000,000 new ordinary shares.

DIRECTORS OF THE COMPANY

Directors who served since the date of incorporation and appointed during the year to date of this report:

Name of Directors	Designation
Nabil Nazih El-Hage (appointed on 1 January 2018)	Chairman, Independent Non-Executive Director
David Jerry Fike (First Director^)	Chief Executive Officer & Executive Director
Wan Zamri bin Wan Zain (First Director^)	Independent Non-Executive Director
Kevin John Wright (appointed on 1 January 2018)	Independent Non-Executive Director
Datin Sunita Mei-Lin Rajakumar (appointed on 2 July 2018)	Independent Non-Executive Director
Onn Kien Hoe (appointed on 1 January 2018; resigned on 19 April 2018)	Independent Non-Executive Director

^*appointment took effect on 1 January 2018 subsequent to approval from BNM on 28 December 2017.*

DIRECTORS' BENEFITS

Since the date of incorporation, no Director of the Company has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as disclosed in Note 24 to the financial statements) by reason of a contract made by the Company or a related corporation with a 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.

During and at the end of the financial period, no arrangement subsisted to which the Company is a party, with the object or objects 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.

Company No.

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ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

INDEMNITY AND INSURANCE COST

The Company through its ultimate holding corporation, Zurich Insurance Group Ltd.("ZIGL"), has maintained a Directors' and Officers' Liability Insurance ("Group's D&O Insurance") on a group basis up to an aggregate limit of USD350 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Company has also placed a Directors' and Officers' Liability Insurance with a local insurer up to the deductible amount under the Group's D&O Insurance. The Directors and Officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

The total amount paid and payable for indemnity insurance effected for the Directors of the Company for the financial period amounts to RM18,000.

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

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, the interests of a Director who held office at the end of the financial period in shares in in the ultimate holding company is as follows:

	Number of ordinary shares of CHF0.10 each			
	At date of incorporation	Target share vested /acquired	Disposed	At 31.12.2018
Shares in Zurich Insurance Group Ltd.				
Direct interest:				
David Jerry Fike	453	837	(338)	952

	Number of deferred/restricted/performance share units				
	At date of incorporation	Granted/ reinvested dividends	Vested	Cancelled	At 31.12.2018
Units in Zurich Insurance Group Ltd.					
Direct interest:					
David Jerry Fike	2,870	1,117	(837)	(129)	3,021

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS (CONTINUED)

ZIGL, the ultimate holding corporation of the Company, has designed a Group Long Term Incentive Plan ("the Plan") for the Group's most senior executives for the accomplishment of key Group performance measures. Participants are granted performance-based target shares under the Plan with the vesting of these target grants subject to specific performance achievements over a three-year period.

Other than as disclosed above, no other directors in office at the end of the financial period held any interests in shares in the Company or its related corporations during the financial period.

By virtue of the above director's interests in the shares of the ultimate holding company, the said director is deemed to have an interest in the shares of the Company to the extent that the immediate holding company and the ultimate holding company have interest.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 24 to the financial statements.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance 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; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Company misleading.

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

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

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

(e) As at the date of this report, there does not exist:

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

(ii) any contingent liability of the Company which has arisen since the end of the financial period.

(f) In the opinion of the Directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which will or may affect the ability of the Company to meets its obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial period in which this report is made.

For the purpose of paragraphs (e) and (f), contingent and other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its insurance liabilities in accordance with the valuation methods specified Part D of the Risk-Based Capital ("RBC") Framework for insurers issued by BNM.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 24 to the financial statements.

IMMEDIATE, PENULTIMATE AND ULTIMATE HOLDING COMPANIES

The Directors regard Zurich Holdings Malaysia Berhad, a company incorporated in Malaysia, as the immediate holding company of the Company. The penultimate holding and ultimate holding companies are Zurich Insurance Company Ltd. and Zurich Insurance Group Ltd., respectively. Both companies are incorporated in Switzerland.

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

This report was approved by the Board of Directors on 27 February 2019. Signed on behalf of the Board of the Directors:

DAVID JERRY FIKE
DIRECTOR

NABIL NAZIH EL-HAGE
DIRECTOR

Kuala Lumpur
27 February 2019

Company No.

1249516	V

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, David Jerry Fike and Nabil Nazih El-Hage, two of the Directors of Zurich General Insurance Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 25 to 102 are drawn up 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 the cash flows for the financial period then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 27 February 2019.

DAVID JERRY FIKE
DIRECTOR

NABIL NAZIH EL-HAGE
DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Prithpal Singh Ruprai, being the officer primarily responsible for the financial management of Zurich General Insurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 25 to 102 are, in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

PRITHPAL SINGH RUPRAI

Subscribed and solemnly declared by the above named Prithpal Singh Ruprai at Kuala Lumpur in Malaysia on 27 February 2019, before me.

PESURUHJAYA SUMPAH
No: W 681
RAJEEV SAIGAL A/L
RAMLABAYA SAIGAL
BC/R/548
1 JAN 2019 - 31 DIS 2021
MALAYSIA

COMMISSIONER FOR OATHS

NO. A-31-11, LEVEL 31,
TOWER A, MENARA UOA BANGSAR,
NO. 5, JALAN BANGSAR UTAMA 1,
BANGSAR, 59000 KUALA LUMPUR.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)
(Company No. 1249516 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Zurich General Insurance Malaysia Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2018, and of the financial performance and the cash flows for the financial period from 3 October 2017 (date of incorporation) to 31 December 2018 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 comprehensive income, statement of changes in equity and statement of cash flows of the Company for the financial period from 3 October 2017 (date of incorporation) to 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 25 to 102.

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.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

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.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(CONTINUED)
(Incorporated in Malaysia)
(Company No. 1249516 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(CONTINUED)
(Incorporated in Malaysia)
(Company No. 1249516 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PricewaterhouseCoopers PLT

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SHIRLEY GOH
01778/08/2020 J
Chartered Accountant

Kuala Lumpur
27 February 2019

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 RM'000
ASSETS		
Property, plant and equipment	5	15,502
Intangible assets	6	-
Investment properties	7	11,960
Available-for-sale financial assets	8	1,146,385
Reinsurance assets	10	206,608
Insurance receivables	11	51,916
Loans and receivables	12	68,687
Tax recoverable		5,714
Cash and cash equivalents		54,019
Total assets		1,560,791
EQUITY AND LIABILITIES		
Share capital	14	100,000
Retained earnings	15(a)	45,735
Capital contribution reserve	15(b)	224,792
Available-for-sale reserve	15(c)	15,624
Total equity		386,151
Insurance contract liabilities	16	915,156
Deferred tax liabilities	13	5,016
Other liabilities	17	123,285
Insurance payables	18	123,091
Current tax liabilities		8,092
Total liabilities		1,174,640
Total equity and liabilities		1,560,791

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

Company No.

1249516	V

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS FOR THE FINANCIAL PERIOD FROM 3 OCTOBER 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	Note	2018 RM'000
Gross earned premiums	19(a)	707,359
Premiums ceded to reinsurers	19(b)	(130,269)
Net earned premiums		577,090
Investment income	20	32,355
Realised losses	21	(606)
Fee and commission income	22(a)	15,642
Other revenue		47,391
Total revenue		624,481
Gross claims paid	23(a)	(317,924)
Claims ceded to reinsurers	23(b)	36,531
Gross change to contract liabilities	23(c)	(46,848)
Change in contract liabilities ceded to reinsurers	23(d)	11,379
Net claims		(316,862)
Fee and commission expenses	22(b)	(79,838)
Management expenses	24	(175,891)
Other operating income - net	25	7,902
Other expenses		(247,827)
Profit before taxation		59,792
Taxation	26	(14,057)
Net profit for the financial period		45,735
BASIC EARNINGS PER SHARE (SEN)	28	0.46

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

Company No.

1249516	V

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD FROM 3 OCTOBER 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	Note	2018 RM'000
Net profit for the financial period		45,735
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Fair value change on available-for-sale financial assets, net of deferred tax:		
- Gross fair value change arising during the financial period		7,254
- Gross fair value transferred to statement of profit or loss	8(b)	612
- Deferred tax	13	(1,888)
Other comprehensive income for the financial period, net of tax		5,978
Total comprehensive income for the financial period		51,713

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

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	Issued and fully paid ordinary shares	Non-distributable		Distributable	
	Share capital	Capital contribution reserve	Available-for-sale fair value reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At date of incorporation	*	-	-	-	*
Issuance of shares during the financial period (Note 14)	100,000	-	-	-	100,000
Reserves arising from Business Transfer (Note 3)	-	118,492	9,646	-	128,138
Increase in capital reserve during the financial period**	-	106,300	-	-	106,300
Net profit for the financial period	-	-	-	45,735	45,735
Other comprehensive income for the financial period	-	-	5,978	-	5,978
At 31 December 2018	100,000	224,792	15,624	45,735	386,151

* Represents 2 ordinary shares.

**Capital contribution from the Shareholder's fund of Zurich Life Insurance Malaysia Berhad which comprise Malaysian Government Securities, Government Investment Issues and corporate debt securities of RM104,220,000 and cash of RM2,080,000.

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

Company No.

1249516	V

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD FROM 3 OCTOBER 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	Note	2018 RM'000
OPERATING ACTIVITIES		
Cash utilised in operating activities	29	(214,203)
Arising from Business Transfer	3	37,823
Dividend/distribution income received		29,051
Interest/profit income received		5,112
Rental income on investment properties received		(183)
Income tax paid		(11,791)
Net cash outflows from operating activities		(154,191)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	5	(12,439)
Proceeds from disposal of property, plant and equipment		77
Net cash outflows from investing activities		(12,362)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	14	100,000
Reserve arising from Business Transfer	3	118,492
Increase in capital contribution reserve		2,080
Net cash inflows from financing activities		220,572
Net increase in cash and cash equivalents		54,019
Cash and cash equivalents at date of incorporation		*
Cash and cash equivalents at the end of the financial period		54,019
Cash and cash equivalents comprise:		
Cash and bank balances		54,019

* Represents RM2.00.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 December 2018

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is a public limited liability company incorporated under the Companies Act, 2016 on 3 October 2017 and domiciled in Malaysia. It commenced its principal activity of underwriting of all classes of general insurance business on 1 January 2018 following the transfer of the general insurance business from Zurich Life Insurance Malaysia Berhad to the Company pursuant to a Business Transfer Scheme approved and confirmed by the High Court of Malaya in accordance with Financial Services Act 2013 (“FSA”) on 5 December 2017. Details of the Business Transfer Scheme are as disclosed in Note 3 to the financial statements.

Other than as disclosed above, there has been no significant change in the nature of this principal activity during the financial period.

The registered office and principal place of business of the Company are as follows:

Registered office

Level 25, Mercu 3,
No. 3, Jalan Bangsar, KL Eco City,
59200 Kuala Lumpur.

Principal place of business

Level 26 - 28, Mercu 3,
No. 3, Jalan Bangsar, KL Eco City,
59200 Kuala Lumpur.

The Directors regard Zurich Holdings Malaysia Berhad as the immediate holding company, a corporation incorporated and domiciled in Malaysia. The penultimate holding and ultimate holding corporations are Zurich Insurance Company Ltd. and Zurich Insurance Group Ltd., respectively. Both corporations are incorporated in Switzerland.

Zurich Insurance Group Ltd. is listed on the SIX Swiss Exchange and produces financial statements available for public use.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 27 February 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

2.1 Basis of preparation

The financial statements of the Company has been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and in accordance with the Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”), and comply with the requirements of the Companies Act, 2016 in Malaysia.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework ("the RBC Framework") as at the date of the statement of financial position.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires the Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

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 4 to the financial statements.

Financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All the values in these financial statements have been rounded to the nearest thousand (RM'000), except when indicated otherwise.

(a) Standards, amendments to published standards and interpretations

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective to the Company.

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company's financial period beginning on 1 January 2018 are as follows:

- Amendments to MFRS 140 "Classification on 'Change in Use'" – Assets transferred to, or from, Investment Properties" clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property.

  The amendments also clarify the same principle applies to assets under construction.

- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the "date of the transaction" to record foreign currency transactions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective the Company (continued)

IC Interpretation 22 provides guidance how to determine “the date of transaction” when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 “Financial Instruments” will replace MFRS 139 “Financial Instruments: Recognition and Measurement”.

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (“OCI”). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

  - for financial liabilities classified as fair value through profit or loss (“FVTPL”), the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss; and

  - when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective to the Company (continued)

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- 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 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, the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for entities:
- a temporary exemption from MFRS 9 for entities that meet specific requirements; and
- the overlay approach.

Both approaches are optional.

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for 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.

Based on the analysis performed, the Company was eligible to apply the temporary exemption as the predominance ratio reflecting the share of liabilities connected to insurance to total liabilities exceeded 90 percent. No reassessment of eligibility was required during subsequent annual periods up to and including 2018 as there is no significant change in the activities performed by the Company. Due to the strong interaction between underlying assets held and the measurement of insurance contracts, the Company decided to use the option to defer the full implementation of MFRS 9 until MFRS 17 “Insurance Contracts” becomes effective on 1 January 2021.

For further information on the effects from MFRS 9, Note 40 shows the fair value and carrying value of financial assets separately between financial assets with contractual cash flows that are solely payments of principal and interest (“SPPI”) and other financial assets. Other financial assets consist of assets with contractual cash flows that are not SPPI and assets measured at fair value through profit or loss under MFRS 139.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective to the Company (continued)

- MFRS 15 "Revenue from Contracts with Customers" replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:
  - identify contracts with customers;
  - identify the separate performance obligations;
  - determine the transaction price of the contract;
  - allocate the transaction price to each of the separate performance obligations; and
  - recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:
  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standard, there are also increased disclosures.

  MFRS 15 does not apply to revenues relating to insurance contracts, lease contracts and financial instruments. Based on the analysis performed by the Company, there is no material impact on the Company's financial position or performance.

  Other than that, the adoption of these amendments did not have any impact on the current period and is not likely to affect future periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

(a) Effective from financial year beginning on or after 1 January 2019

- IC Interpretation 23 "Uncertainty over Income Tax Treatments" provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

  IC Interpretation 23 will be applied retrospectively.

- MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations.

  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.

  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 the statement of 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(a) Effective from financial year beginning on or after 1 January 2019 (continued)

MFRS 16 will have an impact on the accounting for contracts where the Company acts as a lessee (and intermediate lessor), especially on real estate rental contracts, resulting in recognition of almost all leases on the statement of financial position. The Company will apply the modified retrospective approach for transition to MFRS 16 and make use of the optional exemption for short-term leases and leases of low-value assets. Based on the volume of in-force non-cancellable operating leases as at 31 December 2018 (see Note 30), the recognition of a right-of-use asset and a corresponding discounted lease liability under MFRS 16 would result in an increase of both assets and liabilities of approximately RM30 million. Going forward, the finance expense from the lease liability will have a front-loaded effect, whereas the depreciation of the right-of-use asset is typically recognised on the straight-line basis. No material impact is expected in the statement of profit and loss.

- Amendments to MFRS 9 “Prepayment features with negative compensation” allow companies to measure some pre-payable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a “held to collect” business model.

The amendments will be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:
  Amendments to MFRS 112 “Income Taxes” clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(b) Effective from financial year beginning on or after 1 January 2021

- MFRS 17 “Insurance Contracts” replaces 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”. An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. 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 are 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:

- Simplified Premium Allocation Approach if the insurance coverage period is a year or less; and

- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(b) Effective from financial year beginning on or after 1 January 2021 (continued)

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 plans to adopt the new standard on the required effective date. The Company started a gap analysis project for the evaluation of the key gaps arising from MFRS 17. The Company expects that the new standard will result in changes to the accounting policies for insurance contract liabilities of the Group and the Company and is likely to have a significant impact on its financial position, results and equity, together with significant changes to presentation and disclosure.

In 2019, the focus will be on finalising the implementation efforts, analysing the effects from MFRS 17 on the financial statements.

Other than MFRS 9, MFRS 16 and MFRS 17, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Company in the year of initial application.

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 January 2019 are not relevant to the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Capital reorganisation

Where a newly incorporated entity which does not meet the definition of a business is set up to effect a transfer of business from another entity under common control, such acquisition does not meet the definition of a business combination in accordance with MFRS 3 "Business Combinations".

The transfer of the general insurance business from Zurich Life Insurance Malaysia Berhad to the Company that is ultimately controlled by the same party has no economic substance. Therefore, this transfer is accounted for as a capital reorganisation in the financial statements of the Company. The assets and liabilities of the general insurance business are incorporated at their pre-combination carrying amounts without any fair value changes.

The excess of the cost of acquisition over the aggregate carrying amounts of assets and liabilities as at the date of the capital reorganisation is taken to equity as capital contribution reserve.

(b) Investment in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

When the Company ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost with change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

In the Company's financial statements, investments in structured entities are initially recognised at fair value and subsequent measured at fair value in accordance with MFRS 139 "Financial Instruments: Recognition and Measurement". On disposal of investment in structured entities, the difference between the disposal proceeds and the carrying amounts of the investment is recognised in profit or loss.

The Company is exempted from presenting consolidated financial statements based on the criteria set out in paragraph 4 of MFRS 10 "Consolidated Financial Statements".

The immediate holding company, Zurich Holdings Malaysia Berhad, prepares consolidated financial statements in accordance with MFRS in Malaysia, which are available for inspection at the registered office of the immediate holding company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Business combination

The purchase method of accounting is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(d) Property, plant and equipment and depreciation

Property, plant and equipment are initially stated at cost. These include expenditure that is directly attributed to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives. The expected useful lives of the assets are as follows:

Computer hardware	5 years
Furniture, fittings and office equipment	5 to 10 years
Motor vehicles	5 to 10 years
Renovation	10 years

Residual values and useful lives of assets are reviewed and adjusted, if appropriate, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2(m) to the financial statements on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring in use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software systems controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and appropriate portion of relevant overheads to prepare the asset for its intended use.

Computer software costs recognised as assets are amortised using the straight line method over their estimated useful lives for three to five years, with the useful lives being reviewed annually.

Computer software under development is tested for impairment annually.

(f) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

(i) Accounting by lessee

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight line basis over the lease period.

(ii) Accounting by lessor

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investment properties

Investment properties are properties which are owned or held 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 the profit and loss for the period in which they arise.

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

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed monthly, and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying values of the investment properties are materially different from the fair values. All gains or losses arising from a change in fair value of investment properties are recognised in profit or loss.

An investment property is derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the financial period in which they arise.

(h) Investments and other financial assets

The Company classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss (“FVTPL”), loans and receivables (“LAR”) and available-for-sale (“AFS”) financial assets.

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

(i) Financial assets measured at FVTPL

The Company classifies investments acquired for the purpose of selling in the short-term as held-for-trading, as FVTPL. Derivatives are also classified as held-for-trading unless they are designated as hedges.

These investments are initially recorded at fair value and transaction costs are expensed in profit or loss. Subsequent to initial recognition, these assets are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) Investments and other financial assets (continued)

(ii) LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market but do not include insurance receivables. These assets are initially recognised at fair value. All transaction costs directly attributable to the acquisition are also included in the cost of the asset. After initial measurement, LAR are measured at amortised cost, using the effective yield method, less allowance for impairment.

Gains and losses are recognised profit or loss when the assets are derecognised or impaired, as well as through the amortisation process.

(iii) AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other assets categories. These investments are initially recognised at fair value. After initial measurement, AFS financial assets are remeasured at fair value.

Fair value gains and losses of monetary and non-monetary financial assets are reported in the statement of comprehensive income and reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired.

Fair value gains and losses of monetary instruments denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the instrument and other changes in the carrying amount of the instrument. The translation differences on monetary instruments are recognised in profit or loss; translation differences on non-monetary instruments are reported in the statement of comprehensive income and shown as a separate component of equity until the investment is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred through the statement of comprehensive income to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published (closing) price on the date of the statement of financial position.

For investments in unit and real estate investment trusts, fair value is determined by reference to published (closing) price on the date of the statement of financial position.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flows analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate, over-night and time deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued interest/profit. The fair value of fixed interest/yield-bearing deposits is measured using estimated discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(j) Recognition of financial assets

All regular way of purchases and sales of financial assets are recognised on trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention of market price.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(k) Financial instrument - Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred, and the Company has also transferred substantially all risks and rewards of ownership. On decognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that was recognised in other comprehensive income is reclassified to the profit and loss.

(l) Impairment of financial assets

The Company assesses at each date of the statement of financial position, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate/yield. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at date of the statement of financial position.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(l) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) AFS financial assets

In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment, resulting in the recognition of an impairment loss.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from equity through the statement of comprehensive income to the profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through the profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the profit or loss.

(m) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss is charged to the profit or loss immediately. A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the profit or loss immediately.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Insurance receivables

Insurance receivables are recognised when due and measured at 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 recognise that impairment loss in the profit or loss. The Company gathers 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 2.2(m) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(l) to the financial statements, have been met.

(o) Other receivables from Malaysian Motor Insurance Pool ("MMIP")

The Company's share of investment return of MMIP is recognised as receivable when the right to receive is established. The advances to and receivables from MMIP are classified as part of other receivables.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, and deposits held at call with financial institutions with original maturity of three months or less that are readily convertible to a known amounts of cash and which are subject to an insignificant risk of changes in value.

(q) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one of more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(r) Provisions

Provisions are recognised when the Company has a present obligation, either legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost expense.

(s) Other financial liabilities and insurance payable

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.

A financial liability and an insurance payable are derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

(t) Equity instruments

Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Ordinary shares are recorded at nominal value.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.   No provision is made for a proposed dividend.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(u) Insurance 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 within a given time frame.

(v) Reinsurance

The Company cedes insurance risk in the normal course of business for all of their 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 their obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurers. The impairment loss is recorded in the profit or loss.

The Company also assume reinsurance risk in the normal course of business 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 expire or when the contract is transferred to another party.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) Reinsurance (continued)

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

(w) 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.

Premium income

Premiums are recognised in a financial period in respect of risks assumed during that particular financial period. Premiums from direct business are recognised during the financial period upon the issuance of debit notes or insurance policies. Premiums in respect of risks incepted for which debit notes or insurance policies have not been issued as of the date of the statement of financial position are accrued at that date.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.

Premium liabilities

Premium liabilities refer to the higher of:

(i) the aggregate of the unearned premium reserves ("UPR"); or
(ii) the best estimate value of the Company's unexpired risk reserves ("URR") at the valuation date and the Provision of Risk Margin Deviation ("PRAD") calculated at the overall Company level.

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

In determining the UPR at the date of the statement of financial position, the method that most accurately reflects the actual unearned premium is used, as follows:

- 25% method for marine cargo, aviation cargo, and transit business;
- $1/365^{th}$ method for all other classes of direct and facultative inwards business; and
- $1/24^{th}$ method for all treaty inwards business.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(w) General insurance underwriting results (continued)

At each reporting date, the Company assesses whether UPR is sufficient to cover all expected future cash flows relating to future claims plus the additional risk margin against current insurance contracts. The Company applies a risk margin to achieve the same probability of sufficiency of future claims as is achieved by the estimate of the outstanding claim liability, see Note 4 (c).

Claims liabilities

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

Provision for claims liabilities is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settle at the date of the statement of financial position. Provision is also made for the cost of claims, together with related expenses, incurred but not reported at date of the statement of financial position, based on an actuarial valuation with additional risk margin.

Acquisition costs

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

(x) Other revenue recognition

Interest income including the amount of amortisation of premium and accretion of discount is recognised on a time proportion basis taking into account the principal outstanding and the effective rate over the period of maturity, when it is determine that such income will accrue to the Company. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the investment and continues unwinding the discount as interest income.

Dividend income is recognised as investment income when the right to receive payment is established.

Rental income is recognised on a time proportion basis except where a default in payment of rent as already occurred and the rent due remains outstanding, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognition on receipt basis until all arrears have been paid.

Gains or losses arising on disposal of financial assets are credited or charged to the profit and loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(y) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the date of the statement of financial position are translated to Ringgit Malaysia at exchange rates prevailing at the date of the statement of financial position. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the profit or loss.

(z) Income taxes

Tax expense for the financial period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in the profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is determined according to the tax laws enacted of the jurisdiction in which the Company operates and includes all taxes based upon taxable profits.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided for in full, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each date of the statement of financial position and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(z) Income taxes (continued)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

(aa) Employee benefits

Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial period in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions or variable contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to the employee services in the current and preceding financial period. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF").

Once the contributions have been paid, the Company has no further payment obligations.

Share-based long term incentive plan

The ultimate holding corporation, Zurich Insurance Group Ltd ("ZIGL"), operates a global long term incentive plans wherein performance-based target shares administered by a central shareholding vehicle are granted to eligible directors and senior executives of the ZIGL Group of Companies ("ZIGL Group") based on the financial and performance criteria and such conditions as it may deem fit. The Company purchases the right to shares from this holding vehicle for Malaysian resident directors and senior executives who participate in the plan. When shares vest with the participants, the central share vehicle transfers those shares directly to the participants. The Company does not bear any exchange or price risk in relation to payments for these rights to shares.

The cost of this equity-settled share based compensation for the Company (being the fair value at grant date) is recognised in the statement of profit and loss over the vesting period of the grant.

3. BUSINESS TRANSFER

On 28 December 2017, the Minister of Finance, via BNM's letter granted a licence to the Company to commence general insurance business with effect from 1 January 2018 pursuant to a Business Transfer Scheme ("Business Transfer" or "the Scheme") which was approved and confirmed by the High Court of Malaya on 5 December 2017 in accordance with Part VI of the Financial Services Act 2013 ("FSA").

On 1 January 2018, Zurich Life Insurance Malaysia Berhad ("ZLIMB") transferred the entire assets, liabilities and undertakings of its general insurance business to the Company under the Business Transfer Scheme pursuant to section 100(1) of the FSA, as presented below.

	01.01.2018
	RM'000
ASSETS	
Property, plant and equipment	5,564
Intangible assets	2,542
Investment properties	11,960
Available-for-sale financial assets	804,288
Reinsurance assets	201,043
Insurance receivables	69,790
Loans and receivables	61,512
Deferred tax assets	460
Tax recoverable	1,202
Cash and cash equivalents	37,823
Total assets	1,196,184
EQUITY	
Available-for-sale reserve	9,646
LIABILITIES	
Insurance contract liabilities	842,033
Other liabilities	96,990
Insurance payables	124,120
Current tax liabilities	4,903
Total liabilities	1,068,046
NET ASSETS	118,492

In order to ensure that the minimum capital requirement of the Company is met, the Shareholder's fund of ZLIMB has transferred additional financial assets comprise Malaysian Government Securities, Government Investment Issues and corporate debt securities amounting to RM104,220,000 and cash of RM2,080,000 together with the above.

The consideration for the transfer of the assets and liabilities of the general insurance business as at 1 January 2018 was RM1.00.

3. BUSINESS TRANSFER (CONTINUED)

The basis of accounting for this business transfer is described in Note 2.2(a) of the financial statements.

The Company's statements of financial position and profit and loss for the financial period and its corresponding comparative figures are presented as if the general insurance business has existed in the Company prior to the reorganisation are shown below for information purposes.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	2018	2017
	RM'000	RM'000
ASSETS		
Property, plant and equipment	15,502	5,564
Intangible assets	-	2,542
Investment properties	11,960	11,960
Available-for-sale financial assets	1,146,385	804,288
Reinsurance assets	206,608	201,043
Insurance receivables	51,916	69,790
Loans and receivables	68,687	61,512
Deferred tax assets	-	460
Tax recoverable	5,714	1,202
Cash and cash equivalents	54,019	37,823
Total assets	1,560,791	1,196,184
EQUITY		
Share capital	100,000	-
Retained earnings	45,735	-
Capital contribution reserve	224,792	-
Available-for-sale reserve	15,624	9,646
Total equity	386,151	9,646
LIABILITIES		
Insurance contract liabilities	915,156	842,033
Deferred tax liabilities	5,016	-
Other liabilities	123,285	96,990
Insurance payables	123,091	124,120
Current tax liabilities	8,092	4,903
Total liabilities	1,174,640	1,068,046
Interfund balance	-	118,492

3. BUSINESS TRANSFER (CONTINUED)

STATEMENT OF PROFIT OF LOSS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER

	2018 RM'000	2017 RM'000
Gross earned premiums	707,359	645,893
Premiums ceded to reinsurers	(130,269)	(116,339)
Net earned premiums	577,090	529,554
Investment income	32,355	19,336
Realised gains and losses	(606)	3,246
Fair value gains and losses	-	(932)
Fee and commission income	15,642	13,869
Other revenue	47,391	35,519
Total revenue	624,481	565,073
Gross claims paid	(317,924)	(316,016)
Claims ceded to reinsurers	36,531	30,674
Gross change to contract liabilities	(46,848)	(36,831)
Change in contract liabilities ceded to reinsurers	11,379	43,738
Net claims	(316,862)	(278,435)
Fee and commission expenses	(79,838)	(72,705)
Management expenses	(175,891)	(158,161)
Other operating income - net	7,902	5,163
Other expenses	(247,827)	(225,703)
Profit before taxation	59,792	60,935
Taxation	(14,057)	(15,463)
Net profit for the financial period	45,735	45,472

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below.

(a) The ultimate liability arising from claims incurred under insurance contracts

The estimation of claims "Incurred But Not Reported" (IBNR) is subjected to a greater degree of uncertainty than the estimation of cost of notified claims to the Company. IBNR claims may not be apparent to the insured until many years after the event giving rise to the claim. The long-tailed classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. For the short-tailed classes, claims are generally reported soon after the claim event, and hence tend to display lower level of uncertainty.

The Company uses a variety of estimation techniques, generally based upon actuarial analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Due to the fact that the ultimate claims liability is dependent upon the outcome of future events, allowance is made with the following consideration:

- Changes in the Company's processes which might accelerate or slow down the development claims, compared with the data from previous periods;
- Changes in the legislation environment;
- Changes in the mix of business;
- Impact of large losses;
- The attitudes of claimants towards settlement of their claims;
- The effects of social and economic inflation; and
- Medical and technological developments.

Large and/or significant weather-related events impacting each relevant business class are generally assessed separately (whenever it is deemed as appropriate), being measured on a case by case basis or projected separately in order to allow for the effect of the development and incidence of these claims.

Where possible, the Company adopts multiple techniques to estimate the required level of liabilities. The final estimates are selected after due consideration is given to the strengths and weaknesses of the various techniques used and the information available at hand.

Liabilities are evaluated gross of any reinsurance. A separate estimate is made of the amounts that will be recoverable based upon the gross liabilities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Assets arising from reinsurance contracts

Reinsurance recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis so that the balance is reflective of the amounts that will ultimately be received.

(c) Actuarial assumptions and methods

The process for determining the value of outstanding claims liabilities including the cost of claims handling is described below.

The methods used to establish the ultimate cost of claims include the following:

- Projecting ultimate numbers of claims and multiplying by projected ultimate average cost;
- Projecting ultimate claim payments;
- Projecting ultimate incurred claim amounts; and
- Applying plan or forecast loss ratios to earned premiums.

Additional qualitative judgements are also used to assess the extent to which past trends may not apply in the future. Thus, there is uncertainty surrounding changes to these patterns from whatever cause and known facts of individual claims at hand.

Projected reinsurance assets are derived using similar methods or applying net to gross ratios.

Projected payments are implicitly allowed for future inflation since any recent inflationary effects are likely to be incorporated in the Company’s outstanding claims and hence reflected in the valuation process.

For the above reasons, a risk margin for adverse deviation (“PRAD”) is added to the central estimate established above. The establishment of the risk margin takes into account the variability of the outcome of each line of business and the diversification benefit of underwriting a number of lines of business. In accordance with Bank Negara Malaysia’s ‘Risk-Based Capital Framework for Insurers’, the Company has established the level of risk margin to provide a probability of adequacy of 75%.

5. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fittings and office equipment RM'000	Computer hardware RM'000	Motor vehicle RM'000	Renovation RM'000	Work-in-progress RM'000	Total RM'000
Cost						
At date of incorporation	-	-	-	-	-	-
Arising from Business Transfer (Note 3)	405	4,338	1,043	1,356	1,351	8,493
Additions	3,207	2,150	-	6,927	155	12,439
Write-offs	(181)	(1,526)	-	(106)	-	(1,813)
Disposals	-	-	(88)	-	-	(88)
Reclassification	-	1,506	-	-	(1,506)	-
At 31 December 2018	3,431	6,468	955	8,177	-	19,031
Accumulated depreciation						
At date of incorporation	-	-	-	-	-	-
Arising from Business Transfer (Note 3)	117	2,347	232	233	-	2,929
Charge for the financial period (Note 24)	204	1,427	417	382	-	2,430
Write-offs	(181)	(1,526)	-	(106)	-	(1,813)
Disposals	-	-	(17)	-	-	(17)
At 31 December 2018	140	2,248	632	509	-	3,529
Net carrying amount						
At 31 December 2018	3,291	4,220	323	7,668	-	15,502

6. INTANGIBLE ASSETS

	Computer software RM'000
Cost	
At date of incorporation	-
Arising from Business Transfer (Note 3)	11,303
Write-offs	(6,965)
At 31 December 2018	4,338
Accumulated amortisation	
At date of incorporation	-
Arising from Business Transfer (Note 3)	8,761
Amortisation during the financial period (Note 24)	2,542
Write-offs	(6,965)
At 31 December 2018	4,338
Net carrying amount	
At 31 December 2018	-

7. INVESTMENT PROPERTIES

	2018 RM'000
At date of incorporation	-
Arising from Business Transfer (Note 3)	11,960
At 31 December	11,960

Investment properties are stated at fair value in accordance with the policy described in Note 2.2(g) and has been determined based on valuations that reflect market conditions as at the date of the statement of financial position, using comparison method. The Company revalued its investment properties based on independent professional qualified valuers.

Rental income and the rates and maintenance expenses in respect of investment properties are disclosed in Note 20 to the financial statements.

Fair value of investment properties are categorised under Level 3 inputs (defined as unobservable inputs for asset or liability) in the fair value hierarchy of MFRS 113 “Fair Value Measurement”. Changes in fair value are recognised in the statement of profit or loss during the reporting period in which they are reviewed.

The Level 3 inputs or unobservable inputs include:

- Term yield - the expected rental that the investment properties are expected to achieve and are derived from the current passing rental, including revision upon renewal of tenancies during the financial period;
- Reversion yield - the expected rental that the investment properties are expected to achieve upon expiry of term rental;
- Allowance for void - refers to allowance provided for vacancy periods; and
- Price per square foot (psf) - estimated price psf for which a property should exchange on the date of valuation between a willing buyer and a willing seller.

The significant unobservable input is the floor area and the weighted average value per square feet of the properties. The values of unobservable input used were in the range of RM262 – RM943 per square feet as at 31 December 2018. The fair value would increase/(decrease) if the value per square feet used is higher/(lower).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) AFS financial assets

	2018 RM'000
Corporate debt securities	
- Unquoted in Malaysia	970
Equity securities	
- Quoted in Malaysia	57,998
Unit trusts	
- Unquoted in Malaysia	1,087,417
	1,146,385

(b) Carrying value of financial instruments

The movements in the Company's financial assets (excluding loans and receivables) are summarised in the table below by measurement category.

	2018 RM'000
At date of incorporation	-
Arising from Business Transfer (Note 3)	804,288
Transfer of Malaysian Government Securities, Government Investment Issues and corporate debt securities from ZLIMB's Shareholder's fund	104,220
Purchases	430,872
Disposals (sale and redemptions)	(198,608)
Realised loss in statement of profit and loss (Note 21)	(612)
Fair value gains recorded in:	
- Other comprehensive income	7,866
Amortisation/interest adjustment	(1,641)
At 31 December	1,146,385

The fair value hierarchy of investments is disclosed in Note 34 to the financial statements.

9. CONTROLLED STRUCTURED ENTITIES

The Company has determined its investment in a retail unit fund amounting to RM1,086,156,000 in the financial statements as investment in a structured entity ("investee fund"). The Company invests in the investee fund whose objective is to provide regular income through diversified investments in Malaysian and whose investment strategy does not include the use of leverage. The investee fund is managed by CIMB-Principal Asset Management Berhad and applies various investment strategies to accomplish its respective investment objectives. The investee fund finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund's net assets.

The Company holds 99.98% of units in the CIMB-Principal Conservative Bond Fund which is established in Malaysia. As a result of the Company's power conveyed through its investment management and other agreements which permit the Company to remove the Fund Manager and Trustee via majority voting rights, the Company has control over the investee fund. The Company is exposed to, or has rights to variable returns from its involvement with the investee fund.

The investee fund is classified as available-for-sale investment, and the change in the fair value of the investee fund is included in the statement of comprehensive income in the Company's financial statements.

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

10. REINSURANCE ASSETS

	2018
	RM'000
Reinsurance of insurance contracts	
Claims liabilities (Note 16)	145,006
Premium liabilities (Note 16)	61,602
	206,608

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair values at the date of the statement of financial position.

11. INSURANCE RECEIVABLES

	2018 RM'000
Due premiums including agents/brokers and co-insurers balances	53,266
Due from reinsurers and cedants	8,209
	61,475
Allowance for impairment	(9,559)
	51,916

The carrying amounts approximate fair values at the date of the statement of financial position.

12. LOANS AND RECEIVABLES

	2018 RM'000
Assets held under Malaysian Motor Insurance Pool ("MMIP")**	50,180
Staff loans*	247
Deposits, prepayment and other receivables	18,260
	68,687
Staff loans*	
- unsecured	144

**The net assets held under MMIP include cumulative net cash contribution paid to MMIP of RM34,359,000. The remaining balance represents assets held under MMIP recognised by the Company based on quarterly statements received from MMIP of RM15,821,000.

As at 31 December 2018, there is a net receivable of RM10,278,000 from MMIP, after setting off amounts receivable from MMIP against the Company's share of MMIP's claims and premiums liabilities of RM39,902,000 which is included in Note 16 to the financial statements.

The carrying amounts disclosed above approximate fair values at the date of the statement of financial position.

13. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Net deferred tax assets shown on the statement of financial position have been determined after considering appropriate offsetting as follows:

	2018 RM'000
Deferred tax liabilities	
- Settled within 12 months	936
- Settled after 12 months	(5,952)
	(5,016)
Deferred tax liabilities	(5,016)
At date of incorporation	-
Arising from Business Transfer (Note 3)	460
Credited/(charged) to statement of profit or loss (Note 26)	
- property, plant and equipment	1,073
- investments and loans	(114)
- provisions	(4,547)
	(3,588)
Charged to comprehensive income:	
- available-for-sale reserve	(1,888)
At 31 December	(5,016)
Subject to income tax	
Deferred tax asset (before offsetting)	
- investments and loans	929
Offsetting	(929)
Deferred tax assets after offsetting	-
Deferred tax liabilities (before offsetting)	
- available-for-sale reserve	(4,934)
- property, plant and equipment	(139)
- investment properties	(872)
	(5,945)
Offsetting	929
Deferred tax liabilities after offsetting	(5,016)

14. SHARE CAPITAL

	Number of shares	Share capital RM'000
Issued and fully paid up		
At date of incorporation	2	*
Issued during the financial period: - proceeds from share issue	100,000,000	100,000
At 31 December 2018	100,000,002	100,000

* Represents 2 ordinary shares.

The Company was incorporated with a share capital of RM2.00 comprises 2 ordinary shares. On 28 November 2017, the Company increased its share capital to RM100,000,002 by the allotment of 100,000,000 new ordinary shares. As at 31 December 2018, the issued and paid-up share capital of the Company is RM100,000,002.

15. RESERVES

(a) Retained earnings

Under the single-tier tax system which came into effect from 1 January 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempted in the hand of the shareholders.

As at 31 December 2018, the Company is already under the single-tier tax system. The Company may distribute single-tier exempt dividends to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the Financial Services Act, 2013, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

(b) Capital contribution reserve

The capital contribution reserve represents:

(i) the excess of the cost of acquisition over the aggregate carrying amounts of assets and liabilities at the date of the business transfer (see Note 3); and

(ii) capital contribution from the Shareholder's fund of ZLIMB comprises Malaysian Government Securities, Government Investment Issues, corporate debt securities and cash.

(c) Available-for-sale reserve

The available-for-sale reserve of the Company represents the fair value gains or losses of the available-for-sale financial assets, net of deferred tax.

16. INSURANCE CONTRACT LIABILITIES

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

			2018
		Re-insurance	Net
	RM'000	RM'000	RM'000
Provision for claims	375,509	(87,406)	288,103
Provision for incurred but not reported claims (“IBNR”)	204,841	(57,600)	147,241
Claim liabilities	580,350	(145,006)	435,344
Premium liabilities	334,806	(61,602)	273,204
	915,156	(206,608)	708,548

Claims liabilities			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	533,502	(133,627)	399,875
Claims incurred in the current accident year	298,413	(41,142)	257,271
Other movements in claims incurred in prior accident years	57,575	4,963	62,538
Claims paid during the financial period (Note 23(a))	(317,924)	36,531	(281,393)
Movement in IBNR reserves	8,784	(11,731)	(2,947)
At 31 December	580,350	(145,006)	435,344
Premium liabilities			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	308,531	(67,416)	241,115
Premium written in the financial period (Note 19(a))	733,634	(124,455)	609,179
Premium earned during the financial period (Note 19(a))	(707,359)	130,269	(577,090)
At 31 December	334,806	(61,602)	273,204

17. OTHER LIABILITIES

	2018 RM'000
Cash collaterals held on bond business	25,945
Unclaimed monies	667
Tenant deposits	244
Accrued expenses	60,746
Other payables	35,683
	123,285

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

18. INSURANCE PAYABLES

	2018 RM'000
Due to agents and intermediaries	21,178
Due to reinsurers and cedants	51,129
Reinsurer’s deposits withheld	50,784
	123,091

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

19. NET EARNED PREMIUMS

	2018 RM'000
(a) Gross earned premiums	
- Insurance contracts	733,634
- Change in gross premium liabilities	(26,275)
	707,359
(b) Premiums ceded to reinsurers	
- Insurance contracts	(124,455)
- Change in reinsurance premium liabilities	(5,814)
	(130,269)
Net earned premiums	577,090

20. INVESTMENT INCOME

	2018 RM'000
AFS financial assets	
Interest/profit income	
- Malaysian Government Securities/Government Investment Issues	341
- corporate debt securities unquoted in Malaysia	2,150
Dividend/distribution income:	
- equity securities quoted in Malaysia	2,142
- unit trusts	26,934
Amortisation of premiums	
- Malaysian Government Securities/Government Investment Issues	(44)
- corporate debt securities unquoted in Malaysia	(171)
	31,352
LAR financial assets	
Interest/profit income	
- staff loans	19
- fixed and call deposits	1,176
	1,195
Investment properties	
Gross rental income	131
Less: Rates and maintenance	(323)
	(192)
	32,355

21. REALISED GAINS AND LOSSES

	2018 RM'000
AFS financial assets	
Realised gains:	
- corporate debt securities unquoted in Malaysia	143
- equity securities quoted in Malaysia	4,429
Realised losses:	
- Malaysian Government Securities/ Government Investment Issues	(138)
- corporate debt securities unquoted in Malaysia	(118)
- equity securities quoted in Malaysia	(4,928)
	(612)
Non-financial assets	
Realised gains:	
- property, plant and equipment	6
	(606)

22. FEE AND COMMISSION

	2018 RM'000
(a) Fee and commission income	
Reinsurance commission income	15,642
(b) Fee and commission expenses	
Gross commission expenses	(79,838)

23. NET CLAIMS INCURRED

	2018 RM'000
(a) Gross benefits and claims paid	(317,924)
(b) Claims ceded to reinsurers	36,531
(c) Gross change in contract liabilities	(46,848)
(d) Change in contract liabilities ceded to reinsurers	11,379

24. MANAGEMENT EXPENSES

	2018 RM'000
Staff costs (including Executive Director):	
- salaries and bonus	86,662
- defined contribution plans	2,195
- other employee benefits	14,124
	102,981
Directors' remuneration (Note 24(a))	367
Auditors' remuneration:	
- statutory audit	352
- others	30
Office rental	7,138
Equipment rental	25
Depreciation of property, plant and equipment (Note 5)	2,430
Amortisation of intangible assets (Note 6)	2,542
Allowance for impairment of insurance receivables	2,381
Training expenses	754
Repairs and maintenance expenses	2,534
Information technology expenses	9,572
Advertising, promotional and entertainment expenses	8,745
Breakdown service assistance expenses	2,941
Motor vehicle and travelling expenses	4,324
Printing and stationery expenses	13,159
Postage, courier and telephone charges	1,165
Management fees	999
Other expenses	37,717
Less: Shared service costs recovered from related parties	(24,265)
	72,910
Total management expenses	175,891

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

24. MANAGEMENT EXPENSES (CONTINUED)

(a) Directors' remuneration

The Directors' remuneration and other emoluments during current financial period are as follows:

	Fees RM'000	Salary RM'000	Bonus RM'000	Others RM'000	Benefits-in kind RM'000	Total RM'000
2018						
Chief Executive Officer						
- David Jerry Fike	-	2,305	706	3,245	37	6,293
Non-Executive Directors						
- Nabil Nazih El-Hage	143	-	-	-	-	143
- Wan Zamri bin Wan Zain	80	-	-	-	-	80
- Kevin John Wright	80	-	-	-	-	80
- Datin Sunita Mei-Lin Rajakumar	40	-	-	-	-	40
- Onn Kien Hoe	24	-	-	-	-	24
	367	2,305	706	3,245	37	6,660

24. MANAGEMENT EXPENSES (CONTINUED)

(a) Directors' remuneration (continued)

The number of Executive and Non-Executive Directors whose total remuneration received or receivable during the current financial period are analysed by the following bands:

	Number of Directors
	2018
Executive Directors:	
RM6,000,001 – RM7,000,000	1
Non-Executive Directors:	
RM 1 - RM100,000	4
RM100,001 – RM200,000	1

25. OTHER OPERATING INCOME – NET

	2018
	RM'000
Realised foreign exchange gain	44
Unrealised foreign exchange loss	(16)
Other miscellaneous income	7,874
	7,902

26. TAXATION

	2018 RM'000
Current tax	10,469
Deferred tax (Note 13)	3,588
Tax expense	14,057
Current tax	
Current financial period	10,469
Deferred tax	
Origination and reversal of temporary differences (Note 13)	3,588
	14,057

The income tax for the Company is calculated based on the tax rate of 24% of the estimated assessable profit for the financial period.

A reconciliation of income tax expense applicable to profit before taxation at statutory income tax rate to income tax expenses at the effective income tax rate of the Company is as follows:

	2018 RM'000
Profit before taxation	59,792
Taxation at Malaysian statutory tax rate of 24%	14,350
Income not subject to tax	(6,978)
Expenses not deductible for tax purposes	6,685
Tax expense	14,057

27. DIVIDENDS

The Directors have not recommended the payment of any dividend for the current financial period.

28. EARNINGS PER SHARE

The basic earnings per ordinary share are calculated by dividing the profit for the financial period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial period.

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of the statement of financial position.

	2018 **RM'000**
Profit attributable to ordinary equity holders	45,735
Weighted average number of shares in issue	100,000
Basic earnings per share (sen)	0.46

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

29. CASH FLOWS

	Note	2018 RM'000
Net profit for the financial period		45,735
Investment income	20	(32,355)
Realised losses recorded in profit or loss	21	606
Purchases of AFS financial assets	8(b)	(430,872)
Proceeds from sale and redemption of AFS financial assets	8(b)	198,608
Decrease in loans and receivables		65
Non-cash items:		
Depreciation of property, plant and equipment	5	2,430
Amortisation of intangible assets	6	2,542
Allowance for impairment of insurance receivables	24	2,381
Tax expense	26	14,057
Changes in working capital:		
Increase in reinsurance assets		(5,564)
Decrease in insurance receivables		15,493
Increase in other receivables		(7,223)
Increase in insurance contract liabilities		73,122
Decrease in other liabilities		(92,198)
Decrease in insurance payables		(1,030)
Cash utilised in operating activities		(214,203)

30. LEASE COMMITMENTS

(a) The Company as lessee

The Company has operating lease agreements entered in respect of rented premises and hired equipment. The minimum lease payments under non-cancellable operating leases are as follows:

	2018 RM'000
Not later than 1 year	5,482
Later than 1 year and no later than 5 years	7,793
	13,275

(b) The Company as lessor

The Company has entered into lease agreements on its properties. The leases have remaining lease terms of between 1 to 3 years. The future aggregate minimum lease receivables under the operating leases contracted for as at reporting date but not recognised as assets, are as follows:

	2018 RM'000
Not later than 1 year	56
Later than 1 year and no later than 3 years	10
	66

31. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationship

The related parties and their relationship with the Company as at 31 December 2018 are as follows:

Name of company	Relationship
Zurich Insurance Group Limited ("ZIGL")	Ultimate holding company
Zurich Insurance Company Ltd. ("ZICL")	Penultimate holding company
Zurich Holdings Malaysia Berhad ("ZHMB")	Immediate holding company
Zurich Roadside Assistance Malaysia Sdn. Bhd. (in liquidation)	Subsidiary of ZICL
Zurich Shared Services Malaysia Sdn. Bhd. ("ZSSM")	Subsidiary of ZICL
Zurich Services Malaysia Sdn. Bhd. ("ZSM")	Subsidiary of ZICL
Zurich Services (Hong Kong) Limited	Subsidiary of ZICL
Zurich American Insurance Company	Subsidiary of ZICL
Zurich International Life Limited	Subsidiary of ZICL
Zurich Global Investment Management Inc.	Subsidiary of ZICL
PT Zurich Insurance Indonesia	Subsidiary of ZICL
Zurich Financial Services Australia Limited	Subsidiary of ZICL
Zurich Life Insurance Malaysia Berhad	Subsidiary of ZICL
Zurich Takaful Malaysia Berhad	Subsidiary of ZHMB
Zurich General Takaful Malaysia Berhad	Subsidiary of ZHMB
Zurich Insurance Company Ltd., Labuan Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Singapore Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Japan Branch	Branch office of ZICL

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions

In the normal course of business, the Company undertakes various transactions with other companies deemed related by virtue of being subsidiary and associated companies of ZIGL, collectively known as ZIGL Group, at agreed terms and prices.

The significant related party transactions during the financial period with related parties are as follows:

	2018 RM'000
Reinsurance transactions with:	
Zurich Insurance Company Ltd.:	
- Reinsurance premiums paid	78,590
- Reinsurance commissions received	(7,013)
- Reinsurance claims recovered	(19,603)
Zurich Insurance Company Ltd., Labuan Branch:	
- Reinsurance premiums paid	15,193
- Reinsurance commissions received	(3,999)
- Reinsurance claims recovered	(6,098)
Breakdown services assistance expenses refunded:	
- Zurich Roadside Assistance Malaysia Sdn. Bhd. (in liquidation)	(399)
Information technology expenses paid/payable to:	
- Zurich Services Malaysia Sdn. Bhd.	1,208
Reimbursement costs to/(from):	
- Zurich Insurance Company Ltd.	2,965
- Zurich American Insurance Company	3,967
- Zurich Services (Hong Kong) Limited	(430)
- Zurich International Life Limited	170
- Zurich Takaful Malaysia Berhad	(42)
- Zurich General Takaful Malaysia Berhad	(25,777)
- Zurich Life Insurance Malaysia Berhad	24,959
- Zurich Services Malaysia Sdn Bhd	(232)
- Zurich Shared Services Malaysia Sdn Bhd	96
- Zurich Global Investment Management	(7)
- PT Zurich Insurance Indonesia	(2)

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Related party balances

The significant outstanding balances of the Company with its related parties as at 31 December are as follows:

	2018 RM'000
Included in insurance receivables/(payables):	
- Zurich Insurance Company Ltd.	(74,611)
- Zurich Financial Services Austalia Limited	(1)
- Zurich Insurance Company Ltd., Labuan Branch	(3,760)
- Zurich Insurance Company Ltd., Singapore Branch	(6)
- Zurich Takaful Malaysia Berhad	170
- Zurich Insurance Company Ltd, Hong Kong	(8)
- Zurich Insurance Company Ltd.	(2,975)
- Zurich American Insurance Company	(1,281)
- Zurich Services (Hong Kong) Limited	16
- Zurich Takaful Malaysia Berhad	42
- Zurich General Takaful Malaysia Berhad	11,886
- Zurich Life Insurance Malaysia Berhad	(6,023)

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(d) Key management personnel's remuneration

The remuneration of the key management personnel including Executive Director during the financial period are as follows:

	2018
	RM'000
Salary	7,703
Bonus	2,380
Defined contribution plans	642
Share-based payments/benefits	1,676
Other benefits	4,452
	16,853
Included in the total key management personnel is the Executive Director's remuneration (Note 24(a))	6,293

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the Company include the Executive Director/Chief Executive Officer, members of the Executive Committee and other key responsible persons of the Company.

The estimated cash value of benefits-in-kind provided to the Executive Director/Chief Executive Officer of the Company amounted to RM37,000.

(i) Share based payments/benefits

The Global long term incentive plan is an executive incentive plan administered globally by a central share holding vehicle. The Company purchases the right to shares from this holding vehicle for Malaysia resident executives who participate in the plans. When shares vest with the participants, the central share vehicle transfers those shares directly to the participants. The Company does not bear any exchange or price risk in relation to payments for these rights to shares.

32. RISK MANAGEMENT FRAMEWORK

Risk Governance Structure

The Company adopts three lines of defence model approach to governance and enterprise risk management. The Company's risk governance structure and risk reporting requirement are incorporated in the Company's Risk Management Framework. The Framework explains the underlying approach and defines an on-going and consistent process for identifying, analysing, evaluating, treating, monitoring and reporting significant risks faced by the business units, divisions, stakeholders and ultimately, the Company. It also outlines the key aspects of the risks management process and identifies the main reporting procedures.

The adoption of the Framework is the responsibility of the Board with some of the responsibilities delegated to the Risk Management Committee. The Company has established senior management committees which act as platform for two-way communication between the Management and the Board. The Committees are the ALMIC, HRC, ITSC, BCM, RCC, OSHC and the various Senior Management Committees for General Businesses. All these committees are chaired by the Chief Executive Officer or a member of senior management team.

They are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition, and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

Governance and Regulatory Framework

The Company's is required to comply with the FSA and BNM Regulations, as applicable.

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

32. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Capital Management

The Company's capital management policy is to create shareholders value, maintain a strong capital position with sufficient buffer to meet policyholders' obligations and regulatory requirements, and make strategic investments for business growth.

The minimum Capital Adequacy Ratio ("CAR") under the RBC Framework regulated by BNM is 130% for each insurance entity. The Company complied with the minimum CAR as at 31 December 2018.

The regulated capital of the Company as at 31 December 2018 comprised of Available Capital of RM386,151,000.

The capital structure of the Company as at 31 December 2018, as prescribed under the RBC Framework, is shown below:

	2018 RM'000
Tier 1 Capital	
Paid-up share capital	100,000
Reserves, including retained earnings	270,527
	370,527
Tier 2 Capital	
Available-for-sale reserve	15,624
Total Capital Available	386,151

33. INSURANCE RISK

The Company underwrites various general insurance contracts, which are mostly on annual coverage and annual premium basis, the exception being short term policies such as Travellers' Personal Accident and Marine Cargo which covers the duration in which the cargo is being transported. The Company also underwrites some non-annual policies with coverage period of more than one year such as Contractor's All Risks and Workmen's Compensation. The majority of the insurance business written by the Company is Fire and Motor. Other lines of business include, Medical Expenses, Personal Accident, Engineering, Liability, Bond and other Miscellaneous classes.

33. INSURANCE RISK (CONTINUED)

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of the insurance liabilities. By underwriting insurance contracts, the Company takes on insurance risk by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments differ significantly from expectations; the risks arise from fluctuations in timing, frequency and severity of claims; as well as the adequacy of premiums and reserves.

The Company may also be exposed to risks arising from climate changes, natural disasters and terrorism activities. For longer tail claims that take some years to settle, there is also inflation risk.

The Company’s objectives of managing insurance risks are to enhance the long-term financial performance of the business to achieve substantial growth in profitability, strong asset quality and to continually optimise shareholders’ value. The Company seeks to underwrite risks that they understand and that provide a reasonable opportunity to earn an acceptable profit.

The Company sets to manage its insurance risks by having a clearly defined framework as follows:

- Writing a balanced mix and spread of business, geographically and between classes of business;
- Underwriting strategies focused on profitable lines of business are clearly articulated to stakeholders;
- Underwriting authority limits for capacity are in place according to individuals’ capacity in the underwriting process;
- Mitigating insurance risks through purchase of both proportional and non-proportional reinsurance treaties;
- Monitoring level of exposure of single reinsurer or group of related reinsurance. Placing reinsurance with other companies of the Company’s parent is used as an initial step on a significant portion of the reinsurance program to enable group-wide reinsurance purchasing efficiencies;
- Regular monitoring of claims experience and comparing actual experience against that implied in pricing; and
- Actuarial models, using information from the management information systems, are used in calculating premiums and monitoring claims patterns. Past experience and actuarial methods are used as part of the process.

33. INSURANCE RISK (CONTINUED)

The table below sets out the concentration of the general insurance contracts - claims liabilities by type of insurance contracts issued:

			2018
	Gross	**Re-insurance**	**Net**
	RM'000	**RM'000**	**RM'000**
Fire	73,501	(54,859)	18,642
Motor	381,617	(8,667)	372,950
Marine, Aviation and Transit	12,368	(8,721)	3,647
Miscellaneous	112,864	(72,759)	40,105
At 31 December	580,350	(145,006)	435,344

Key Assumptions

The principal assumption underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of initial expected loss ratios, average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgements are used to assess the extent to which past trends may apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors, such as judicial decisions and government legislation, may affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

33. INSURANCE RISK (CONTINUED)

Sensitivities

The insurance claims liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed on the total portfolio for reasonably 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 among 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.

	Change in assumptions	Impact on gross claims liabilities	Impact on net claims liabilities	Impact on profit before tax	Impact on equity
		RM'000	RM'000	RM'000	RM'000
31 December 2018					
Average claim cost	+10%	51,720	41,585	41,585	31,605
Average number of claims	+10%	52,144	39,639	39,639	30,126

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 each reporting period, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development, and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

33. INSURANCE RISK (CONTINUED)

Gross General Insurance Claims Liabilities for 2018:

	Prior 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
Accident Year:									
At end of the accident year			261,232	288,266	295,848	331,565	362,269	399,200	
One year later		232,759	253,808	290,744	292,121	343,585	343,203		
Two years later		227,345	253,611	289,068	287,165	342,385			
Three years later		227,867	254,750	285,509	284,440				
Four years later		243,426	249,477	281,558					
Five years later		224,531	248,495						
Six years later		221,705							
Current estimate of cumulative claims incurred		221,705	248,495	281,558	284,440	342,385	343,203	399,200	
At end of accident year		87,840	85,438	91,962	106,374	129,917	136,036	135,444	
One year later		173,198	185,422	200,905	206,290	239,438	232,395		
Two years later		200,515	215,056	236,670	242,996	286,746			
Three years later		210,860	229,275	252,331	260,016				
Four years later		214,947	234,678	258,550					
Five years later		216,192	236,688						
Six years later		217,965							
Cumulative payments to-date		217,965	236,688	258,550	260,016	286,746	232,395	135,444	
Direct and facultative inwards	4,236	3,740	11,807	23,008	24,424	55,639	110,808	263,756	497,418
Treaty inwards									528
MMIP									30,329
Best Estimate of Claim Liabilities									528,275
Claim Handling Expenses									10,583
Fund PRAD at 75% Confidence Level									41,492
Gross General Insurance Claim Liabilities									580,350

33. INSURANCE RISK (CONTINUED)

Net General Insurance Claims Liabilities for 2018:

	Prior 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
Accident Year:									
At end of the accident year			239,314	265,253	273,974	294,600	299,695	327,267	
One year later		206,028	236,089	258,963	270,616	291,877	295,480		
Two years later		203,174	234,080	255,954	265,892	294,797			
Three years later		204,328	231,678	251,139	265,706				
Four years later		191,647	225,614	247,740					
Five years later		201,956	225,004						
Six years later		199,911							
Current estimate of cumulative claims incurred		199,911	225,004	247,740	265,706	294,797	295,480	327,267	
At end of accident year		81,687	82,300	89,042	102,869	121,786	124,359	127,652	
One year later		157,482	176,527	184,144	197,328	218,725	208,314		
Two years later		182,494	201,761	217,757	231,243	256,657			
Three years later		191,805	212,560	231,821	246,104				
Four years later		195,015	216,591	236,475					
Five years later		195,976	218,143						
Six years later		197,721							
Cumulative payments to-date		197,721	218,143	236,475	246,104	256,657	208,314	127,652	
Direct and facultative inwards	1,772	2,190	6,861	11,265	19,602	38,140	87,166	199,615	366,611
Treaty inwards									528
MMIP									30,329
		Best Estimate of Claim Liabilities							397,468
		Claim Handling Expenses							10,583
		Fund PRAD at 75% Confidence Level							27,293
		Net General Insurance Claim Liabilities							435,344

34. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and fair value hierarchy

The Company classifies fair value measurement using a fair value hierarchy that reflects the significant of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted market price

Included in the quoted price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 - Valuation Techniques - Market observable input

Financial instruments in this category are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. It includes financial instruments for which pricing is obtained via pricing services, but where prices have not been determined in an active market, instruments with fair values based on broker quotes and discounted cash flows, the price of the most recent transactions may be used provided that there has not been a significant change in economic circumstances since the time of the transaction, or if the conditions have changed, that price should be adjusted to reflect the change in conditions by reference to current prices for similar financial instruments and investment in unit and property trusts with fair values obtained via investment bankers and/or fund managers.

Level 3 - Valuation Techniques - Unobservable input

Non-market observable inputs mean that fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unquoted equity securities, un-rated securities, investment properties and debt securities from organisations in default. Valuation techniques of these portfolios are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the instrument at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data and judgements.

34. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

The following tables show the Company's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
31 December 2018				
AFS financial assets:				
- Corporate debt securities	-	-	970	970
- Equity securities	57,998	-	-	57,998
- Unit trust	1,087,417	-	-	1,087,417
	1,145,415	-	970	1,146,385
Non-financial asset:				
Investment properties	-	-	11,960	11,960
	1,145,415	-	12,930	1,158,345

(c) Fair value measurements using valuation techniques based on unobservable input (level 3)

The following table show the changes in level 3 items for the financial period ended 31 December 2018 for recurring fair value measurements:

	AFS	Investment properties
	RM'000	RM'000
At date of incorporation	-	-
Arising from Business Transfer (Note 3)	970	11,960
At 31 December 2018	970	11,960

35. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangement and similar arrangement are as follows:

	Gross amount recognised as financial assets/ liabilities	Gross amount offset in the statement of financial position	Amount presented in the statement of financial position
	RM'000	RM'000	RM'000
31 December 2018			
Financial assets:			
Insurance receivables	42,272	9,644	51,916
Financial liabilities:			
Insurance payables	132,735	9,644	123,091

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2018.

36. FINANCIAL RISK

The Company is exposed to financial risks, including credit risk, liquidity risk, market risk and operational risk during the normal course of its business. The Company has in place, established procedures and guidelines to monitor the risks on an on-going basis.

Credit Risk

The Company has exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Credit risk is assumed through three (3) main mechanisms.

i) The assumption of credit risk through investment strategies relating to financial assets;
ii) Credit risk created through reinsurance, where a reinsurance asset represents an obligation of the reinsurer to the entity; and
iii) Receivables within the business, where the entity owed payment or services by a third party. Most typically this is arising from sale of insurance policies.

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Minimum credit quality applies to investments in private debt securities/bonds with a minimum rating of A-/A2 (at the date of investment) provided by Malaysian Rating Corporation Berhad (“MARC”) and Rating Agency Malaysia Berhad (“RAM”), respectively. The Company however intends to maintain an average rating of AA in the overall bond portfolio under current investment strategy and objectives. The Company does not solely depend on the rating report provided but as in all credit assessments/reviews are based on publicly available issuer information together with in-house analysis based on information provided by the borrower/issuer, peer group comparisons, industry comparisons and other quantitative tools.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company’s liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company manages its credit risk in respect of receivables by establishing defined tolerance on credit periods, putting in place collection procedures and rigorously monitoring its credit portfolio,

Credit Exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position which are subject to credit risk:

	Note	2018 RM'000
AFS financial assets:		
- Corporate debt securities	8(a)	970
Reinsurance assets	10	206,608
Insurance receivables	11	51,916
Loans and receivables		66,415
Cash and cash equivalents		54,019
		379,928

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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

	Neither past-due nor impaired				
	Investment grade (AAA to BBB)	Non-investment grade (BB to C)	Not rated	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2018					
AFS financial assets:					
- Corporate debt securities	-	-	-	970	970
Reinsurance assets	205,039	19	1,550	-	206,608
Insurance receivables	-	-	-	51,916	51,916
Loans and receivables	-	-	66,415	-	66,415
Cash and cash equivalents	54,019	-	-	-	54,019
	259,058	19	67,965	52,886	379,928

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and MARC credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA to AA	A1 to A3	BBB1 to BBB3	BB and below	Not rated	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2018							
AFS financial assets:							
- Corporate debt securities	-	-	-	-	-	970	970
Reinsurance assets	174,557	30,467	15	19	1,550	-	206,608
Insurance receivables	-	-	-	-	-	51,916	51,916
Loans and receivables	-	-	-	-	66,415	-	66,415
Cash and cash equivalents	54,019	-	-	-	-	-	54,019
	228,576	30,467	15	19	67,965	52,886	379,928

There is a defaulted event since 2013. The bondholders are pursuing recovery actions through negotiations and taking legal actions against the issuer. During the year, no credit exposure limits were exceeded.

The Company actively manages its investment mix to ensure that there is no significant concentration of credit risk.

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Impaired Financial Assets

At 31 December 2018, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM9,559,000. For assets to be classified as "past-due and impaired", contractual payments must be in arrears for more than 90 days. In addition, full impairment is made on insurance receivables exhibiting objective evidence of impairment such as outstanding debts exceeding 180 days. The Company records impairment allowance for insurance receivables in separate "allowance for impairment" accounts.

A reconciliation of the allowance for impairment loss of insurance receivables is as follows:

	2018 RM'000
At date of incorporation	-
Arising from Business Transfer (Note 3)	7,178
Allowance for the financial period (Note 24)	2,381
At 31 December	9,559

No collateral is held as security for any past due or impaired assets.

As at 31 December 2018, the Company has recorded a total impairment allowance of RM3,880,000 on investments in debts securities in accordance to the Company's accounting policy as disclosed in Note 2.2 (l) to the financial statements.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Company's policy is to maintain adequate liquidity to meet its liquidity needs under all conditions.

There are guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance and investment contracts obligations.

The Company's catastrophe excess-of-loss reinsurance contract contains clauses permitting the Company to make cash call claims and receive immediate payment for large loss should claims events exceed a certain amount.

36. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile

The table below summarises the maturity profile of the Company's financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Premium liabilities and the reinsurance's share of premium liabilities have been excluded from the analysis as they are not contractual obligations.

	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2018							
Financial assets:							
AFS financial assets	1,146,385	-	-	-	-	1,146,385	1,146,385
Reinsurance assets	206,608	206,608	-	-	-	-	206,608
Insurance receivables	51,916	51,916	-	-	-	-	51,916
Loans and other receivables	66,415	66,327	36	41	11	-	66,415
Cash and cash equivalents	54,019	54,019	-	-	-	-	54,019
	1,525,343	378,870	36	41	11	1,146,385	1,525,343
Financial liabilities:							
Insurance contract liabilities	580,350	360,994	191,193	26,180	1,983	-	580,350
Other liabilities	123,285	122,078	1,194	13	-	-	123,285
Insurance payables	123,091	123,091	-	-	-	-	123,091
	826,726	606,163	192,387	26,193	1,983	-	826,726

36. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

The table below summarises the current/non-current classification of assets:

	Current*	Non-current	Total
	RM'000	RM'000	RM'000
31 December 2018			
Property, plant and equipment	-	15,502	15,502
Investment properties	-	11,960	11,960
AFS financial assets	1,146,385	-	1,146,385
Reinsurance assets	206,608	-	206,608
Insurance receivables	51,916	-	51,916
Loans and other receivables	68,599	88	68,687
Tax recoverable	5,714	-	5,714
Cash and cash equivalents	54,019	-	54,019
	1,533,241	27,550	1,560,791

* Expected recovery or settlement within 12 months from the date of the statement of financial position.

Market Risk

Market risk is the risk of financial loss in the Company investment's valuation due to adverse changes or volatility of prices in economic and financial markets. Market risk comprises three types of risk i.e. foreign exchange rates (currency risk), market interest rates/profit yields and market prices (price risk).

The Company manages market risk through setting of investment policy and asset allocation, approving portfolio limit structure and risk management methodologies, approving hedging, and alternative risk transfer strategies. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Company's risk management principles and philosophies. Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework.

36. FINANCIAL RISK (CONTINUED)

Market Risk (continued)

(i) **Currency Risk**

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

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the FSA and hence, primarily denominated in the same currency (the local RM) as its insurance contract liabilities. Thus, the main exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

The Company's main 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 exchange rate is deemed minimal as the Company has no significant concentration of foreign currency risk.

(ii) **Interest Rates/Profit Yield Risks**

Interest rate risk is part of market risk as any adverse movements in interest rates may affect the Company investment's fair valuation and reinvestment issues to the Company. ALMIC actively monitors such developments as well as discuss changes in maturity profiles of the assets and liabilities to minimise overall mismatch.

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact of movements to changes in equity due to changes in fair value of AFS financial assets. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate/profit yield risk but to demonstrate the impact due to changes in variables, variables had to be changed in an individual basis. It should be noted that movements in these variables are non-linear.

The sensitivity analysis below illustrates impact of 50bps increase/decrease in interest rate to investment value based on portfolio holdings as at 31 December 2018, holding other variables constant.

	Impact on equity*
	2018
	RM'000
Change in interest rates	
+ 50 basis point – loss	(14,237)
- 50 basis point – gain	14,622

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

36. FINANCIAL RISK (CONTINUED)

Price Risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices. The Company monitors and manages the equity exposure against investment guidelines set and agreed by ALMIC. These investment guidelines include monitoring the equity exposure against benchmark set and single security exposure of the portfolio against the limits set. The Company complies with BNM stipulated limits during the financial period and has no significant concentration of price risk. There is no significant movement in the key variables, therefore having no impact on Profit before Tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in income statement) and Equity (that reflects adjustments to Profit before Tax and changes in fair value of AFS financial assets) using FBM KLCI or other market indices.

37. OPERATIONAL RISK

Operational risk arises from inadequate or failed performance of business functions or internal processes. Exposure to this risk can cause deficiencies or breakdowns in internal controls or processes, technology and external events such as interruption of business operations due to a breakdown of IT systems, landslide or flood.

The Company has developed a comprehensive Standard Operating Procedures ("SOP") to enable all relevant departments to implement measures, monitor and control the risk in order to avoid or reduce future losses. The Risk Management Department is assigned to facilitate the relevant departments in identifying and evaluating their operational risks and control weaknesses via structured risk assessment process.

38. COMPLIANCE RISK

Compliance risk is the risk arising from violations of, or non-conformance with business principles, internal policies and procedures, related laws, rules and regulations (i.e. BNM, Persatuan Insurans Am Malaysia ("PIAM"), Perbadanan Insurans Deposit Malaysia ("PIDM")) governing the insurance industry, products and activities.

Consequently, the exposure to this risk can damage the Company's reputation, lead to legal or regulatory sanctions and /or financial loss.

The Legal & Compliance Department is assigned to look into all compliance aspects in observing the regulatory requirements (i.e. BNM, PIAM, PIDM). It has developed internal policies and procedures (i.e. Anti-Money Laundering Framework, Introduction of New Products Framework, Outsourcing Framework) to align with the laws and guidelines issued by the authorities.

39. CONTINGENT LIABILITIES

In August 2016, Malaysia Competition Commission ("MyCC") had commenced investigation under Section 15(1) of the Competition Act 2010 ("the Act") against Persatuan Insurans Am Malaysia ("PIAM") and all 22 member companies with regards to an alleged infringement of Section 4(2)(a) of the Act in relation to an agreement to fix parts trade discount and labour rates for 6 vehicle makes. On 22 February 2017, MyCC issued a proposed decision to all 22 member companies, proposing to impose collective penalty of RM213 million on the general insurance industry. As an 'industry collective action', the Company together with PIAM, submitted written representation and made oral representation to MyCC on 25 April 2017 and 29 January 2018 respectively to defend the allegation. The final decision by MyCC has yet to be announced.

Other than the disclosure above, the Company does not have any other significant or subsequent event during and after the financial period end.

40. ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 INSURANCE CONTRACT LIABILITIES

The Company has applied the temporary exemption from the adoption of MFRS 9 "Financial Instruments" from 1 January 2018 to no later than 1 January 2021 (see Note 2.1).

In order to compare with entities applying MFRS 9, the amendments require deferring entities to disclose additional information including contractual cash flows characteristics and credit exposure of the financial assets. The following table presents 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").

(a) The following table shows the carrying amount under MFRS 139 for financial assets with SPPI cash flow analysed by credit quality:

	Impaired
	RM'000
31 December 2018	
AFS financial assets:	
- Corporate debt securities	970

(b) Fair value / carrying amount:

	Financial Assets with SPPI Cash Flow	Other Financial Assets	Total
	RM'000	RM'000	RM'000
Fair value at 31 December 2018	970	1,526,645	1,527,615
Fair value changes during the financial period	-	20,557	20,557
Financial assets that do not have low credit risk:			
- Fair value / carrying amount at 31 December 2018 under MFRS 139	970	N/A	N/A

N/A – not applicable

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