ZURICH®

Reports And Statutory Financial Statements
31 December 2020

Registration No.
201701035345 (1249516-V)

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 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 procedures 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 sets 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 issued by BNM. The Board regularly reviews the Charter and ensures it remains consistent and relevant to the Board's objectives and responsibilities, and all regulations/laws in connection thereto.

Composition of the Board

The composition of the Board during the period since the date of the last report is as follows:

Name of Directors	**Designation**
Choy Khai Choon (appointed as Chairman on 1 January 2021)	Chairman (Independent Non-Executive Director)
Nabil Nazih El-Hage (retired on 31 December 2020)	Chairman (Independent Non-Executive Director)
Kevin John Wright	Member (Executive Director)
Datin Sunita Mei-Lin Rajakumar	Member (Independent Non-Executive Director)
Philip Seah Cheng Chua	Member (Independent Non-Executive Director)

The Board comprises of three Independent Non-Executive Directors and one Executive Director, each from diverse background and qualification 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors

Choy Khai Choon
Malaysian, Male
Independent Non-Executive Director / Chairman

Mr. Choy Khai Choon was appointed as Independent Non-Executive Director and Chairman of the Company on 5 August 2019 and 1 January 2021 respectively. Mr. Choy is a member of the Nomination and Remuneration Committee, Audit Committee and Risk Management and Sustainability Committee of the Company. He relinquished his position as the Chairman of the Nomination and Remuneration Committee of the Company and remained as a member of the Committee effective 1 January 2021.

Mr. Choy graduated with a Bachelor of Commerce degree from The University of New South Wales, Australia and holds a Master in Business Administration (MBA) from Oklahoma City University, USA. Mr. Choy is a Member of the Malaysian Institute of Accountants and a Fellow of the Australian Certified Public Accountants.

Mr. Choy served as the President and Chief Executive Officer ("CEO") of Cagamas Berhad from year 2006 to 2012 and was appointed director of Cagamas MBS Berhad, Cagamas SME Berhad, BNM Sukuk Berhad, Cagamas HKMC Berhad and Cagamas SRP Berhad.

Prior to joining Cagamas Berhad, Mr. Choy held key positions in leading financial institutions in the areas of financial management, strategic planning and business development. Key roles held include serving as Regional Finance / Planning Director of Aviva Insurance Asia, CEO of Morley Fund Management Ltd, Aviva Insurance Group, Singapore and Senior General Manager, Group Head of RHB Berhad.

Mr. Choy is currently the Chairman and Independent Non-Executive Director of Zurich Life Insurance Malaysia Berhad. He is also an Independent Director of Deutsche Bank (Malaysia) Berhad, Malaysia Marine and Heavy Engineering Holdings Berhad, Hap Seng Plantations Holdings Berhad, MSM Holdings Malaysia Berhad and Asian Banking School Sdn Bhd. He also sits on the Board Member of Bond & Sukuk Information Platform Sdn Bhd, a wholly owned subsidiary of the Securities Commission, as well as the Board of Federation of Investment Managers Malaysia. Mr. Choy is also a member of Labuan Financial Services Authority.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

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

Mr. Nabil Nazih El-Hage was appointed as Independent Non-Executive Director / Chairman of the Company upon obtaining approval from Bank Negara Malaysia on 1 January 2018 and retired from both positions on 31 December 2020.

Mr. Nabil 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 retired from his position as the Independent Non-Executive Director and Chairman of Zurich General Takaful Malaysia Berhad on 31 December 2020.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

Kevin John Wright
Australian, Male
Executive Director

Mr. Kevin John Wright was appointed as Independent Non-Executive Director of the Company upon obtaining approval from Bank Negara Malaysia on 1 January 2018. Subsequently, Mr. Wright was re-designated as the Executive Director of the Company on 12 September 2019.

Mr. 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 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. He is also a former wicketkeeper who represented Australia in 10 test matches.

Mr. Wright is also the Executive Director of Zurich General Takaful Malaysia Berhad.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

Datin Sunita Mei-Lin Rajakumar
Malaysian, Female
Independent Non-Executive Director

Datin Sunita Mei-Lin Rajakumar was appointed as Independent Non-Executive Director of the Company upon obtaining approval from Bank Negara Malaysia on 2 July 2018. She is the Chairperson of the Audit Committee, a member of the Risk Management and Sustainability Committee, and Nomination and Remuneration Committee of the Company.

Datin Sunita graduated from University of 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 Chairperson and Founder of Climate Governance Malaysia which is the country chapter of the World Economic Forum's Climate Governance Initiative, a fellow of the Institute of Corporate Directors Malaysia, promotes gender diversity on boards with the 30% Club, is a member of the Global Advisory Board of Nottingham University's School of Business and the Advisory Panel of the UN Global Compact Malaysia's Sustainability Center of Excellence, and is a workstream lead for the CEO Action Network, an industry led initiative to increase sustainability and climate resilience.

She is the Independent Non-Executive Chairperson of Caring Pharmacy Group Berhad, the Independent Non-Executive Director of MCIS Insurance Berhad, and Dutch Lady Milk Industries Berhad. She also sits on the Board of Trustees of Hai-O Foundation, Yayasan Usman Awang, Yayasan myNadi, Better Malaysia Foundation and Yayasan Seni Berdaftar which is registered with the Prime Minister's Department.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

Philip Seah Cheng Chua
Singaporean, Male

Mr. Philip Seah Cheng Chua was appointed as Independent Non-Executive Director of the Company upon obtaining approval from Bank Negara Malaysia on 26 August 2019. He is the Chairman of the Risk Management and Sustainability Committee and is also a member of the Audit Committee, and Nomination and Remuneration Committee of the Company.

Mr. Philip Seah has 40 years of industry experience with Prudential Singapore and Prudential Corporation Asia. 12 years in sales as an agent and agency manager and 28 years in senior management positions in Singapore, Malaysia and Philippines. He was also involved in various country operations in China, Thailand, Vietnam, India and Indonesia.

In 1990, Mr. Philip Seah was offered a senior management role as the Chief Agency Officer of Prudential Singapore. He subsequently became the Chief Distribution Officer when Prudential Singapore partnered with Standard Chartered Bank for Bancassurance. In 2004, Mr. Philip Seah joined Prudential Corporation Asia and relocated to Hong Kong with his family to serve as Director of Agency Development. In January 2006, he was appointed as the Deputy Chief Executive Officer ("CEO") of Prudential Philippines to succeed the retiring CEO. However, mid-2006, he returned to Prudential Singapore as CEO, a position he held until the end of 2010.

In January 2011, Mr. Philip Seah was tasked with the creation of the Regional Agency Office to help other country operations in the development and progression of their Agency Distribution. He was appointed as the Regional Chief Agency Officer of Prudential Corporation Asia. In September 2012, he was asked to be the CEO of Prudential Malaysia, a position he held until October 2015. Mr. Philip Seah then returned to Singapore to again serve as the CEO of Prudential Singapore from October 2015 until December 2016. Thereafter, he served as a Senior Advisor of Prudential Corporation Asia until his retirement in January 2018.

Mr. Philip Seah co-founded PolicyXchange Pte. Ltd., Singapore ("PXC") and is an existing Director of PXC.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Directors' Training

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. The training programmes attended by the Directors during the financial year ended 31 December 2020 included areas of leadership, governance, risk management, finance, investment, cybersecurity information technology, climate change and insurance related matters.

Board Meetings

The Board is scheduled to meet at least six times a year with additional meetings being convened as necessary. For the financial year ended 31 December 2020, the Board met seven times. All the Directors satisfied the minimum attendance of 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
Choy Khai Choon	7/7
Kevin John Wright	6/6
Datin Sunita Mei-Lin Rajakumar	7/7
Philip Seah Cheng Chua	7/7

Board Committees

The Board delegates specific responsibilities to Board Committees. The Board Committees are the Audit Committee, Nomination and Remuneration Committee and Risk Management and Sustainability Committee. The Board Committees are chaired by an 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 rest 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. For the financial year ended 31 December 2020, the AC held six 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, Chairperson	6/6
Choy Khai Choon	6/6
Philip Seah Cheng Chua	6/6

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Nomination and Remuneration Committee ("NRC")

The NRC assists 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 achieve its corporate objectives and fulfill its fiduciary responsibilities.

The NRC functions on the Terms of Reference are 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; and

(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 for the financial year ended 31 December 2020, is as follows:

Members	**No. of NRC Meetings Attended**
Choy Khai Choon, Chairman*	8/8
Datin Sunita Mei-Lin Rajakumar	8/8
Philip Seah Cheng Chua	7/7

**Choy Khai Choon was appointed as the Chairman of the Company effective 1 January 2021, he relinquished his position as the Chairman and remained as a member of the Nomination and Remuneration Committee concurrently.*

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Risk Management and Sustainability Committee ("RMSC")
(renamed from Risk Management Committee with effect from 12 August 2020)

The RMSC 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 RMSC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of RMSC 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;

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

(v) To provide oversight over sustainability-related matters which include review of Zurich's sustainability strategy and objectives, review of Zurich's approach and conduct concerning sustainability, assessing progress against agreed actions at least annually, review of legislative and regulatory developments and reporting requirements relating to sustainability, review of the proposal to the Board for approval targets on environmental, social and corporate governance ("ESG") matters which have a material impact on business strategy, underwriting or business performance; and

(vi) To provide oversight over technology-related matters which include review of technology frameworks, review and recommendation of technology risk appetite, risk tolerance for technology related events, ensure key performance indicators and forward looking risk indicators are in place, adequate IT and cybersecurity strategic plans and effective implementation of sound and robust technology risk management framework ("TRMF") and cyber resilience framework ("CRF") and ensure that risk assessments undertaken in relation to material technology applications submitted to BNM are robust and comprehensive.

The members and number of meetings attended by each member of the Risk Management and Sustainability Committee for the financial year ended 31 December 2020, is as follows:

Members	**No. of RMSC Meetings Attended**
Philip Seah Cheng Chua, Chairman	4/4
Datin Sunita Mei-Lin Rajakumar	4/4
Choy Khai Choon	4/4

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 provide 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 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 Information Technology (“IT”) Steering Committee is responsible for establishing effective IT and information systems plans, authorising 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 has 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.

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)

Risk management

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

The Company has established, within its risk management framework, a structured 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.

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

Remuneration policy (continued)

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

- 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.
- The Company's Short Term 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 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. A claw-back framework is in place however, for members of the Executive Committee to allow for recovery, forfeiture and/or claw-back, subject to specific conditions. Malus conditions are also in place to reduce or eliminate awards applicable to all STIP, GIPP and LTIP participants.
- 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.

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2020.

PRINCIPAL ACTIVITY

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

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	75,834

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year 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 year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The Directors do not recommend the payment of any dividend in respect of the current financial year.

SHARE CAPITAL

There was no issuance of new ordinary shares during the financial year.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS OF THE COMPANY

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

Name of Directors	Designation
Nabil Nazih El-Hage (retired on 31 December 2020)	Chairman, Independent Non-Executive Director
Choy Khai Choon (appointed as Chairman effective 1 January 2021)	Chairman, Independent Non-Executive Director
Kevin John Wright	Executive Director
Datin Sunita Mei-Lin Rajakumar	Independent Non-Executive Director
Philip Seah Cheng Chua	Independent Non-Executive Director

Choy Khai Choon who retires pursuant to Clause 112 of the Company's Constitution be re-elected as Director of the Company.

Philip Seah Cheng Chua who retires pursuant to Clause 112 of the Company's Constitution be re-elected as Director of the Company.

DIRECTORS' BENEFITS

Since the end of previous financial year, 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 26(a) 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 year, 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.

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 affected for the Directors of the Company for the financial year amounts to RM10,000.

There was no indemnity given to, or insurance effected for auditors of the Company at the end of the financial year.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors in office at the end of the financial year held any interest in shares in, or debentures of the Company or its related corporations during the financial year.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 26(a) 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.

(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 year 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 year.

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

(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 year 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 year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year 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.

(g) 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 in 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 26 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), will retire and not seek for re-appointment at the forthcoming Annual General Meeting of the Company.

Signed on behalf of the Board of the Directors in accordance with their resolution dated 1 March 2021.

DATIN SUNITA MEI-LIN RAJAKUMAR DIRECTOR	CHOY KHAI CHOON DIRECTOR

Kuala Lumpur
1 March 2021

Registration No.

201701035345 (1249516-V)

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

We, Datin Sunita Mei-Lin Rajakumar and Choy Khai Choon, 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 116 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and the cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 1 March 2021.

DATIN SUNITA MEI-LIN RAJAKUMAR DIRECTOR	CHOY KHAI CHOON DIRECTOR

Kuala Lumpur
1 March 2021

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 116 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 1 March 2021, before me,

PESURUHJAYA SUMPAH
No: W 701
NG KA BIANG
1 JAN 2019-19 MEI 2021
MALAYSIA

COMMISSIONER FOR OATHS

Suite, DG 6, Ground Floor,
Plaza Pekeliling, Jalan Tun Razak,
50400 Kuala Lumpur

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 201701035345 (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 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 25 to 116.

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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 201701035345 (1249516-V))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

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:

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 201701035345 (1249516-V))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

(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.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 201701035345 (1249516-V))

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

WONG HUI CHERN
03252/05/2022 J
Chartered Accountant

Kuala Lumpur
1 March 2021

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
ASSETS			
Property, plant and equipment	4	12,906	13,935
Right-of-use assets	5	10,120	15,620
Intangible assets	6	35,819	38,222
Available-for-sale financial assets	8	1,588,438	1,340,017
Reinsurance assets	10	256,736	220,350
Insurance receivables	11	60,638	57,860
Loans and receivables	12	52,847	60,931
Tax recoverable		2,963	5,501
Deferred tax assets	13	316	-
Cash and cash equivalents		46,652	44,937
Non-current assets classified as held-for-sale	14	3,416	6,846
Total assets		2,070,851	1,804,219
EQUITY AND LIABILITIES			
Share capital	15	100,000	100,000
Retained earnings	16(a)	192,617	116,783
Capital contribution reserve	16(b)	224,792	224,792
Available-for-sale reserve	16(c)	26,484	25,632
Total equity		543,893	467,207
Insurance contract liabilities	17	1,220,674	1,027,989
Deferred tax liabilities	13	-	1,359
Lease liabilities	18	10,255	15,631
Other liabilities	19	190,773	179,727
Insurance payables	20	105,256	111,439
Current tax liabilities		-	867
Total liabilities		1,526,958	1,337,012
Total equity and liabilities		2,070,851	1,804,219

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

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Gross earned premiums	21(a)	828,652	777,809
Premiums ceded to reinsurers	21(b)	(132,798)	(132,653)
Net earned premiums		695,854	645,156
Investment income	22	67,608	64,948
Realised (losses)/gains	23	(1,005)	1,720
Fair value loss		(4,400)	(5,114)
Fee and commission income	24(a)	17,030	14,212
Other revenue		79,233	75,766
Total revenue		775,087	720,922
Gross claims paid	25(a)	(371,091)	(359,924)
Claims ceded to reinsurers	25(b)	35,060	46,544
Gross change to contract liabilities	25(c)	(110,464)	(91,267)
Change in contract liabilities ceded to reinsurers	25(d)	29,360	19,134
Net claims		(417,135)	(385,513)
Fee and commission expenses	24(b)	(100,693)	(89,946)
Management expenses	26	(183,560)	(180,350)
Other operating income - net	27	4,275	7,020
Other expenses		(279,978)	(263,276)
Operating profit		77,974	72,133
Finance cost	18	(451)	(681)
Profit before taxation		77,523	71,452
Taxation	28	(1,689)	(281)
Net profit for the financial year		75,834	71,171
Basic earnings per share (sen)	30	75.83	71.17

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

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Net profit for the financial year		75,834	71,171
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 year		87	14,888
- Gross fair value transferred to statement of profit or loss	8(b)	1,034	(1,720)
- Deferred tax	13	(269)	(3,160)
Other comprehensive income for the financial year, net of tax		852	10,008
Total comprehensive income for the financial year		76,686	81,179

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 YEAR ENDED 31 DECEMBER 2020

	Issued and fully paid ordinary shares	Non-distributable		Distributable	
	Share capital	Capital contribution reserve	Available-for-sale reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2020	100,000	224,792	25,632	116,783	467,207
Net profit for the financial year	-	-	-	75,834	75,834
Other comprehensive income for the financial year	-	-	852	-	852
At 31 December 2020	100,000	224,792	26,484	192,617	543,893
At 1 January 2019 – as previously reported	100,000	224,792	15,624	45,735	386,151
Effects of adoption of MFRS 16 "Leases"	-	-	-	(123)	(123)
At 1 January 2019 – as restated	100,000	224,792	15,624	45,612	386,028
Net profit for the financial year	-	-	-	71,171	71,171
Other comprehensive income for the financial year	-	-	10,008	-	10,008
At 31 December 2019	100,000	224,792	25,632	116,783	467,207

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

Registration No.
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ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
OPERATING ACTIVITIES			
Cash utilised in operating activities	31	(52,331)	(54,625)
Dividend/distribution income received		67,278	64,549
Interest/profit income received		807	886
Net expenses on investment properties		(477)	(487)
Interest expense on lease liabilities		451	681
Income tax paid		(7,462)	(14,072)
Net cash inflows/(outflows) from operating activities		8,266	(3,068)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	(1,957)	(1,066)
Proceeds from disposal of property, plant and equipment		151	-
Net cash outflows from investing activities		(1,806)	(1,066)
FINANCING ACTIVITIES			
Payment of lease liabilities	18	(4,745)	(4,948)
Net cash outflows from financing activities		(4,745)	(4,948)
Net increase/(decrease) in cash and cash equivalents		1,715	(9,082)
Cash and cash equivalents at the beginning of the financial year		44,937	54,019
Cash and cash equivalents at the end of the financial year		46,652	44,937
Cash and cash equivalents comprise:			
Cash and bank balances		46,652	44,937

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. 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 Company is engaged principally in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The 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 1 March 2021.

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 3 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 year beginning on 1 January 2020 are as follows:

- The Conceptual Framework for Financial Reporting (Revised 2018)

  The Framework was revised with the primary purpose to assist the Malaysian Accounting Standards Board ("MASB") to develop MFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an MFRS. The Framework is not an MFRS and does not override any MFRSs.

  Key changes to the Framework are as follows:

  - Objective of general purpose financial reporting – clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship.
  - Qualitative characteristics of useful financial information – reinstatement of the concepts of prudence when making judgement of uncertain conditions and "substance over form" concept to ensure faithful representation of economic phenomenon.

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)

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company's financial year beginning on 1 January 2020 are as follows: (continued)

- The Conceptual Framework for Financial Reporting (Revised 2018) (continued)

  - Clarification on reporting entity for financial reporting – introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.
  - Elements of financial statements – the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.
  - Recognition and derecognition – the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added.
  - Measurement - explanation of factors to consider when selecting a measurement basis have been provided.
  - Presentation and disclosure - clarification that statement of income is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to income statement is required if this results in more relevant information or a more faithful representation of statements of income.

  Amendments to References to the Conceptual Framework in MFRS Standards

  The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards ('Amendments'), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies.

  The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

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)

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company's financial year beginning on 1 January 2020 are as follows: (continued)

- Amendments to MFRS 101 and MFRS 108 "Definition of Material"

  The amendments clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

  The definition of 'material' has been revised as "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments also:
  - clarify that an entity assesses materiality in the context of the financial statements as a whole.
  - explain the concept of obscuring information in the new definition. Information is obscured if it has the effect similar as omitting or misstating of that information. For example, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information.
  - clarify the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

  The amendments shall be applied prospectively.

- Amendments to MFRS 3 "Definition of a Business"

  The amendments clarify that to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

  The amendments provide guidance to determine whether an input and a substantive process are present, including situation where an acquisition does not have outputs. To be a business without outputs, there will now need to be an organised workforce. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

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)

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company's financial year beginning on 1 January 2020 are as follows: (continued)

- Amendments to MFRS 3 "Definition of a Business" (continued)

  In addition, the revised definition of the term 'outputs' is narrower, focusses on goods or services provided to customers, generating investment returns and other income but excludes returns in the form of cost savings.

  The amendments introduce an optional simplified assessment known as 'concentration test' that, if met, eliminates the need for further assessment. Under this concentration test, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar assets), the assets acquired would not represent a business.

  The amendments shall be applied prospectively.

- Amendments to MFRS 4 "Extension of the Temporary Exemption from Applying MFRS 9"

  The amendments defer the effective date of MFRS 17 (incorporating the amendments) and extend the temporary exemptions for MFRS 9 "Financial Instruments" by 2 years to annual reporting periods beginning on or after 1 January 2023.

  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.

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)

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company's financial year beginning on 1 January 2020 are as follows: (continued)

- Amendments to MFRS 4 "Extension of the Temporary Exemption from Applying MFRS 9" (continued)

  The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2023 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 2020 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 2023.

  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)

(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 June 2020

- Amendments to MFRS 16 "Covid-19 Related Rent Concessions"

  The amendment grants an optional exemption for lessees to account for a rent concession related to Covid-19 in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendment, however, does not make any changes to lessor accounting.

  The exemption only applies to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:
  (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
  (i) any reduction in lease payments affects only payments due on or before 30 June 2021; and
  (ii) there is no substantive change to other terms and conditions of the lease.

  The amendments are to be applied retrospectively.

(b) Effective from financial year beginning on or after 1 January 2022

- Amendments to MFRS 116 "Proceeds before Intended Use"

  The amendments prohibit an entity from deducting from the cost of a property, plant and equipment ("PPE") the proceeds received from selling items produced by the PPE before it is ready for its intended use. The sales proceeds should instead be recognised in profit or loss.

- Annual Improvements to MFRSs 2018 – 2020 Cycle

  Amendments to MFRS 16 "Leases" – Lease Incentives

  The amendments removed the illustration on the reimbursement relating to leasehold improvements by the lessor to avoid potential confusion as the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in MFRS 16.

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 2022 (continued)

- Amendments to MFRS 137 “Onerous Contracts – Cost of Fulfilling a Contract”

The amendments clarify that direct cost of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

The amendments shall be applied to contracts for which the entity has yet to fulfil all its obligations at the beginning of annual reporting period in which the amendments are first applied. Comparative information is not restated.

(c) Effective from financial year beginning on or after 1 January 2023

- Amendments on classification of liabilities as current or non-current (Amendments to MFRS 101)

The MFRS 101 classification principle requires an assessment of whether an entity has the substantive right to defer settlement of a liability at the end of the reporting period.

The amendments clarify that when the right to defer settlement is subject to complying with specified conditions, the right only exists at the end of the reporting period if the entity complies with those conditions at that date. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

Also, classification is unaffected by the expectations of the entity or events after the reporting date (e.g. waiver obtained or breach of loan covenant).

In addition, the amendments clarify that when a liability could be settled by the transfer of an entity’s own equity instruments (e.g. a conversion option in a convertible bond), the conversion option does not affect the classification of the convertible bond if the option meets the definition of an equity instrument in accordance with MFRS 132 “Financial Instruments: Presentation”. Conversion option that is not an equity instrument should therefore be considered in the current or non-current classification of a convertible instrument.

These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it should disclose that fact.

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 2023 (continued)

- MFRS 17 “Insurance Contracts” and its amendments

Effective date

The amendments defer the effective date of MFRS 17 (incorporating the amendments) and extend the temporary exemptions for MFRS 9 “Financial Instruments” by 2 years to annual reporting periods beginning on or after 1 January 2023.

Expected recovery of insurance acquisition cash flows

An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

Reinsurance contracts held - recovery of losses

When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, it should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on the underlying insurance contracts and the % of claims on the underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

Contractual service margin attributable to investment services

The amendment requires an entity that issues insurance contracts without direct participation features to recognise profit when it provides insurance coverage or any service relating to investment activities. Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an ‘investment-return service’ under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholders.

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 2023 (continued)

- MFRS 17 “Insurance Contracts” and its amendments (continued)

  Other amendments include the following:

  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts.
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups (sub-portfolio) level.
  - Entities are also allowed to apply the risk migration option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss.
  - An accounting policy choice to change the estimate made in previous interim financial statements when applying MFRS 17.
  - Other minor amendments.

  The Company plans to adopt the new standard on the required effective date. A Project Steering Committee has been formally set up by the Company to steer decisions and oversees the implementation of MFRS 17. Major enhancements on the accounting and actuarial systems have been completed. Moving forward, our focus would primarily be on finalising the implementation efforts and analysing the effects of MFRS 17 on the financial statements.

Other than MFRS 9 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 2021 are not relevant to the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies upon early adoption of Amendments to MFRS 16 “Covid-19 Related Rent Concessions”

The Company has elected to early adopt Amendments to MFRS 16 “Covid-19 Related Rent Concessions” for the first time in the financial statements for the financial year ended 31 December 2020; with the date of initial application at 1 January 2020, which resulted in changes in accounting policies.

In accordance with the transitional provisions provided in the amendments to MFRS 16, the comparative information for 2019 was not restated and continued to be reported under the previous accounting policies in accordance with the lease modification principles in MFRS 16.

Under the Amendments to MFRS 16, the Company is not required to assess whether a rent concession that occurs as a direct consequence of Covid-19 pandemic and meets all of the specified conditions is a lease modification.

The Company accounts for such Covid-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.

2.3 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 (“ZLIMB”) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(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 profit or loss.

In the Company's financial statements, investments in structured entities are initially recognised at fair value and subsequently 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(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 profit or loss during the financial year 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 2.3(n) 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)

2.3 Summary of significant accounting policies (continued)

(e) Leases

Accounting policies applied from 1 January 2019

The Company as a lessee

Leases are recognised as right-of-use ("ROU") assets and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

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

(i) Lease term

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

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

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

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

The ROU assets are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(e) Leases (continued)

The Company as a lessee (continued)

(iii) Lease liabilities

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

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

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

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

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

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iv) Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line bases as an expense in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(e) Leases (continued)

The Company as a lessee (continued)

During the financial year, the Company elects to account for a Covid-19-related rent concession that meets all of the following conditions in the same way as they would if they were not lease modification:

(i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(ii) any reduction in lease payments affects only payments due on or before 30 June 2021; and
(iii) there is no substantive change to other terms and conditions of the lease.

The Company accounts for such Covid-19-related rent concession as a variable lease payment in the period in which the event or condition that triggers the reduced payment occurs. The Company presents the impacts of rent concessions within profit or loss.

Accounting policies applied until 31 December 2019

Until 31 December 2019, a change in lease payments, other than those arising from a change in amounts expected to be payable under residual value guarantees or in an index or rate used to determine lease payments, depends on whether that change meets the definition of a lease modification.

If a rent concession results from a lease modification, the Company accounts for the rent concession as either a new lease or as a remeasurement of an existing lease liability, depending on the criteria set in MFRS 16.

If a rent concession does not result from a lease modification, the Company accounts for the rent concession as a variable lease payment in the period in which the event or condition that triggers the reduced payment occurs.

The Company as a lessor

As a lessor, the Company determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee. As part of this assessment, the Company considers certain indicators such as whether the lease is for major part of the economic life of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

The Company as a lessor (continued)

(e) Leases (continued)

(i) Operating lease

The Company classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Company recognises lease payments received under operating lease as lease income on a straight-line basis over the lease term.

(ii) Separating lease and non-lease components

If an arrangement contains lease and non-lease components, the Company allocates the consideration in the contract to the lease and non-lease components based on the stand-alone selling prices in accordance with the principles in MFRS 15 “Revenue from Contracts with Customers”.

(f) Intangible assets

Computer software

Acquired computer software licenses 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 development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of three years.

Computer software under development is not amortised until the asset is ready for its intended use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

Other intangible asset

Other intangible asset is in relation to a 15-year exclusive bancassurance agreement entered between the Company with Alliance Bank Malaysia Berhad (“ABMB”) for the distribution of the Company’s insurance products. This asset is measured at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 15 years.

At each reporting date, the Company assesses whether there is any indication of impairment of its intangible asset. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount as set out in Note 2.3(n) on impairment.

(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 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 it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property are recognised in profit or loss in the financial year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(h) Non-current assets held-for-sale

Non-current assets are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

(i) Investments and other financial assets

The Company classifies its financial assets into the following categories: 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) Loans and receivables ("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.

(ii) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(i) Investments and other financial assets

(iii) AFS financial assets (continued)

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.

(j) 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 at 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 at 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, correlation, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(k) 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.

(l) 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 derecognition 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 profit and loss.

(m) 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 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 the date of the statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Impairment of financial assets (continued)

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

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.

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 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 profit or loss, is transferred from equity through the statement of comprehensive income to profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through 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 profit or loss.

(n) 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 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 profit or loss immediately.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(o) 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 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 2.3(m) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.3(l) to the financial statements, have been met.

(p) 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.

(q) 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 amount of cash and which are subject to an insignificant risk of changes in value.

(r) 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)

2.3 Summary of significant accounting policies (continued)

(s) 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.

(t) 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 profit or loss.

(u) 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)

2.3 Summary of significant accounting policies (continued)

(v) 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.

(w) Reinsurance

The Company cedes insurance risk in the normal course of business for all 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 profit or loss.

The Company also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(x) 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 year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year 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 based on 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 Fund Provision of Risk Margin Deviation ("FPRAD") 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 year.

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;
- 1/365th method for all other classes of direct and facultative inwards business; and
- 1/24th method for all treaty inwards business.

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 3(c).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(x) General insurance underwriting results (continued)

Claims liabilities

Liabilities for outstanding claims are 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 settled 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.

(y) 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 determined 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 profit and loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(z) 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 profit or loss.

(aa) Income taxes

Tax expense for the financial year 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 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 based 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)

2.3 Summary of significant accounting policies (continued)

(aa) 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.

(ab) Employee benefits

Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave is 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 is 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 year. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (continued)

(ab) Employee benefits (continued)

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates:

(a) when the Company can no longer withdraw the offer of those benefits; and
(b) when the Company recognises costs for a restructuring that is within the scope of MFRS 137 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Benefits due more than 12 months after the end of the reporting period are discounted to their present value.

3. 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 to 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 year 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 uncertainty 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 assume that the development pattern of the current claims will be consistent with past experience.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

Due to the fact that the ultimate claims liabilities are 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 and catastrophic events;
- The attitude 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 reinsurance. A separate estimate is made of the amounts that will be recoverable based upon the gross liabilities.

(b) Assets arising from reinsurance contracts

Reinsurance recoveries are also computed with the considerations described above. 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 payment amounts;
- Projecting ultimate claim incurred amounts; and
- Applying plan or forecast loss ratios to the earned premiums.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Actuarial assumptions and methods (continued)

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 by applying reinsurance to gross ratios observed on claims and premiums.

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 class of business and the diversification benefit of underwriting a number of classes 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%.

(d) Assumptions applied for MFRS 16 "Leases"

Determination of incremental borrowing rate
The lease liabilities are measured at the present value of the remaining lease payments over the lease term, discounted using the Company's incremental borrowing rate as the rate implicit in the lease is generally not readily determinable.

Extension and termination options
Any options to extend or terminate a lease that the Company is reasonably certain to exercise are included in the lease term. The right-of-use asset is initially recognised at an amount equal to the lease liability adjusted for lease prepayments made or lease incentives received, initial direct costs and any estimated costs to dismantle or restore the leased asset.

The lease term will be considered to extend beyond the non-cancellable period if the lessee has an extension option that is considered to be reasonably certain to exercise, or a termination option that is considered to be reasonably certain not to exercise.

The Company has several lease contracts that include extension and termination options. The Company has included the renewal period as part of the lease term as the Company is reasonably certain to exercise the option to extend the lease. The Company considers all relevant facts and circumstances that create an economic incentive to exercise or not to exercise the option including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Provision for penalty imposed by Malaysia Competition Commission ("MyCC")

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. The Company as one of the members of PIAM, have a share of RM7.9 million of the proposed penalty. As an 'industry collective action', the Company together with PIAM, submitted a written representation and made oral representations to MyCC on 25 April 2017 and 29 January 2018 respectively to defend the allegation.

PIAM had commenced its oral representations through their counsel on 21 February 2019. Bank Negara Malaysia (BNM)'s Oral Representation took place on 13 May 2019 followed by Oral Representation by a counsel representing ZGIMB and 5 other insurers. PIAM's Competition Economist (RBB Economics) and remaining insurers' counsels completed their Oral Representations on 17 and 18 June 2019.

MyCC issued its decision dated 14 September 2020 of a finding of infringement against the insurers. Accordingly, MyCC directed the insurers, including the Company, to cease and desist from implementing the agreed parts trade discount and labour rates for the 6 vehicle makes, and imposed a financial penalty of RM5.7 million. MyCC granted moratorium of penalty payment until March 2021, and for the payment of RM5.7 million to be paid by equal monthly installments of up to 6 months.

The Company had filed a Notice of Appeal against the said decision, and sought stay order on the decision from the Competition Appeal Tribunal ("the Tribunal"). In response, MyCC filed an objection to the Tribunal against the appeal. The matter is currently pending case management and appeal hearing.

Due to the uncertainty on the outcome and duration of the Tribunal process, the Company has recognised a provision of RM5.7 million for the penalty imposed in the financial statements as at 31 December 2020 pending the decision of the appeal.

4. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fittings and office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Renovation RM'000	Total RM'000
Cost					
At 1 January 2019	3,431	6,468	955	8,177	19,031
Additions	194	-	541	331	1,066
Write-offs	-	-	-	(68)	(68)
At 31 December 2019 / 1 January 2020	3,625	6,468	1,496	8,440	20,029
Additions	166	1,135	-	656	1,957
Write-offs	(34)	-	-	(401)	(435)
Disposals	(20)	-	(400)	-	(420)
At 31 December 2020	3,737	7,603	1,096	8,695	21,131

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture, fittings and office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Renovation RM'000	Total RM'000
Accumulated depreciation					
At 1 January 2019	140	2,248	632	509	3,529
Charge for the financial year (Note 26)	325	1,246	217	805	2,593
Write-offs	-	-	-	(28)	(28)
At 31 December 2019 / 1 January 2020	465	3,494	849	1,286	6,094
Charge for the financial year (Note 26)	376	1,217	155	882	2,630
Write-offs	(19)	-	-	(182)	(201)
Disposals	(11)	-	(287)	-	(298)
At 31 December 2020	811	4,711	717	1,986	8,225
Net carrying amount					
At 31 December 2019	3,160	2,974	647	7,154	13,935
At 31 December 2020	2,926	2,892	379	6,709	12,906

5. RIGHT-OF-USE ASSETS

The Company's leases are operating lease agreements entered in respect of rented premises. Rental contracts are typically made for fixed periods of 2 to 6 years but may have extension periods.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purpose.

	2020 RM'000	2019 RM'000
Cost		
At 1 January	22,995	-
Adjustments on adoption of MFRS 16	-	21,194
At 1 January	22,995	21,194
Additions	106	2,196
Restoration cost	43	-
Remeasurement	(1,213)	-
Lease modifications	(830)	(395)
At 31 December	21,101	22,995
Accumulated depreciation		
At 1 January	7,375	-
Adjustments on adoption of MFRS 16	-	2,750
At 1 January	7,375	2,750
Lease modifications	(905)	-
Depreciation during the financial year (Note 26)	4,511	4,625
At 31 December	10,981	7,375
Net carrying amount		
At 31 December	10,120	15,620

6. INTANGIBLE ASSETS

	Computer software	Other intangible asset	Total
	RM'000	RM'000	RM'000
Cost			
At 1 January 2019	4,338	-	4,338
Additions	-	40,000	40,000
At 31 December 2019 / 1 January 2020	4,338	40,000	44,338
Additions	309	-	309
At 31 December 2020	4,647	40,000	44,647
Accumulated amortisation			
At 1 January 2019	4,338	-	4,338
Amortisation during the financial year (Note 26)	-	1,778	1,778
At 31 December 2019 / 1 January 2020	4,338	1,778	6,116
Amortisation during the financial year (Note 26)	45	2,667	2,712
At 31 December 2020	4,383	4,445	8,828
Net carrying amount			
At 31 December 2019	-	38,222	38,222
At 31 December 2020	264	35,555	35,819

Other intangible asset is in relation to a 15-year exclusive bancassurance agreement entered between the Company with Alliance Bank Malaysia Berhad (“ABMB”) for the distribution of the Company’s insurance products.

The fee for this exclusive right is amortised over its useful life of 15 years using the straight-line method. The Company conducts impairment assessment when there is an indication of impairment in accordance with its accounting policies in Note 2.3(n). In the impairment assessment conducted by the Company, the future economic benefits that are attributable to the bancassurance agreement are valued at the present value of projected cash flows to be derived from the tenure of the agreement of 15 years using the discounted cash flow model.

6. INTANGIBLE ASSETS (CONTINUED)

The following key assumptions have been used in the cash flow projections in respect of bancassurance agreement:

Key assumptions	**2020**	**2019**
Bancassurance average annualised gross written premium growth rate	20.1%	20.1%
Discount rate - pretax	12.8%	7.9%

Sensitivity to changes in key assumptions

Management considers that it is not reasonably possible for the abovementioned key assumptions to change significantly that would result in an impairment.

7. INVESTMENT PROPERTIES

	2020 RM'000	**2019 RM'000**
At 1 January	-	11,960
Fair value loss recorded in statement of profit or loss	-	(5,114)
Transfer to non-current assets classified as held-for-sale (Note 14)	-	(6,846)
At 31 December	-	-

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2020 RM’000	**2019 RM’000**
(a) AFS financial assets		
Corporate debt securities		
- Unquoted in Malaysia	-	970
Equity securities		
- Quoted in Malaysia	-	81,148
Unit trusts		
- Quoted in Malaysia	84,688	2,545
- Unquoted in Malaysia	1,503,750	1,255,354
	1,588,438	1,340,017

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

(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.

	2020 RM'000	2019 RM'000
At 1 January	1,340,017	1,146,385
Purchases	375,580	214,995
Disposals (sale and redemptions)	(126,276)	(36,251)
Realised (losses)/gains in statement of profit and loss (Note 23)	(1,034)	1,720
Fair value gains recorded in:		
- Other comprehensive income	1,121	13,168
Movement in impairment allowance	(970)	-
At 31 December	1,588,438	1,340,017

The fair value hierarchy of investments is disclosed in Note 35 to the financial statements.

9. CONTROLLED STRUCTURED ENTITIES

The Company has determined its investment in a retail unit fund amounting to RM1,503,750,000 (2019: RM1,255,354,000) 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 Malaysia and whose investment strategy does not include the use of leverage. The investee fund is managed by Principal Asset Management Berhad and applies various investment strategies to accomplish its respective investment objectives. The investee fund finances its 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 99.99% 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

	2020 RM'000	2019 RM'000
Reinsurance of insurance contracts		
Claims liabilities (Note 17)	193,500	164,140
Premium liabilities (Note 17)	63,236	56,210
	256,736	220,350

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

	2020 RM'000	2019 RM'000
Due premiums including agents/brokers and co-insurers balances	64,632	57,649
Due from reinsurers and cedants	6,717	8,940
	71,349	66,589
Allowance for impairment	(10,711)	(8,729)
	60,638	57,860

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

12. LOANS AND RECEIVABLES

	2020 RM'000	2019 RM'000
Assets held under Malaysian Motor Insurance Pool ("MMIP")*	45,473	47,148
Staff loans	120	168
Deposits, prepayment and other receivables	7,254	13,615
	52,847	60,931
Staff loans		
- unsecured	50	81

* The net assets held under MMIP include cumulative net cash contribution paid to MMIP of RM20,006,000 (2019: RM23,006,000). The remaining balance represents assets held under MMIP recognised by the Company based on quarterly statements received from MMIP of RM25,467,000 (2019: RM24,142,000).

As at 31 December 2020, there is a net receivable of RM15,452,000 (2019: RM12,712,000) from MMIP, after setting off amounts receivable from MMIP against the Company's share of MMIP's claims and premiums liabilities of RM30,021,000 (2019: RM34,436,000) which is included in Note 17 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:

	2020 RM'000	2019 RM'000
Deferred tax assets/(liabilities)	316	(1,359)
At 1 January	(1,359)	(5,016)
Credited/(charged) to statement of profit or loss (Note 28):		
- property, plant and equipment	147	(422)
- intangible assets	(160)	2,293
- investments	(422)	(355)
- investment properties	823	1,227
- insurance receivables	5	223
- other liabilities	1,547	3,760
- leases	4	53
	1,944	6,779
Charged to comprehensive income:		
- available-for-sale reserve	(269)	(3,160)
Charged to retained earnings:		
- effects of adoption of MFRS 16	-	38
At 31 December	316	(1,359)
Subject to income tax		
Deferred tax asset (before offsetting)		
- intangible assets	2,133	2,293
- investments	153	575
- investment properties	1,178	355
- insurance receivables	228	223
- other liabilities	5,307	3,760
- leases	95	91
	9,094	7,297
Offsetting	(8,778)	(7,297)
Deferred tax assets after offsetting	316	-
Deferred tax liabilities (before offsetting)		
- available-for-sale reserve	(8,364)	(8,095)
- property, plant and equipment	(414)	(561)
	(8,778)	(8,656)
Offsetting	8,778	7,297
Deferred tax liabilities after offsetting	-	(1,359)

14. NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

	2020 RM'000	2019 RM'000
Carrying value		
At 1 January	6,846	-
Fair value loss recorded in statement of profit or loss	(3,430)	-
Transfer from investment properties (Note 7)	-	6,846
At 31 December	3,416	6,846

In September 2019, the Company decided to sell the 10 units shop lots at Seremban Terminal One Shopping Centre which were originally classified as investment properties. Management has appointed a real estate agent to carry out the disposal exercise. As of 31 December 2020, this exercise is still ongoing.

The Company has performed an internal impairment assessment in September 2020 on the properties to reflect the current market values. The fair value of the properties is categorised under Level 3 of the fair value hierarchy of MFRS 113 “Fair Value Measurement”.

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 year;
- 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 average value per square feet of the properties. The values of unobservable input used were in the range of RM90 to RM249 per square feet as at 31 December 2020 (2019: RM181 to RM457 per square feet). The fair value would increase/(decrease) if the value per square feet used is higher/(lower).

15. SHARE CAPITAL

	2020		2019	
	Number of shares	Share capital RM'000	Number of shares	Share capital RM'000
Issued and fully paid up				
At 31 December				
- Ordinary shares with no par value	100,000,002	100,000	100,000,002	100,000

16. 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 2020, 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; 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.

17. INSURANCE CONTRACT LIABILITIES

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

	2020			2019		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for claims	551,915	(130,860)	421,055	466,159	(106,061)	360,098
Provision for incurred but not reported claims ("IBNR")	230,166	(62,640)	167,526	205,458	(58,079)	147,379
Claim liabilities	782,081	(193,500)	588,581	671,617	(164,140)	507,477
Premium liabilities	438,593	(63,236)	375,357	356,372	(56,210)	300,162
	1,220,674	(256,736)	963,938	1,027,989	(220,350)	807,639

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

	2020			2019		
	Gross	**Re-insurance**	**Net**	**Gross**	**Re-insurance**	**Net**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
<u>Claims liabilities</u>						
At 1 January	671,617	(164,140)	507,477	580,350	(145,006)	435,344
Claims incurred in the current accident year	330,621	(53,536)	277,085	368,965	(58,992)	309,973
Other movements in claims incurred in prior accident years	126,226	(6,323)	119,903	81,610	(6,208)	75,402
Claims paid during the financial year (Note 25(a) and 25(b))	(371,091)	35,060	(336,031)	(359,924)	46,544	(313,380)
Movement in IBNR reserves	24,708	(4,561)	20,147	616	(478)	138
At 31 December	782,081	(193,500)	588,581	671,617	(164,140)	507,477
<u>Premium liabilities</u>						
At 1 January	356,372	(56,210)	300,162	334,806	(61,602)	273,204
Premium written in the financial year (Note 21(a) and 21(b))	910,873	(139,824)	771,049	799,375	(127,261)	672,114
Premium earned during the financial year (Note 21(a) and 21(b))	(828,652)	132,798	(695,854)	(777,809)	132,653	(645,156)
At 31 December	438,593	(63,236)	375,357	356,372	(56,210)	300,162

18. LEASE LIABILITIES

During the financial year, as a result of Covid-19 pandemic, the Company has benefited from the waiver of lease payments as per schedule below.

Buildings	**Rebate periods**
KL Eco City	18 March 2020 to 30 April 2020
Plaza Zurich	18 March 2020 to 31 May 2020
Setia SPICE Canopy, Penang	1 March 2020 to 31 May 2020

The Company has applied the practical expedient to all rent concessions that meet the conditions of the amendments to MFRS 16.

The amount recognised in the Company's profit or loss to reflect changes in lease payments that arise from rent concessions to which the Company has applied the practical expedient is RM50,000. The lease liability is reduced by RM50,000.

	2020 **RM'000**	**2019** **RM'000**
Non-current lease liabilities	6,051	11,373
Current lease liabilities	4,204	4,258
Total lease liabilities	10,255	15,631

Reconciliation of movement of liabilities to cash flows arising from financing activities.

	2020 **RM'000**	**2019** **RM'000**
At 1 January	15,631	18,094
Payment of lease liabilities	(4,745)	(4,948)
Accrued interest	451	681
Additions	106	902
Lease modifications	75	902
Remeasurement	(1,213)	-
Effects of rent concession received	(50)	-
At 31 December	10,255	15,631

19. OTHER LIABILITIES

	2020 RM'000	2019 RM'000
Cash collaterals held on bond business	21,702	25,067
Unclaimed monies	790	354
Tenant deposits	626	266
Accrual for unutilised staff leave	2,275	1,401
Accrued expenses	73,753	65,215
Other payables	51,627	37,424
Bancassurance fees payable	40,000	50,000
	190,773	179,727

Included in other payables as at December 2020 is a provision of RM2,659,000 for the termination benefits and related cost arising from a restructuring exercise carried out by the Company during the financial year.

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

20. INSURANCE PAYABLES

	2020 RM'000	2019 RM'000
Due to agents and intermediaries	20,463	23,975
Due to reinsurers and cedants	69,486	79,456
Reinsurer's deposits withheld	15,307	8,008
	105,256	111,439

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

21. NET EARNED PREMIUMS

	2020 RM'000	2019 RM'000
(a) Gross earned premiums		
- Insurance contracts	910,873	799,375
- Change in gross premium liabilities	(82,221)	(21,566)
	828,652	777,809
(b) Premiums ceded to reinsurers		
- Insurance contracts	(139,824)	(127,261)
- Change in reinsurance premium liabilities	7,026	(5,392)
	(132,798)	(132,653)
Net earned premiums	695,854	645,156

22. INVESTMENT INCOME

	2020 RM'000	2019 RM'000
AFS financial assets		
Dividend/distribution income:		
- equity securities quoted in Malaysia	1,412	2,276
- unit trusts quoted in Malaysia	1,616	88
- unit trusts unquoted in Malaysia	64,250	62,185
	67,278	64,549
LAR financial assets		
Interest/profit income		
- staff loans	9	14
- fixed and call deposits	798	872
	807	886
Investment properties		
Gross rental income	111	121
Less: Rates and maintenance	(588)	(608)
	(477)	(487)
	67,608	64,948

23. REALISED LOSSES AND GAINS

	2020 RM'000	2019 RM'000
AFS financial assets		
Realised gains:		
- equity securities quoted in Malaysia	7,845	1,852
- unit trusts quoted in Malaysia	5	40
- unit trusts unquoted in Malaysia	4,072	2,010
Realised losses:		
- equity securities quoted in Malaysia	(12,886)	(2,182)
- unit trusts quoted in Malaysia	(70)	-
	(1,034)	1,720
Non-financial assets		
Realised gain:		
- property, plant and equipment	29	-
	(1,005)	1,720

24. FEE AND COMMISSION

	2020 RM'000	2019 RM'000
(a) Fee and commission income		
Reinsurance commission income	17,030	14,212
(b) Fee and commission expenses		
Gross commission expenses	(100,693)	(89,946)

25. NET CLAIMS INCURRED

	2020 RM'000	2019 RM'000
(a) Gross benefits and claims paid	(371,091)	(359,924)
(b) Claims ceded to reinsurers	35,060	46,544
(c) Gross change in contract liabilities	(110,464)	(91,267)
(d) Change in contract liabilities ceded to reinsurers	29,360	19,134

26. MANAGEMENT EXPENSES

	2020 RM'000	2019 RM'000
Staff costs (including Chief Executive Officer and Executive Director):		
- salaries and bonus	78,043	78,925
- defined contribution plans	8,492	9,085
- staff retirement and other benefits	10,145	5,453
	96,680	93,463
Directors' remuneration (Note 26(a))	547	528
Auditors' remuneration:		
- statutory audit	329	341
- others		
- audit related services	5	15
- tax related services	15	140
Office rental	-	1,018
Equipment rental	33	14
Depreciation of property, plant and equipment (Note 4)	2,630	2,593
Write-offs of property, plant and equipment	234	40
Depreciation of rights-of-use assets (Note 5)	4,511	4,625
Amortisation of intangible assets (Note 6)	2,712	1,778
Allowance/(write-back) for impairment of insurance receivables (Note 11)	1,982	(830)
Training expenses	498	959
Repairs and maintenance expenses	1,068	1,054
Information technology expenses	14,274	13,483
Advertising, promotional and entertainment expenses	16,473	29,688
Breakdown service assistance expenses	5,655	3,557
Motor vehicle and travelling expenses	3,683	4,950
Printing and stationery expenses	12,897	11,875
Postage, courier and telephone charges	1,347	1,106
Bancassurance marketing expense	4,101	2,551
Management fees	550	718
Other expenses	43,781	33,821
Less: Shared service costs recovered from related parties	(30,445)	(27,137)
	86,880	86,887
Total management expenses	183,560	180,350

26. MANAGEMENT EXPENSES (CONTINUED)

(a) Directors' and Chief Executive Officers' remuneration

The Directors' and Chief Executive Officers' remuneration and other emoluments during current financial year are as follows:

	Fees	Salary	Bonus	Others	Benefits-in kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2020						
Chief Executive Officer						
- Junior Namjick Cho	-	2,430	610	2,841	31	5,912
	-	2,430	610	2,841	31	5,912
Non-Executive Directors						
- Nabil Nazih El-Hage	171	-	-	-	-	171
- Choy Khai Choon	90	-	-	33	-	123
- Datin Sunita Mei-Lin Rajakumar	90	-	-	33	-	123
- Philip Seah Cheng Chua	90	-	-	40	-	130
	441	-	-	106	-	547

26. MANAGEMENT EXPENSES (CONTINUED)

(a) Directors' and Chief Executive Officers' remuneration (continued)

	Fees	Salary	Bonus	Others	Benefits-in kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019						
Chief Executive Officer						
- Junior Namjick Cho (appointed on 11 July 2019)	-	733	-	817	15	1,565
Chief Executive Officer and Executive Director						
- David Jerry Fike (resigned on 23 May 2019)	-	900	910	1,894	14	3,718
	-	1,633	910	2,711	29	5,283
Executive Director						
- Kevin John Wright	46	-	-	22	-	68
Non-Executive Directors						
- Nabil Nazih El-Hage	167	-	-	-	-	167
- Wan Zamri bin Wan Zain	62	-	-	44	-	106
- Datin Sunita Mei-Lin Rajakumar	62	-	-	44	-	106
- Choy Khai Choon	25	-	-	22	-	47
- Philip Seah Cheng Chua	22	-	-	12	-	34
	384	-	-	144	-	528

26. MANAGEMENT EXPENSES (CONTINUED)

(a) Directors' and Chief Executive Officer's remuneration (continued)

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

	Number of Directors	
	2020	**2019**
Executive Directors:		
RM 1 - RM100,000	-	1
RM3,000,001 – RM4,000,000	-	1
Non-Executive Directors:		
RM 1 - RM100,000	-	2
RM100,001 – RM200,000	4	3

27. OTHER OPERATING INCOME – NET

	2020 RM'000	**2019 RM'000**
Realised foreign exchange (loss)/gain	(83)	78
Unrealised foreign exchange loss	(80)	(49)
Other miscellaneous income	4,438	6,991
	4,275	7,020

28. TAXATION

	2020 RM'000	**2019 RM'000**
Current tax	3,633	7,060
Deferred tax (Note 13)	(1,944)	(6,779)
Tax expense	1,689	281
Current tax		
Current financial year	5,637	9,530
Over-provision in prior financial year	(2,004)	(2,470)
	3,633	7,060
Deferred tax		
Origination and reversal of temporary differences (Note 13)	(1,944)	(6,779)
	1,689	281

28. TAXATION (CONTINUED)

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

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:

	2020 RM'000	2019 RM'000
Profit before taxation	77,523	71,452
Taxation at Malaysian statutory tax rate of 24%	18,605	17,148
Income not subject to tax	(16,422)	(15,492)
Expenses not deductible for tax purposes	2,523	3,856
Previously unrecognised deductible temporary differences	(1,013)	(2,761)
Over-provision of tax in prior financial year	(2,004)	(2,470)
Tax expense	1,689	281

29. DIVIDENDS

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

30. EARNINGS PER SHARE

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

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.

	2020 RM'000	2019 RM'000
Profit attributable to ordinary equity holders	75,834	71,171
Weighted average number of shares in issue	100,000	100,000
Basic earnings per share (sen)	75.83	71.17

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

31. CASH FLOWS

	Note	2020 RM'000	2019 RM'000
Net profit for the financial year		75,834	71,171
Investment income	22	(67,608)	(64,948)
Realised losses/(gains) recorded in profit or loss	23	1,005	(1,720)
Fair value loss recorded in profit or loss		4,400	5,114
Purchases of AFS financial assets	8(b)	(375,580)	(214,995)
Proceeds from sale and redemption of AFS financial assets	8(b)	126,276	36,251
Decrease in staff loans		48	79
Non-cash items:			
Depreciation of property, plant and equipment	4	2,630	2,593
Depreciation of right of use assets	5	4,511	4,625
Amortisation of intangible assets	6	2,712	1,778
Write-offs of property, plant and equipment	4	234	40
Lease modifications	18	(75)	-
Remeasurement of right of use assets	5	1,213	-
Effects of rent concession received	18	(50)	-
Allowance/(write-back) for impairment of insurance receivables	26	1,982	(830)
Tax expense	28	1,689	281
Changes in working capital:			
Increase in reinsurance assets		(36,386)	(13,742)
Increase in insurance receivables		(4,761)	(5,114)
Decrease in other receivables		8,443	7,677
Increase in insurance contract liabilities		192,685	112,833
Increase in other liabilities		14,650	15,934
Decrease in insurance payables		(6,183)	(11,652)
Cash utilised in operating activities		(52,331)	(54,625)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationship

The related parties and their relationship with the Company as at 31 December 2020 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 Services Malaysia Sdn. Bhd. ("ZSM")	Subsidiary of ZICL
Zurich Shared Services Malaysia Sdn. Bhd. ("ZSSM")	Subsidiary of ZSM
Zurich Services (Hong Kong) Limited	Subsidiary of ZICL
Zurich American Insurance Company	Subsidiary of ZICL
Zurich Australia Insurance Limited	Subsidiary of ZICL
Zurich International Life Limited	Subsidiary of ZICL
Zurich Global Investment Management Inc.	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., Singapore Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Japan Branch	Branch office of ZICL

32. 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 year with related parties are as follows:

	2020 RM'000	2019 RM'000
Non-trade		
Penultimate holding company/branch offices		
Reimbursement of staff costs	2,632	4,761
Reimbursement of expenses made on behalf	(1)	(2,700)
Subsidiaries of penultimate holding company		
Reimbursement of staff costs	2,972	3,436
Information technology expenses	1,413	607
Outsourcing expenses	7,168	7,328
Reimbursement of expenses made on behalf	8,135	7,511
Subsidiaries of immediate holding company		
Reimbursement of staff costs	(90)	(83)
Outsourcing income	(30,223)	(26,283)
Reimbursement of expenses made on behalf	(5,187)	(2,275)
Trade		
Penultimate holding company/branch offices		
Reinsurance premium paid	17,134	92,793
Reinsurance commission received	(2,228)	(9,269)
Reinsurance claims recovered	(20,729)	(36,281)

32. 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:

	2020 RM'000	2019 RM'000
Amount due from related companies:		
Insurance receivables	-	20
Other receivables	4,075	6,849
Amount due to related companies:		
Insurance payables	(29,817)	(52,687)
Other payables	(3,560)	(1,961)

(d) Key management personnel's remuneration

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

	2020 RM'000	2019 RM'000
Salary	7,573	6,197
Bonus	1,697	2,501
Defined contribution plans	1,695	438
Share-based payments/benefits	2,038	2,367
Other benefits	1,910	3,337
	14,913	14,840
Included in the total key management personnel is the Executive Director/CEO's remuneration (Note 26(a))	5,912	5,283

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 or 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 or Chief Executive Officer of the Company amounted to RM31,000 (2019: RM29,000).

32. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(d) Key management personnel's remuneration (continued)

(i) Share based payments/benefits

The global long term incentive plan is an executive incentive plan administered globally by a central shareholding 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.

33. 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 risk 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 and Sustainability Committee including oversight over technology-related matters and sustainability related matters. 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 Asset Liability Management and Investment Committee ("ALMIC"), Human Resource Committee ("HRC"), Information Technology Steering Committee ("ITSC"), Business Continuity Management ("BCM"), Risk and Control Committee ("RCC"), Occupational Safety and Health Committee ("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 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 laws and regulations have priority while the stricter rules will apply where possible.

33. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Capital Management

The Company's capital management policy is to create shareholder's 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 2020.

The regulated capital of the Company as at 31 December 2020 comprised of Available Capital of RM504,148,000 (2019: RM427,858,000).

The capital structure of the Company as at 31 December 2020, as prescribed under the RBC Framework, is shown below:

	2020 RM'000	2019 RM'000
Tier 1 Capital		
Paid-up share capital	100,000	100,000
Reserves, including retained earnings	417,409	341,575
	517,409	441,575
Tier 2 Capital		
Available-for-sale reserve	26,484	25,632
Less:		
Deductions		
Intangible asset	(35,555)	(38,222)
Deferred tax assets	(4,190)	(1,127)
	(39,745)	(39,349)
Total Capital Available	504,148	427,858

34. 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. A majority of the insurance business written by the Company is Motor and Fire. Other classes of business include Medical and Health Expenses, Personal Accident, Engineering, Liability, Bond and other miscellaneous classes.

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 sustainable 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 classes 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. Historical experience and actuarial methods are used as part of the process.

34. INSURANCE RISK (CONTINUED)

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

	2020			2019		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fire	59,175	(30,413)	28,762	58,727	(34,742)	23,985
Motor	510,221	(11,768)	498,453	440,917	(10,199)	430,718
Marine, Aviation and Transit	13,217	(7,083)	6,134	13,085	(8,149)	4,936
Miscellaneous	199,468	(144,236)	55,232	158,888	(111,050)	47,838
At 31 December	782,081	(193,500)	588,581	671,617	(164,140)	507,477

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.

34. 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 2020					
Average claim cost	+10%	74,210	55,924	(55,924)	(42,502)
Average number of claims	+10%	75,672	59,450	(59,450)	(45,182)
31 December 2019					
Average claim cost	+10%	61,927	46,038	(46,038)	(34,989)
Average number of claims	+10%	66,344	50,967	(50,967)	(38,735)

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 year, together with cumulative payments to-date.

In setting provisions for claims, the Company considers 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.

34. INSURANCE RISK (CONTINUED)

Gross General Insurance Claims Liabilities for 2020:

	Prior RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
Accident Year:									
At end of the accident year		288,266	295,848	331,565	362,269	399,200	463,977	483,599	
One year later		290,744	292,121	343,585	343,203	384,172	466,530		
Two years later		289,068	287,165	342,385	342,467	384,430			
Three years later		285,509	284,440	341,717	341,606				
Four years later		281,558	285,401	343,156					
Five years later		281,810	284,411						
Six years later		277,531							
Current estimate of cumulative claims incurred		277,531	284,411	343,156	341,606	384,430	466,530	483,599	
At end of accident year		91,962	106,374	129,917	136,036	135,444	178,803	138,121	
One year later		200,905	206,290	239,438	232,395	240,346	294,605		
Two years later		236,670	242,996	286,746	275,228	305,345			
Three years later		252,331	260,016	303,077	304,344				
Four years later		258,550	266,722	314,962					
Five years later		262,109	272,051						
Six years later		264,075							
Cumulative payments to-date		264,075	272,051	314,962	304,344	305,345	294,605	138,121	
Direct and facultative inwards	9,514	13,456	12,360	28,194	37,262	79,085	171,925	345,478	697,274
Treaty inwards									370
MMIP									23,891
Best Estimate of Claim Liabilities									721,535
Claim Handling Expenses									13,402
Fund PRAD at 75% Confidence Level									47,144
Gross General Insurance Claim Liabilities									782,081

34. INSURANCE RISK (CONTINUED)

Net General Insurance Claims Liabilities for 2020:

	Prior RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
Accident Year:									
At end of the accident year		265,253	273,974	294,600	299,695	327,267	378,102	401,488	
One year later		258,963	270,616	291,877	295,480	327,972	390,944		
Two years later		255,954	265,892	294,797	300,243	332,692			
Three years later		251,139	265,706	295,222	302,187				
Four years later		247,740	266,063	296,061					
Five years later		247,393	265,366						
Six years later		244,352							
Current estimate of cumulative claims incurred		244,352	265,366	296,061	302,187	332,692	390,944	401,488	
At end of accident year		89,042	102,869	121,786	124,359	127,652	157,175	132,529	
One year later		184,144	197,328	218,725	208,314	218,818	265,841		
Two years later		217,757	231,243	256,657	246,481	269,375			
Three years later		231,821	246,104	271,065	271,872				
Four years later		236,475	251,314	280,542					
Five years later		238,170	255,483						
Six years later		239,595							
Cumulative payments to-date		239,595	255,483	280,542	271,872	269,375	265,841	132,529	
Direct and facultative inwards	3,732	4,757	9,883	15,519	30,315	63,317	125,103	268,959	521,585
Treaty inwards									370
MMIP									23,891
Best Estimate of Claim Liabilities									545,846
Claim Handling Expenses									13,402
Fund PRAD at 75% Confidence Level									29,333
Net General Insurance Claim Liabilities									588,581

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. INSURANCE RISK (CONTINUED)

Gross General Insurance Claims Liabilities for 2019:

	Prior RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
Accident Year:									
At end of the accident year		261,232	288,266	295,848	331,565	362,269	399,200	463,977	
One year later		253,808	290,744	292,121	343,585	343,203	384,172		
Two years later		253,611	289,068	287,165	342,385	342,467			
Three years later		254,750	285,509	284,440	341,717				
Four years later		249,477	281,558	285,401					
Five years later		248,495	281,810						
Six years later		245,849							
Current estimate of cumulative claims incurred		245,849	281,810	285,401	341,717	342,467	384,172	463,977	
At end of accident year		85,438	91,962	106,374	129,917	136,036	135,444	178,803	
One year later		185,422	200,905	206,290	239,438	232,395	240,346		
Two years later		215,056	236,670	242,996	286,746	275,228			
Three years later		229,275	252,331	260,016	303,077				
Four years later		234,678	258,550	266,722					
Five years later		236,688	262,109						
Six years later		239,073							
Cumulative payments to-date		239,073	262,109	266,722	303,077	275,228	240,346	178,803	
Direct and facultative inwards	6,115	6,776	19,701	18,679	38,640	67,239	143,826	285,174	586,150
Treaty inwards									1,663
MMIP									26,682
Best Estimate of Claim Liabilities									614,495
Claim Handling Expenses									11,806
Fund PRAD at 75% Confidence Level									45,316
Gross General Insurance Claim Liabilities									671,617

34. INSURANCE RISK (CONTINUED)

Net General Insurance Claims Liabilities for 2019:

	Prior RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
Accident Year:									
At end of the accident year		239,314	265,253	273,974	294,600	299,695	327,267	378,102	
One year later		236,089	258,963	270,616	291,877	295,480	327,972		
Two years later		234,080	255,954	265,892	294,797	300,243			
Three years later		231,678	251,139	265,706	295,222				
Four years later		225,614	247,740	266,063					
Five years later		225,004	247,393						
Six years later		222,416							
Current estimate of cumulative claims incurred		222,416	247,393	266,063	295,222	300,243	327,972	378,102	
At end of accident year		82,300	89,042	102,869	121,786	124,359	127,652	157,175	
One year later		176,527	184,144	197,328	218,725	208,314	218,818		
Two years later		201,761	217,757	231,243	256,657	246,481			
Three years later		212,560	231,821	246,104	271,065				
Four years later		216,591	236,475	251,314					
Five years later		218,143	238,170						
Six years later		219,343							
Cumulative payments to-date		219,343	238,170	251,314	271,065	246,481	218,818	157,175	
Direct and facultative inwards	2,870	3,073	9,223	14,749	24,157	53,762	109,154	220,927	437,915
Treaty inwards									1,663
MMIP									26,682
Best Estimate of Claim Liabilities									466,260
Claim Handling Expenses									11,806
Fund PRAD at 75% Confidence Level									29,411
Net General Insurance Claim Liabilities									507,477

35. 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 judgments.

35. 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 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2020				
AFS financial assets:				
- Unit trusts	1,588,438	-	-	1,588,438
	1,588,438	-	-	1,588,438
Non-financial assets:				
Non-current assets classified as held-for-sale	-	-	3,416	3,416
	1,588,438	-	3,416	1,591,854
31 December 2019				
AFS financial assets:				
- Corporate debt securities	-	-	970	970
- Equity securities	81,148	-	-	81,148
- Unit trusts	1,257,899	-	-	1,257,899
	1,339,047	-	970	1,340,017
Non-financial asset:				
Non-current assets classified as held-for-sale	-	-	6,846	6,846
	1,339,047	-	7,816	1,346,863

35. FAIR VALUE MEASUREMENTS (CONTINUED)

(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 year ended 31 December 2020 and 2019 for recurring fair value measurements:

	AFS	Investment properties	Non-current asset classified as held-for-sale
	RM'000	RM'000	RM'000
At 1 January 2019	970	11,960	-
Fair value loss recorded in statement of profit or loss	-	(5,114)	-
Transfer to non-current assets classified as held-for-sale	-	(6,846)	-
Transfer from investment properties	-	-	6,846
At 31 December 2019	970	-	6,846
Fair value loss recorded in statement of profit or loss	(970)	-	(3,430)
At 31 December 2020	-	-	3,416

36. 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 2020			
Financial assets:			
Insurance receivables	65,771	(5,133)	60,638
Financial liabilities:			
Insurance payables	110,389	(5,133)	105,256
31 December 2019			
Financial assets:			
Insurance receivables	70,163	(12,303)	57,860
Financial liabilities:			
Insurance payables	123,742	(12,303)	111,439

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 2020 (2019: RM nil).

37. 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 put 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.

37. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

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.

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	2020	2019
		RM'000	RM'000
AFS financial assets:			
- Corporate debt securities	8(a)	-	970
Reinsurance assets	10	256,736	220,350
Insurance receivables	11	60,638	57,860
Loans and receivables*		51,403	56,774
Cash and cash equivalents		46,652	44,937
		415,429	380,891

* Exclude prepayment of RM1,444,000 (2019: RM4,157,000).

37. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating

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

	Neither past-due nor impaired					
	Investment grade (AAA to BBB)	**Non-investment grade (BB to C)**	**Not rated**	**Past due but not impaired**	**Impaired**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2020						
Reinsurance assets	242,556	1	14,179	-	-	256,736
Insurance receivables						
- Gross	1,342		44,026	15,270	10,712	71,350
- Allowance for impairment	-	-	-	-	(10,712)	(10,712)
Loans and receivables	-	-	51,403	-	-	51,403
Cash and cash equivalents	46,652	-	-	-	-	46,652
	290,550	1	109,608	15,270	-	415,429

37. 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. (continued)

	Neither past-due nor impaired					
	Investment grade (AAA to BBB)	Non-investment grade (BB to C)	Not rated	Past due but not impaired	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2019						
AFS financial assets:						
- Corporate debt securities	-	-	-	-	970	970
Reinsurance assets	216,721	-	3,629	-	-	220,350
Insurance receivables						
- Gross	1,356	-	37,862	18,642	8,729	66,589
- Allowance for impairment	-	-	-	-	(8,729)	(8,729)
Loans and receivables	-	-	56,744	-	-	56,744
Cash and cash equivalents	44,937	-	-	-	-	44,937
	263,014	-	98,235	18,642	970	380,861

37. 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 2020							
Reinsurance assets	206,146	36,388	22	1	14,179	-	256,736
Insurance receivables	1,527	81	-	-	59,030	-	60,638
Loans and receivables	-	-	-	-	51,403	-	51,403
Cash and cash equivalents	46,652	-	-	-	-	-	46,652
	254,325	36,469	22	1	124,612	-	415,429

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. 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. (continued)

	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 2019							
AFS financial assets:							
- Corporate debt securities	-	-	-	-	-	970*	970
Reinsurance assets	182,109	34,589	23	-	3,629	-	220,350
Insurance receivables	4,053	99	-	-	53,708	-	57,860
Loans and receivables	-	-	-	-	56,774	-	56,774
Cash and cash equivalents	44,937	-		-	-	-	44,937
	231,099	34,688	23	-	114,111	970	380,891

* There is a defaulted event since 2013. The bondholders are pursuing recovery actions through negotiations and taking legal actions against the issuer.

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

37. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

Age Analysis of Financial Assets Past Due But Not Impaired

A financial asset is deemed past due when the counterparty has failed to make payment when the outstanding amount is contractually due.

	Up to 3 months	3 months to 6 months	7 months to 12 months	> 12 months	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2020					
Insurance receivables	3,344	7,402	4,524	-	15,270
31 December 2019					
Insurance receivables	5,902	10,674	2,066	-	18,642

Impaired Financial Assets

At 31 December 2020, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM10,712,000 (2019: RM8,729,000). For assets to be classified as "past-due and impaired", indicators of objective evidence of impairment are contractual payments 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" account.

A reconciliation of the allowance/(write-back) for impairment loss of insurance receivables is as follows:

	2020	2019
	RM'000	RM'000
At 1 January/date of incorporation	8,729	9,559
Allowance/(write-back) for the financial year (Note 26)	1,983	(830)
At 31 December	10,712	8,729

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

As at 31 December 2020, the Company has recorded a total impairment allowance of RM4,850,000 (2019: RM3,880,000) on investment in corporate debt securities in accordance to the Company's accounting policy as disclosed in Note 2.3(m) to the financial statements.

37. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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.

37. 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.

	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 2020							
Financial assets:							
AFS financial assets	1,588,438	-	-	-	-	1,588,438	1,588,438
Reinsurance assets	193,500	126,202	58,641	8,101	556	-	193,500
Insurance receivables	60,638	60,638	-	-	-	-	60,638
Loans and other receivables	51,403	51,337	34	21	11	-	51,403
Cash and cash equivalents	46,652	46,652	-	-	-	-	46,652
	1,940,631	284,829	58,675	8,122	567	1,588,438	1,940,631
Financial liabilities:							
Insurance contract liabilities	782,081	470,200	264,123	43,813	3,945	-	782,081
Lease liabilities	10,255	4,204	5,339	432	280	-	10,255
Other liabilities	190,773	147,928	42,635	210	-	-	190,773
Insurance payables	105,256	105,256	-	-	-	-	105,256
	1,088,365	727,588	312,097	44,455	4,225	-	1,088,365

37. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile (continued)

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2019							
Financial assets:							
AFS financial assets	1,340,017	-	-	-	-	1,340,017	1,340,017
Reinsurance assets	164,140	106,053	51,201	6,307	579	-	164,140
Insurance receivables	57,860	57,860	-	-	-	-	57,860
Loans and other receivables	56,774	56,656	52	34	32	-	56,774
Cash and cash equivalents	44,937	44,937	-	-	-	-	44,937
	1,663,728	265,506	51,253	6,341	611	1,340,017	1,663,728
Financial liabilities:							
Insurance contract liabilities	671,617	412,894	223,608	32,347	2,768	-	671,617
Lease liabilities	15,631	4,258	8,021	2,988	364	-	15,631
Other liabilities	179,727	135,474	43,760	476	17	-	179,727
Insurance payables	111,439	111,439	-	-	-	-	111,439
	978,414	664,065	275,389	35,811	3,149	-	978,414

37. 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 2020			
Property, plant and equipment	-	12,906	12,906
Right-of-use assets	-	10,120	10,120
Intangible assets	-	35,819	35,819
AFS financial assets	1,588,438	-	1,588,438
Reinsurance assets	126,202	130,534	256,736
Insurance receivables	60,638	-	60,638
Loans and other receivables	52,781	66	52,847
Tax recoverable	2,963	-	2,963
Deferred tax assets	-	316	316
Cash and cash equivalents	46,652	-	46,652
Non-current assets classified as held-for-sale	3,416	-	3,416
	1,881,090	189,761	2,070,851
31 December 2019			
Property, plant and equipment	-	13,935	13,935
Right-of-use assets	-	15,620	15,620
Intangible assets	-	38,222	38,222
AFS financial assets	1,340,017	-	1,340,017
Reinsurance assets	162,263	58,087	220,350
Insurance receivables	57,860	-	57,860
Loans and other receivables	60,813	118	60,931
Tax recoverable	5,501	-	5,501
Cash and cash equivalents	44,937	-	44,937
Non-current assets classified as held-for-sale	6,846	-	6,846
	1,678,237	125,982	1,804,219

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

37. FINANCIAL RISK (CONTINUED)

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.

(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 currency 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 currency risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be 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.

37. FINANCIAL RISK (CONTINUED)

Market Risk (continued)

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

The sensitivity analysis below illustrates impact of 50bps increase/decrease in interest rate to investment value based on portfolio holdings as at 31 December 2020, holding other variables constant.

	Impact on equity*	
	2020	**2019**
	RM'000	**RM'000**
Change in interest rates		
+ 50 basis point – (loss)	(23,379)	(15,451)
- 50 basis point – gain	24,451	15,987

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

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 year 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 profit or loss) 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.

38. 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.

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

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 2023 (see Note 2.1(a)).

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").

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

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

	2020 RM'000	2019 RM'000
Impaired		
AFS financial assets:		
- Corporate debt securities	-	970

(a) Fair value / carrying amount:

	Financial assets with SPPI cash flow RM'000	Other financial assets RM'000	Total RM'000
31 December 2020			
Fair value at 31 December 2020	-	1,940,631	1,940,631
Fair value changes during the financial year	-	1,121	1,121
Financial assets that do not have low credit risk:			
- Fair value / carrying amount as at 31 December 2020 under MFRS 139	-	N/A	N/A
31 December 2019			
Fair value at 31 December 2019	970	1,662,758	1,663,728
Fair value changes during the financial year	-	13,168	13,168
Financial assets that do not have low credit risk:			
- Fair value / carrying amount as at 31 December 2019 under MFRS 139	970	N/A	N/A

41. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

In the first quarter 2020, Covid-19 has been declared a pandemic. Globally, increasing measures were taken to contain it, and this led to a significant volatility in the financial markets, resulting in an adverse impact on the global business and economic activity.

With the development of Covid-19 outbreak in Malaysia, the Government issued a Movement Control Order ("MCO") beginning from 18 March 2020 until 31 March 2020. The MCO was subsequently extended to 3 May 2020. The MCO imposed limitation on movement of people, suspension of non-essential business operations, travel restrictions, and quarantine measures. The Government also introduced various economic stimulus plans to assist the citizens and businesses.

The Conditional Movement Control Order ("CMCO") was later introduced from 4 May 2020, of which majority of the economic and social activities were allowed, subject to the Standard Operating Procedures ("SOP") set for each sector. The CMCO was later extended to 9 June 2020, followed by the introduction of the Recovery Movement Control Order ("RMCO") from 10 June 2020 until 31 August 2020 with further relaxation on economic and social activities. CMCO was later reinstated from 14 October 2020 to 6 December 2020 in light of the spike in Covid-19 cases within the country, followed by MCO from 13 January 2021 until 4 March 2021.

In 2020, the Company has ensured that it continues to provide core insurance services to its customers and took mitigation actions as needed. Due to uncertainty of when the outbreak will be fully contained, it is challenging to predict the exact extent of the impact to the Company in the coming years. The Company will continue to monitor the situation and will take actions as needed to ensure it remains viable as a Company.

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