ZURICH

Directors' Report and Audited Financial Statements For the financial year ended 31 December 2021

Inspiring actions together.

Zurich is committed to developing sustainable values to create a brighter future for our customers, employees, investors, and the planet we share.

Registration No.

201701035345 (1249516-V)

ZURICH GENERAL INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)

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ZURICH GENERAL INSURANCE MALAYSIA BERHAD

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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 acting 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 prescribed under the Policy Document on Corporate Governance 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 since the date of the last report is as follows:

Name of Directors	**Designation**
Choy Khai Choon	Chairman (Independent Non-Executive Director)
Timothy William Howell (appointed on 1 November 2021)	Member (Executive Director)
Kevin John Wright (resigned on 26 October 2021)	Member (Executive Director)
Datin Seri Sunita Mei-Lin Rajakumar	Member (Independent Non-Executive Director)
Philip Seah Cheng Chua	Member (Independent Non-Executive Director)
Kuah Kock Heng (appointed on 5 May 2021)	Member (Independent Non-Executive Director)

The Board comprises four 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 ("CEO") are distinct and separate.

Roles and Responsibilities of the Board

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

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

b) oversee the selection, performance, remuneration, succession plans of the Chief Executive Officer, 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) together with Senior Management, promote 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 or 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 an Independent Non-Executive Director and Chairman of the Board of Directors of the Company on 5 August 2019 and 1 January 2021 respectively. Mr. Choy is a member of the Nomination and Remuneration Committee, the Audit Committee and the Risk Management and Sustainability Committee of the Company.

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 Bank 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 Malaysia Marine and Heavy Engineering Holdings Berhad, Hap Seng Plantations Holdings Berhad, MSM Holdings Malaysia Berhad and Asian Banking School Sdn Bhd. Mr. Choy is, additionally, the Non-Independent Non-Executive Director of Kenanga Investment Bank Berhad. He also sits on the Board 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 the Labuan Financial Services Authority.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

Timothy William Howell
Australian, Male
Executive Director

Mr. Timothy William Howell ("Mr. Tim Howell") was appointed as an Executive Director of the Company on 1 November 2021.

Mr. Tim Howell is a Fellow of the Institute of Actuaries of Australia and holds Bachelor of Commerce (Actuarial Studies) and Bachelor of Science (Computer Science). He is a graduate from the Australian Institute of Company Directors.

Mr. Tim Howell has more than 17 years' experience in the financial services sector, of which more than 10 years are with Zurich in finance, actuarial and proposition leadership positions. In November 2019, Mr. Tim Howell assumed the position as Head of Finance / Chief Financial Officer ("CFO"), Asia Pacific ("APAC"). In his current role, Mr. Tim Howell is accountable for delivering the financial performance of the APAC region and is focused on supporting the APAC Business Units to achieve their strategic and financial objectives.

From June 2017 until November 2019, Mr. Tim Howell was Head of Zurich Propositions for Zurich Financial Services Australia (Life & Investments) with responsibility for developing retail risk and investment customer propositions. During this time the proposition function saw strong success with substantial market share growth, innovative digital projects delivered and a clear focus on customer solutions.

Mr. Tim Howell's previous roles with Zurich included Chief Life Actuary from 2015 to 2017 with responsibility to lead the actuarial function including actuarial reserves and reporting (including the Financial Condition Report), capital management, pricing and product actuarial advice, actuarial systems and reinsurance management. He was also the Director of Actuarial Service Centre Asia Pacific ("ASCAP") and was based in Malaysia from 2012 to 2015 with responsibility for building, developing and leading a team of actuarial professionals to support the life actuarial reporting for business units across the Asia Pacific region. Based on his previous working experiences in Malaysia, he would be acquainted with the local working environment.

Before joining Zurich, Mr. Tim Howell was with Ernst & Young, Tower Australia Ltd (currently known as TAL) and Commonwealth Securities Ltd in actuarial and analyst roles.

Mr. Tim Howell also serves as a Board Member for Zurich Group entities, namely, Zurich Life Insurance Malaysia Berhad, Zurich Services (Hong Kong) Limited, Cover-More Group Limited, Zurich Travel Solutions Pty Limited and Zurich Life Insurance Japan Company Ltd.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

Kevin John Wright
Australian, Male
Executive Director

Mr. Kevin John Wright was appointed as an Independent Non-Executive Director of the Company 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, Organisational 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 was 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 as a Member of the Regional Executive Committee of AXA Asia. Prior to this, he held various other senior executive roles within Australia and the Asia Pacific region. He is also a former wicketkeeper who represented Australia in 10 test matches.

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

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

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

Datin Seri Sunita Mei-Lin Rajakumar was appointed as an Independent Non-Executive Director of the Company on 2 July 2018. She is the Chairperson of the Audit Committee, a member of the Risk Management and Sustainability Committee, and the Nomination and Remuneration Committee of the Company.

Datin Seri Sunita graduated from the 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 Seri Sunita is 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 Director of MCIS Insurance Berhad, Dutch Lady Milk Industries Berhad and Berjaya Corporation Berhad as well as a director of Berjaya Corporation MTN Sdn Bhd. She also sits on the Board of Trustees of Hai-O Foundation, Yayasan Usman Awang, Yayasan myNadi, Better Malaysia Foundation, Yayasan My First Home and Yayasan Seni Berdaftar which is registered with the Prime Minister's Department.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors (continued)

Philip Seah Cheng Chua
Singaporean, Male
Independent Non-Executive Director

Mr. Philip Seah Cheng Chua was appointed as an Independent Non-Executive Director of the Company 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 the 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.

Profile of Directors (continued)

Kuah Kock Heng
Malaysian, Male
Independent Non-Executive Director

Mr. Kuah Kock Heng was appointed as an Independent Non-Executive Director of the Company on 5 May 2021. He is the Chairman of the Nomination and Remuneration Committee and is also a member of the Audit Committee and the Risk Management and Sustainability Committee of the Company.

Mr. Kuah graduated with a Bachelor of Mechanical Engineering degree from the University of Leeds, United Kingdom and holds a Master in Business Administration (MBA) from the University of Sheffield, United Kingdom. He also attended the Senior Executive Program of Columbia Business School in New York.

Mr. Kuah has more than 25 years of senior leadership experience, having led multiple corporations in the automotive, finance and industrial equipment sector in Malaysia with presence across ASEAN and China. He served as President of UMW Toyota Malaysia and Toyota Capital Malaysia as well as Executive Director of UWM Industrial Equipment. He led the Crisis Management Team during the Global Financial Crisis in 2008 and Toyota Global Quality recall in 2010.

He has a strong track record in growing emerging businesses into market leaders, leading expansion into new markets, developing new product lines and growing customer segments. Throughout every stage of his career, he has extensive experience establishing and managing long-term sustainable relationships and partnerships with key stakeholders.

Mr. Kuah has held a number of diverse roles in Toyota operations. He was the Executive Director of UMW Industrial Equipment Division covering Malaysia, Singapore, Vietnam, Brunei and China (Shanghai) from 1997 to 2007. He was the President of UWM Toyota Motor managing the automotive business in Malaysia covering assembly, sales & marketing, after-sales service, finance, human resource and strategic planning functions of Toyota and Lexus between 2008 and 2010. Subsequently, he was the President of Toyota Capital Malaysia and was responsible for automotive financing business in Malaysia, working closely with financial institutions, ratings agency and regulators and operations until he retired in 2019.

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 2021 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 2021, the Board met 10 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**
Choy Khai Choon, Chairman	10/10
Timothy William Howell (appointed on 1 November 2021)	2/2
Datin Seri Sunita Mei-Lin Rajakumar	8/8
Philip Seah Cheng Chua	10/10
Kuah Kock Heng (appointed on 5 May 2021)	7/7
Kevin John Wright (resigned on 26 October 2021)	7/7

Board Committees

The Board delegates specific responsibilities to the 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 the AC are:

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

(ii) To review the results of the 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 fees 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 review the Compliance Policy and oversee its implementation, establish the Compliance function, review and evaluate the effectiveness of the overall management of compliance risk;

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

(viii) 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 2021, the AC held five 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 Seri Sunita Mei-Lin Rajakumar, Chairperson	5/5
Choy Khai Choon	5/5
Philip Seah Cheng Chua	5/5
Kuah Kock Heng (appointed on 19 May 2021)	3/3

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 Directors and the 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 principal duties and responsibilities of the NRC as per the Terms of Reference approved by Board are:

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

(ii) To recommend specific remuneration packages for Directors, the 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 the Chief Executive Officer and expatriates) and the 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 2021 is as follows:

Members	**No. of NRC Meetings Attended**
Kuah Kock Heng, Chairman*	5/5
Choy Khai Choon	10/10
Datin Seri Sunita Mei-Lin Rajakumar	10/10
Philip Seah Cheng Chua	10/10

**Kuah Kock Heng was appointed as the Chairman of the Nomination and Remuneration Committee effective 19 May 2021.*

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Risk Management and Sustainability Committee ("RMSC")

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 and 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 the Company's sustainability strategy and objectives, review of the Company'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 and risk tolerance for technology related events, ensure key performance indicators and forward looking risk indicators are in place, ensure adequacy of 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 RMSC for the financial year ended 31 December 2021 is as follows:

Members	**No. of RMSC Meetings Attended**
Philip Seah Cheng Chua, Chairman	5/5
Datin Seri Sunita Mei-Lin Rajakumar	5/5
Choy Khai Choon	5/5
Kuah Kock Heng (appointed on 19 May 2021)	3/3

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 descriptions 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, conflicts of interest referred to in Part B, paragraph 14 of BNM/RH/PD 029-9 *Corporate Governance* as issued by BNM and paragraph 58 of the Financial Services Act 2013 ("FSA").

Corporate independence

The Company has complied with the requirements of BNM's Policy Document on Related Party Transactions (BNM/RH/GL 018-6) 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 was 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' interests.

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 is taken in a timely manner, where necessary. 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 Company has complied with the requirements of BNM's Guidelines on Management of IT Environment (GPIS-1) and Guidelines on Business Continuity Management (BNM/RH/GL/013-3).

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 (6) risk types affecting the Company namely Property and Casualty Risk, Market Risk, Credit Risk, Operational Risk, Strategic and Reputation Risk and Capital Management and 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's ("ZIGL") 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 Zurich's Remuneration Rules ("ZRR") issued by the Group, the Board of Directors is supported by the Nomination and Remuneration Committee and respective monitoring process as stated in the ZRR.

The guiding principles of the remuneration philosophy as set out in the ZRR 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 ZRR 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 to support remuneration decisions.
- Variable remuneration awards are linked to key performance factors which can 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") are forms of variable remuneration which are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with the Company's 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.
- Reward decisions are made on basis of merit – performance, skills, experience, qualifications and potential – and are free from discrimination towards or against particular diverse backgrounds. The remuneration system and practices ensure all employees have equal opportunities.

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, professional experience, internal equity, external competitiveness 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, Enterprise 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 and, in some jurisdictions, may apply for additional STIP and LTIP participants based on local legal and regulatory requirements 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.

Registration No.

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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 2021.

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	91,395

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

No new ordinary shares were issued during the financial year.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report to the date of this report or who were appointed during the financial year are as follow:

Name of Directors	Designation
Choy Khai Choon (appointed as Chairman effective 1 January 2021)	Chairman, Independent Non-Executive Director
Timothy William Howell (appointed on 1 November 2021)	Executive Director
Kevin John Wright (resigned on 26 October 2021)	Executive Director
Datin Seri Sunita Mei-Lin Rajakumar	Independent Non-Executive Director
Philip Seah Cheng Chua	Independent Non-Executive Director
Kuah Kock Heng (appointed on 19 May 2021)	Independent Non-Executive Director

During the Annual General Meeting held on 28 June 2021, Kevin John Wright and Kuah Kock Heng who retire pursuant to Article 106 and Article 112 of the Company's Constitution respectively were re-elected as Directors of the Company.

DIRECTORS' REPORT (CONTINUED)

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 25(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 amounted to RM16,000.

There was no indemnity given to, or insurance effected for, the 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 paid and payable by the Company are set out in Note 25(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

(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)(ii) and (f)(i), 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.

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201701035345 (1249516-V)

ZURICH GENERAL INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)

DIR'CTORS' REPORT (CONTINUED)

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 25 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.

AUDITORS

The auditors, Ernst & Young PLT (LLP0022760-LCA & AF 0039), have expressed their willingness to accept re-appointment as auditors.

Signed on behalf of the Board of the Directors in accordance with their resolution dated 4 March 2022.

DATIN SERI SUNITA MEI-LIN RAJAKUMAR
DIRECTOR

CHOY KHAI CHOON
DIRECTOR

Kuala Lumpur
4 March 2022

Registration No.

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ZURICH GENERAL INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)

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

We, Datin Seri 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 105 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2021 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 4 March 2022.

DATIN SERI SUNITA MEI-LIN RAJAKUMAR
DIRECTOR

CHOY KHAI CHOON
DIRECTOR

Kuala Lumpur
4 March 2022

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 105 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 4 March 2022, before me,

PESURUHJAYA SUMPAH
No. W 152
OOI AH BAH
01.01.22-14.07.23
MALAYSIA

COMMISSIONER FOR OATHS

No. 48- 1st Floor
Jalan Brunei Utara
Off Changkat Thambi Dollah, Pudu,
55100 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

Opinion

We have audited the financial statements of Zurich General Insurance Malaysia Berhad which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 25 to 106.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 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 Directors' Report, the Corporate Governance Statement and Shariah Committee's Report, but does not include the financial statements of the Company and our auditors' report thereon.

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

Information other than the financial statements and auditors' report thereon (cont'd.)

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 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.

Auditors' responsibilities for the audit of the financial statements (cont'd.)

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

- 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.

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201701035345 (1249516-V)

Independent auditors' report to the member of Zurich General Insurance Malaysia Berhad (Incorporated in Malaysia)

Other matters

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

The financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 1 March 2021.

Ernst + Young PLT
Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Brandon Bruce Sta Maria
No. 02937/09/2023 J
Chartered Accountant

Kuala Lumpur, Malaysia
4 March 2022

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	2021 RM'000	2020 RM'000
ASSETS			
Property, plant and equipment	4	13,683	12,906
Right-of-use assets	5	6,372	10,120
Intangible assets	6	33,311	35,819
Non-current assets classified as held-for-sale	13	3,116	3,416
Available-for-sale financial assets	7	1,682,921	1,588,438
Reinsurance assets	9	418,031	256,736
Insurance receivables	10	62,678	60,638
Loans and receivables	11	52,673	52,847
Tax recoverable		1,549	2,963
Deferred tax assets	12	15,853	316
Cash and cash equivalents		126,744	46,652
Total assets		2,416,931	2,070,851
EQUITY AND LIABILITIES			
Share capital	14	100,000	100,000
Retained earnings	15(a)	284,012	192,617
Capital contribution reserve	15(b)	224,792	224,792
Available-for-sale reserves	15(c)	(13,363)	26,484
Total equity		595,441	543,893
Insurance contract liabilities	16	1,539,362	1,220,674
Lease liabilities	17	6,454	10,255
Other liabilities	18	147,053	190,773
Insurance payables	19	128,122	105,256
Current tax liabilities		499	-
Total liabilities		1,821,490	1,526,958
Total equity and liabilities		2,416,931	2,070,851

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 2021

	Note	2021 RM'000	2020 RM'000
Gross earned premiums	20(a)	943,015	828,652
Premiums ceded to reinsurers	20(b)	(169,321)	(132,798)
Net earned premiums		773,694	695,854
Investment income	21	56,498	67,608
Fee and commission income	23(a)	26,646	17,030
Other operating income - net	26	5,089	4,275
Other revenue		88,233	88,913
Total revenue		861,927	784,767
Gross claims paid	24(a)	(329,979)	(371,091)
Claims ceded to reinsurers	24(b)	27,987	35,060
Gross change in contract liabilities	24(c)	(351,438)	(110,464)
Change in contract liabilities ceded to reinsurers	24(d)	157,553	29,360
Net claims		(495,877)	(417,135)
Realised losses	22	(664)	(1,005)
Fair value loss		(2)	(4,400)
Fee and commission expenses	23(b)	(97,687)	(100,693)
Management expenses	25	(162,889)	(183,560)
Other expenses		(261,242)	(289,658)
Operating profit		104,808	77,974
Finance cost	17	(298)	(451)
Profit before taxation		104,510	77,523
Taxation	27	(13,115)	(1,689)
Net profit for the financial year		91,395	75,834
Basic earnings per share (sen)	29	91.40	75.83

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 2021

	Note	2021 RM'000	2020 RM'000
Net profit for the financial year		91,395	75,834
Other comprehensive (loss)/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		(53,157)	87
- Fair value loss transferred to statement of profit or loss on disposal	7(b)	726	1,034
- Deferred tax	12	12,584	(269)
Other comprehensive (loss)/income for the financial year, net of tax		(39,847)	852
Total comprehensive income for the financial year		51,548	76,686

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

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ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	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 2021	100,000	224,792	26,484	192,617	543,893
Net profit for the financial year	-	-	-	91,395	91,395
Other comprehensive loss for the financial year	-	-	(39,847)	-	(39,847)
At 31 December 2021	100,000	224,792	(13,363)	284,012	595,441
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

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

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Note	2021 RM'000	2020 RM'000
OPERATING ACTIVITIES			
Cash generated/(utilised) in operating activities	30	45,828	(51,880)
Dividend/distribution income received		56,178	67,278
Interest income received		687	807
Net expenses on properties		(539)	(477)
Interest expense on lease liabilities		(298)	(451)
Income tax paid		(14,155)	(7,463)
Net cash inflows from operating activities		87,701	7,814
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	(3,596)	(1,957)
Proceeds from disposal of property, plant and equipment		67	152
Proceeds from disposal of assets classified as held-for-sale		295	-
Net cash outflows from investing activities		(3,234)	(1,805)
FINANCING ACTIVITY			
Payment of lease liabilities		(4,375)	(4,294)
Net cash outflow from financing activity		(4,375)	(4,294)
Net increase in cash and cash equivalents		80,092	1,715
Cash and cash equivalents at the beginning of the financial year		46,652	44,937
Cash and cash equivalents at the end of the financial year		126,744	46,652
Cash and cash equivalents comprise:			
Cash and bank balances		96,686	31,580
Short-term deposits		30,058	15,072
		126,744	46,652

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 4 March 2022.

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, 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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 judgements 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.

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 accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new pronouncements as follows:

Descriptions	**Effective for annual financial periods beginning on or after**
• Amendments to MFRS 9 *Financial Instruments*, MFRS 139 *Financial Instruments: Recognition and Measurement*, MFRS 7 *Financial Instruments: Disclosures*, MFRS 4 *Insurance Contracts* and MFRS 16 *Leases* (Reference to Interest Rate Benchmark Reform – Phase 2)	1 January 2021
• Amendments to MFRS 16 *Leases* (Reference to Covid-19 Related Rent Concessions beyond 30 June 2021)	1 April 2021

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments to published standards and interpretations (continued)

(ii) Standards and amendments/improvements to published standards and interpretations that are issued but not yet effective

The following are Standards, Amendments to Standards and IC Interpretations issued by the Malaysian Accounting Standards Board ("MASB"), but not yet effective, up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards and amendments to standards, if applicable, when become effective.

Descriptions	**Effective for annual financial periods beginning on or after**
• Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* (Annual Improvements to MFRS Standards 2018 – 2020)	1 January 2022
• Amendments to MFRS 16 *Leases* (Annual Improvements to MFRS Standards 2018 – 2020)	1 January 2022
• Amendments to MFRS 116 *Property, Plant and Equipment* (Reference to Property, Plant and Equipment – Proceeds before Intended Use)	1 January 2022
• Amendments to MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* (Reference to Onerous Contracts - Cost of Fulfilling a Contract)	1 January 2022
• Amendments to MFRS 3 *Business Combinations* (Reference to the Conceptual Framework)	1 January 2022
• Amendments to MFRS 9 *Financial Instruments* (Annual Improvements to MFRS Standards 2018 – 2020)	1 January 2022
• Amendments to MFRS 101 *Presentation of Financial Statements* (Reference to Classification of Liabilities as Current of Non-current)	1 January 2023
• Amendments to MFRS 101 *Presentation of Financial Statements* (Disclosure of Accounting Policies)	1 January 2023
• MFRS 17 *Insurance Contracts and amendments*	1 January 2023
• Amendments to MFRS 17 *Insurance Contracts* – Initial Application of MFRS 17 and MFRS 9 – Comparative Information	1 January 2023
• Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* – Definition of Accounting Estimates	1 January 2023
• Amendments to MFRS 112 *Income Taxes* – Deferred Tax Related to Assets and Liabilities arising from Single Transaction	1 January 2023
• Amendments to MFRS 10 *Consolidated Financial Statements* and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments to published standards and interpretations (continued)

(ii) Standards and amendments/improvements to published standards and interpretations that are issued but not yet effective (continued)

The Directors expect that the adoption of the above new pronouncements will have no material impact on the financial statements in the period of initial application except as discussed below:

- MFRS 17 "Insurance Contracts" and its amendments

  MFRS 17 "Insurance Contracts" replaces MFRS 4 "Insurance Contracts". MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 "Revenue from Contracts with Customers". An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts (other than reinsurance contracts), where the entity is the policyholder, are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

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

  Alternative measurement models are provided for the different insurance coverages:

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments to published standards and interpretations (continued)

(ii) Standards and amendments/improvements to published standards and interpretations that are issued but not yet effective (continued)

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

  The Company’s predominance ratio reflecting the share of liabilities connected to insurance compared to total liabilities exceeded 90 percent. Due to the strong interaction between underlying assets held and the measurement of insurance contracts, the Company has also decided to use the option to defer the full implementation of MFRS 9 until MFRS 17 “Insurance Contracts” becomes effective on 1 January 2023 in accordance with the Amendments to MFRS 4 “Extension of the Temporary Exemption from Applying MFRS9”.

  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 at 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.

  For further information on the effects from MFRS 9, Note 39 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)

2.2 Summary of significant accounting policies

(a) Capital reorganisation

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

The transfer of the general insurance business from Zurich Life Insurance Malaysia Berhad ("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.

(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 amount of the investment is recognised in profit or loss.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Business combination

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

(d) Property, plant and equipment and depreciation

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

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to 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. Please refer to Note 2.3(n) to the financial statements for the accounting policy on impairment of non-financial assets.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Leases

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 to apply the practical expedient provided in MFRS 16 so as 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 the 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. Please refer to (iii) 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 remeasurements of the lease liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 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 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)

2.2 Summary of significant accounting policies (continued)

(e) Leases (continued)

The Company elected to account for Covid-19-related rent concession that met all of the following conditions in the same way as they would if they were not lease modifications:

(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 accounted for such Covid-19-related rent concessions as a variable lease payment in the period in which the event or condition that triggered the reduced payment occurred. The Company recognised the impacts of rent concessions within profit or loss.

(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 establishment 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 an 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. In the interim, it is reviewed for impairment at each reporting date.

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 life 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 2.2(n).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investment properties

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

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or 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.

(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. It is measured at the lower of the carrying amount and fair value less costs of sale.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

(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 in 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.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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) prices 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) prices 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 amount 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.

(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 market convention.

(l) 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 or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

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 objective evidence of impairment, resulting in the recognition of an impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Impairment of financial assets (continued)

(ii) AFS financial assets (continued)

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 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. Other non-financial assets 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 purposes of impairment assessment, 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 a 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.

(o) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers 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 financial assets. These processes are described in Note 2.2(m) to the financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Other receivables from the Malaysian Motor Insurance Pool ("MMIP")

The Company's share of investment returns from 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(t) Other financial liabilities and insurance payables

Other financial liabilities and insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration payable 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 terms, 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.

(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 amounts recoverable 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(w) Reinsurance (continued)

Reinsurance assets and receivables are reviewed for impairment at the date of the statement of financial position 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.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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 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.

(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 reinsurance premiums are recognised based on advices received from ceding insurers.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(x) General insurance underwriting results (continued)

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 for Adverse 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;
- $1/365^{th}$ method for all other classes of direct and facultative inwards business; and
- $1/24^{th}$ 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).

Claim liabilities

Liabilities for outstanding claims are recognised in respect of both direct insurance and inward reinsurance.

Provision for claim 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 the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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 has already occurred and the rent due remains outstanding, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on a receipt basis until all arrears have been paid.

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

(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 the 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 or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which 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 in the jurisdiction in which the Company operates and includes all taxes based upon taxable profits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(aa) Income taxes (continued)

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 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.

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

<u>Short-term employee benefits</u>

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(ab) Employee benefits (continued)

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 plan wherein performance-based target shares administered by a central shareholding vehicle are granted to eligible directors and senior executives of the ZIGL and its subsidiary 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 or loss over the vesting period of the grant.

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 equate 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 the 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.

Due to the fact that the ultimate claim 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(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 claim 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 number 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.

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, Provision of 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 'RBC 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Assumptions applied for MFRS 16 “Leases” (continued)

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 when 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.

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

In August 2016, Malaysia Competition Commission (“MyCC”) had commenced investigations 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 a collective penalty of RM213 million on the general insurance industry. The Company, as one of the members of PIAM, has 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 on the Company.

The Company had filed a Notice of Appeal against the said decision, and sought a stay order on the decision from the Competition Appeal Tribunal (“the Tribunal”). In response, MyCC filed an objection to the Tribunal against the appeal.

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. As the application for a stay order was granted, and the matter is currently pending appeal before the Competition Appeal Tribunal (CAT), the provision of RM5.7 million remains in the financial statements as at 31 December 2021, as disclosed in Note 18.

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 2020	3,625	6,468	1,496	8,440	20,029
Additions	166	1,135	-	656	1,957
Write-offs	(33)	-	-	(401)	(434)
Disposals	(21)		(400)	-	(421)
At 31 December 2020 / 1 January 2021	3,737	7,603	1,096	8,695	21,131
Additions	84	2,416	-	1,096	3,596
Write-offs	(13)	-	-	-	(13)
Disposals	-	-	(555)	-	(555)
At 31 December 2021	3,808	10,019	541	9,791	24,159

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 2020	465	3,494	849	1,286	6,094
Charge for the financial year (Note 25)	376	1,217	155	882	2,630
Write-offs	(19)	-	-	(182)	(201)
Disposals	(11)	-	(287)	-	(298)
At 31 December 2020 / 1 January 2021	811	4,711	717	1,986	8,225
Charge for the financial year (Note 25)	385	1,363	108	959	2,815
Write-offs	(9)	-	-	-	(9)
Disposals	-	-	(555)	-	(555)
At 31 December 2021	1,187	6,074	270	2,945	10,476
Net carrying amount					
At 31 December 2020	2,926	2,892	379	6,709	12,906
At 31 December 2021	2,621	3,945	271	6,846	13,683

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.

	2021 RM'000	2020 RM'000
Cost		
At 1 January	21,101	22,995
Additions	304	149
Contract renewal	639	75
Remeasurement	(307)	(1,213)
Termination	(768)	(905)
At 31 December	20,969	21,101
Accumulated depreciation		
At 1 January	10,981	7,375
Termination	(710)	(905)
Depreciation during the financial year (Note 25)	4,326	4,511
At 31 December	14,597	10,981
Net carrying amount		
At 31 December	6,372	10,120

The Company also has certain leases of equipment with low value. The Company applies the 'lease of low-value assets' recognition exemptions for these leases.

The following are the amounts recognised in profit or loss :

	2021 RM'000	2020 RM'000
Depreciation of right-of-use asset (Note 25)	4,326	4,511
Interest expense on lease liabilities	298	451
Expense related to leases of low-value assets (Note 25)	585	537
Total amount recognized in profit or loss	5,209	5,499

6. INTANGIBLE ASSETS

	Computer software RM'000	Other intangible asset RM'000	Total RM'000
Cost			
At 1 January 2020	4,338	40,000	44,338
Additions	309	-	309
At 31 December 2020 / 1 January 2021	4,647	40,000	44,647
Additions	329	-	329
At 31 December 2021	4,976	40,000	44,976
Accumulated amortisation			
At 1 January 2020	4,338	1,778	6,116
Amortisation during the financial year (Note 25)	45	2,667	2,712
At 31 December 2020 / 1 January 2021	4,383	4,445	8,828
Amortisation during the financial year (Note 25)	171	2,666	2,837
At 31 December 2021	4,554	7,111	11,665
Net carrying amount			
At 31 December 2020	264	35,555	35,819
At 31 December 2021	422	32,889	33,311

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 2.2(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 the bancassurance agreement:

Key assumptions	2021	2020
Bancassurance average annualised gross written premium growth rate	19.0%	20.1%
Discount rate - pretax	12.1%	12.8%

Sensitivity to changes in key assumptions

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

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2021 RM'000	2020 RM'000
(a) AFS financial assets		
Real estate investment trusts quoted in Malaysia	80,625	84,688
Unit trusts unquoted in Malaysia	1,602,296	1,503,750
	1,682,921	1,588,438

(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.

	2021 RM'000	2020 RM'000
At 1 January	1,588,438	1,340,017
Purchases	175,337	375,580
Disposals (sale and redemptions)	(27,697)	(126,276)
Realised loss transferred from available-for-sale reserves upon disposal (Note 22)	(726)	(1,034)
Fair value (losses)/gains recorded in other comprehensive income	(52,431)	1,121
Movement in impairment allowance	-	(970)
At 31 December	1,682,921	1,588,438

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

8. CONTROLLED STRUCTURED ENTITY

The Company has determined its investment in a retail unit fund amounting to RM1,602,296,000 (2020: RM1,503,750,000) 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 84.12% 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 an AFS financial asset investment as disclosed in Note 7, and the changes in 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 interest in the investee fund is equal to the fair value of its investment in the investee fund.

9. REINSURANCE ASSETS

	2021 RM'000	2020 RM'000
Reinsurance of insurance contracts		
Claim liabilities (Note 16)	351,053	193,500
Premium liabilities (Note 16)	66,978	63,236
	418,031	256,736

10. INSURANCE RECEIVABLES

	2021 RM'000	2020 RM'000
Due premiums including agents/brokers and co-insurers balances	64,447	64,632
Due from reinsurers and cedants	6,056	6,717
	70,503	71,349
Allowance for impairment loss	(7,825)	(10,711)
	62,678	60,638

The carrying amounts approximate fair values at the date of the statement of financial position due to their short-term maturity.

11. LOANS AND RECEIVABLES

	2021 RM'000	2020 RM'000
Staff loans:		
- Mortgage loans	-	70
- Unsecured loans	2	50
Allowance for impairment loss	(2)	-
	-	120
Other receivables:		
Assets held under Malaysian Motor Insurance Pool ("MMIP")*	44,924	45,473
Deposits, prepayment and other receivables	7,784	7,292
Allowance for impairment loss	(35)	(38)
	52,673	52,727
	52,673	52,847

* The net assets held under MMIP include cumulative net cash contribution paid to MMIP of RM19,006,000 (2020: RM20,006,000). The remaining balance represents assets held under MMIP of RM25,918,000 (2020: RM25,467,000), recognised by the Company based on quarterly statements received from MMIP.

As at 31 December 2021, there is a net receivable of RM20,990,000 (2020: RM15,452,000) from MMIP, should the amounts receivable from MMIP be set-off against the Company's share of MMIP's claims and premiums liabilities of RM23,934,000 (2020: RM30,021,000) which is included in Note 16 to the financial statements.

The carrying amounts of financial assets disclosed above approximate the fair values at the date of the statement of financial position due to their short-term maturity.

12. 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:

	2021 RM'000	2020 RM'000
Deferred tax assets	15,853	316
At 1 January	316	(1,359)
(Charged)/credited to statement of profit or loss (Note 27):		
- property, plant and equipment	(290)	147
- intangible assets	(160)	(160)
- investments	(210)	(422)
- non-current assets held-for-sale	(40)	823
- insurance receivables	606	5
- other liabilities	3,081	1,547
- leases	(34)	4
	2,953	1,944
Charged to comprehensive income:		
- available-for-sale reserve	12,584	(269)
At 31 December	15,853	316
Deferred tax asset (before offsetting)		
- intangible assets	1,973	2,133
- investments	4,220	153
- non-current assets held-for-sale	1,138	1,178
- insurance receivables	834	228
- other liabilities	8,388	5,307
- leases	61	95
	16,614	9,094
Offsetting	(761)	(8,778)
Deferred tax assets after offsetting	15,853	316
Deferred tax liabilities (before offsetting)		
- available-for-sale reserve	-	(8,364)
- property, plant and equipment, and intangible assets	(704)	(414)
- investments	(57)	-
	(761)	(8,778)
Offsetting	761	8,778
Deferred tax liabilities after offsetting	-	-

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

	2021 RM'000	2020 RM'000
Carrying value		
At 1 January	3,416	6,846
Fair value loss recorded in statement of profit or loss	-	(3,430)
Disposal	(300)	-
At 31 December	3,116	3,416

At the end of the current financial year, the Company has 9 units of shop lots at Seremban Terminal One classified as held-for-sale as compared to 10 units in the previous financial year. The Company has completed the disposal of 1 unit of shop lot during the current financial year.

Management has appointed a real estate agent to carry out the disposal of the remaining properties, and as of 31 December 2021, this exercise is still ongoing.

The Company has performed an internal valuation exercise to determine the need for any impairment losses to be recognised to reflect the fair value of the properties. 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 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 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 price per square foot of the properties. The values of unobservable input used were in the range of RM90 to RM230 per square foot as at 31 December 2021 (2020: RM90 to RM249 per square foot). The fair value would increase/(decrease) if the value per square foot used is higher/(lower).

14. SHARE CAPITAL

	2021 Number of shares	2021 Share capital RM'000	2020 Number of shares	2020 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

15. RESERVES

(a) Retained earnings

The Company is under the single-tier tax system wherein dividends paid are tax exempted in the hands of the shareholders. 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 from ZLIMB; and

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

(c) Available-for-sale reserve

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

16. INSURANCE CONTRACT LIABILITIES

The General insurance contract liabilities are as follows:

	2021			2020		
	Gross	**Re-insurance**	**Net**	**Gross**	**Re-insurance**	**Net**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Provision for claims	743,375	(237,451)	505,924	551,915	(130,860)	421,055
Provision for incurred but not reported claims ("IBNR")	327,415	(83,462)	243,953	183,022	(44,828)	138,194
Fund provision of risk margin for adverse deviation ("FPRAD")	62,729	(30,140)	32,589	47,144	(17,812)	29,332
Claim liabilities	1,133,519	(351,053)	782,466	782,081	(193,500)	588,581
Premium liabilities	405,843	(66,978)	338,865	438,593	(63,236)	375,357
	1,539,362	(418,031)	1,121,331	1,220,674	(256,736)	963,938

16. INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

			2021			2020
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Claims liabilities						
At 1 January	782,081	(193,500)	588,581	671,617	(164,140)	507,477
Claims incurred in the current accident year	445,166	(128,372)	316,794	330,621	(53,536)	277,085
Other movements in claims incurred in prior accident years	76,273	(6,206)	70,067	126,226	(6,323)	119,903
Claims paid during the financial year (Note 24(a) and 24(b))	(329,979)	27,987	(301,992)	(371,091)	35,060	(336,031)
Movement in IBNR	144,393	(38,634)	105,759	22,881	(2,654)	20,227
Movement in FPRAD	15,585	(12,328)	3,257	1,827	(1,907)	(80)
At 31 December	1,133,519	(351,053)	782,466	782,081	(193,500)	588,581
Premium liabilities						
At 1 January	438,593	(63,236)	375,357	356,372	(56,210)	300,162
Premium written in the financial year (Note 20(a) and 20(b))	910,265	(173,063)	737,202	910,873	(139,824)	771,049
Premium earned during the financial year (Note 20(a) and 20(b))	(943,015)	169,321	(773,694)	(828,652)	132,798	(695,854)
At 31 December	405,843	(66,978)	338,865	438,593	(63,236)	375,357

17. LEASE LIABILITIES

As a result of Covid-19 pandemic, the Company has benefited from the waiver of lease payments as shown below for the previous financial year. There was no waiver of lease payments during the current financial year.

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.

	2021 **RM'000**	**2020** **RM'000**
Non-current lease liabilities	2,463	6,051
Current lease liabilities	3,991	4,204
Total lease liabilities	6,454	10,255

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

	2021 **RM'000**	**2020** **RM'000**
At 1 January	10,255	15,631
Payment of lease liabilities	(4,673)	(4,745)
Accrued interest	298	451
Additions	242	106
Contract renewal	639	75
Remeasurement	(307)	(1,213)
Effects of rent concession received	-	(50)
At 31 December	6,454	10,255

18. OTHER LIABILITIES

	2021 RM'000	2020 RM'000
Cash collaterals held on bond business	17,692	21,702
Unclaimed monies	720	790
Tenant deposits	588	626
Accrual for unutilised staff leave	1,733	2,275
Accrued expenses	74,617	73,753
Provision for Sales and Service Tax	17,931	17,585
Other payables	33,772	34,042
Bancassurance fees payable	-	40,000
	147,053	190,773

Included in other payables as at December 2021 is a provision of RM846,000 (2020: RM2,659,000) for the termination benefits and related cost arising from a restructuring exercise carried out by the Company in the previous financial year. Also included in other payables is a provision for the penalty imposed by MyCC of RM5,665,552 as disclosed in Note 3(e).

The carrying amounts of financial liabilities disclosed above approximate the fair values at the date of the statement of financial position due to their short-term maturity.

19. INSURANCE PAYABLES

	2021 RM'000	2020 RM'000
Due to agents and intermediaries	25,163	20,463
Due to reinsurers and cedants	83,788	69,486
Reinsurer’s deposits withheld	19,171	15,307
	128,122	105,256

The carrying amounts of financial liabilities disclosed above approximate the fair values at the date of the statement of financial position due to their short-term maturity.

20. NET EARNED PREMIUMS

	2021 RM'000	2020 RM'000
(a) Gross earned premiums		
- Insurance contracts	910,265	910,873
- Change in gross premium liabilities	32,750	(82,221)
	943,015	828,652
(b) Premiums ceded to reinsurers		
- Insurance contracts	(173,063)	(139,824)
- Change in reinsurance premium liabilities	3,742	7,026
	(169,321)	(132,798)
Net earned premiums	773,694	695,854

21. INVESTMENT INCOME

	2021 RM'000	2020 RM'000
AFS financial assets		
Dividend/distribution income:		
- equity securities quoted in Malaysia	-	1,412
- real estate investment trusts quoted in Malaysia	3,882	1,616
- unit trusts unquoted in Malaysia	52,445	64,250
	56,327	67,278
LAR financial assets		
Interest/profit income		
- staff loans	6	9
- fixed and call deposits	682	798
	688	807
Non-current assets held-for-sale		
Gross rental income	70	111
Less: Rates and maintenance	(587)	(588)
	(517)	(477)
	56,498	67,608

22. REALISED LOSSES AND GAINS

	2021 RM'000	2020 RM'000
AFS financial assets		
Realised gains:		
- equity securities quoted in Malaysia	-	7,845
- real estate investment trusts quoted in Malaysia	416	5
- unit trusts unquoted in Malaysia	896	4,072
Realised losses:		
- equity securities quoted in Malaysia	-	(12,886)
- real estate investment trusts quoted in Malaysia	(2,038)	(70)
	(726)	(1,034)
Non-financial assets		
Realised gain:		
- property, plant and equipment	67	29
Realised losses:		
- assets classified as held-for-sale	(5)	-
	(664)	(1,005)

23. FEE AND COMMISSION

	2021 RM'000	2020 RM'000
(a) Fee and commission income		
Reinsurance commission income	26,646	17,030
(b) Fee and commission expenses		
Gross commission expenses	(97,687)	(100,693)

24. NET CLAIMS INCURRED

	2021 RM'000	2020 RM'000
(a) Gross benefits and claims paid	(329,979)	(371,091)
(b) Claims ceded to reinsurers	27,987	35,060
(c) Gross change in contract liabilities	(351,438)	(110,464)
(d) Change in contract liabilities ceded to reinsurers	157,553	29,360

25. MANAGEMENT EXPENSES

	2021 RM'000	2020 RM'000
Staff costs (including Chief Executive Officer and Executive Director):		
- salaries and bonus	68,749	78,043
- defined contribution plans	7,641	8,492
- staff retirement and other benefits	7,728	10,145
	84,118	96,680
Directors' remuneration (Note 25(a))	619	547
Auditors' remuneration:		
- statutory and regulatory-related audit	279	334
- tax related services	-	15
Equipment rental	24	33
Depreciation of property, plant and equipment (Note 4)	2,815	2,630
Write-offs of property, plant and equipment	4	233
Depreciation of right-of-use assets (Note 5)	4,326	4,511
Amortisation of intangible assets (Note 6)	2,837	2,712
Expenses relating to leases of low-value assets (Note 5)	585	537
(Write-back of)/allowance for impairment of insurance receivables	(2,886)	1,982
Training expenses	509	498
Repairs and maintenance expenses	1,020	1,068
Information technology expenses	18,727	13,821
Advertising, promotional and entertainment expenses	11,563	16,473
Breakdown service assistance expenses	4,636	5,655
Motor vehicle and travelling expenses	2,491	3,683
Printing and stationery expenses	518	445
Postage, courier and telephone charges	1,094	1,347
Bancassurance marketing expense	4,086	4,101
Management fees	1,395	550
Shared service costs charged from related parties	11,366	11,756
Other expenses	40,505	44,394
Less: Shared service costs recovered from related parties	(27,742)	(30,445)
	78,771	86,880
Total management expenses	162,889	183,560

25. 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
2021						
Chief Executive Officer						
- Junior Namjick Cho	-	1,861	615	2,028	35	4,539
	-	1,861	615	2,028	35	4,539
Non-Executive Directors						
- Steven Choy Khai Choon	172	-	-	35	-	207
- Philip Seah Cheng Chua	90	-	-	40	-	130
- Datin Seri Sunita Mei-Lin Rajakumar	90	-	-	38	-	128
- Kuah Kock Heng	59	-	-	95	-	154
	411	-	-	208	-	619

25. 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
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 Seri Sunita Mei-Lin Rajakumar	90	-	-	33	-	123
- Philip Seah Cheng Chua	90	-	-	40	-	130
	441	-	-	106	-	547

25. 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 2021	2020
Non-Executive Directors:		
RM100,001 – RM200,000	3	4
RM200,000 – RM300,000	1	-

26. OTHER OPERATING INCOME – NET

	2021 RM'000	2020 RM'000
Realised foreign exchange loss	(7)	(83)
Unrealised foreign exchange loss	(8)	(80)
Other miscellaneous income	5,104	4,438
	5,089	4,275

27. TAXATION

	2021 RM'000	2020 RM'000
Current tax		
Current financial year	13,978	5,637
Under/(over)provision in prior financial year	2,090	(2,004)
	16,068	3,633
Deferred tax		
Origination and reversal of temporary differences	(632)	(931)
Overprovision in prior financial year	(2,321)	(1,013)
	(2,953)	(1,944)
	13,115	1,689

27. 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 the statutory income tax rate to income tax expenses at the effective income tax rate of the Company is as follows:

	2021 RM'000	2020 RM'000
Profit before taxation	104,510	77,523
Taxation at Malaysian statutory tax rate of 24%	25,083	18,605
Income not subject to tax	(12,642)	(16,422)
Expenses not deductible for tax purposes	905	2,523
Overprovision of tax in prior financial year	(231)	(3,017)
Tax expense	13,115	1,689

28. DIVIDENDS

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

29. 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.

	2021 RM'000	2020 RM'000
Profit attributable to ordinary equity holders	91,395	75,834
Weighted average number of shares in issue	100,000	100,000
Basic earnings per share (sen)	91.40	75.83

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

30. CASH FLOWS

	Note	2021 RM'000	2020 RM'000
Net profit for the financial year		91,395	75,834
Investment income	21	(56,498)	(67,608)
Realised losses recorded in profit or loss	22	664	1,005
Fair value loss recorded in profit or loss		2	4,400
Purchases of AFS financial assets	7(b)	(175,337)	(375,580)
Proceeds from sale and redemption of AFS financial assets	7(b)	27,697	126,276
Non-cash items:			
Depreciation of property, plant and equipment	4	2,815	2,630
Depreciation of right of use assets	5	4,326	4,511
Amortisation of intangible assets	6	2,837	2,712
Write-offs of property, plant and equipment	4	4	233
Reversal of provision for restoration cost		58	-
Effects of rent concession received	17	-	(50)
(Write-back of)/allowance for impairment of insurance receivables	25	(2,886)	1,982
Interest expense	17	298	451
Tax expense	27	13,115	1,689
Changes in working capital:			
Increase in reinsurance assets		(161,295)	(36,386)
Decrease/(increase) in insurance receivables		846	(4,761)
Decrease in loans and receivables		344	8,492
Increase in insurance contract liabilities		318,688	192,685
(Decrease)/increase in other liabilities		(44,111)	15,788
Increase/(decrease) in insurance payables		22,866	(6,183)
Cash generated from/(utilised in) operating activities		45,828	(51,880)

31. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationship

The related parties and their relationship with the Company as at 31 December 2021 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
PT Zurich Topas Life	Subsidiary of ZICL

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions

In the normal course of business, the Company undertakes various transactions with other companies deemed related by virtue of being subsidiaries 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:

	2021	2020
	RM'000	RM'000
Expenses / (income)		
Non-trade		
Penultimate holding company/branch offices		
Reimbursement of staff costs	2,479	2,632
Reimbursement of expenses made on behalf	11	(1)
Subsidiaries of penultimate holding company		
Reimbursement of staff costs	3,661	2,972
Information technology expenses	1,368	1,413
Outsourcing expenses	4,780	7,168
Reimbursement of expenses made on behalf	7,154	8,135
Subsidiaries of immediate holding company		
Reimbursement of staff costs	4	(90)
Outsourcing income	(24,910)	(30,223)
Reimbursement of expenses made on behalf	(8,427)	(5,187)
Trade		
Penultimate holding company/branch offices		
Reinsurance premium paid	35,421	17,134
Reinsurance commission received	(10,748)	(2,228)
Reinsurance claims recovered	(16,731)	(20,729)
Subsidiaries of immediate holding company		
Reinsurance premium received	(2,253)	-
Reinsurance commission paid	508	-
Reinsurance claims paid	890	-

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Related party balances

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

	2021 RM'000	2020 RM'000
Amount due from related companies:		
Other receivables*	4,446	4,075
Amount due to related companies:		
Insurance payables**	(24,563)	(29,817)
Other payables*	(790)	(3,560)

* These balances are unsecured, interest-free and repayable in the short-term.
** This balance is unsecured, interest-free and payable in accordance with the relevant insurance contracts.

(d) Key management personnel's remuneration

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

	2021 RM'000	2020 RM'000
Salaries, other short-term employee benefits and directors' emoluments	9,491	11,727
Defined contribution plans	2,122	1,695
Share-based payments/benefits	1,195	2,038
	12,808	15,460
Included in the total key management personnel is the CEO's remuneration / Directors' emoluments (Note 25(a))	5,158	6,459

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 Directors, 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 Chief Executive Officer of the Company amounted to RM35,000 (2020: RM31,000).

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

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.

32. RISK MANAGEMENT FRAMEWORK

Risk Governance Structure

The Company adopts the three lines of defence model approach to governance and enterprise risk management. The Company's risk governance structure and risk reporting requirements 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 a 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 the senior management team.

They are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposures 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.

32. 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 2021.

The regulated capital of the Company as at 31 December 2021 comprised of Available Capital of RM546,280,000 (2020: RM504,148,000).

The capital structure of the Company as at 31 December 2021, as prescribed under the RBC Framework, is shown below:

	2021 RM'000	2020 RM'000
Tier 1 Capital		
Paid-up share capital	100,000	100,000
Reserves, including retained earnings	508,804	417,409
	608,804	517,409
Tier 2 Capital		
Available-for-sale reserve	(13,363)	26,484
Less:		
Deductions		
Intangible asset	(32,889)	(35,555)
Deferred tax assets	(16,272)	(4,190)
	(49,161)	(39,745)
Total Capital Available	546,280	504,148

33. INSURANCE RISK

The Company underwrites various general insurance contracts, which are mostly on annual coverage and annual premium basis, the exception being short term policies such as Travellers' Personal Accident and Marine Cargo which covers the duration in which the cargo is being transported. The Company also underwrites some non-annual policies with coverage period of more than one year such as Contractor's All Risks and Workmen's Compensation. 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 reinsurers. 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 and monitoring premium and claims patterns. Historical experience and actuarial methods are used as part of the process.

33. INSURANCE RISK (CONTINUED)

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

	2021			2020		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fire	154,468	(91,606)	62,862	59,175	(30,413)	28,762
Motor	652,843	(15,383)	637,460	510,221	(11,768)	498,453
Marine, Aviation and Transit	22,539	(12,443)	10,096	13,217	(7,083)	6,134
Miscellaneous	303,669	(231,621)	72,048	199,468	(144,236)	55,232
At 31 December	1,133,519	(351,053)	782,466	782,081	(193,500)	588,581

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 circumstances which may affect the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

33. INSURANCE RISK (CONTINUED)

Sensitivities

The insurance claim 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 movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity, which is presented post tax. The correlation among assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. A change in assumptions in the opposite direction is expected to have an equal but opposite impact on gross and net claim liabilities, profit before tax and equity.

	Change in assumptions	Impact on gross claim liabilities	Impact on net claim liabilities	Impact on profit before tax	Impact on equity
		RM'000	RM'000	RM'000	RM'000
		< -------------------Increase / (decrease)-------------------- >			
31 December 2021					
Average claim cost	+10%	97,145	63,352	(63,352)	(48,148)
Average number of claims	+10%	78,302	49,430	(49,430)	(37,567)
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)

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.

33. INSURANCE RISK (CONTINUED)

Gross General Insurance Claim Liabilities for 2021:

	Prior to 2015 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	2021 RM'000	Total RM'000
Accident Year:									
At end of the accident year		295,848	331,565	362,269	399,200	463,977	483,599	668,682	
One year later		292,121	343,585	343,203	384,172	466,530	458,707		
Two years later		287,165	342,385	342,467	384,430	489,864			
Three years later		284,440	341,717	341,606	385,654				
Four years later		285,401	343,156	339,423					
Five years later		284,411	345,651						
Six years later		282,062							
Current estimate of cumulative claims incurred		282,062	345,651	339,423	385,654	489,864	458,707	668,682	
At end of accident year		106,374	129,917	136,036	135,444	178,803	138,121	134,119	
One year later		206,290	239,438	232,395	240,346	294,605	220,061		
Two years later		242,996	286,746	275,228	305,345	361,350			
Three years later		260,016	303,077	304,344	332,537				
Four years later		266,722	314,962	312,831					
Five years later		272,051	320,394						
Six years later		273,973							
Cumulative payments to-date		273,973	320,394	312,831	332,537	361,350	220,061	134,119	
Direct and facultative inwards	17,294	8,089	25,257	26,592	53,117	128,514	238,646	534,563	1,032,072
Treaty inwards									347
MMIP									19,512
Best Estimate of Claim Liabilities									1,051,931
Claim Handling Expenses									18,859
Fund PRAD at 75% Confidence Level									62,729
Gross General Insurance Claim Liabilities									1,133,519

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. INSURANCE RISK (CONTINUED)

Net General Insurance Claim Liabilities for 2021:

	Prior to 2015 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	2021 RM'000	Total RM'000
Accident Year:									
At end of the accident year		273,974	294,600	299,695	327,267	378,102	401,488	495,167	
One year later		270,616	291,877	295,480	327,972	390,944	376,423		
Two years later		265,892	294,797	300,243	332,692	413,079			
Three years later		265,706	295,222	302,187	336,987				
Four years later		266,063	296,061	300,780					
Five years later		265,366	295,802						
Six years later		262,528							
Current estimate of cumulative claims incurred		262,528	295,802	300,780	336,987	413,079	376,423	495,167	
At end of accident year		102,869	121,786	124,359	127,652	157,175	132,529	129,055	
One year later		197,328	218,725	208,314	218,818	265,841	210,469		
Two years later		231,243	256,657	246,481	269,375	319,833			
Three years later		246,104	271,065	271,872	294,864				
Four years later		251,314	280,542	279,456					
Five years later		255,483	283,699						
Six years later		256,453							
Cumulative payments to-date		256,453	283,699	279,456	294,864	319,833	210,469	129,055	
Direct and facultative inwards	4,222	6,075	12,103	21,324	42,123	93,246	165,954	366,112	711,159
Treaty inwards									347
MMIP									19,512
Best Estimate of Claim Liabilities									731,018
Claim Handling Expenses									18,859
Fund PRAD at 75% Confidence Level									32,589
Net General Insurance Claim Liabilities									782,466

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. INSURANCE RISK (CONTINUED)

Gross General Insurance Claim Liabilities for 2020:

	Prior to 2014	2014	2015	2016	2017	2018	2019	2020	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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

ZURICH GENERAL INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. INSURANCE RISK (CONTINUED)

Net General Insurance Claim Liabilities for 2020:

	Prior to 2014 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

34. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and fair value hierarchy

The Company classifies fair value measurement using a fair value hierarchy that reflects the significance 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 and investment in unit and property trusts with fair values obtained via investment bankers and/or fund managers. 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.

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. Examples of main asset classes in this category include unquoted equity securities, un-rated securities, 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 views about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company’s own data and judgements.

34. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2021				
AFS financial assets:				
- Real estate investment trusts	80,625	-	-	80,625
- Unit trusts	1,602,296	-	-	1,602,296
	1,682,921	-	-	1,682,921
Non-financial assets:				
Non-current assets classified as held-for-sale	-	-	3,116	3,116
	1,682,921	-	3,116	1,686,037
31 December 2020				
AFS financial assets:				
- Real estate investment trusts	84,688	-	-	84,688
- Unit trusts	1,503,750	-	-	1,503,750
	1,588,438	-	-	1,588,438
Non-financial asset:				
Non-current assets classified as held-for-sale	-	-	3,416	3,416
	1,588,438	-	3,416	1,591,854

(b) 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 2021 and 2020 for recurring fair value measurements:

	AFS RM'000	Non-current asset classified as held-for-sale RM'000
At 1 January 2020	970	6,846
Fair value loss recorded in statement of profit or loss	(970)	(3,430)
At 31 December 2020	-	3,416
Disposal	-	(300)
At 31 December 2021	-	3,116

35. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and other similar arrangements 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 2021			
Financial assets:			
Insurance receivables	72,418	(9,740)	62,678
Financial liabilities:			
Insurance payables	137,862	(9,740)	128,122
31 December 2020			
Financial assets:			
Insurance receivables	65,771	(5,133)	60,638
Financial liabilities:			
Insurance payables	110,389	(5,133)	105,256

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 2021 (2020: RM nil).

36. FINANCIAL RISK

The Company is exposed to financial risks, including credit risk, liquidity risk, market risk and operational risk during the normal course of its business. The Company has 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.

36. 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 Company; and
iii) Receivables within the business, where the Company is owed payment or services by a third party. Most typically this arises from a sale of insurance policies.

Minimum credit quality applies to investments in private debt securities/bonds with a minimum rating of A- or 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 also depends 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	2021	2020
		RM'000	RM'000
Reinsurance assets	9	418,031	256,736
Insurance receivables	10	62,678	60,638
Loans and receivables*		51,576	51,403
Cash and cash equivalents		126,744	46,652
		659,029	415,429

* Excludes prepayment of RM1,097,000 (2020: RM1,444,000).

36. 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 2021						
Reinsurance assets	405,886	1	12,144	-	-	418,031
Insurance receivables						
- Gross	332	-	53,477	8,869	7,825	70,503
- Allowance for impairment	-	-	-	-	(7,825)	(7,825)
Loans and receivables						
- Gross	-	-	51,576	-	37	51,613
- Allowance for impairment	-	-	-	-	(37)	(37)
Cash and cash equivalents	126,744	-	-	-	-	126,744
	532,962	1	117,197	8,869	-	652,029

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. (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 2020						
Reinsurance assets	242,556	1	14,179	-	-	256,736
Insurance receivables						
- Gross	1,342	-	44,026	15,270	10,711	71,349
- Allowance for impairment	-	-	-	-	(10,711)	(10,711)
Loans and receivables						
- Gross	-	-	51,403	-	38	51,441
- Allowance for impairment	-	-	-	-	(38)	(38)
Cash and cash equivalents	46,652	-	-	-	-	46,652
	290,550	1	109,608	15,270	-	415,429

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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

	AAA to AA	A1 to A3	BBB1 to BBB3	BB and below	Not rated	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2021							
Reinsurance assets	345,303	60,563	20	1	12,144	-	418,031
Insurance receivables							
- Gross	132	166	-	-	62,380	7,825	70,503
- Allowance for impairment	-	-	-	-	-	(7,825)	(7,825)
Loans and receivables							
- Gross	-	-	-	-	51,576	37	51,613
- Allowance for impairment	-	-	-	-	-	(37)	(37)
Cash and cash equivalents	126,744	-	-	-	-	-	126,744
	472,179	60,729	20	1	126,100	-	659,029

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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

	AAA to AA RM'000	A1 to A3 RM'000	BBB1 to BBB3 RM'000	BB and below RM'000	Not rated RM'000	Impaired RM'000	Total RM'000
31 December 2020							
Reinsurance assets	206,146	36,388	22	1	14,179	-	256,736
Insurance receivables							
- Gross	1,527	81	-	-	59,030	10,711	71,349
- Allowance for impairment	-	-	-	-	-	(10,711)	(10,711)
Loans and receivables							
- Gross	-	-	-	-	51,403	38	51,441
- Allowance for impairment	-	-	-	-	-	(38)	(38)
Cash and cash equivalents	46,652	-	-	-	-	-	46,652
	254,325	36,469	22	1	124,612	-	415,429

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

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

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 2021					
Insurance receivables	3,786	4,571	512	-	8,869
31 December 2020					
Insurance receivables	3,344	7,402	4,524	-	15,270

Impaired Financial Assets

At 31 December 2021, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM7,825,000 (2020: RM10,711,000). 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 a separate “allowance for impairment” account.

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

	2021	2020
	RM'000	RM'000
At 1 January	10,711	8,729
Individual impairment (write-back)/allowance	(3,179)	1,959
Collective impairment allowance	293	23
At 31 December	7,825	10,711

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

As at 31 December 2021, the Company has recorded a total impairment allowance of RM4,850,000 (2020: RM4,850,000) on investments in corporate debt securities in accordance to the Company’s accounting policy as disclosed in Note 2.2(m) to the financial statements.

36. FINANCIAL RISK (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 losses should claims events exceed a certain amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile

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

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Premium liabilities and the reinsurance's share of premium liabilities have been excluded from the analysis.

	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 2021							
Financial assets:							
AFS financial assets	1,682,921	-	-	-	-	1,682,921	1,682,921
Reinsurance assets	351,053	217,813	110,247	21,866	1,127	-	351,053
Insurance receivables	62,678	62,678	-	-	-	-	62,678
Loans and other receivables	51,576	51,576	-	-	-	-	51,576
Cash and cash equivalents	126,744	126,744	-	-	-	-	126,744
	2,274,972	458,811	110,247	21,866	1,127	1,682,921	2,274,972
Financial liabilities:							
Insurance contract liabilities	1,133,519	660,121	390,408	75,854	7,136	-	1,133,519
Lease liabilities	6,454	4,149	2,173	197	195	-	6,714
Other liabilities	147,053	145,550	1,456	47	-	-	147,053
Insurance payables	128,122	128,122	-	-	-	-	128,122
	1,415,148	937,942	394,037	76,098	7,331	-	1,415,408

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. 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 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	4,494	5,532	464	295	-	10,785
Other liabilities	190,773	147,928	42,635	210	-	-	190,773
Insurance payables	105,256	105,256	-	-	-	-	105,256
	1,088,365	727,878	312,290	44,487	4,240	-	1,088,895

36. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

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

	Current*	Non-current	Total
	RM'000	RM'000	RM'000
31 December 2021			
Property, plant and equipment	-	13,683	13,683
Right-of-use assets	-	6,372	6,372
Intangible assets	-	33,311	33,311
AFS financial assets	1,682,921	-	1,682,921
Reinsurance assets	217,813	200,218	418,031
Insurance receivables	62,678	-	62,678
Loans and other receivables	52,673	-	52,673
Tax recoverable	-	1,549	1,549
Deferred tax assets	-	15,853	15,853
Cash and cash equivalents	126,744	-	126,744
Non-current assets classified as held-for-sale	3,116	-	3,116
	2,145,945	270,986	2,416,931
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	1,488	1,475	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
	1,879,615	191,236	2,070,851

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

36. FINANCIAL RISK (CONTINUED)

Market Risk

Market risk is the risk of financial loss in the fair values of the Company's investments 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 and market prices (price risk).

The Company manages market risk through setting of investment policy and asset allocation, approving portfolio limit structures 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 settled and realised in less than a year. The impact arising from sensitivity in exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

(ii) **Interest Rates Risks**

Interest rate risk is part of market risk as any adverse movements in interest rates may affect the fair value of Company's investments and reinvestment issues to the Company. The ALMIC actively monitors such developments and discusses 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 the 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.

36. FINANCIAL RISK (CONTINUED)

Market Risk (continued)

(ii) **Interest Rates 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 2021, holding other variables constant.

	Impact on equity*	
	2021	**2020**
	RM'000	**RM'000**
Change in interest rates		
+ 50 basis point – (loss)	(23,032)	(23,379)
- 50 basis point – gain	23,810	24,451

* 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 the ALMIC. These investment guidelines include monitoring the equity exposure against benchmarks 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.

37. OPERATIONAL RISK

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

The Company has developed a comprehensive Standard Operating Procedures (“SOP”) to enable all relevant departments to implement measures to 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 a structured risk assessment process.

38. COMPLIANCE RISK

Compliance risk is the risk arising from violations of, or non-conformance with business principles, internal policies and procedures, related laws, rules and regulations issued by regulatory bodies 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 and 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 prescribed by the regulatorsi.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.

39. 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(ii)).

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”).

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

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"):

	Fair value at 31 December RM'000	Change in fair value RM'000	Results of the cash flows characteristics
31 December 2021			
Real estate investment trusts quoted in Malaysia	80,625	(4,643)	Non-SPPI
Unit trusts unquoted in Malaysia	1,602,296	(47,788)	Non-SPPI
Loans and receivables*	51,576	-	SPPI
Cash and cash equivalents	126,744	-	SPPI
	1,861,241	(52,431)	
31 December 2020			
Real estate investment trusts quoted in Malaysia	84,688	(5,715)	Non-SPPI
Unit trusts unquoted in Malaysia	1,503,750	6,836	Non-SPPI
Loans and receivables*	51,403	-	SPPI
Cash and cash equivalents	46,652	-	SPPI
	1,686,493	1,121	

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

* Excludes prepayment of RM1,097,000 (2020: RM1,444,000).

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