

PROGRESSIVE INSURANCE BHD
197401001891 (19002-P)
(Incorporated in Malaysia)

**Directors' Report and Audited Financial Statements
31 December 2019**

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

CORPORATE INFORMATION

DIRECTORS

Datuk Wong Poh Loon (Chairman)	(Appointed on 2 April 2019)
Tuan Haji Mohamed Rifai Bin Mohd Razi	
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	
Paul Chong Thian Soo	(Appointed on 13 March 2019)
Chee Shok Ting	(Appointed on 26 September 2019)
Datuk Datu Harun Bin Datu Mansor, JP (Chairman)	(Tenure expired on 23 April 2019)
Datuk Francis Lai @ Lai Vun Sen	(Tenure expired on 1 September 2019)
Datuk Siau Wui Kee	(Tenure expired on 31 July 2019)
Datuk Janice Lim Fung Ha	(Resigned on 1 April 2019)

SECRETARY

Leong Pang Cheung

REGISTERED OFFICE

7th Floor,
Wisma Perkasa, Jalan Gaya
88845 Kota Kinabalu
Sabah

PRINCIPAL PLACE OF BUSINESS

6th, 9th and 10th Floor
Menara Cosway, Plaza Berjaya
No. 12, Jalan Imbi
55100 Kuala Lumpur

DOMICILE : MALAYSIA

AUDITORS

Messrs Ernst & Young PLT
Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur

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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the Company is the underwriting of all classes of general insurance business.

The principal activities of the subsidiaries, which are wholesale unit trust funds, are as disclosed in Note 5(c) to the financial statements.

There has been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

The results of the operations of the Group and of the Company for the year ended 31 December 2019 are as follows:

	Group RM	Company RM
Net profit for the year	<u>25,664,823</u>	<u>21,811,517</u>
Attributable to:		
Equity holders of the Company	25,400,460	
Non-controlling interest	<u>264,363</u>	
	<u><u>25,664,823</u></u>	

RESERVES AND PROVISIONS

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

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DIVIDENDS

The amount of dividends declared and paid by the Company since the end of the previous financial year is as follows:

Company RM
In respect of financial year ended 31 December 2018 and as reported in the Director's report of that year:
Final single tier dividend of 3.52% on 100,000,000 ordinary shares declared and paid on 24 June 2019.
<u>3,520,000</u>

INSURANCE CONTRACT LIABILITIES

Before the statements of financial position, income statements and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance contract liabilities in accordance with the valuation methods prescribed in the Risk Based Capital ("RBC") Framework for Insurers issued by Bank Negara Malaysia ("BNM").

IMPAIRED DEBTS

Before the statements of financial position, income statements and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of impaired debts and the making of impairment allowance for impaired debts and satisfied themselves that all known impaired debts had been written off and that adequate allowance had been made for impaired debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for impaired debts or the amount of the impairment allowance for impaired debts in the financial statements of the Group and of the Company inadequate to any substantial extent.

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CURRENT ASSETS

Before the statements of financial position, income statements and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps to ascertain 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 their recoverable amount.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

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

CONTINGENT LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

In the opinion of the Directors, 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 Group and of the Company to meet their obligations as and when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Group and of the Company.

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SIGNIFICANT AND SUBSEQUENT EVENTS

With the recent and rapid development of the coronavirus outbreak in Malaysia, the government issued a Movement Control Order ("MCO") from 18 March 2020 to 31 March 2020. This has now been extended to 9 June 2020 under the Conditional MCO.

The MCO involved limitation and/or suspension of business operations, travel restrictions and quarantine measures. Further to this, the government has also introduced economic stimulus plans with a view to help the rakyat to weather the uncertainties brought about by these unprecedented events.

Whilst the measures taken may not as yet, have an immediate and pronounced impact on the insurance industry in particular, it is expected that there may be a knock-on effect on the business operations and performance of the Company in the coming financial year. It is, however, challenging to predict the extent of these impacts at this juncture.

Management has put in place measures to mitigate the any potential knock-on effect of MCO and the current pandemic.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

In the opinion of the Directors, 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 Group and of the Company for the financial year in which this report is made.

ISSUE OF SHARES

There were no changes in the issued and paid-up capital of the Company during the financial year.

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DIRECTORS AND THEIR INTERESTS IN SHARES

Directors who served since the beginning of the financial year to the date of this report are:

Datuk Wong Poh Loon (Chairman)	(Appointed on 2 April 2019)
Tuan Haji Mohamed Rifai Bin Mohd Razi	
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	
Paul Chong Thian Soo	(Appointed on 13 March 2019)
Chee Shok Ting	(Appointed on 26 September 2019)
Datuk Datu Harun Bin Datu Mansor, JP (Chairman)	(Tenure expired on 23 April 2019)
Datuk Francis Lai @ Lai Vun Sen	(Tenure expired on 1 September 2019)
Datuk Siau Wui Kee	(Tenure expired on 31 July 2019)
Datuk Janice Lim Fung Ha	(Resigned on 1 April 2019)

Tuan Haji Mohamed Rifai Bin Mohd Razi and Chee Shok Ting retire pursuant to Article 76 and 81B of the constitution of the Company respectively at the next Annual General Meeting, and being eligible, offer themselves for re-election.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefits (other than benefits included in the aggregate amount of emoluments and fees received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Notes 19(a), 19(b), 19(c) and 28(b) to the financial statements) by reason of a contract made by the Company or a related company 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.

There were no arrangements during and at the end of the year to which the Group and the Company was a party, whereby the Directors of the Company might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

During the financial year, the Company has maintained a Directors and Officers Liability ("D&O") Insurance for the Directors and the Officers of the Company with premium paid of approximately RM49,565 for an aggregate limit of RM25 million against any legal liability incurred by the Directors and Officers while discharging their duties.

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AUDITORS AND AUDITORS' REMUNERATION

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

The auditors' remuneration are disclosed in Note 19 to the financial statements.

Signed on behalf of the Board
in accordance with a resolution
of the Directors dated 12 May 2020



DATUK WONG POH LOON

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DIRECTORS



PAUL CHONG THIAN SOO

PROGRESSIVE INSURANCE BHD
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CORPORATE GOVERNANCE STATEMENT

BOARD RESPONSIBILITY AND OVERSIGHT

The Board has the full responsibility of leading the Company and providing strategic direction in terms of setting corporate objectives and business strategies for the Company and discharges its responsibility through compliance with the prescriptive requirements of and adopting practice standards advocated in BNM/RH/PD 029-9: *Corporate Governance*.

Board Meetings

Seven (7) Board meetings were held during the year and the number of meetings attended by each Director were as follows:

Director		No. of Board Meetings Attended	Attendance at AGM
Datuk Wong Poh Loon (Appointed on 2 April 2019)	Chairman - Non-executive (Independent)	6/6	Yes
Tuan Haji Mohamed Rifai Bin Mohd Razi	Non-executive (Independent)	7/7	Yes
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Non-executive (Independent)	7/7	Yes
Paul Chong Thian Soo (Appointed on 13 March 2019)	Non-executive (Independent)	7/7	Yes
Chee Shok Ting (Appointed on 26 September 2019)	Non-executive	1/3	No
Datuk Datu Harun Bin Datu Mansor, JP (Tenure expired on 23 April 2019)	Chairman - Non-executive	1/1	No
Datuk Francis Lai @ Lai Vun Sen (Tenure expired on 1 September 2019)	Executive	4/4	Yes
Datuk Siau Wui Kee (Tenure expired on 31 July 2019)	Non-executive	3/3	Yes
Datuk Janice Lim Fung Ha (Resigned on 1 April 2019)	Non-executive	0/1	No

As at the date of this report, the Board comprises five (5) non-executive Directors and one (1) executive Director, of which four (4) are independent. The Board consists mainly of non-executive Directors which have enhanced the Board's objectivity and enabled it to effectively discharge its oversight function.

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BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

Board Meetings (Cont'd.)

The Board members are from diverse backgrounds with a mix of financial, technical, legal and business expertise and have the necessary depth of experience to deliberate on issues regarding strategy, monitoring of performance, succession and resources planning, formalisation of policies on issues specifically reserved for its decision and ensuring that the Group's internal controls and procedures are adequate. All Directors comply with the prescribed limit of other directorships held.

The position of the Chairman of the Board without executive responsibilities has ensured a balance of power and authority. The non-executive Directors are independent of management and do not participate in the day to day management of the Company.

The independent Directors fulfil their roles of corporate accountability and the following Committees were established to assist the Board in the discharge of its duties. The activities and members of the relevant Committees are as follows:

Audit Committee (formerly known as Audit and Examination Committee)

The activities of the Audit Committee ("AC") are governed by its terms of reference that were approved by the Board. The Committee, comprising non-executive members, meets regularly and a total of five (5) meetings were held during the year ended 31 December 2019. The Committee reviews the Annual Financial Statements of the Group and the Company tabled to the Board for approval and the adequacy and effectiveness of internal control systems and performs any other functions as advised by the Board.

The Internal Audit Department ("IAD") assists the AC in the discharge of its duties and responsibilities and, amongst others, reports on the Group's management, records, accounting policies and controls.

Note: The IAD's findings and recommendations are communicated to the Board. During the year, seven (7) full audits were presented to the AC in 2019.

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BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

Audit Committee (formerly known as Audit and Examination Committee) (Cont'd.)

Members		Meetings Attended
Paul Chong Thian Soo (Effective 13 March 2019)	Chairman - Non-executive (Independent)	3/3
Tuan Haji Mohamed Rifai Bin Mohd Razi	Non-executive (Independent)	5/5
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Non-executive (Independent)	5/5
Datuk Siau Wui Kee (Tenure expired on 31 July 2019)	Non-executive	3/3

Risk Management Committee

The Committee assists the Board in the management of major and material risks including addressing new risks that can affect the financial condition and performance of the Group and the Company. The Committee continues to enhance its enterprise-wide risk management framework to identify, evaluate and manage risks by identifying all major risks in critical areas of operations, assessing the possible impact of significant exposures and the risk mitigation measures taken.

Members		Meetings Attended
Tuan Haji Mohamed Rifai Bin Mohd Razi	Chairman - Non-executive (Independent)	4/4
Datuk Wong Poh Loon	Non-executive (Independent)	3/3
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Non-executive (Independent)	4/4
Paul Chong Thian Soo	Non-executive (Independent)	3/3
Datuk Datu Harun Bin Datu Mansor, JP (Tenure expired on 23 April 2019)	Non-executive	1/1
Datuk Siau Wui Kee (Tenure expired on 31 July 2019)	Non-executive	2/2

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BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

Remuneration Committee (formerly known as Establishment Committee)

The Committee, comprising non-executive members, reviews the remuneration package and other benefits applicable to the executive Director, management and staff on an annual basis and makes recommendations to the Board. The Committee is working towards achieving a remuneration package linking reward to performance and the level of responsibilities undertaken.

Members		Meetings Attended
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin (Effective 13 March 2019)	Chariman - Non-executive (Independent)	2/2
Datuk Wong Poh Loon	Non-executive (Independent)	1/1
Tuan Haji Mohamed Rifai Bin Mohd Razi	Non-executive (Independent)	2/2
Datuk Siau Wui Kee (Tenure expired on 31 July 2019)	Non-executive	1/1
Datuk Janice Lim Fung Ha (Resigned on 1 April 2019)	Non-executive	0/1

Nominating Committee

The Committee has responsibilities of assessing and recommending nominees for directorship including re-appointments and establishing a mechanism for formal assessment on the effectiveness and contribution of the Board as a whole, Board Committees, individual Directors and the performance of the Chief Executive Officer. The Committee reviews and recommends these to the Board. The Committee ensures the adequacy of balance between executives and non-executives and overall composition of the Board and Board Committees including appropriate size, required mix of skills, experience and core competencies. The Committee members are from various academic backgrounds and with extensive experience in both the government and private sectors.

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BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

Nominating Committee (Cont'd.)

Members		Meetings Attended
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Chariman - Non-executive (Independent)	4/4
Datuk Wong Poh Loon	Non-executive (Independent)	3/3
Tuan Haji Mohamed Rifai Bin Mohd Razi	Non-executive (Independent)	4/4
Paul Chong Thian Soo	Non-executive (Independent)	3/3
Chee Shok Ting	Non-executive	0/0
Datuk Datu Harun Bin Datu Mansor, JP (Tenure expired on 23 April 2019)	Non-executive	1/2
Datuk Janice Lim Fung Ha (Resigned on 1 April 2019)	Non-executive	1/1

MANAGEMENT ACCOUNTABILITY

The Company has in place a documented and updated organisation structure with clear reporting lines and job descriptions for management and executive employees. In addition, there are also well documented policies and procedures in the operating manuals for all major functions within the Company. Monthly executive committee and departmental/branch meetings are held for better communication amongst the senior management team and employees on the affairs and operations of the Company.

CORPORATE INDEPENDENCE

Related party transactions, if any, are disclosed to the Board and these transactions are on terms and conditions no more favourable than those available on similar transactions to the Company's other customers.

PUBLIC ACCOUNTABILITY

The Company upholds the principles of good business practices and ensures that dealings with the public are conducted fairly, honestly, and professionally. The Company has in place a system to handle public complaints and grievances, and the information on the avenue for further recourse against unfair practices is disclosed to the insureds.

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CORPORATE GOVERNANCE

The Board of Directors fully appreciate the importance of and is committed to the principles of good corporate governance and is responsible to ensure that the highest standards of corporate governance are observed and that the affairs of the Group and of the Company are conducted with professionalism and with the objective of safeguarding policyholders' interests, shareholders' investments and meeting the obligations owed to other stakeholders.

The Company has complied with the prescriptive requirements of BNM/RH/PD 029-9: *Corporate Governance* issued by Bank Negara Malaysia ("BNM") and adopted management practices that are consistent with the best practise standards advocated in the Policy Document.

Board of Directors' Profile

Datuk Wong Poh Loon (Appointed on 2 April 2019)

Chairman

- Holds a Bachelor of Arts (Economics) Honours degree from University of Malaya.
- Holds a Master of Business Administration (MBA) from Heriot Watt University at Edinburgh Scotland.
- A career civil servant and served the State Government of Sabah for 36 years from 1976 to 2012 in various senior positions in State Ministry of Finance and Chief Minister's Department before her retirement as Deputy Director, State Economic Planning Unit.

Tuan Haji Mohamed Rifai Bin Mohd Razi

- Holds a Bachelor of Science (Physics) degree from University Kebangsaan Malaysia.
- Holds an MBA from University Tun Abdul Razak, Malaysia.
- Associate in Risk Management with the American Institute for Chartered Property Casualty Underwriters in USA.
- Associate of the Chartered Insurance Institute, UK.
- Present Position: Director of Malaysia Digital Economy Corporation (MDEC) Sdn Bhd.
- Appointed to the Board of Progressive Insurance Bhd on 28 May 2014.

Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin

- Graduated with LLB (Hons) degree from the University of Buckingham, England in 1980.
- Admitted into the Honourable Society of Lincoln's Inn and was called to the Degree of Utter Barrister in 1981.
- Admitted as Advocate in the High Court in Borneo at Kota Kinabalu in 1982.
- Appointed to the Board of Progressive Insurance Bhd on 7 July 2015.

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CORPORATE GOVERNANCE (CONT'D.)

Board of Directors' Profile (Cont'd.)

Paul Chong Thian Soo (Appointed on 13 March 2019)

- Holds a MBA degree from Charles Sturt University at Australia.
- Professional members of the Malaysian Institute of Accountants (MIA), Malaysian Institute of Corporate Governance (MICG) and The Institute of Internal Auditors Malaysia (IIAM).
- Fellow member of the Association of Chartered Certified Accountants (ACCA).
- Served previously with Messrs. Ernst & Young for 15 years, 3 years in the investment arm of the Sabah Foundation and more than 8 years as a freelance Corporate Advisor.

Chee Shok Ting (Appointed on 26 September 2019)

- Holds a Bachelor of Economic (Honors) degree from University Kebangsaan Malaysia.
- Presently serving Ministry of Finance of Sabah.
- Present position: Secretary of Finance and Economic Division.

Datuk Datu Harun Bin Datu Mansor, JP (Tenure expired on 23 April 2019)
Chairman

- Holds a Bachelor of Law (Hons) from University of Kent at Canterbury, UK.
- Formerly served on the Board of Syarikat Perumahan Negara and Usahasama SPNB LTAT (Chairman).
- Appointed to the Board and as Chairman of Progressive Insurance Bhd on 4 September 2003.

Datuk Francis Lai @ Lai Vun Sen (Tenure expired on 1 September 2019)

- Chief Executive Officer of Progressive Insurance Bhd.
- With 46 plus years of experience in the insurance industry.
- Appointed to the Board of Progressive Insurance Bhd on 3 September 2002.

Datuk Siau Wui Kee (Tenure expired on 31 July 2019)

- Holds a Bachelor of Commerce and Administration (Hons) from Victoria University of Wellington.
- Present Position: Chairman of Sabah Development Bank Berhad amongst others.
- Appointed to the Board of Progressive Insurance Bhd on 30 September 2002.

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CORPORATE GOVERNANCE (CONT'D.)

Board of Directors' Profile (Cont'd.)

Datuk Janice Lim Fung Ha (Resigned on 1 April 2019)

- Holds a Bachelor of Economics (Hons) from Manchester Polytechnic, UK, majoring in finance and investment.
- Presently serving with the Ministry of Finance, Sabah.
- Present Position: Senior Officer with MOF, Sabah.
- Appointed to the Board of Progressive Insurance Bhd on 23 July 2007.

Trainings and education

The Company ensures that the Directors are equipped with the relevant skills and updated knowledge to exert their roles in Board and Board Committees. Continuous professional development is provided to the Directors time to time by the Committees. The Company sends the Directors to talks, seminars or presentations by external professionals, consultants or Management on topics relevant to the insurance industry.

Trainings attended:

During the year, the following were among the trainings attended by the Directors:-

- FIDE Core - Insurance Programme (Module A)
- FIDE Core - Insurance Programme (Module B)
- IT Risk Management
- MFRS 17 - Overview and Implementation
- MFRS 17 - Breakfast Meeting

FINANCIAL REPORTING

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The Board receives regular financial and management reports and senior management receives monthly management reports to enable them to effectively monitor the performance and goals of the Company.

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INTERNAL CONTROLS AND OPERATIONAL RISK MANAGEMENT

The Directors acknowledge their responsibility over both the system of internal controls maintained by the Company and in reviewing its effectiveness. The scope of internal controls cover not only financial but also operational and compliance controls as well as business risk management.

The business risk management, other than insurance operations, includes treaty reinsurance programmes and half yearly stress tests to detect possible sources of vulnerability.

The Company continues to enhance its enterprise-wide risk management framework through the application of the corporate risk scorecard to proactively identify and manage risks effectively in order to achieve the Company's business objectives.

There are procedures in place for both internal and external auditors to report their findings and recommendations to the Board, the Audit and Examination Committee and Management. All aspects of the systems of internal controls are subject to regular review to ensure their adequacy and effectiveness.

REMUNERATION POLICY

The policy is applicable to all levels of employees in Progressive Insurance Bhd (“PIB”). The Remuneration Policy sets out the policies relating to the remuneration of employees.

PIB's remuneration philosophy is to:

- (1) Attract and retain competent employees to contribute to improve the performance and value of the Company.
- (2) Endeavour to encourage employees to perform their best by creating a good working environment that motivates high performance so that all employees can positively contribute to the strategy, vision, goals and values of the Company.
- (3) Provide a competitive total remuneration package for employees by benchmarking to the market and providing incentives which are commensurate with performance.
- (4) Align the best interests of the employees with the other stakeholders as the Company believes that the long term success of the Company is directly linked to the calibre of its employees.

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REMUNERATION POLICY (CONT'D.)

Remuneration Policy for Members of Board of Directors

(1) Fixed Remuneration

With the exception of the Chairman and the Executive Director as described below, Board members are currently not paid any fixed remuneration. However, all Board members are paid an attendance allowance per attendance (RM1,250 for Chairman and RM1,000 for Committee member) for each and every Board meeting or committee meeting that they attended.

(a) Chairman of the Board:

- (i) The Chairman of the Board is paid a fixed monthly allowance, currently at the rate of RM6,000 per month.
- (ii) The Chairman of the Board is also provided a fully-maintained company car with driver.

(b) Executive Director / Chief Executive Officer:

- (i) The Executive Director is also the Chief Executive Officer of PIB and he receives a monthly salary from the Company. He is also given other benefits normally accorded to a Chief Executive Officer of a company e.g. company car with driver.
- (ii) The Chief Executive Officer's remuneration and incentives are decided by the Board of Directors.

(2) Reimbursement of expenses

Expenses such as travel and accommodation relating to Board meetings and relevant trainings will be reimbursed in accordance with PIB's current policy.

(3) Annual financial rewards

The shareholders of PIB may, at their total and absolute discretion, give a once-off financial reward to members of the Board of Directors during the Annual General Meeting.

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REMUNERATION POLICY (CONT'D.)

Remuneration Policy For Employees

(1) The basis of employees remuneration

In determining a holistic approach to employee remuneration, the Company takes into consideration the following:

- The strategy and business objectives of the Company;
- Overall business performance and alignment to shareholder interests;
- The need to attract and retain skilled, qualified and competent employees to contribute to improvement of the performance and value of the Company;
- The prevailing job market conditions;
- Ensure that all employees are remunerated fairly;
- Ensuring that employees share in the success of the Company;
- Ensure that the correct governance frameworks are applied to all decisions and practices relating to remuneration throughout the Company; and
- The prevailing rate of the Consumer Price Index ("CPI").

(2) Short-term and variable incentives

Short-term incentives comprise the following:

(a) Contractual Bonus

All permanent and confirmed employees are eligible for Contractual Bonus. The Contractual Bonus is payable in December each year. Employees whose employment period is less than 12 months will be paid on a pro-rated basis.

(b) Performance Bonus

All permanent and confirmed employees are eligible to be considered for Performance Bonus. The quantum of Performance Bonus depends on the result of his/her annual appraisal and performance during the financial year.

(c) Annual salary increment

All permanent and confirmed employees are eligible for consideration for annual salary increment. The quantum of salary increment depends on the result of his/her annual appraisal and performance during the financial year.

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REMUNERATION POLICY (CONT'D.)

Remuneration Policy For Employees (Cont'd.)

(2) Short-term and variable incentives (Cont'd.)

(d) Promotion and upgrading

All permanent and confirmed employees are eligible for promotion and upgrading, depending on the result of their annual appraisal and also their individual performance during the year. Employees who are promoted or upgraded are normally given additional salary increment on top of their annual salary increment. Currently, the quantum of additional salary increment is not more than the employee's annual salary increment.

There are no other forms of variable remuneration offered other than cash.

(3) Long-term incentives ("LTI")

(a) Additional KWSP contribution by the Company

All employees of the Company are required by law to be a member/contributor of Kumpulan Wang Simpanan Pekerja ("KWSP"). Apart from KWSP, the Company do not provide any retirement benefits nor long-term performance remuneration to its employees. However the Company pays an additional amount of contribution ("excess contribution") over and above the statutory rates to the employee's KWSP accounts according to the number of years of service. The "excess contribution" is designed to keep and retain employees in the Company and ranges from 1% to 6% on top of the statutory rates.

(b) Long service award

In recognition of the loyalty of employees, PIB gives its employees a Long Service Award in the form of cash, ranging from RM500 to RM3,000.

There is no deferred remuneration in the Company.

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REMUNERATION POLICY (CONT'D.)

Governing structure of the remuneration policy

(1) Management level

As part of the business planning and operational budgeting cycle, the annual remuneration increases must be budgeted for. It shall be the responsibility of management to prepare the budget and to prepare the proposal for increase in employees' remuneration and incentives, to be tabled to the Remuneration Committee.

(2) Remuneration Committee

The decision and deliberation of the Remuneration Committee shall be tabled by way of recommendation to the Board for consideration and approval. The Remuneration Committee shall take into account the Remuneration Policy and any other relevant documents such as the Committee's Terms of Reference when considering matters before it.

The Remuneration Committee has full discretion in determining the appropriate remuneration policies and practices for the Company including, but not limited to, annual remuneration increases, performance bonuses and other incentives.

(3) Board of Directors

The Board of Directors, after taking into consideration proposals and recommendations from the Remuneration Committee, shall have the final decision on matters regarding remuneration policies in the Company.

Variation or Amendment to the Remuneration Policy

The Remuneration Policy is subject to review annually. However, any amendment to the Remuneration Policy must first be approved by the Remuneration Committee before the amendment is effective.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

REMUNERATION POLICY (CONT'D.)

Senior Management

All Executive Committee ("EXCO") members are defined as senior management, of which there are 14 officers in total. Senior Management received contractual bonuses for the financial year ended 31 December 2019 amounting to approximately RM979,180.

Total value of remuneration awards for Senior Management in 2019

	Unrestricted RM
Fixed remuneration	
- Cash-based	2,673,641
Variable remuneration	
- Cash-based	979,180
- Other	524,060
	4,176,881

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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

We, **Datuk Wong Poh Loon** and **Paul Chong Thian Soo**, being two of the Directors of **PROGRESSIVE INSURANCE BHD**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 27 to 145 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2019 and of their results and their cash flows for the year then ended.

Signed on behalf of the Board
in accordance with a resolution
of the Directors dated 12 May 2020



DATUK WONG POH LOON

)
)
)
)
)
)
)

DIRECTORS



PAUL CHONG THIAN SOO

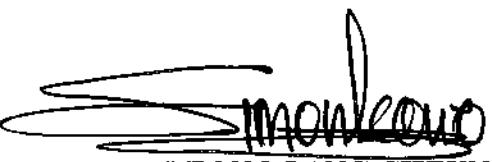
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PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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

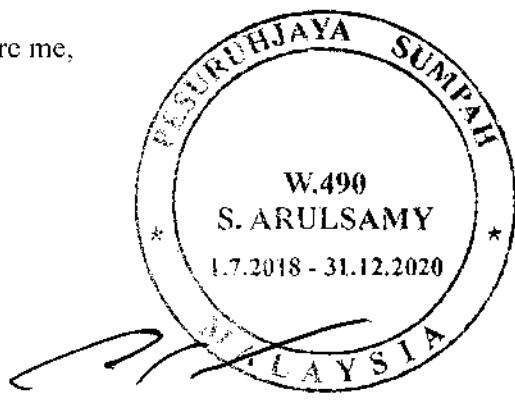
I, Leong Pang Cheung, being the officer primarily responsible for the financial management of **PROGRESSIVE INSURANCE BHD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 27 to 145 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by
the abovementioned **LEONG PANG CHEUNG**
at Kuala Lumpur in the Federal Territory
on 12 May 2020



LEONG PANG CHEUNG
MIA No. 2638

Before me,



16 - Tingkat Bawah Jalan Pudu.
55100 Kuala Lumpur.



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Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
SST ID: W10-2002-32000062
Chartered Accountants
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Pusat Bandar Damansara
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197401001891 (19002-P)

**Independent auditors' report to the members of
Progressive Insurance Bhd
(Incorporated in Malaysia)**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Progressive Insurance Bhd, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of 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 27 to 145.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of its financial performance and their 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 Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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 and the Corporate Governance Statement, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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



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197401001891 (19002-P)

**Independent auditors' report to the members of
Progressive Insurance Bhd (Cont'd.)
(Incorporated in Malaysia)**

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

In connection with our audit of the financial statements of the Group and 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 Group and 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 Group and 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 Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and 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 Group or 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 Group and 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.

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**Independent auditors' report to the members of
Progressive Insurance Bhd (Cont'd.)
(Incorporated in Malaysia)**

Auditor's 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 Group and 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 Group's and 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 Group's or 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 Group and 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 Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.



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197401001891 (19002-P)

**Independent auditors' report to the members of
Progressive Insurance Bhd (Cont'd.)
(Incorporated in Malaysia)**

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd.)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiary of which we have not acted as auditors, is disclosed in Note 4(c) to the financial statements.

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.

Ernst & Young PLT

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

Kuala Lumpur, Malaysia
12 May 2020

Ng Sue Ean

Ng Sue Ean
No. 03276/07/2020 J
Chartered Accountant

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
ASSETS					
Property and equipment	3	14,078,248	14,420,270	14,078,248	14,420,270
Right-of-use assets	4	3,857,092	-	3,857,092	-
Investments:		281,971,470	264,539,003	287,627,770	269,656,959
- Available-for-sale ("AFS") financial assets	5 (a)	73,231,366	72,626,719	200,371,782	195,986,407
- Financial assets at fair value through profit or loss ("FVTPL")	5 (b)	208,740,104	191,912,284	87,255,988	73,670,552
Reinsurance assets	6	109,646,647	72,620,688	109,646,647	72,620,688
Loans and other receivables	7	135,052,729	119,922,624	125,438,087	116,152,152
Tax recoverable		1,654,571	1,880,359	1,654,571	1,880,359
Deferred tax assets	8	-	1,703,949	-	1,703,949
Insurance receivables	9	16,192,623	15,833,075	16,192,623	15,833,075
Cash and bank balances		9,666,326	16,166,682	9,437,604	10,834,229
TOTAL ASSETS		572,119,706	507,086,650	567,932,642	503,101,681
EQUITY AND LIABILITIES					
Share capital	10	100,000,000	100,000,000	100,000,000	100,000,000
Reserves	11	170,954,396	147,617,709	171,008,821	147,630,899
		270,954,396	247,617,709	271,008,821	247,630,899
Non-controlling interests		4,148,301	3,906,312	-	-
TOTAL EQUITY		275,102,697	251,524,021	271,008,821	247,630,899

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (CONT'D.)

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Insurance contract liabilities	12	233,457,082	201,856,732	233,457,082	201,856,732
Deferred tax liabilities	8	1,001,097	-	1,001,097	-
Lease liabilities	13	4,240,713	-	4,240,713	-
Other financial liabilities	14	28,036,541	28,141,382	28,036,541	28,141,382
Insurance payables	15	15,176,685	19,991,308	15,176,685	19,991,308
Other payables	16	15,104,891	5,573,207	15,011,703	5,481,360
TOTAL LIABILITIES		<u>297,017,009</u>	<u>255,562,629</u>	<u>296,923,821</u>	<u>255,470,782</u>
TOTAL EQUITY AND LIABILITIES		<u>572,119,706</u>	<u>507,086,650</u>	<u>567,932,642</u>	<u>503,101,681</u>

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Gross written premiums	12(ii)	131,622,669	141,149,081	131,622,669	141,149,081
Change in unearned premiums		1,934,624	(6,234,912)	1,934,624	(6,234,912)
Gross earned premiums	12(ii)	<u>133,557,293</u>	<u>134,914,169</u>	<u>133,557,293</u>	<u>134,914,169</u>
 Gross written premiums ceded to reinsurers	12(ii)	(75,407,300)	(81,185,439)	(75,407,300)	(81,185,439)
Change in unearned premiums		2,208,401	8,099,722	2,208,401	8,099,722
Earned premiums ceded to reinsurers	12(ii)	<u>(73,198,899)</u>	<u>(73,085,717)</u>	<u>(73,198,899)</u>	<u>(73,085,717)</u>
 Net earned premiums		<u>60,358,394</u>	<u>61,828,452</u>	<u>60,358,394</u>	<u>61,828,452</u>
Investment income, net	18	13,873,921	13,241,524	13,161,321	12,746,271
Realised gains	20	7,547,162	4,954,135	7,379,407	4,970,313
Fair value gains and losses	21	14,106,669	(17,181,418)	10,721,292	(17,495,037)
Commission income		15,009,033	16,790,108	15,009,033	16,790,108
Other operating income	22	<u>6,682,320</u>	<u>4,483,210</u>	<u>6,682,320</u>	<u>4,480,710</u>
 Other income		<u>57,219,105</u>	<u>22,287,559</u>	<u>52,953,373</u>	<u>21,492,365</u>
 Gross claims paid	23	(45,983,904)	(74,653,885)	(45,983,904)	(74,653,885)
Claims ceded to reinsurers	23	10,218,570	29,849,012	10,218,570	29,849,012
Gross change in contract liabilities	23	(33,534,974)	35,585,577	(33,534,974)	35,585,577
Change in contract liabilities ceded to reinsurers	23	<u>34,817,558</u>	<u>(15,294,641)</u>	<u>34,817,558</u>	<u>(15,294,641)</u>
 Net claims incurred	23	<u>(34,482,750)</u>	<u>(24,513,937)</u>	<u>(34,482,750)</u>	<u>(24,513,937)</u>
 Commission expenses		(15,721,163)	(17,339,773)	(15,721,163)	(17,339,773)
Management expenses					
- General fund	19	(35,491,840)	(34,722,966)	(35,079,414)	(34,294,452)
- Shareholders' fund		(417,244)	(295,369)	(417,244)	(295,369)
 Other expenses		<u>(51,630,247)</u>	<u>(52,358,108)</u>	<u>(51,217,821)</u>	<u>(51,929,594)</u>

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONT'D.)

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Profit before taxation		31,464,502	7,243,966	27,611,196	6,877,286
Taxation	24	(5,799,679)	174,619	(5,799,679)	174,619
Net profit for the year		<u>25,664,823</u>	<u>7,418,585</u>	<u>21,811,517</u>	<u>7,051,905</u>
Earnings per ordinary share (sen) - basic and diluted	25	<u>25.7</u>	<u>7.4</u>		
Net profit for the year attributable to:					
Equity holders of the Company		25,400,460	7,242,702		
Non-controlling interests		<u>264,363</u>	<u>175,883</u>		
		<u>25,664,823</u>	<u>7,418,585</u>		

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

Note	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Net profit for the year	25,664,823	7,418,585	21,811,517	7,051,905
Other comprehensive income/(loss)				
<u>Items that may be reclassified to income statements in subsequent periods:</u>				
Fair value changes on AFS financial assets:				
Gains on fair value changes	2,014,758	609,186	5,758,129	923,462
Transferred to profit or loss upon disposal	-	-	(113,193)	(170,222)
Deferred tax	(242,903)	384	(242,903)	384
Other comprehensive income for the year, net of tax	<u>1,771,855</u>	<u>609,570</u>	<u>5,402,033</u>	<u>753,624</u>
Total comprehensive income for the year	<u>27,436,678</u>	<u>8,028,155</u>	<u>27,213,550</u>	<u>7,805,529</u>
Total comprehensive income for the year attributable to:				
Equity holders of the Company	27,172,315	7,852,272	27,213,550	7,805,529
Non-controlling interests	264,363	175,883	-	-
	<u>27,436,678</u>	<u>8,028,155</u>	<u>27,213,550</u>	<u>7,805,529</u>

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Group

Attributable to owners of the Company
Non-distributable **Distributable**

	Property				Total RM	Non- controlling interests RM	Total RM
	Share capital RM (Note 10)	revaluation reserve RM (Note 11)	AFS reserve RM (Note 11)	Retained earnings RM (Note 11)			
At 1 January 2018	100,000,000	6,159,332	142,843	146,463,262	252,765,437	3,722,151	256,487,588
Total comprehensive income for the year	-	-	609,570	7,242,702	7,852,272	175,883	8,028,155
Dividend paid during the year (Note 26)	-	-	-	(13,000,000)	(13,000,000)	-	(13,000,000)
Net cancellation of units in wholesale unit trust funds	-	-	-	-	-	8,278	8,278
At 31 December 2018	100,000,000	6,159,332	752,413	140,705,964	247,617,709	3,906,312	251,524,021
At 1 January 2019	100,000,000	6,159,332	752,413	140,705,964	247,617,709	3,906,312	251,524,021
Effect of adoption of MFRS 16 (Note 4 and Note 13)	-	-	-	(315,628)	(315,628)	-	(315,628)
At 1 January 2019 (restated)	100,000,000	6,159,332	752,413	140,390,336	247,302,081	3,906,312	251,208,393
Total comprehensive income for the year	-	-	1,771,855	25,400,460	27,172,315	264,363	27,436,678
Dividend paid during the year (Note 26)	-	-	-	(3,520,000)	(3,520,000)	-	(3,520,000)
Net cancellation of units in wholesale unit trust funds	-	-	-	-	-	(22,374)	(22,374)
At 31 December 2019	100,000,000	6,159,332	2,524,268	162,270,796	270,954,396	4,148,301	275,102,697

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Company

	Attributable to owners of the Company				
	Non-distributable		Distributable		
	Share capital RM (Note 10)	Property revaluation reserve RM (Note 11)	AFS reserve RM (Note 11)	Retained earnings RM (Note 11)	Total equity RM
At 1 January 2018	100,000,000	6,159,332	1,581,114	145,084,924	252,825,370
Total comprehensive income for the year	-	-	753,624	7,051,905	7,805,529
Dividend paid during the year (Note 26)	-	-	-	(13,000,000)	(13,000,000)
At 31 December 2018	100,000,000	6,159,332	2,334,738	139,136,829	247,630,899
At 1 January 2019	100,000,000	6,159,332	2,334,738	139,136,829	247,630,899
Effect of adoption of MFRS 16 (Note 4 and Note 13)	-	-	-	(315,628)	(315,628)
At 1 January 2019 (restated)	100,000,000	6,159,332	2,334,738	138,821,201	247,315,271
Total comprehensive income for the year	-	-	5,402,033	21,811,517	27,213,550
Dividend paid during the year (Note 26)	-	-	-	(3,520,000)	(3,520,000)
At 31 December 2019	100,000,000	6,159,332	7,736,771	157,112,718	271,008,821

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

Group	2019	2018
	RM	RM
Cash flow from operating activities		
Profit before taxation	31,464,502	7,243,966
Adjustments for:		
Interest income	(8,520,131)	(8,524,697)
Dividend income	(2,425,422)	(3,032,997)
Distribution income	(3,589,888)	(2,591,841)
Realised gains recorded in income statement	(7,547,162)	(4,954,135)
Fair value (gains)/losses recorded in income statement	(14,106,669)	17,181,418
Purchase of AFS financial assets	(3,589,888)	(2,591,841)
Proceeds from disposal of AFS financial assets	5,000,000	-
Purchase of FVTPL financial assets	(119,465,022)	(139,264,532)
Proceeds from disposal of FVTPL financial assets	124,027,641	164,355,289
Interest received	8,666,228	8,865,500
Dividends received	2,425,422	3,032,997
Reinvestment of distributions	3,589,888	2,591,841
Interest expense on lease liabilities	209,907	-
Non-cash items:		
Depreciation of property and equipment	994,808	1,396,120
Depreciation of right-of-use assets	373,342	-
Net amortisation of premiums	191,864	162,426
(Reversal of)/allowance for impairment losses on insurance receivables	(1,070,653)	1,535,528
Bad debts written-off	18,607	239,995
Property and equipment written-off	314,449	9,129
Gains on disposal of property and equipment	(72,923)	(25,800)
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(37,025,959)	7,194,919
Decrease in loans and receivables	6,189,785	5,994,617
Decrease in insurance receivables, net of allowance for impairment	692,498	749,610
(Increase)/decrease in fixed and call deposits	(21,394,460)	10,857,222
Increase/(decrease) in insurance contract liabilities	31,600,350	(29,350,665)
Decrease in insurance payables	(4,814,623)	(1,655,038)
Increase/(decrease) in other payables	9,426,843	(12,035,357)
Cash generated from operating activities	1,563,334	27,383,674
Income tax paid, net	(3,111,748)	(4,445,834)
Net cash (used in)/generated from operating activities	(1,548,414)	22,937,840

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONT'D.)

Group	2019	2018
	RM	RM
Investing Activities		
Proceeds from disposal of property and equipment	83,434	25,800
Purchase of property and equipment	(977,746)	(654,974)
Net cash used in investing activities	<u>(894,312)</u>	<u>(629,174)</u>
Financing Activities		
Payment of lease liabilities	(515,256)	-
Dividends paid to shareholders	(3,520,000)	(13,000,000)
Proceeds from (cancellation)/creation of units in wholesale unit trusts to non-controlling interests	<u>(22,374)</u>	<u>8,278</u>
Net cash used in financing activities	<u>(4,057,630)</u>	<u>(12,991,722)</u>
Net (decrease)/increase in cash and cash equivalents	(6,500,356)	9,316,944
Cash and cash equivalents at beginning of year	16,166,682	6,849,738
Cash and cash equivalents at end of year	9,666,326	16,166,682

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONT'D.)

Company	2019	2018
	RM	RM
Cash flow from operating activities		
Profit before taxation	27,611,196	6,877,286
Adjustments for:		
Interest income	(2,578,309)	(2,354,276)
Dividend income	(2,425,422)	(3,032,997)
Distribution income	(8,627,246)	(8,104,583)
Realised gains recorded in income statement	(7,379,407)	(4,970,313)
Fair value (gains)/losses recorded in income statement	(10,721,292)	17,495,037
Purchase of AFS financial assets	(8,627,246)	(8,104,583)
Proceeds from disposal of AFS financial assets	10,000,000	14,000,000
Purchase of FVTPL financial assets	(66,899,691)	(100,212,211)
Proceeds from disposal of FVTPL financial assets	71,301,761	114,428,568
Interest received	2,652,879	2,494,182
Dividends received	2,425,422	3,032,997
Reinvestment of distributions	8,627,246	8,104,583
Interest expense on lease liabilities	209,907	-
Non-cash items:		
Depreciation of property and equipment	994,808	1,396,120
Depreciation of right-of-use assets	373,342	-
(Reversal of)/allowance for impairment losses on insurance receivables	(1,070,653)	1,535,528
Bad debts written-off	18,607	239,995
Property and equipment written-off	314,449	9,129
Gains on disposal of property and equipment	(72,923)	(25,800)
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(37,025,959)	7,194,919
Decrease in loans and receivables	6,189,785	5,994,185
Decrease in insurance receivables, net of allowance for impairment	692,498	749,610
(Increase)/decrease in fixed and call deposits	(15,550,290)	8,616,860
Increase/(decrease) in insurance contract liabilities	31,600,350	(29,350,665)
Decrease in insurance payables	(4,814,623)	(1,655,038)
Increase/(decrease) in other payables	9,425,502	(12,025,262)
Cash generated from operating activities	6,644,691	22,333,271
Income tax paid, net	(3,111,748)	(4,445,834)
Net cash generated from operating activities	3,532,943	17,887,437

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STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONT'D.)

Company	2019 RM	2018 RM
Investing Activities		
Proceeds from disposal of property and equipment	83,434	25,800
Purchase of property and equipment	<u>(977,746)</u>	<u>(654,974)</u>
Net cash used in investing activities	<u><u>(894,312)</u></u>	<u><u>(629,174)</u></u>
Financing Activities		
Payment of lease liabilities	(515,256)	-
Dividends paid to shareholders	<u>(3,520,000)</u>	<u>(13,000,000)</u>
Net cash used in financing activities	<u><u>(4,035,256)</u></u>	<u><u>(13,000,000)</u></u>
Net (decrease)/increase in cash and cash equivalents	(1,396,625)	4,258,263
Cash and cash equivalents at beginning of year	10,834,229	6,575,966
Cash and cash equivalents at end of year	<u>9,437,604</u>	<u>10,834,229</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

1. CORPORATE INFORMATION

The Company is a limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at 7th Floor, Wisma Perkasa, Jalan Gaya, 88845 Kota Kinabalu, Sabah and the principal place of business of the Company is located at 6th, 9th and 10th Floor, Menara Cosway, Plaza Berjaya, No. 12, Jalan Imbi, 55100 Kuala Lumpur.

The principal activity of the Group and of the Company is the underwriting of all classes of general insurance business. The principal activities of the subsidiaries, which are wholesale unit trust funds, are as disclosed in Note 5(c). There has been no significant change in the nature of these activities during the financial year.

The financial statements of the Group and of the Company were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 12 May 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

(a) Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

There are some new pronouncements that have been issued by the Malaysian Accounting Standards Board ("MASB") that have been adopted by the Group and the Company. The effects arising from the adoption of these pronouncements are disclosed in Note 2.4.

The financial statements of the Group and of the Company have also been prepared on a historical cost basis, except as disclosed in the accounting policies below.

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework for Insurers ("the RBC Framework") issued by BNM as at the reporting date.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of Preparation (Cont'd.)

(a) Statement of Compliance (Cont'd.)

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's and the Company's functional currency.

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group and the Company.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the Company's subsidiaries are prepared for the same reporting date as the Company using consistent accounting policies as described in Note 2.2(x) for transactions and events in similar circumstances.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring its accounting policies in line with the Group's accounting policies.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of Preparation (Cont'd.)

(b) Basis of Consolidation (Cont'd.)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or, where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised as gain or loss on disposal in the income statement.

2.2 Summary of Significant Accounting Policies

(a) Foreign Currency Transactions

Transactions in foreign currencies are measured in the functional currency of the Group and of the Company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(a) Foreign Currency Transactions (Cont'd.)

Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(b) Premium Income

Premium income is 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 insurance policies. Premiums in respect of risks inception for which policies have not been issued as of the date of the statement of financial position are accrued at that date.

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

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

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

(c) Claims Expenses

Claims expenses represent amounts incurred by the Group and the Company as a result of an insured event occurring as defined in the terms of each insurance contract. Claims expenses include the amounts paid or payable to the policyholder upon the occurrence of an insured event as well as related expenses. Claims expenses are recognised in profit or loss upon notification of the occurrence of an insured event or events or as a result of a liability adequacy test performed at each reporting date.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(d) Commission Expenses

The cost of acquiring and renewing insurance policies is recognised as incurred and allocated to the periods in which it is probable they give rise to income.

(e) Reinsurance

The Group and the Company cede insurance risk in the normal course of business for all its businesses. Ceded reinsurance arrangements do not relieve the Group and the Company from their obligations to policyholders. For both ceded and assumed reinsurance, premiums and claims are presented on a gross basis.

Reinsurance arrangements entered into by the Group and the Company that meet the classification requirements of insurance contracts as described in Note 2.2(o) are accounted for as noted below. Arrangements that do not meet these classification requirements are accounted for as financial assets.

Reinsurance assets represent amounts recoverable from reinsurers for insurance contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the underlying insurance contract and the terms of the relevant reinsurance arrangement.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently if 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 Group and the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recorded in the income statement.

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(f) Other Revenue Recognition

Revenue is recognised at an amount that reflects the consideration to which the Group and the Company expects to be entitled when the performance obligation is satisfied. The following specific recognition criteria must also be met before the revenue is recognised:

(i) Interest Income

Interest income is recognised using the effective interest method.

(ii) Dividend Income

Dividend income is recognised when the Group's and/or the Company's right to receive payment is established.

(g) Income Tax

Income tax on profit or loss for the year comprises current and deferred tax.

(i) Current Tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(g) Income Tax (Cont'd.)

(ii) Deferred Tax (Cont'd.)

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 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 profits.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient 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 reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets 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 reporting date.

Deferred tax items are recognised in relation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax relating to items recognised outside profit or loss is similarly recognised outside profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(h) Employee Benefits

(i) Short Term Benefits

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

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Group and the Company pay fixed 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 employee services in the current and preceding financial years. Such contributions are recognised in profit or loss as incurred. As required by law, the Group and the Company make such contributions to the Employees Provident Fund ("EPF").

(i) Property and Equipment

All items of property and equipment are initially recorded at cost. 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 Group and the Company and the cost of the item 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 period in which they are incurred.

Subsequent to recognition, property and equipment, except for freehold and leasehold office lots, are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(j).

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(i) Property and Equipment (Cont'd.)

Freehold and leasehold office lots are stated at revalued amounts, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined based on the comparison method of valuation that is undertaken by professionally qualified independent valuers. Revaluations are performed with sufficient regularity with additional valuations in the intervening years where market conditions indicate that the carrying values of the revalued assets are materially different from the fair values.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Depreciation of property and equipment is provided on a straight-line basis, to write-off the cost of each asset to its residual value over its estimated useful life as follows:

Freehold and leasehold office lots	50 years
Office equipment	4 - 7 years
Furniture, fixtures and fittings	10 years
Motor vehicles	5 years
Office renovation	5 years
Soft furnishings	5 years

The residual values, useful lives and depreciation methods are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(i) Property and Equipment (Cont'd.)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition is recognised in profit or loss in the year the asset is derecognised.

(j) Impairment of Non-Financial Assets

The Group and the Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group and the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")). In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises except for assets that were previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

PROGRESSIVE INSURANCE BHD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(j) Impairment of Non-Financial Assets (Cont'd.)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

(k) Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company have become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss ("FVTPL"), loans and receivables ("LAR") and available-for-sale ("AFS") financial assets. The classification depends on the purpose for which the investments were acquired or originated.

(i) FVTPL

Financial assets at FVTPL includes financial assets held for trading and financial assets designated as such upon initial recognition at fair value through profit or loss. Financial assets held for trading are financial assets acquired principally for the purpose of selling in the near term or derivatives (including separated embedded derivatives).

PROGRESSIVE INSURANCE BHD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(k) Financial Assets (Cont'd.)

(i) FVTPL (Cont'd.)

Financial assets are designated as financial assets at FVTPL if they fulfill the following conditions:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at FVTPL do not include exchange differences and interest and dividend income. Exchange differences and interest and dividend income on financial assets at FVTPL are recognised separately in profit or loss as part of other expenditure or other income or investment income.

(ii) LAR

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as LAR. These financial assets are initially recognised at cost, being fair value of the consideration paid for the acquisition of the financial assets. All transaction costs directly attributable to the acquisition cost are also included in the cost of the financial assets. Subsequent to initial recognition, LAR are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the LAR are derecognised or impaired, and through the amortisation process.

PROGRESSIVE INSURANCE BHD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(k) Financial Assets (Cont'd.)

(iii) AFS Financial Assets

AFS financial assets are financial assets that are designated as available for sale or are not classified in any of the other financial assets categories.

After initial recognition, AFS financial assets are measured at fair value. Any unrealised gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an AFS equity instrument are recognised in profit or loss when the Group's right to receive payment is established.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

(l) Impairment of Financial Assets

The Group and the Company assess at each reporting date whether there are any objective evidence that a financial asset is impaired.

PROGRESSIVE INSURANCE BHD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(I) Impairment of Financial Assets (Cont'd.)

(i) Financial Assets Carried at Amortised Cost

To determine whether there are objective evidence that an impairment loss on financial assets have been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as insurance receivables, objective evidence of impairment of insurance receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The Group and the Company first assess 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 the 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 each reporting date.

Any subsequent reversal of impairment losses are made 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 the income statement.

PROGRESSIVE INSURANCE BHD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(I) Impairment of Financial Assets (Cont'd.)

(ii) AFS Financial Assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as AFS financial assets are impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on AFS equity investments are not reversed in profit or loss in the subsequent periods. Increases in fair value, if any, subsequent to impairment loss are recognised in other comprehensive income. For AFS debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

(m) Insurance Receivables

Insurance receivables are amounts receivable under the contractual terms of an insurance contract. On initial recognition, insurance receivables are measured at fair value based on the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost using the effective interest method. Receivables are assessed for objective evidence of impairment at each reporting date or as and when there are indications of impairment arising from one or more events.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the insurance receivable's original effective interest rate. The impairment loss is recognised in profit or loss.

PROGRESSIVE INSURANCE BHD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(m) Insurance Receivables (Cont'd.)

Insurance receivables are derecognised when the rights to receive cash flows from them have expired or when they have been transferred and the Group and the Company have also transferred substantially all risks and rewards of ownership.

(n) Cash and Bank Balances

Cash and bank balances comprise of cash at bank and on hand which are subjected to an insignificant risk of changes in value. Cash and bank balances exclude fixed and call deposits which are held for investment purposes. The Statements of Cash Flows are prepared using the indirect method.

(o) Product Classification

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance risk is the risk other than financial risk.

An insurance contract is a contract under which the Group and the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Group and the Company determine whether significant insurance risk has been accepted by comparing benefits paid on the occurrence of an insured event with benefits payable if the insured event had not occurred.

Conversely, investment contracts are those contracts that transfer financial risk with no significant insurance risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(p) Insurance Payables

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 interest method.

(q) Insurance Contract Liabilities

Insurance contract liabilities are recognised and measured in accordance with the terms and conditions of the respective insurance contracts and are also based on regulatory guidelines, specifically the RBC Framework issued by BNM.

The insurance contract liabilities of the Group and the Company comprise claim liabilities and premium liabilities.

(i) Claim Liabilities

Claim liabilities represent the Group's obligations, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at the reporting date. Claim liabilities are the estimated cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and other recoveries. Claim liabilities comprise liabilities for outstanding claims - being the cost of claims incurred and reported to the Group - as well as a reserve for claims incurred but not reported ("IBNR") and a provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall Group and Company level.

Liabilities for outstanding claims are recognised as advised by policyholders. IBNR claims are estimated via an actuarial valuation performed by a qualified actuary, using a mathematical method of estimation based on, amongst others, actual claim development patterns.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(q) Insurance Contract Liabilities (Cont'd.)

(ii) Premium Liabilities

Premium liabilities represent the Group's future obligations on insurance contracts as represented by premiums received for risks that have not yet expired. The movement in premium liabilities is released over the term of the insurance contracts and is recognised as premium income.

In accordance with the valuation requirements of the RBC Framework, premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business or the best estimate value of the reinsurer's unexpired risk reserves ("URR") at the end of the financial year and a PRAD calculated at 75% confidence level at the overall Company level.

● Unexpired risk reserves

The URR is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year and also includes allowance for expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

URR is estimated via an actuarial valuation performed by a qualified actuary, using a mathematical method of estimation similar to IBNR claims.

● Unearned premium reserves

The UPR represents the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period. The methods of computation of UPR are as follows:

- 25% method for marine and aviation cargo and transit business.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(q) Insurance Contract Liabilities (Cont'd.)

(ii) Premium Liabilities (Cont'd.)

● Unearned premium reserves (Cont'd.)

The UPR represents the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period. The methods of computation of UPR are as follows:

- 1/24th method for all other classes of general business in respect of Malaysian policies, reduced by the lower of the following commission rates or actual commission incurred:

Motor, bond, group medical insurance and foreign workers compensation	10%
Fire, engineering, marine hull, aviation and individual medical insurance	15%
Other classes	25%

- 1/8th method for all other classes of overseas inward treaty business with a deduction of 20% for acquisition costs.
- Non-annual policies are time-apportioned over the period of the risks.

(iii) Liability Adequacy Test

At each reporting date, the Group and the Company review all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Group and of the Company, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Group and the Company discount all contractual cash flows and compare this against the carrying value of insurance contract liabilities. Any deficiency is recognised in profit or loss.

The estimation of claim liabilities and premium liabilities performed at reporting date is part of the liability adequacy tests performed by the Group and the Company.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(r) Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured reliably. If it is no longer probable that an outflow of economic resources 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.

(s) Financial Liabilities

Financial liabilities classified as other financial liabilities are recognised in the statements of financial position when the Group and the Company become a party to the contractual provisions of the financial instrument. Other financial liabilities include cash collateral deposits received from policyholders. Insurance and other payables are recognised when due and measured on initial recognition at the fair value of the consideration payable less estimated directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised and through the amortisation process.

(t) Share Capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and of the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(u) Leases (Policy applicable before 1 January 2019)

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(ii) Operating Leases - the Group and the Company as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

The Group and the Company does not have any lease arrangements where the Group and the Company acts as a Lessor.

(v) Leases (Policy applicable after 1 January 2019)

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract involves the use of an identified asset and conveys the right to control the use of the asset for a period of time in exchange for consideration – i.e. the customer has the right to:

- obtain substantially all of the economic benefits from using the asset; and
- direct the use of the asset.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(v) Leases (Policy applicable after 1 January 2019) (Cont'd.)

(i) As Lessee

The Group and Company recognise a right-of-use asset and a lease liability in the statements of financial position at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the amount of lease liability, any lease payments made or before the commencement date, any indirect costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Group's and Company's incremental financing rate.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment (see Note 2.2(i)). In addition, the carrying amount of the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured to reflect any lease modifications or reassessments.

Short-term leases and leases of low-value assets

The Group and the Company has elected not to recognise right-of-use assets and leases liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(w) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group and the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group and the Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the financial year end.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(x) Investment in subsidiaries

The consolidated financial statements are prepared if control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

- (i) The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other voteholders;
- (ii) Potential voting rights held by the Company, other vote holders or other parties;
- (iii) Rights arising from other contractual arrangements; and
- (iv) Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Company reassesses at each reporting date whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed earlier.

In the Company's separate financial statements, investments in subsidiaries are carried at fair value, being the net asset value of the wholesale unit trust funds. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in profit or loss.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Significant Accounting Judgements, Estimates And Assumptions

(a) Critical judgements made in applying accounting policies

There are no significant judgements made by management in the process of applying the Group's and the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The preparation of financial statements requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. These are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

Valuation of general insurance contract liabilities

The principal uncertainty in the Group's general insurance business arises from the technical provisions which include the provisions of premium and claim liabilities. The premium liabilities comprise unexpired risk reserves while claim liabilities comprise provision for outstanding claims and IBNR.

The establishment of technical provisions is an inherently uncertain process. The development and eventual settlement of premium and claim liabilities may vary from their initial estimates as premium and claim liabilities are sensitive to various factors and uncertainties.

Generally, premium and claims liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including a reasonable expectation of future events under similar circumstances.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Significant Accounting Judgements, Estimates And Assumptions (Cont'd.)

(b) Key sources of estimation uncertainty (Cont'd.)

Valuation of general insurance contract liabilities (Cont'd.)

There may be significant reporting lags between the occurrence of an insured event and the time it is reported to the Group and the Company. Following the identification and notification of an insured loss, the quantum of loss may not be reasonably ascertained due to uncertainty arising from inflation, judicial interpretations, legislative changes and claims handling procedures.

The accounting policies in relation to claim and premium liabilities are disclosed in Note 2.2(q)(i) and Note 2.2(q)(ii), respectively. In addition, Note 30 discloses the sensitivity analyses of the key assumptions applied during the valuation of insurance contract liabilities and the impact to gross and net carrying values, as well as profit or loss and equity.

2.4 Changes in Accounting Policies and Disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following standards, amendments to standards and interpretation of standards:

On 1 January 2019, the Company adopted the following amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2019.

- MFRS 16 *Leases*
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 128 *Long Term Interests in Associates and Joint Ventures*
- Amendments to MFRS 3 *Business Combinations*
 (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 9 *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 *Joint Arrangements*
 (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 112 *Income Taxes*
 (Annual Improvements to MFRS Standards 2015-2017 Cycle)

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Changes in Accounting Policies and Disclosures (Cont'd.)

New and amended standards and interpretations (Cont'd.)

- Amendments to MFRS 119 *Employee Benefits - Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123 *Borrowing Costs*
(Annual Improvements to MFRS Standards 2015-2017 Cycle)

The adoption of the above amended standards and interpretations other than MFRS 16 Leases ("MFRS 16") did not have any significant impact on the financial statements of the Group and the Company.

MFRS 16 Leases

The Group and the Company has adopted MFRS 16 on 1 January 2019. The Group and the Company applied the standard from its mandatory adoption date, applying the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. The adjustments arising from the new leasing rules are therefore recognised in the opening balances on 1 January 2019.

On adoption of MFRS 16, the Group and the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental financing rate as of 1 January 2019.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Changes in Accounting Policies and Disclosures (Cont'd.)

MFRS 16 Leases (Cont'd.)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease arrangements as of 31 December 2018 shown in Note 27, as follows:

	Group/Company
	2019
	RM
Right-of-use assets	
Operating lease commitments disclosed as at 31 December 2018	2,213,518
Weighted average incremental financing rate as at 1 January 2019	4.7%
Discounted using the Company's incremental financing rate at the date of initial application	2,906,974
Less:	
Commitments relating to short term leases recognised as expense	(16,800)
Commitments relating to low-value leases recognised as expense	(134,938)
Add:	
Lease payments on renewal periods not included in operating lease	1,790,826
Lease liability recognised as at 1 January 2019	4,546,062
Of which are:	
Current lease liabilities	305,349
Non-current lease liabilities	4,240,713
	4,546,062

The carrying amounts of right-of-use assets for office lots represents the carrying amount of the lease asset and lease liability since the commencement date using a discounted rate at initial application. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

The recognised right-of-use assets relate to the following types of assets:

	Group/Company
	31.12.2019
	1.1.2019
	RM
Right-of-use assets	
- Office lots	4,230,434
	4,230,434

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Changes in Accounting Policies and Disclosures (Cont'd.)

MFRS 16 *Leases* (Cont'd.)

Practical expedients applied

In applying MFRS 16 for the first time, the Group and the Company has used the following practical expedients as permitted by the standard:

- the use of a single source discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2.5 Standards Issued but Not Yet Effective

The following are standards, amendments to standards and interpretations to standards issued by MASB, but not yet effective, up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards, amendments to standards and interpretations to standards, if applicable, when they become effective:

Effective for financial periods beginning on or after 1 January 2020

Amendments to References to the Conceptual Framework in MFRS Standards

- Amendments to MFRS 2 *Share-based Payments*
- Amendments to MFRS 3 *Business Combinations*
- Amendments to MFRS 6 *Exploration for and Evaluation of Mineral Resources*
- Amendments to MFRS 7 *Financial Instruments: Disclosures - Interest Rate Benchmark Reform*
- Amendments to MFRS 9 *Financial Instruments - Interest Rate Benchmark Reform*
- Amendments to MFRS 14 *Regulatory Deferral Accounts*
- Amendments to MFRS 101 *Presentation of Financial Statements*
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134 *Interim Financial Reporting*

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Standards Issued but Not Yet Effective (Cont'd.)

Effective for financial periods beginning on or after 1 January 2020 (Cont'd.)

Amendments to References to the Conceptual Framework in MFRS Standards

- Amendments to MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*
- Amendments to MFRS 138 *Intangible Assets*
- Amendments to MFRS 139 *Financial Instrument: Recognition and Measurement - Interest Rate Benchmark Reform*
- Amendments to IC Interpretation 12 *Service Concession Arrangements*
- Amendments to IC Interpretation 19 *Extinquishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to IC Interpretation 132 *Intangible Assets - Web Site Costs*

Effective for financial periods beginning on or after 1 January 2021 (deferral to 1 January 2023)

- MFRS 17 *Insurance Contracts*

Deferred

- Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Standards Issued but Not Yet Effective (Cont'd.)

The management expects that the adoption of the above standards, amendments to standards and interpretations to standards issued by MASB, but not yet effective, will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 17 Insurance Contracts

In August 2017, MFRS 17 was issued, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces MFRS 4.

MFRS 17 is effective for annual periods beginning on or after 1 January 2021 (deferral to 1 January 2023). The Group and the Company plans to adopt the new standard on the required effective date and a Project Steering Committee has been formed to oversee the implementation of MFRS 17. A consulting firm has been appointed to assist in the end to end implementation of the project which has kicked off on 5 February 2020. The Group and the Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Group and the Company and is likely to have a significant impact on profit and total equity together with the Group's and the Company's financial statements' presentation and disclosures.

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3. PROPERTY AND EQUIPMENT

Group/Company	← At Valuation →				At Cost				Total 2019 RM
	Long-term		Furniture, Fixtures & Fittings		Motor Vehicles	Office Renovation	Soft Furnishings		
	Freehold Office Lots	Leasehold Office Lots	Office Equipment	RM	RM	RM	RM		
VALUATION/COST									
At 1 January 2019	7,900,000	5,390,000	6,910,934	937,112	1,364,394	3,292,482	159,897	25,954,819	
Additions	-	-	673,208	7,597	296,941	-	-	977,746	
Disposal	-	-	-	-	(284,495)	-	-	(284,495)	
Write off	-	-	(694,538)	(297,354)	-	(322,060)	(97,444)	(1,411,396)	
At 31 December 2019	7,900,000	5,390,000	6,889,604	647,355	1,376,840	2,970,422	62,453	25,236,674	
ACCUMULATED DEPRECIATION									
At 1 January 2019	474,000	323,400	6,089,523	753,027	947,033	2,787,710	159,856	11,534,549	
Charge for the year	158,000	107,800	226,461	33,904	201,457	267,186	-	994,808	
Disposal	-	-	-	-	(273,984)	-	-	(273,984)	
Write off	-	-	(380,840)	(296,696)	-	(321,992)	(97,419)	(1,096,947)	
At 31 December 2019	632,000	431,200	5,935,144	490,235	874,506	2,732,904	62,437	11,158,426	
NET BOOK VALUE									
At 31 December 2019	7,268,000	4,958,800	954,460	157,120	502,334	237,518	16	14,078,248	

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3. PROPERTY AND EQUIPMENT (CONT'D.)

Group/Company	←— At Valuation —→				At Cost				Total 2018 RM
	Freehold Office Lots	Leasehold Office Lots	Long-term Office Equipment	Furniture, Fixtures & Fittings	Motor Vehicles	Office Renovation	Soft Furnishings		
	RM	RM	RM	RM	RM	RM	RM		
VALUATION/COST									
At 1 January 2018	7,900,000	5,390,000	6,359,420	928,361	1,390,555	3,292,482	159,897	25,420,715	
Additions	-	-	562,254	8,751	83,969	-	-	-	654,974
Disposal	-	-	-	-	(110,130)	-	-	-	(110,130)
Write off	-	-	(10,740)	-	-	-	-	-	(10,740)
At 31 December 2018	7,900,000	5,390,000	6,910,934	937,112	1,364,394	3,292,482	159,897	25,954,819	
ACCUMULATED DEPRECIATION									
At 1 January 2018	316,000	215,600	5,605,557	718,203	879,754	2,355,224	159,832	10,250,170	
Charge for the year	158,000	107,800	485,577	34,824	177,409	432,486	24	1,396,120	
Disposal	-	-	-	-	(110,130)	-	-	-	(110,130)
Write off	-	-	(1,611)	-	-	-	-	-	(1,611)
At 31 December 2018	474,000	323,400	6,089,523	753,027	947,033	2,787,710	159,856	11,534,549	
NET BOOK VALUE									
At 31 December 2018	7,426,000	5,066,600	821,411	184,085	417,361	504,772	41	14,420,270	

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3. PROPERTY AND EQUIPMENT (CONT'D.)

- (i) The Group's freehold and leasehold office lots are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. The freehold and leasehold office lots were revalued based on the valuation carried out by an accredited independent professional valuer on an open market value basis using the comparison method.

The valuers are independent valuers that not related to the Group and the Company and are members of the Royal Institution of Surveyors Malaysia ("RISM") with appropriate qualifications and recent experience in the fair value measurement of properties in the relevant location.

The strata titles to the freehold office lots have yet to be issued by the relevant authorities.

- (ii) The carrying amounts of the revalued properties had they been stated at cost less accumulated depreciation would be as follows:

	Group/Company	
	2019	2018
	RM	RM
Freehold office lots	2,103,695	2,253,959
Long-term leasehold office lots	1,663,386	1,729,307
	3,767,081	3,983,266

- (iii) A description of valuation techniques used and key inputs to valuation of freehold and leasehold office lots of the Group and the Company are as follows:

	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>
Freehold office lots	Comparison method	Estimated value per square foot	RM415 to RM465
Long term leasehold office lots	Comparison method	Estimated value per square foot	RM500 to RM882

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3. PROPERTY AND EQUIPMENT (CONT'D.)

- (iii) A description of valuation techniques used and key inputs to valuation of freehold and leasehold office lots of the Group and the Company are as follows:

The fair value of the freehold office lots was determined based on the market approach that reflects recent transaction prices for similar properties. The freehold and leasehold office lots were revalued based on the valuation carried out by accredited independent professional valuers on an open market value basis using the comparison method. The valuation techniques used by the accredited independent valuers are verified by Management to ensure that they are in accordance with the requirements of MFRS 13 *Fair Value Measurement*. The valuation results are then presented to the Board of Directors.

An increase or decrease in the unobservable inputs used in the valuation would result in a correspondingly higher or lower fair value. The fair value of the freehold and leasehold office lots of the Group and the Company are classified under level 3 of the fair value hierarchy as disclosed in Note 31 and the reconciliation of the carrying amount of the property are as shown on page 69 and page 70.

4. RIGHT-OF-USE ASSETS

	Group/Company	
	2019	2018
	RM	RM
Cost - Office lots		
At 1 January	-	-
Effect of adoption of MFRS 16	4,230,434	-
At 1 January (restated)	4,230,434	-
Additions	-	-
At 31 December	4,230,434	-
Accumulated amortisation - Office lots		
At 1 January	-	-
Charge for the year	373,342	-
At 31 December	373,342	-
Net book value - Office lots		
At 31 December	3,857,092	-

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4. RIGHT-OF-USE ASSETS (CONT'D.)

The total leased assets held by the Group and the Company amounts to RM8,815,892 (2018: RM5,066,600) which comprise of the right-of-use assets amounting to RM3,857,092 and leasehold office lots with net book value of RM4,958,800 as disclosed in Note 3.

This note provides information for leases where the Group and the Company is a lessee.

The Group and the Company has entered into lease agreements for office rental and other office equipment. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 5 years. There are also several lease contracts that include extension and termination options.

The Group and the Company also has certain leases of office rental with lease terms of 12 months or less and leases of low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The following are the amounts recognised in profit or loss:

	Group/Company	
	2019	2018
	RM	RM
Depreciation expense of right-of-use assets	373,342	-
Interest expense on lease liabilities	209,907	-
Expense related to short-term leases	16,800	-
Expense related to leases of low-value assets	53,806	-
Total amount recognised in profit or loss	653,855	-

5. INVESTMENTS

(a) AFS Financial Assets

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Corporate debt securities	1	5,004,701	1	5,004,701
Wholesale unit trust funds	73,231,365	67,622,018	200,371,781	190,981,706
Total (a)	73,231,366	72,626,719	200,371,782	195,986,407

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5. INVESTMENTS (CONT'D.)

(b) Financial Assets at FVTPL

	Group			Company	
	2019	2018		2019	2018
	RM	RM		RM	RM
<u>Held for trading:</u>					
Malaysian Government					
Securities	531,558	8,524,461		-	-
Corporate debt securities	120,952,558	109,717,271		-	-
Real estate investment					
trusts (REITs)	2,499,097	1,874,111	2,499,097	1,874,111	
Equity securities	84,756,891	71,796,441	84,756,891	71,796,441	
Total (b)	208,740,104	191,912,284	87,255,988	73,670,552	
Total investments					
(a) + (b)	281,971,470	264,539,003	287,627,770	269,656,959	

Management's assessment of the potential impact of adopting MFRS 9 on the effective date is set out in Note 35.

(c) Investments in subsidiaries - Wholesale unit trust funds

Details of the Company's investments in subsidiaries which are wholesale unit trust funds amounting to RM127,140,416 (2018: RM123,359,688) in Malaysia are as follows:

<u>Established in Malaysia</u>	<u>Effective Direct Interests</u>	2019	2018
Affin Hwang Institutional Bond Fund		96.44%	96.51%
United Institutional Income Fund		97.86%	97.86%

Note: Affin Hwang Institutional Bond Fund is audited by a firm other than Ernst & Young PLT.

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5. INVESTMENTS (CONT'D.)

(c) Investments in subsidiaries - Wholesale unit trust funds (Cont'd.)

The Company considers that the non-controlling interests in the above subsidiaries are not significant and accordingly no disclosures are provided in respect of the summarised income statements, summarised statements of comprehensive income, summarised statements of financial position and summarised statements of cash flow.

The principal activities of the subsidiaries are as follows:

<u>Subsidiary</u>	<u>Principal activity</u>
Affin Hwang Institutional Bond Fund	Unit trust fund holding investments in fixed income securities/sukuk
United Institutional Income Fund	Unit trust fund holding investments in fixed income securities

6. REINSURANCE ASSETS

	Note	Group/Company	
		2019 RM	2018 RM
Reinsurance of insurance contracts			
Claim liabilities	12 (i)	78,326,917	43,509,359
Premium liabilities	12 (ii)	31,319,730	29,111,329
		109,646,647	72,620,688

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7. LOANS AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
<u>Other receivables:</u>				
Other receivables				
and deposits	1,209,846	2,658,750	1,209,846	2,658,750
Prepayments	34,454	82,981	34,454	82,981
Income due and accrued	706,487	781,057	706,487	781,057
Share of net assets held by Malaysian Motor Insurance Pool ("MMIP")*	48,366,416	52,762,863	48,366,416	52,762,863
Amounts receivable from sale of shares/matured bonds	322,528	618,435	322,528	618,435
	<u>50,639,731</u>	<u>56,904,086</u>	<u>50,639,731</u>	<u>56,904,086</u>
<u>Fixed and call deposits with:</u>				
Licensed banks in Malaysia	50,412,998	29,018,538	40,798,356	25,248,066
Other financial institutions	34,000,000	34,000,000	34,000,000	34,000,000
	<u>84,412,998</u>	<u>63,018,538</u>	<u>74,798,356</u>	<u>59,248,066</u>
Total loans and other receivables	<u>135,052,729</u>	<u>119,922,624</u>	<u>125,438,087</u>	<u>116,152,152</u>

The carrying amounts of financial assets disclosed above approximate fair values at reporting date.

- * As a participating member of MMIP, the Group and the Company share a proportion of the Pool's net assets/liabilities. At each reporting date, the Group and the Company account for its proportionate share of the assets, liabilities and performance of the Pool. The net assets held under MMIP represents the Group's and the Company's share of the Pool's net assets, before insurance contract liabilities. The Group's and the Company's share of the Pool's insurance contract liabilities and net exposure arising from its participation in the Pool is disclosed in Note 12. The share of net assets of MMIP includes the Group's and the Company's net cash contributions of RM16,859,477 (2018: RM21,859,477) made to MMIP.

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7. LOANS AND OTHER RECEIVABLES (CONT'D.)

Included in the fixed and call deposits are cash collaterals received from policyholders of RM26,881,427 (2018: RM27,039,770) for guarantees issued on behalf of policyholders (Note 14).

The weighted average effective interest rates of the fixed and call deposits as at 31 December 2019 were 3.33% (2018: 3.71%) per annum.

8. DEFERRED TAXATION

	Group/Company	
	2019	2018
	RM	RM
At 1 January	1,703,949	(1,954,513)
Recognised in profit or loss (Note 24)	(2,462,143)	3,658,078
Recognised in other comprehensive income	(242,903)	384
At 31 December	<u>(1,001,097)</u>	<u>1,703,949</u>

Presented after appropriate offsetting as follow:

	Group/Company	
	2019	2018
	RM	RM
Deferred tax assets	2,613,619	3,778,080
Deferred tax liabilities	(3,614,716)	(2,074,131)
	<u>(1,001,097)</u>	<u>1,703,949</u>

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8. DEFERRED TAXATION (CONT'D.)

The components and movements of deferred tax assets and liabilities prior to offsetting are as follows:

Group/Company - Deferred tax assets

	Lease Liabilities RM	Premium liabilities RM	Provisions RM	Fair value losses on financial assets at FVTPL RM	Impaired AFS financial assets RM	Total RM
At 1 January 2019	-	-	1,061,519	-	1,200,000	2,261,519
Recognised in:						
Profit or loss	73,284	-	278,816	-	-	352,100
At 31 December 2019	<u>73,284</u>	<u>-</u>	<u>1,340,335</u>	<u>-</u>	<u>1,200,000</u>	<u>2,613,619</u>
At 1 January 2018	-	(62,404)	1,936,755	(2,684,822)	1,200,000	389,529
Recognised in:						
Profit or loss	-	64,978	(875,236)	4,198,809	-	3,388,551
At 31 December 2018	<u>-</u>	<u>2,574</u>	<u>1,061,519</u>	<u>1,513,987</u>	<u>1,200,000</u>	<u>3,778,080</u>

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8. DEFERRED TAXATION (CONT'D.)

Group/Company - Deferred tax liabilities

	Right-of-use assets RM	Accelerated capital allowances RM	Premium liabilities RM	Property revaluation reserve RM	Fair value gains on financial assets at FVTPL RM	AFS reserve RM	Total RM
At 1 January 2019	-	(30,762)	2,574	(2,042,240)	1,513,987	(1,129)	(557,570)
Recognised in:							
Profit or loss	(89,603)	(157,659)	(22,098)	11,908	(2,556,791)	-	(2,814,243)
Other comprehensive income		-	-	-	-	(242,903)	(242,903)
At 31 December 2019	<u>(89,603)</u>	<u>(188,421)</u>	<u>(19,524)</u>	<u>(2,030,332)</u>	<u>(1,042,804)</u>	<u>(244,032)</u>	<u>(3,614,716)</u>
At 1 January 2018	-	(288,381)	-	(2,054,148)	-	(1,513)	(2,344,042)
Recognised in:							
Profit or loss	-	257,619	-	11,908	-	-	269,527
Other comprehensive income	-	-	-	-	-	384	384
At 31 December 2018	<u>-</u>	<u>(30,762)</u>	<u>-</u>	<u>(2,042,240)</u>	<u>-</u>	<u>(1,129)</u>	<u>(2,074,131)</u>

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9. INSURANCE RECEIVABLES

	Group/Company		
	2019	2018	
	RM	RM	
Due premiums including agents/brokers and co-insurers balances	17,348,400	17,264,621	
Due from reinsurers and cedants	3,328,251	4,123,135	
	<hr/>	<hr/>	
Less: Allowance for impairment	20,676,651	21,387,756	
	(4,484,028)	(5,554,681)	
	<hr/>	<hr/>	
	16,192,623	15,833,075	

The Group's and the Company's amounts due from reinsurers and cedants have been offset against amount due to reinsurers and cedants as follows:

	Gross	Net amounts	
	amounts	in the	
	offset in the	statements of	
	statements of	financial	
	of financial	position	
	statements of	position	
	financial	position	
	position	RM	
31 December 2019			
Premium	1,918,503	(1,053,717)	864,786
Commissions	(365,750)	181,375	(184,375)
Claims	<hr/>	<hr/>	<hr/>
	2,642,587	5,253	2,647,840
	<hr/>	<hr/>	<hr/>
	4,195,340	(867,089)	3,328,251
31 December 2018			
Premium	3,730,611	(1,421,428)	2,309,183
Commissions	(908,713)	276,431	(632,282)
Claims	<hr/>	<hr/>	<hr/>
	2,120,112	326,122	2,446,234
	<hr/>	<hr/>	<hr/>
	4,942,010	(818,875)	4,123,135

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9. INSURANCE RECEIVABLES (CONT'D.)

	Individually impaired RM	Collectively impaired RM	Group/Company Total RM
Movement in allowance accounts:			
At 1 January 2019	3,157,903	2,396,778	5,554,681
Allowance for/(reversal of) impairment losses (Note 19)	(1,710,527)	658,481	(1,052,046)
Write off of impairment loss (Note 19)	(9,883)	(8,724)	(18,607)
At 31 December 2019	<u>1,437,493</u>	<u>3,046,535</u>	<u>4,484,028</u>

Movement in allowance accounts:

	Individually impaired RM	Collectively impaired RM	Group/Company Total RM
Movement in allowance accounts:			
At 1 January 2018	1,651,344	2,367,809	4,019,153
Allowance for impairment losses (Note 19)	1,721,882	53,641	1,775,523
Write off of impairment loss (Note 19)	(215,323)	(24,672)	(239,995)
At 31 December 2018	<u>3,157,903</u>	<u>2,396,778</u>	<u>5,554,681</u>

10. SHARE CAPITAL

	No. of shares	2019 RM	No. of shares	2018 RM
At beginning/end of year				
Issued and fully paid up	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>

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11. RESERVES

Reserves of the Group and the Company relate to the following:

(a) Property revaluation reserve

The property revaluation reserve represents the surplus on revaluation of properties and is not distributable as cash dividends until its realisation.

(b) AFS reserve

The AFS reserve is in respect of unrealised gains on AFS financial assets net of deferred taxation.

(c) Retained earnings

The Company may distribute dividends out of its entire retained earnings under the single tier system.

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12. INSURANCE CONTRACT LIABILITIES

Group/Company	2019			2018		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
Provision for claims reported by policyholders	119,072,664	(63,665,561)	55,407,103	92,900,299	(34,294,450)	58,605,849
Provision for incurred but not reported claims ("IBNR")	35,054,677	(6,996,737)	28,057,940	32,460,478	(5,115,399)	27,345,079
Claims handling expenses	2,794,056	-	2,794,056	1,879,265	-	1,879,265
Provision of risk margin for adverse deviations ("PRAD")	12,822,338	(7,664,619)	5,157,719	8,968,719	(4,190,611)	4,778,108
Less: Impairment on reinsurance assets	-	-	-	-	91,101	91,101
Claim liabilities (i)	169,743,735	(78,326,917)	91,416,818	136,208,761	(43,509,359)	92,699,402
Premium liabilities (ii)	63,713,347	(31,319,730)	32,393,617	65,647,971	(29,111,329)	36,536,642
	233,457,082	(109,646,647)	123,810,435	201,856,732	(72,620,688)	129,236,044
(i) Claim Liabilities						
At 1 January	136,208,761	(43,509,359)	92,699,402	171,794,338	(58,804,000)	112,990,338
Claims incurred in the current accident year	131,748,732	(56,003,928)	75,744,804	99,446,706	(15,736,163)	83,710,543
Movements in claims incurred in prior accident years	(52,229,854)	10,967,800	(41,262,054)	(60,378,398)	1,181,792	(59,196,606)
Claims paid during the year (Note 23)	(45,983,904)	10,218,570	(35,765,334)	(74,653,885)	29,849,012	(44,804,873)
At 31 December	169,743,735	(78,326,917)	91,416,818	136,208,761	(43,509,359)	92,699,402

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12. INSURANCE CONTRACT LIABILITIES (CONT'D)

Group/Company (Cont'd.)	2019			2018		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
(ii) Premium Liabilities						
At 1 January	65,647,971	(29,111,329)	36,536,642	59,413,059	(21,011,607)	38,401,452
Premiums written in the year	131,622,669	(75,407,300)	56,215,369	141,149,081	(81,185,439)	59,963,642
Premiums earned during the year	(133,557,293)	73,198,899	(60,358,394)	(134,914,169)	73,085,717	(61,828,452)
At 31 December	63,713,347	(31,319,730)	32,393,617	65,647,971	(29,111,329)	36,536,642

As at 31 December 2019, the insurance contract liabilities above includes the Group's and the Company's share of MMIP's claims and premium liabilities amounting to RM30,054,342 (2018: RM34,258,755) and RM2,496,516 (2018: RM3,194,238), respectively.

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12. INSURANCE CONTRACT LIABILITIES (CONT'D.)

The Group's and the Company's share in the net assets held under MMIP is as disclosed in Note 7. Presented below is the Group's and the Company's net exposure position arising from their participation in MMIP after considering their share of the Pool's insurance contract liabilities.

	Group/Company	
	2019	2018
	RM	RM
<u>Assets/(liabilities):</u>		
Total Assets:		
- Accumulated cash contributions to MMIP	16,859,477	21,859,477
- Other assets	31,804,155	31,142,557
Insurance payables	(36,436)	(36,590)
Other payables and provisions	(260,780)	(202,581)
Net assets held under MMIP (Note 7)	48,366,416	52,762,863
Insurance contract liabilities		
- Claim liabilities	(30,054,342)	(34,258,755)
- Premium liabilities	(2,496,516)	(3,194,238)
Net assets position	15,815,558	15,309,870

13. LEASE LIABILITIES

	Group/Company	
	2019	2018
	RM	RM
<u>Office lots</u>		
At 1 January	-	-
Effect of adoption of MFRS 16	4,546,062	-
At 1 January (restated)	4,546,062	-
Payment of lease liabilities	(515,256)	-
Interest expense on lease liabilities	209,907	-
At 31 December	4,240,713	-

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14. OTHER FINANCIAL LIABILITIES

	Group/Company	
	2019	2018
	RM	RM
Cash collateral deposits received from policyholders (Note 7)	26,881,427	27,039,770
Interest on cash collateral deposits received from policyholders	1,155,114	1,101,612
	<u>28,036,541</u>	<u>28,141,382</u>

15. INSURANCE PAYABLES

	Group/Company	
	2019	2018
	RM	RM
Due to reinsurers and cedants	14,496,705	18,992,759
Due to agents/brokers and co-insurers balances	679,980	998,549
	<u>15,176,685</u>	<u>19,991,308</u>

The Group's and the Company's amounts due to reinsurers and cedants have been offset against amount from reinsurers and cedants as follows:

	Gross carrying amount	Gross amounts offset in the statements of financial position	Net amounts in the statements of financial position
	RM	RM	RM
31 December 2019			
Premium	18,559,321	(175,693)	18,383,628
Commissions	(2,484,432)	10,629	(2,473,803)
Claims	(1,452,976)	39,856	(1,413,120)
	<u>14,621,913</u>	<u>(125,208)</u>	<u>14,496,705</u>
31 December 2018			
Premium	21,366,994	(376,163)	20,990,831
Commissions	(2,930,048)	54,103	(2,875,945)
Claims	4,529,653	(3,651,780)	877,873
	<u>22,966,599</u>	<u>(3,973,840)</u>	<u>18,992,759</u>

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16. OTHER PAYABLES

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Provision for bonus	2,761,360	1,654,550	2,761,360	1,654,550
Amounts payable for purchase of shares/bonds	6,797,715	481,251	6,797,715	481,251
Provision for professional and legal fees	-	124,828	-	124,828
Salaries and wages control	406,493	239,069	406,493	239,069
Other payables	2,056,170	2,887,180	1,962,982	2,795,333
Accrued expenses	3,083,153	186,329	3,083,153	186,329
	<u>15,104,891</u>	<u>5,573,207</u>	<u>15,011,703</u>	<u>5,481,360</u>

17. OPERATING REVENUE

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Gross earned premium	133,557,293	134,914,169	133,557,293	134,914,169
Investment income before investment expenses (Note 18)	14,343,577	13,987,109	13,630,977	13,491,856
	<u>147,900,870</u>	<u>148,901,278</u>	<u>147,188,270</u>	<u>148,406,025</u>

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18. INVESTMENT INCOME, NET

	Group			Company	
	2019 RM	2018 RM		2019 RM	2018 RM
AFS financial assets					
<u>Interest/profit income:</u>					
Corporate debt securities	200,281	213,165		200,281	213,165
Distribution income from wholesale unit trust funds	3,589,888	2,591,841		8,627,246	8,104,583
Financial assets at FVTPL					
<u>Interest/profit income:</u>					
Malaysian Government Securities	364,329	348,439		-	-
Corporate debt securities	5,254,265	5,583,354		-	-
Amortisation of premium, net of accretion of discounts	(191,864)	(162,426)		-	-
<u>Dividend income:</u>					
Equity securities quoted in Malaysia	2,278,594	2,922,570		2,278,594	2,922,570
REITs	146,828	110,427		146,828	110,427
Interest/profit income from fixed and call deposits	<u>2,701,256</u>	<u>2,379,739</u>	<u>2,378,028</u>	<u>2,141,111</u>	
Investment income before investment expenses (Note 17)	14,343,577	13,987,109	13,630,977	13,491,856	
Less: Investment expenses	<u>(469,656)</u>	<u>(745,585)</u>	<u>(469,656)</u>	<u>(745,585)</u>	
	<u>13,873,921</u>	<u>13,241,524</u>	<u>13,161,321</u>	<u>12,746,271</u>	

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19. MANAGEMENT EXPENSES

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Employee benefits expenses (a)	23,292,700	20,573,046	23,292,700	20,573,046
Non-executive directors' remuneration (c):	539,189	591,500	539,189	591,500
- Fees	520,500	575,500	520,500	575,500
- Other emoluments	18,689	16,000	18,689	16,000
Auditors' remuneration:				
- Statutory audit	226,000	199,000	226,000	199,000
- Other auditors' fees	21,300	25,800	-	-
- Regulatory related fees	35,000	33,000	35,000	33,000
- Non-audit fees	22,700	23,500	16,000	16,000
Legal and professional fees	903,403	830,101	903,403	830,101
Management fees	3,063,530	467,037	3,063,530	467,037
(Reversal of)/allowance for impairment losses on insurance receivables (Note 9)	(1,070,653)	1,535,528	(1,070,653)	1,535,528
Bad debts written off	18,607	239,995	18,607	239,995
Depreciation:				
- Property and equipment (Note 3)	994,808	1,396,120	994,808	1,396,120
- Right-of-use assets (Note 4)	373,342	-	373,342	-
Interest on lease liabilities	209,907	-	209,907	-
Operating leases:				
- Office rental	16,800	525,626	16,800	525,626
- Office equipment rental	53,806	59,801	53,806	59,801
Computer maintenance charges	1,132,923	1,617,747	1,132,923	1,617,747
Computer lease line	385,714	374,128	385,714	374,128
Printing and stationery	506,144	584,186	506,144	584,186
Advertisement and publicity	487,902	662,727	487,902	662,727
Agents' training	695,428	658,590	695,428	658,590
Bank charges	386,936	496,989	386,936	496,989
Other expenses	<u>3,196,354</u>	<u>3,828,545</u>	<u>2,811,928</u>	<u>3,433,331</u>
	<u>35,491,840</u>	<u>34,722,966</u>	<u>35,079,414</u>	<u>34,294,452</u>

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19. MANAGEMENT EXPENSES (CONT'D.)

(a) Employee benefits expenses

	Group/Company	
	2019	2018
	RM	RM
Wages, salaries and bonuses	17,214,514	16,306,481
Social security contributions	156,083	158,255
Contribution to Employees Provident Fund	3,881,020	1,955,103
Other benefits	2,041,083	2,153,207
	<u>23,292,700</u>	<u>20,573,046</u>

Included in employee benefits expenses is the Executive Director's and Chief Executive Officer's remuneration amounting to RM1,988,139 (2018: RM1,767,618) as disclosed in Note 19(a)(i) and (ii).

	Group/Company	
	2019	2018
	RM	RM
(i) Chief Executive Officer -		
Leong Pang Cheung (Appointed on 26 August 2019)		
- Salary	230,645	-
- Allowance	8,387	-
- Defined contribution plan	19,117	-
- Bonus	55,100	-
Total salary costs (Note 19)	<u>313,249</u>	-
Benefits-in-kind	<u>8,005</u>	-
	<u>321,254</u>	-
(ii) Executive Director / Chief Executive Officer -		
Datuk Francis Lai @ Lai Vun Sen (Tenure expired on 1 September 2019)		
- Salary	826,387	748,840
- Allowance	110,250	130,000
- Defined contribution plan	244,211	259,072
- Bonus	494,042	629,706
Total salary costs (Note 19)	<u>1,674,890</u>	1,767,618
Benefits-in-kind	<u>35,918</u>	46,517
	<u>1,710,808</u>	1,814,135

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19. MANAGEMENT EXPENSES (CONT'D.)

(b) Non-Executive Directors' remuneration

	Group/Company	
	2019	2018
	RM	RM
Fees	520,500	575,500
Other emoluments	18,689	16,000
	539,189	591,500

Non-Executive Directors' remuneration by Director:

	Group/Company	
	2019	2018
	RM	RM
Datuk Wong Poh Loon (Chairman) (Appointed on 2 April 2019)	82,249	-
Tuan Haji Mohamed Rifai Bin Mohd Razi	93,500	85,000
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	93,500	87,750
Paul Chong Thian Soo (Appointed on 13 March 2019)	16,750	-
Chee Shok Ting (Appointed on 26 September 2019)	1,000	-
Datuk Datu Harun Bin Datu Mansor, JP (Chairman) (Tenure expired on 23 April 2019)	102,190	173,750
Datuk Siau Wui Kee (Tenure expired on 31 July 2019)	79,000	83,000
Datuk Janice Lim Fung Ha (Resigned on 1 April 2019)	71,000	78,000
	539,189	507,500

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20. REALISED GAINS

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
<u>AFS financial assets:</u>				
Wholesale unit trust funds	-	-	113,193	170,222
<u>Financial assets at FVTPL:</u>				
Equity securities	7,266,214	4,800,091	7,266,214	4,800,091
Corporate debt securities	<u>280,948</u>	<u>154,044</u>	<u>-</u>	<u>-</u>
	<u>7,547,162</u>	<u>4,954,135</u>	<u>7,379,407</u>	<u>4,970,313</u>

21. FAIR VALUE GAINS AND LOSSES

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Fair value gains/(losses) on financial assets at FVTPL				
	<u>14,106,669</u>	<u>(17,181,418)</u>	<u>10,721,292</u>	<u>(17,495,037)</u>

22. OTHER OPERATING INCOME

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Sundry income				
	6,755,862	4,476,316	6,755,862	4,473,816
Gains on disposal of property and equipment				
	72,923	25,800	72,923	25,800
Realised losses on foreign exchange				
	<u>(146,465)</u>	<u>(18,906)</u>	<u>(146,465)</u>	<u>(18,906)</u>
	<u>6,682,320</u>	<u>4,483,210</u>	<u>6,682,320</u>	<u>4,480,710</u>

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23. NET CLAIMS INCURRED

	Group/Company	
	2019	2018
	RM	RM
Gross claims paid less salvage	45,983,904	74,653,885
Claims ceded to reinsurers	(10,218,570)	(29,849,012)
Net claims paid	<u>35,765,334</u>	<u>44,804,873</u>
Gross change in contract liabilities:		
At 31 December	169,743,735	136,208,761
At 1 January	(136,208,761)	(171,794,338)
	<u>33,534,974</u>	<u>(35,585,577)</u>
Change in contract liabilities ceded to reinsurers:		
At 31 December	(78,326,917)	(43,509,359)
At 1 January	43,509,359	58,804,000
	<u>(34,817,558)</u>	<u>15,294,641</u>
	<u>34,482,750</u>	<u>24,513,937</u>

24. TAXATION

	Group/Company	
	2019	2018
	RM	RM
Current income tax	3,262,208	3,698,922
Under/(over) provision of income tax in prior year	<u>75,328</u>	<u>(215,463)</u>
	<u>3,337,536</u>	<u>3,483,459</u>
Deferred tax (Note 8):		
- Relating to origination and reversal of temporary differences	2,234,206	(3,873,678)
- Under provision of deferred tax in prior years	<u>227,937</u>	<u>215,600</u>
	<u>2,462,143</u>	<u>(3,658,078)</u>
	<u>5,799,679</u>	<u>(174,619)</u>

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24. TAXATION (CONT'D.)

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

	Group	
	2019	2018
	RM	RM
Profit before taxation	<u>31,464,502</u>	<u>7,243,966</u>
Taxation at Malaysian statutory tax rate of 24%	7,551,480	1,738,552
Income not subject to tax	(3,650,328)	(2,868,424)
Expenses not deductible for tax purposes	1,595,262	955,116
Under/(over) provision of income tax in prior year	75,328	(215,463)
Under provision of deferred tax in prior years	227,937	215,600
Taxation for the year	<u>5,799,679</u>	<u>(174,619)</u>
	Company	
	2019	2018
	RM	RM
Profit before taxation	<u>27,611,196</u>	<u>6,877,286</u>
Taxation at Malaysian statutory tax rate of 24%	6,626,687	1,650,549
Income not subject to tax	(2,626,552)	(2,677,577)
Expenses not deductible for tax purposes	1,496,279	852,272
Under/(over) provision of income tax in prior year	75,328	(215,463)
Under provision of deferred tax in prior years	227,937	215,600
Taxation for the year	<u>5,799,679</u>	<u>(174,619)</u>

25. EARNINGS PER ORDINARY SHARE

The basic earnings per ordinary share is calculated based on the net profit for the year of the Group of RM25,664,823 (2018: RM7,418,585) and the number of ordinary shares in issue during the year of 100,000,000 (2018: 100,000,000).

There was no potential dilutive effects of ordinary shares in issue at the end of the financial year.

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26. DIVIDENDS

	Recognised in Year	
	2019	2018
	RM	RM
In respect of financial year:		
2018: Final single-tier dividend of 3.52% on 100,000,000 ordinary shares (3.52 sen net per ordinary share)	3,520,000	-
2017: Final single-tier dividend of 13.00% on 100,000,000 ordinary shares (13.00 sen net per ordinary share)	-	13,000,000

27. OPERATING LEASE ARRANGEMENTS

The Group and the Company as lessee

The Group and the Company have entered into non-cancellable operating lease arrangements for the use of certain office premises. Certain contracts in these leases carry renewal options in the contracts. These contracts include fixed rentals over the tenure of the lease period.

The Group and the Company also lease office equipment under non-cancellable operating lease agreements with an automatic yearly renewal option unless a written termination notice is served by either party.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at reporting date but not recognised as liabilities are as follows:

	Group/Company	
	2019	2018
	RM	RM
Not later than 1 year	71,792	585,926
Later than 1 year and not later than 5 years	95,978	1,627,099
Later than 5 years	6	493
	167,776	2,213,518

From 1 January 2019, given the adoption of MFRS 16 *Leases*, the Group and the Company has recognised right-of-use assets for office rental, except for short term and low-value leases which remains as operating lease.

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27. OPERATING LEASE ARRANGEMENTS (CONT'D.)

Expenses incurred in relation to operating leases are disclosed in Note 19.

28. RELATED PARTY DISCLOSURES

For the purpose of these financial statements, related parties are considered to be related to the Group and the Company if the Group and the Company have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

<u>Name</u>	<u>Relationship</u>
State Government of Sabah	Shareholder
Sabah Development Bank Berhad	Other related company

The transactions between the Group and the Company and its related parties were based on normal commercial terms and conditions and made on terms equivalent to those that prevail in arm's length transactions.

- (a) The Group and the Company had the following significant transactions and balances with related parties during and at the end of the year:

	Company	
	2019	2018
	RM	RM
<u>Wholesale unit trust funds:</u>		
Distribution income	5,037,358	5,512,742
<u>Significant shareholders:</u>		
Balances:		
Corporate debt securities	-	5,000,000
Transactions:		
Interest income	213,164	226,048

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28. RELATED PARTY DISCLOSURES (CONT'D.)

- (a) The Group and the Company had the following significant transactions and balances with related parties during and at the end of the year:

	Group/Company	
	2019	2018
	RM	RM
<u>Related Companies:</u>		
Transactions:		
Gross premiums	9,883,326	9,593,033
Gross claims paid	(1,514,406)	(5,974,957)
Commission expenses	(529,794)	(417,935)
Interest income	-	143,370

- (b) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company. The key management of the Group and the Company includes the Directors and Chief Executive Officer of the Company. The remuneration of key management is disclosed in Note 19(a) and Note 19(b).

29. CAPITAL COMMITMENTS

	Group/Company	
	2019	2018
	RM	RM
Authorised but not contracted for - property and equipment	<u>10,169,146</u>	<u>14,606,000</u>

30. RISK MANAGEMENT FRAMEWORK

Risk management forms an integral part of the Group's core business processes and the Board, with the assistance of the management, had implemented risk management processes within the Group and the Company that sets out the overall business strategies and the general risk management philosophy. The Group and the Company are exposed to operational, financial and general risks.

Investments in subsidiaries (wholesale unit trust funds) are exposed to a variety of risks which include market risk, credit risk, liquidity risk and capital risk.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risk management relating to wholesale unit trust funds is carried out through internal control processes adopted by the fund manager and adherence to the investment restrictions as stipulated by the Securities Commission's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework and the Trust Deeds.

The risk management infrastructure of the Group and the Company set out clear accountability and responsibility for the risk management processes which underlines the oversight, principal risk management and control responsibilities:

Processes	Parties Responsible
Approval of risk management policies, risk appetite and risk tolerance	Board of Directors - Risk Management Committee ("RMC")
Formulate and implement risk methodology structure, policies, risk appetite and risk tolerance	Dedicated Committee - Risk Management Work Group ("RMWG")
Independent monitoring and review	Independent Risk Management - Internal Audit Department - Compliance Unit
Implementation and compliance with risk management policies and procedures	Business Units - Business Development Department and Branches - Underwriting Department - Reinsurance Department - Claims Department - Management Information Systems Department - Human Resource Department - Finance and Investment Departments - Actuarial Department

The formalised risk management framework of the Group and of the Company are as follows:

The Board of Directors are responsible for the Group's risk appetite/risk tolerance, capital management framework and risk management policies.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

The RMC was established to provide oversight on the risk management initiatives and drive the risk management processes in identifying principal business risks and the implementation of appropriate systems to manage these risks. The RMC is supported by the RMWG.

The RMWG, headed by the Chief Executive Officer, is responsible to identify detailed risk management activities undertaken by the senior management team and communicate to the RMC on critical risks (present and potential) in terms of likelihood of exposures, the impact on the Group's business and the management action plans to manage and mitigate these risks on a continuing basis.

The risk management policies are subject to review to ensure that they remain relevant and effective in managing the associated risks due to changes in the market and regulatory environments.

The independent risk management review under the Internal Audit Department provides support to the dedicated Audit Committee ("AC") and is responsible to ascertain that the risk policies are implemented and complied with.

The role of the AC, supported by the Internal Audit Department, is to provide an independent assessment of the adequacy, effectiveness and reliability of the risk management processes and system of internal controls and compliance with risk processes, laws, internal policies and regulatory guidelines.

The Business Units are responsible for identifying, mitigating and managing risks within their respective lines of business and ensuring that their day-to-day business activities are carried out in accordance with the established risk management policies, procedures and limits.

Capital Management Plan

The Group's and the Company's Capital Management Plan ("CMP") is in compliance with the Guidelines on Internal Capital Adequacy Assessment Processes ("ICAAP") issued by BNM for Insurers.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Capital Management Plan (Cont'd.)

Under the ICAAP Guidelines, there are six (6) key elements as tabulated below:

- Board and Senior Management Oversight
- Comprehensive Risk Assessment
- Individual Target Capital Level ("ITCL")
- Stress Testing
- Sound Capital Management
- Monitoring, Reporting and Review of ICAAP

The objective of the CMP is to optimise the efficiency and effective use of resources in order to maximise the returns and provide an appropriate level of capital protection to policyholders. The possible sources of vulnerabilities that can impact directly or indirectly on the operations and financial resilience of the Group and of the Company whilst complying with rules and regulations issued by the relevant authorities are taken into account.

The management of capital is guided by the CMP which is driven by the Group's business strategies and plans and organisational requisites which take into account the business and regulatory environment in which the Group and the Company operates.

The CMP takes into account how adverse scenarios are likely to affect the Group's risk management activities and sets out thresholds that act as triggers for corrective actions. The intensity of corrective actions increases depending on which threshold level is breached. The CMP ensures that an appropriate level of capital is maintained at all times.

Disclosure of the Company's compliance with the RBC Framework and the regulatory capital requirements are disclosed in Note 2.1 and Note 34 respectively.

Stress Testing

The Board and Management recognise stress testing as an effective risk management tool to identify potential threats due to exceptional but adverse plausible events.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Stress Testing (Cont'd.)

The stress testing process has been designed to suit the Group's and the Company's business environment and risk profile and is commensurate with the nature, complexity and sophistication of its business activities. Assumptions underlying the stress tests are consistent with the results of the comprehensive risk assessment to ensure that they are realistic. Challenging scenarios are incorporated into the stress testing exercise and will be continuously reviewed with the changing business environment. The stress testing process helps determine the extent by which capital may be eroded from exceptional but adverse plausible events.

The Board and Management participate actively in providing feedback and participating in the discussions on the methodology, assumptions and results of each stress testing exercise.

The Group's and the Company's stress testing process complies with the Guidelines of Stress Testing for Insurers issued by BNM. The results of the stress tests are submitted to BNM on a half yearly basis.

The stress test results together with the counter measures taken are tabled for the Board's deliberation and recommendation prior to submission to BNM.

Insurance risk

The Group and the Company underwrite various classes of general insurance contracts. The major classes of insurance business written are Fire, Motor, Marine, Bond and Engineering, Workmen's Compensation and Liabilities, Personal Accident and other Miscellaneous classes.

Insurance risk comprise both actuarial and underwriting risks resulting from pricing and acceptance processes and the inherent uncertainty regarding the occurrence, amount and timing of insurance liabilities. Insurance contracts transfer risks of the policyholders by indemnifying them against adverse effects arising from the occurrence of specified uncertain future events. The principal risk of the Group and of the Company under insurance contracts is that the actual claims and benefits payment differ from expectations and assumptions used in product pricing, risks that arise from fluctuations in timing, frequency and severity of claims as well as the adequacy of insurance liability reserves.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Insurance risk (Cont'd.)

The Group and the Company are also exposed to risks arising from climate changes, natural disasters and terrorism activities. There is also inflation risk for longer tailed exposures that take some years to settle. The Group and the Company work closely with reinsurance brokers and reinsurers and have in place a prudent underwriting process. In addition, the Group's reinsurance structure, strategies and policies are reviewed annually by management and approved by the Board. Reinsurance structures are designed based on the type of risks and catastrophe cover is obtained to mitigate catastrophic exposures.

Only reinsurers with a minimum rating of A are considered and the Group and the Company limits risks to any one reinsurer by ceding different products to different parties on the approved panel of reinsurers. In those exceptional cases where reinsurers with ratings lower than A are considered, a simultaneous payment clause is introduced in the policy to mitigate the risk of default and concentration of exposure.

Risks under general insurance policies usually cover a twelve-month duration with the exception of marine cargo which covers the duration of the voyage and some non-annual policies such as bond and engineering, workmen's compensation, etc., with a cover period of more than one year. The risk inherent in general insurance contracts is reflected in the insurance liabilities which include the premium and claim liabilities. The accounting policy for premium liabilities and claim liabilities are as disclosed in Note 2.2(q).

The Group's and the Company's objectives of managing insurance risk are to improve the long-term financial performance of the business and to achieve sustainable growth in profitability, strong asset quality and to continually optimise shareholders' value.

The Group's and the Company's underwriting strategy is to ensure that the risks underwritten are well diversified across the classes of insurance business and geographical areas. The variability of risks is managed by the selection and implementation of underwriting guidelines, which are designed to ensure that risks are diversified in terms of type of risks and level of insured benefits.

The Group and the Company adopts the following measures to manage its insurance risks:

- (i) The Group and the Company adopt an underwriting policy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility to ensure underwriting profitability. Acceptance of risk is guided by a set of underwriting guidelines with set limits on the type of risks underwritten, underwriting capacity and authority of individuals to underwrite risks based on their specific expertise.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Insurance risk (Cont'd.)

The Group and the Company adopts the following measures to manage its insurance risks:

- (ii) The Group and the Company have in place a claims management and control system to pay claims and to detect claims overpayment or fraud. The Group and the Company have claims review policies to assess new and ongoing claims. Review of claims handling procedures and investigation of possible fraudulent claims are put in place to reduce the risk exposure of the Group and the Company. The Group and the Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that may negatively impact the business. Inflation risk is mitigated by taking anticipated inflation into account when estimating insurance contract liabilities.
- (iii) The Group and the Company purchase reinsurance protection as part of its risks mitigation programme. The objective of purchasing reinsurance is to provide capacity for the Group and the Company while protecting its financial position and optimising the Group's capital efficiency. Reinsurance is ceded on a facultative, quota share, surplus share and non-proportional basis. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group and the Company substantially dependent upon any single reinsurance contract.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Insurance risk (Cont'd.)

The table below sets out the concentration of the Group's gross and net written premium by class of business.

	2019			2018		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Motor	31,659	(2,737)	28,922	33,810	(2,571)	31,239
Fire	30,514	(20,937)	9,577	29,724	(19,777)	9,947
MAT	11,502	(10,872)	630	5,459	(4,885)	574
Miscellaneous	57,948	(40,861)	17,087	72,156	(53,952)	18,204
	<u>131,623</u>	<u>(75,407)</u>	<u>56,216</u>	<u>141,149</u>	<u>(81,185)</u>	<u>59,964</u>

The table below sets out the concentration of the Group's insurance contract liabilities by class of business.

	2019			2018		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Motor	102,679	(13,021)	89,658	111,241	(16,344)	94,897
Fire	56,300	(47,700)	8,600	16,649	(9,447)	7,202
MAT	10,565	(9,876)	689	8,934	(8,119)	815
Miscellaneous	63,913	(39,050)	24,863	65,033	(38,711)	26,322
	<u>233,457</u>	<u>(109,647)</u>	<u>123,810</u>	<u>201,857</u>	<u>(72,621)</u>	<u>129,236</u>

Key assumptions

The principal assumption underlying the estimation of insurance contract liabilities is that the Group's and the Company's future claims development will follow a similar pattern to past claims experience. This includes assumptions in respect of average claims costs, claims handling costs and historical claims development trend. Qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence as well as internal factors such as portfolio mix, policy conditions and claims handling procedures, legislative changes, judicial decisions and economic conditions. The actual claim and premium liabilities are unlikely to develop exactly as projected and may vary from initial estimates.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Key assumptions (Cont'd.)

No discounting is made to the recommended claim and premium liability provisions as a prudent measure and no explicit inflation adjustment has been made to claims payable in the future. However, implicit inflation is allowed for future claims to the extent that it is evident in past claims development.

The Group and the Company has based the provision of risk margin for adverse deviation for its Unexpired Risk Reserve ("URR") and claim liabilities at a 75% confidence level in accordance with the requirements prescribed under the RBC Framework issued by BNM.

Sensitivities

The Group and the Company engaged an independent actuarial firm to run a sensitivity analysis of the liabilities and comparison of past valuation results. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Group's and the Company's estimation process in respect of its insurance contract liabilities. The table presented below demonstrates the sensitivity of the insurance contract liabilities to a change in the assumptions used in the estimation process.

The analysis below is performed for a change in one variable with all other variables remaining constant and ignores the values of the related assets, showing the impact on gross and net liabilities, profit before tax and equity. The variables include average claim costs, average number of claims and average claims settlement period for each accident year. The impact on the Group's and the Company's claim liabilities arising from changes in key variables as well as the corresponding impact on profit before tax and equity are shown in the table below.

Change in assumptions		Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
← Increase / (Decrease) →					
31 December 2019					
Average claim cost	+10%	14,163	7,820	(7,820)	(5,943)
Average number of claims	+10%	12,518	6,609	(6,609)	(5,022)
Average claims settlement period	Increased by 6 months	4,049	2,540	(2,540)	(1,930)

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Sensitivities (Cont'd.)

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity * RM'000
←———— Increase / (Decrease) —————→					
31 December 2019					
Average claim cost	-10%	(14,163)	(7,068)	7,068	5,372
Average number of claims	-10%	(12,518)	(6,134)	6,134	4,662
Average claims settlement period	Decreased by 6 months	(3,931)	(2,457)	2,457	1,867
31 December 2018					
Average claim cost	+10%	9,873	6,656	(6,656)	(5,058)
Average number of claims	+10%	8,201	5,347	(5,347)	(4,064)
Average claims settlement period	Increased by 6 months	3,010	2,143	(2,143)	(1,628)
31 December 2018					
Average claim cost	-10%	(9,869)	(6,646)	6,646	5,051
Average number of claims	-10%	(8,178)	(5,338)	5,338	4,057
Average claims settlement period	Decreased by 6 months	(2,917)	(2,072)	2,072	1,575

* The effect on equity is shown net of tax.

Claims development table

The following tables show estimated cumulative incurred claims of the Group's motor and non-motor businesses, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date. While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies arising from the past claims development on current unpaid loss balances.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Claims development table (Cont'd.)

The Group and the Company believes that the estimated claim liabilities as at reporting date are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be fully assured that such balances will ultimately prove to be adequate. The disclosure on claims development aims to compare the results of past valuations to the development of actual claims and the tables below summarise the analysis of claims development in total on a net of reinsurance and gross of reinsurance basis.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

2019 Claims development table - Group and Company

Analysis of Claims Development - Gross of Reinsurance (RM'000)

Total Gross Business Within Malaysia

	Accident Year									Total
	2012	2013	2014	2015	2016	2017	2018	2019		
Ultimate Claims Incurred										
At end of accident year	80,888	85,032	71,721	93,129	69,387	75,701	60,956	92,425		
One year later	79,812	89,579	68,465	97,043	66,423	73,605	57,643			
Two years later	77,431	84,380	66,708	85,411	61,252	66,668				
Three years later	75,262	82,765	66,242	80,850	60,189					
Four years later	76,293	81,482	64,234	79,796						
Five years later	71,888	79,523	61,434							
Six years later	71,045	78,212								
Seven years later	71,780									
Current estimate of cumulative claims incurred	71,780	78,212	61,434	79,796	60,189	66,668	57,643	92,425	568,147	
Cumulative Claims Paid										
At end of accident year	21,118	28,730	25,115	27,209	24,781	23,874	23,018	16,140		
One year later	50,920	64,655	45,868	48,473	46,802	49,042	39,595			
Two years later	61,256	71,735	53,799	63,890	52,531	54,092				
Three years later	66,488	74,649	55,638	72,625	54,806					
Four years later	68,140	75,065	59,258	74,759						
Five years later	69,230	76,518	59,165							
Six years later	69,552	76,708								
Seven years later	69,071									
Cumulative payments to date	69,071	76,708	59,165	74,759	54,806	54,092	39,595	16,140	444,336	
Direct & Fac. Inwards										
	2,710	1,504	2,270	5,037	5,383	12,576	18,048	76,286	123,814	
Treaty Inwards										
									260	
MMIP										
									30,054	
Best Estimate of Claim Liabilities										
									154,128	
Claim Handling Expenses										
									2,794	
Fund PRAD at 75% Confidence Interval										
									12,822	
Gross General Insurance Claim Liabilities										
									169,744	

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)**2019 Claims development table - Group and Company (Cont'd.)****Analysis of Claims Development - Net of Reinsurance (RM'000)****Total Net Business Within Malaysia**

	Accident Year									Total
	2012	2013	2014	2015	2016	2017	2018	2019		
Ultimate Claims Incurred										
At end of accident year	37,822	43,789	53,489	47,621	47,818	48,461	38,665	37,422		
One year later	35,033	44,230	48,671	48,200	48,924	42,728	40,154			
Two years later	33,925	44,033	47,312	47,244	45,500	39,226				
Three years later	33,377	43,491	45,533	45,864	43,702					
Four years later	33,147	43,566	45,963	44,959						
Five years later	32,618	43,419	44,687							
Six years later	43,267	42,325								
Seven years later	43,140									
Current estimate of cumulative claims incurred	43,140	42,325	44,687	44,959	43,702	39,226	40,154	37,422	335,615	
Cumulative Claims Paid										
At end of accident year	15,254	19,006	18,775	18,827	18,353	15,061	15,767	11,852		
One year later	30,241	34,116	33,736	35,238	34,289	29,234	28,151			
Two years later	38,573	38,669	38,826	39,218	37,446	32,667				
Three years later	40,529	40,729	40,483	40,248	39,389					
Four years later	41,410	41,188	43,608	41,937						
Five years later	42,466	41,831	43,988							
Six years later	42,757	42,016								
Seven years later	42,465									
Cumulative payments to date	42,465	42,016	43,988	41,937	39,389	32,667	28,151	11,852	282,465	

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

2018 Claims development table - Group and Company

Analysis of Claims Development - Gross of Reinsurance (RM'000)

Total Gross Business Within Malaysia

	Accident Year									Total
	2011	2012	2013	2014	2015	2016	2017	2018		
Ultimate Claims Incurred										
At end of accident year	82,342	80,888	85,032	71,721	93,129	69,387	75,701	60,956		
One year later	79,687	79,812	89,579	68,465	97,043	66,423	73,605			
Two years later	77,393	77,431	84,380	66,708	85,411	61,252				
Three years later	73,107	75,262	82,765	66,242	80,850					
Four years later	72,252	76,293	81,482	64,234						
Five years later	71,281	71,888	79,523							
Six years later	69,711	71,045								
Seven years later	69,214									
Current estimate of cumulative claims incurred	69,214	71,045	79,523	64,234	80,850	61,252	73,605	60,956	560,679	
Cumulative Claims Paid										
At end of accident year	32,702	21,118	28,730	25,115	27,209	24,781	23,874	23,018		
One year later	58,368	50,920	64,655	45,868	48,473	46,802	49,042			
Two years later	64,934	61,256	71,735	53,799	63,890	52,531				
Three years later	66,547	66,488	74,649	55,638	72,625					
Four years later	67,259	68,140	75,065	59,258						
Five years later	66,966	69,230	76,518							
Six years later	67,333	69,552								
Seven years later	67,391									
Cumulative payments to date	67,391	69,552	76,518	59,258	72,625	52,531	49,042	23,018	469,935	
Direct & Fac. Inwards										
	1,823	1,493	3,005	4,975	8,225	8,721	24,564	37,939	90,745	
Treaty Inwards										
									357	
MMIP										
									34,259	
Best Estimate of Claim Liabilities										
									125,361	
Claim Handling Expenses										
									1,879	
Fund PRAD at 75% Confidence Interval										
									8,969	
Gross General Insurance Claim Liabilities										
									136,209	

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)**2018 Claims development table - Group and Company (Cont'd.)****Analysis of Claims Development - Net of Reinsurance (RM'000)****Total Net Business Within Malaysia**

	Accident Year								Total
	2011	2012	2013	2014	2015	2016	2017	2018	
Ultimate Claims Incurred									
At end of accident year	37,822	43,789	53,489	47,621	47,818	48,461	44,792	39,482	
One year later	35,033	44,230	48,671	48,200	48,924	47,068	41,387		
Two years later	33,925	44,033	47,312	47,244	47,420	44,212			
Three years later	33,377	43,491	45,533	46,061	45,165				
Four years later	33,147	43,566	44,841	45,227					
Five years later	32,618	43,556	43,337						
Six years later	31,457	43,074							
Seven years later	31,180								
Current estimate of cumulative claims incurred	31,180	43,074	43,337	45,227	45,165	44,212	41,387	39,482	333,064
Cumulative Claims Paid									
At end of accident year	14,867	15,254	19,006	18,775	18,827	18,353	15,061	15,767	
One year later	24,017	30,241	34,116	33,736	35,238	34,289	29,234		
Two years later	28,053	38,573	38,669	38,826	39,218	37,446			
Three years later	29,846	40,529	40,729	40,483	40,248				
Four years later	30,426	41,410	41,188	43,608					
Five years later	30,447	42,466	41,831						
Six years later	30,679	42,757							
Seven years later	30,745								
Cumulative payments to date	30,745	42,757	41,831	43,608	40,248	37,446	29,234	15,767	281,636

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks

The Group and the Company are exposed to a variety of financial risks that includes credit risk, liquidity risk, market risk and operational risk that arise in the normal course of business. The Group and the Company's overall financial risk management objective is to ensure that the Group creates value for its shareholders whilst minimising potential exposures to adverse effects on its financial performance and positions.

The Group and the Company are guided by financial risk management policies and guidelines which set out the overall business strategies and the general risk management philosophy and processes. The Group has established internal processes to monitor the risks on an ongoing basis and support the development of the Group's and the Company's business.

(i) Credit risk

Credit risk is the potential financial loss resulting from the failure of counterparties such as customers, intermediaries or counterparties to settle its financial and contractual obligations to the Group and the Company as and when they fall due.

The Group's and the Company's primary exposure to credit risk arises through its investment in fixed income securities, receivables arising from sales of insurance policies and obligations of reinsurers through reinsurance contracts. The Group and the Company have put in place investment guidelines and credit policies as part of its overall credit risk management framework. The Group and the Company manage individual exposures as well as concentration of credit risks. At the end of the reporting period, there were no significant concentration of credit risks.

Evaluation of an issuer's credit risk is undertaken by the Investment Unit within the Accounts and Finance Department. The Group and the Company use the ratings assigned by external rating agencies to assess an issuer's credit risk. Monitoring of credit and concentration risk is carried out by the Accounts and Finance Department which reports to the Investment Management Committee and the Board of Directors.

Cash and deposits are generally placed with financial institutions, licensed under the Financial Services Act 2013, which are regulated by BNM.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Receivables arising from insurance and reinsurance contracts are monitored by the Credit Control Unit within the Accounts and Finance Department to ensure adherence to the Group's credit policy. As part of the overall risk management strategy, the Group and the Company cedes insurance risk through facultative, quota share, surplus share and non-proportional treaty reinsurance arrangements to mitigate concentration and overexposure of risks. The Group and the Company introduced the simultaneous payment clause in the policy when the proportion of any one or more foreign reinsurers' share of participation is deemed significant.

The Group and the Company monitor the credit quality and financial conditions of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. When selecting its reinsurers, the Group and the Company consider their relative financial security and rating and mitigates concentration of risk by having a panel of reinsurers. The security of the reinsurer is assessed based on public rating information and annual reports.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

The following table shows the financial and insurance assets of the Group and of the Company by their credit rating:

Group	Malaysian Licensed								Not Subject to Credit risk	Total
	AAA	AA	A	Financial Insurers	Malaysian Securities	Government	D	Not-rated		
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
31 December 2019										
Financial assets at FVTPL	28,856,898	62,769,028	16,761,737	-	531,558	-	12,564,895	87,255,988	208,740,104	
AFS financial assets	-	-	-	-	-	-	1	-	73,231,365	73,231,366
Reinsurance assets	76,529	1,471,396	50,593,855	56,103,319	-	-	1,401,548	-	109,646,647	
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	-	50,605,277	-	50,605,277
Fixed and call deposits	-	-	-	50,412,998	-	-	34,000,000	-	84,412,998	
Insurance receivables	-	-	453	16,190,790	-	-	1,380	-	16,192,623	
Cash and bank balances	-	-	-	9,666,326	-	-	-	-	-	9,666,326
	28,933,427	64,240,424	67,356,045	132,373,433	531,558	1	98,573,100	160,487,353	552,495,341	

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

The following table shows the financial and insurance assets of the Group and of the Company by their credit rating:

Group	Malaysian Licensed Financial Institutions/ Insurers								Not Subject to Credit risk	Total RM
	AAA RM	AA RM	A RM	Malaysian Government	Securities RM	D RM	Not-rated RM			
31 December 2018										
Financial assets at FVTPL	34,380,919	53,824,782	13,396,598	-	8,524,461	-	8,114,972	73,670,552	191,912,284	
AFS financial assets	5,004,700	-	-	-	-	1	-	67,622,018	72,626,719	
Reinsurance assets	-	1,110,835	14,400,130	55,168,166	-	-	1,941,557	-	72,620,688	
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	56,821,105	-	56,821,105	
Fixed and call deposits	-	-	-	29,018,538	-	-	34,000,000	-	63,018,538	
Insurance receivables	-	-	60,997	15,622,270	-	-	149,808	-	15,833,075	
Cash and bank balances	-	-	-	16,166,682	-	-	-	-	16,166,682	
	39,385,619	54,935,617	27,857,725	115,975,656	8,524,461	1	101,027,442	141,292,570	488,999,091	

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

The following table shows the financial and insurance assets of the Group and of the Company by their credit rating:

Company	Malaysian Licensed Financial Institutions/ Insurers Malaysian Securities Government D Not-rated								Not Subject to Credit risk	Total
	AAA	AA	A	Insurers	Securities	Government	D	Not-rated		
	RM	RM	RM	RM	RM	RM	RM	RM		RM
31 December 2019										
Financial assets at FVTPL	-	-	-	-	-	-	-	-	87,255,988	87,255,988
AFS financial assets	-	-	-	-	-	-	1	-	200,371,781	200,371,782
Reinsurance assets	76,529	1,471,396	50,593,855	56,103,319	-	-	1,401,548	-	109,646,647	
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	50,605,277	-	50,605,277	
Fixed and call deposits	-	-	-	40,798,356	-	-	34,000,000	-	74,798,356	
Insurance receivables	-	-	453	16,190,790	-	-	1,380	-	16,192,623	
Cash and bank balances	-	-	-	9,437,604	-	-	-	-	9,437,604	
	76,529	1,471,396	50,594,308	122,530,069	-	1	86,008,205	287,627,769	548,308,277	

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

The following table shows the financial and insurance assets of the Group and of the Company by their credit rating:

Company	Malaysian Licensed								Not Subject to Credit risk	Total
	AAA	AA	A	Financial Insurers	Malaysian Securities	Government	D	Not-rated		
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
31 December 2018										
Financial assets at FVTPL	-	-	-	-	-	-	-	-	73,670,552	73,670,552
AFS financial assets	5,004,700	-	-	-	-	-	1	-	190,981,706	195,986,407
Reinsurance assets	-	1,110,835	14,400,130	55,168,166	-	-	1,941,557	-	-	72,620,688
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	-	56,821,105	-	56,821,105
Fixed and call deposits	-	-	-	25,248,066	-	-	34,000,000	-	-	59,248,066
Insurance receivables	-	-	60,997	15,622,270	-	-	149,808	-	-	15,833,075
Cash and bank balances	-	-	-	10,834,229	-	-	-	-	-	10,834,229
	5,004,700	1,110,835	14,461,127	106,872,731			1	92,912,470	264,652,258	485,014,122

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Credit exposure by credit quality

The table below provides information regarding the credit risk exposure of the Group and of the Company by classifying financial and insurance assets according to the credit ratings of counterparties.

Group	Malaysian Licensed Financial Institutions/Insurers					Total RM
	Investment grade	Neither past due nor impaired	Past due	Not rated	Not Subject to Credit risk	
	RM	RM	RM	RM	RM	RM
31 December 2019						
Financial assets at FVTPL	108,919,221	-	-	12,564,895	87,255,988	208,740,104
AFS financial assets	1	-	-	-	73,231,365	73,231,366
Reinsurance assets	52,141,780	56,103,319	-	1,401,548	-	109,646,647
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	50,605,277	-	50,605,277
Fixed and call deposits	50,412,998	-	-	34,000,000	-	84,412,998
Insurance receivables	453	12,439,143	3,751,647	1,380	-	16,192,623
Cash and bank balances	9,666,326	-	-	-	-	9,666,326
	221,140,779	68,542,462	3,751,647	98,573,100	160,487,353	552,495,341

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Credit exposure by credit quality (Cont'd.)

The table below provides information regarding the credit risk exposure of the Group and of the Company by classifying financial and insurance assets according to the credit ratings of counterparties.

Group	Malaysian Licensed Financial Institutions/Insurers					Total RM
	Investment grade	Neither past due nor impaired	Past due	Not rated	Not Subject to Credit risk	
	RM	RM	RM	RM	RM	RM
31 December 2018						
Financial assets at FVTPL	110,126,760	-	-	8,114,972	73,670,552	191,912,284
AFS financial assets	5,004,701	-	-	-	67,622,018	72,626,719
Reinsurance assets	15,510,965	55,168,166	-	1,941,557	-	72,620,688
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	56,821,105	-	56,821,105
Fixed and call deposits	29,018,538	-	-	34,000,000	-	63,018,538
Insurance receivables	60,997	13,248,110	2,374,160	149,808	-	15,833,075
Cash and bank balances	16,166,682	-	-	-	-	16,166,682
	175,888,643	68,416,276	2,374,160	101,027,442	141,292,570	488,999,091

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Credit exposure by credit quality (Cont'd.)

The table below provides information regarding the credit risk exposure of the Group and of the Company by classifying financial and insurance assets according to the credit ratings of counterparties.

Company	Malaysian Licensed Financial Institutions/Insurers					Total RM
	Investment grade	Neither past due nor impaired RM	Past due RM	Not rated RM	Not Subject to Credit risk RM	
31 December 2019						
Financial assets at FVTPL	-	-	-	-	87,255,988	87,255,988
AFS financial assets	1	-	-	-	200,371,781	200,371,782
Reinsurance assets	52,141,780	56,103,319	-	1,401,548	-	109,646,647
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	50,605,277	-	50,605,277
Fixed and call deposits	40,798,356	-	-	34,000,000	-	74,798,356
Insurance receivables	453	12,439,143	3,751,647	1,380	-	16,192,623
Cash and bank balances	9,437,604	-	-	-	-	9,437,604
	102,378,194	68,542,462	3,751,647	86,008,205	287,627,769	548,308,277

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Credit exposure by credit quality (Cont'd.)

The table below provides information regarding the credit risk exposure of the Group and of the Company by classifying financial and insurance assets according to the credit ratings of counterparties.

Company	Malaysian Licensed Financial Institutions/Insurers					Total RM
	Investment grade	Neither past due nor impaired RM	Past due RM	Not rated RM	Not Subject to Credit risk RM	
31 December 2018						
Financial assets at FVTPL	-	-	-	-	73,670,552	73,670,552
AFS financial assets	5,004,701	-	-	-	190,981,706	195,986,407
Reinsurance assets	15,510,965	55,168,166	-	1,941,557	-	72,620,688
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	56,821,105	-	56,821,105
Fixed and call deposits	25,248,066	-	-	34,000,000	-	59,248,066
Insurance receivables	60,997	13,248,110	2,374,160	149,808	-	15,833,075
Cash and bank balances	10,834,229	-	-	-	-	10,834,229
	56,658,958	68,416,276	2,374,160	92,912,470	264,652,258	485,014,122

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Credit exposure by credit quality (Cont'd.)

A financial asset is deemed past due when the counterparty has failed to make payment when the outstanding amount falls due. The table presents those financial assets which are past due at the reporting date.

Group/Company

	Past due but not impaired		Past due and impaired	Total		
	More than					
	6-12 Months	More than 12 months				
	RM	RM	RM	RM		
2019						
Insurance receivables	1,187,458	2,564,189	3,751,647	4,484,028		
				8,235,675		
2018						
Insurance receivables	574,936	1,799,224	2,374,160	5,554,681		
				7,928,841		

* Reflects the nominal amounts of impaired balances.

(ii) Liquidity risk

Liquidity risk is the risk that the Group and the Company may not have sufficient liquid financial resources to meet their obligations when they fall due or any sudden or unplanned increases in demand for payment. In respect of catastrophic events, there is also a liquidity risk associated with the timing of recoveries between gross cash outflows and expected reinsurance recoveries. As part of the Group's and the Company's policy on liquidity management, sufficient levels of financial resources are maintained to meet expected liquidity needs under normal and stressed conditions.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(ii) Liquidity risk (Cont'd.)

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk:

The Group and the Company have established a Group and a Company-wide liquidity risk management policy setting out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and reported monthly and exposures and breaches are reported to the Management as soon as possible. The Investment Committee, assisted by Management, are responsible for liquidity management based on guidelines approved by the Board.

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 contract obligations. As part of its liquidity management, the Group and the Company maintain sufficient levels of cash and cash equivalents to meet expected and unexpected payments and funding needs. In the event that there are unexpected outflows beyond the normal and stressed conditions, the Group and Company can still uplift the cash and fixed deposits to meet the funding needs.

The Group's and the Company's treaty reinsurance contracts contain a "cash call" clause permitting the Group and the Company to make cash calls on claims and receive immediate payment for large losses without waiting for the usual periodic payment procedures that will mitigate and ease the funding needs for payment of large claims.

Maturity profiles

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

The maturity groupings for AFS and FVTPL financial assets which are debt instruments follow the maturity date of the instruments.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(ii) Liquidity risk (Cont'd.)

Maturity profiles (Cont'd.)

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as these are not contractual obligations.

Group	Maturity Period						No maturity	Total
	Carrying value	Up to a year	1-3 years	3-5 years	5-15 years	Over 15 years		
31 December 2019	RM	RM	RM	RM	RM	RM	RM	RM
Financial assets at FVTPL	208,740,104	12,090,185	27,328,945	29,200,370	77,655,890	8,658,800	87,255,988	242,190,178
AFS financial assets	73,231,366	-	-	-	-	-	73,231,365	73,231,365
Reinsurance assets, excluding premium liabilities	78,326,917	56,847,411	19,233,932	2,095,049	150,525	-	-	78,326,917
Loans and receivables, excluding fixed and call deposits and prepayments	50,605,277	29,307,248	16,390,441	4,378,551	529,037	-	-	50,605,277
Fixed and call deposits	84,412,998	85,536,232	-	-	-	-	-	85,536,232
Insurance receivables	16,192,623	16,192,623	-	-	-	-	-	16,192,623
Cash and bank balances	9,666,326	9,666,326	-	-	-	-	-	9,666,326
Total assets	521,175,611	209,640,025	62,953,318	35,673,970	78,335,452	8,658,800	160,487,353	555,748,918
Insurance contract liabilities, excluding premium liabilities	169,743,735	104,683,006	52,518,775	11,250,745	1,291,209	-	-	169,743,735
Other financial liabilities	28,036,541	19,995,297	7,232,335	1,106,291	-	-	-	28,333,923
Insurance payables	15,176,685	15,176,685	-	-	-	-	-	15,176,685
Other payables	15,104,891	15,104,891	-	-	-	-	-	15,104,891
Total liabilities	228,061,852	154,959,879	59,751,110	12,357,036	1,291,209	-	-	228,359,234

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(ii) Liquidity risk (Cont'd.)

Maturity profiles (Cont'd.)

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as these are not contractual obligations.

Group	Maturity Period								Total RM		
	Carrying value RM	Up to a year RM		1-3 years RM		3-5 years RM		5-15 years RM	Over 15 years RM		
31 December 2018											
Financial assets at FVTPL	191,912,284	37,165,675		17,527,665		33,830,715		54,018,425	6,051,600	73,670,552	222,264,632
AFS financial assets	72,626,719	5,213,750		-		-		-	-	67,622,018	72,835,768
Reinsurance assets, excluding premium liabilities	43,509,359	30,428,769		11,360,121		1,656,967		63,502	-	-	43,509,359
Loans and receivables, excluding fixed and call deposits and prepayments	56,821,105	34,589,492		17,659,955		4,145,410		426,248	-	-	56,821,105
Fixed and call deposits	63,018,538	63,660,924		-		-		-	-	-	63,660,924
Insurance receivables	15,833,075	15,833,075		-		-		-	-	-	15,833,075
Cash and bank balances	16,166,682	16,166,682		-		-		-	-	-	16,166,682
Total assets	459,887,762	203,058,367		46,547,741		39,633,092		54,508,175	6,051,600	141,292,570	491,091,545
Insurance contract liabilities, excluding premium liabilities	136,208,761	80,784,556		45,257,846		9,322,956		843,403	-	-	136,208,761
Other financial liabilities	28,141,382	16,506,961		9,400,400		1,970,236		566,690	-	-	28,444,287
Insurance payables	19,991,308	19,991,308		-		-		-	-	-	19,991,308
Other payables	5,573,207	5,573,207		-		-		-	-	-	5,573,207
Total liabilities	189,914,658	122,856,032		54,658,246		11,293,192		1,410,093	-	-	190,217,563

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(ii) Liquidity risk (Cont'd.)

Maturity profiles (Cont'd.)

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as these are not contractual obligations.

Company	Maturity Period						No maturity RM	Total RM
	Carrying value RM	Up to a year RM	1-3 years RM	3-5 years RM	5-15 years RM	Over 15 years RM		
31 December 2019								
Financial assets at FVTPL	87,255,988	-	-	-	-	-	87,255,988	87,255,988
AFS financial assets	200,371,782	-	-	-	-	-	200,371,781	200,371,781
Reinsurance assets, excluding premium liabilities	78,326,917	56,847,411	19,233,932	2,095,049	150,525	-	-	78,326,917
Loans and receivables, excluding fixed and call deposits and prepayments	50,605,277	29,307,248	16,390,441	4,378,551	529,037	-	-	50,605,277
Fixed and call deposits	74,798,356	75,920,795	-	-	-	-	-	75,920,795
Insurance receivables	16,192,623	16,192,623	-	-	-	-	-	16,192,623
Cash and bank balances	9,437,604	9,437,604	-	-	-	-	-	9,437,604
Total assets	516,988,547	187,705,681	35,624,373	6,473,600	679,562	-	287,627,769	518,110,985
Insurance contract liabilities, excluding premium liabilities	169,743,735	104,683,006	52,518,775	11,250,745	1,291,209	-	-	169,743,735
Other financial liabilities	28,036,541	19,995,297	7,232,335	1,106,291	-	-	-	28,333,923
Insurance payables	15,176,685	15,176,685	-	-	-	-	-	15,176,685
Other payables	15,011,703	15,011,703	-	-	-	-	-	15,011,703
Total liabilities	227,968,664	154,866,691	59,751,110	12,357,036	1,291,209	-	-	228,266,046

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(ii) Liquidity risk (Cont'd.)

Maturity profiles (Cont'd.)

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as these are not contractual obligations.

Company	Maturity Period						No maturity RM	Total RM
	Carrying value RM	Up to a year RM	1-3 years RM	3-5 years RM	5-15 years RM	Over 15 years RM		
31 December 2018								
Financial assets at FVTPL	73,670,552	-	-	-	-	-	73,670,552	73,670,552
AFS financial assets	195,986,407	5,213,750	-	-	-	-	190,981,706	196,195,456
Reinsurance assets, excluding premium liabilities	43,509,359	30,428,769	11,360,121	1,656,967	63,502	-	-	43,509,359
Loans and receivables, excluding fixed and call deposits and prepayments	56,821,105	34,589,492	17,659,955	4,145,410	426,248	-	-	56,821,105
Fixed and call deposits	59,248,066	59,851,733	-	-	-	-	-	59,851,733
Insurance receivables	15,833,075	15,833,075	-	-	-	-	-	15,833,075
Cash and bank balances	10,834,229	10,834,229	-	-	-	-	-	10,834,229
Total assets	455,902,793	156,751,048	29,020,076	5,802,377	489,750	-	264,652,258	456,715,509
 Insurance contract liabilities, excluding premium liabilities								
Other financial liabilities	136,208,761	80,784,556	45,257,846	9,322,956	843,403	-	-	136,208,761
Insurance payables	28,141,382	16,506,961	9,400,400	1,970,236	566,690	-	-	28,444,287
Other payables	19,991,308	19,991,308	-	-	-	-	-	19,991,308
Total liabilities	189,822,811	122,764,185	54,658,246	11,293,192	1,410,093	-	-	190,125,716

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of exposures: foreign exchange rates (currency risk), market interest rates (interest rates/profit yield risk) and market prices (price risk).

The Group and the Company have policies and limits to manage market risk through portfolio diversification and asset allocation. The Group's and the Company's policies on asset allocation, portfolio limit structure and diversification benchmarks have been set in line with the Group's and the Company's investment policy after taking into consideration the requirements of maintenance of liquidity, assets and solvency for RBC purposes. Compliance with the policy is monitored and reported periodically to the Board.

(a) 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.

The Company does not have exposure to foreign currency risk via direct investments. However, foreign currency risk exists in some reinsurance premiums that are paid in foreign currencies. The payment of reinsurance premium in foreign currencies are not hedged as these are paid in USD equivalent based on the prevailing exchange rates at the time of payment.

Due to insignificant exposure to foreign currencies, these currency risk have no significant impact on the financial position and/or profit or loss of the Group and the Company.

(b) Interest rate/profit yield risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate/profit yield.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(iii) Market risk (Cont'd.)

(b) Interest rate/profit yield risk (Cont'd.)

The Group's and the Company are exposed to interest rate risk primarily through investments in fixed income securities. As the wholesale unit trust funds invest mainly in Corporate Debt Securities and Malaysian Government Securities, the net asset value ("NAV") of the funds reported by the Fund Managers would also be sensitive to interest rate movements. The impact of changes in interest rates to the fair value of investments held by the Group and the Company are as shown in the table below.

	Group				
	1.00% RM'000	1.25% RM'000	1.50% RM'000	1.75% RM'000	2.00% RM'000
Increase in interest rates					
2019					
Decrease in AFS reserve	-	-	-	-	-
Decrease in profit and loss after taxation/equity	4,509	5,578	6,624	7,649	8,655
2018					
Decrease in AFS reserve	34	43	51	60	68
Decrease in profit and loss after taxation/equity	3,736	4,620	5,486	6,334	7,166
	Company				
	1.00% RM'000	1.25% RM'000	1.50% RM'000	1.75% RM'000	2.00% RM'000
Increase in interest rates					
2019					
Decrease in AFS reserve	-	-	-	-	-
2018					
Decrease in AFS reserve	34	43	51	60	68

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(iii) Market risk (Cont'd.)

(b) Interest rate/profit yield risk (Cont'd.)

An equivalent decrease in interest rates shown above would result in an equivalent, but opposite impact.

(c) Price risk

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), regardless of whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Group's and the Company's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market

The Group and the Company are exposed to price risk arising from investments in quoted equities and wholesale unit trust funds held by the Group and the Company and in the statements of financial position which are classified as either FVTPL or AFS financial assets.

The analysis below is performed for reasonably possible movements in equity prices and the NAV of unit trust fund prices with all other variables held constant, showing the impact on the profit and loss and to equity.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(iii) Market risk (Cont'd.)

(c) Price risk (Cont'd.)

Changes in variable	Group/Company			
	31 December 2019		31 December 2018	
	Impact on income statements	Impact on equity*	Impact on income statement	Impact on equity*
	RM	RM	RM	RM
Equity prices +25%	21,189,223	16,103,809	17,949,110	13,641,324
Equity prices -25%	(21,189,223)	(16,103,809)	(17,949,110)	(13,641,324)

* Impact on equity is shown net of tax.

^ Does not include impact on wholesale unit trust funds as the key risk affecting the value of such funds is interest rate/profit yield risk.

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

(iv) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can potentially impact partly or fully the achievement of the Group's objectives and cause damage to reputation, have legal or regulatory implications or lead to financial losses.

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30. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(iv) Operational risk (Cont'd.)

The Group and the Company cannot expect to eliminate all operational risks but mitigates them by maintaining a comprehensive internal control framework and by monitoring and promptly responding to potential risks. Controls include segregation of duties, access controls, multi-level and combination of authorisation, reconciliation procedures, staff training, effective communication and evaluation procedures, including the use of internal audit, compliance and risk management processes. Business risk, such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

The Group's and the Company's operational and business units are primarily responsible for the management of day-to-day operational risks inherent in their respective business and functional areas. These units are responsible and have in place policies and operational manuals in place to ensure that activities undertaken comply with the Group's operational risk management framework and oversight by the RMWG, RMC, AC and the Board.

The internal audit team reviews the effectiveness of the internal control system and their continued relevance and reports to the AC and its recommendations are tabled for the Board's deliberation.

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31. FAIR VALUE ESTIMATION

As at 31 December 2019, the fair value of the Group's and the Company's financial assets at FVTPL and AFS Financial assets and property and equipment are as follows:

Group	Carrying Value RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
Property and equipment:					
Freehold office lots	7,268,000	-	-	7,268,000	7,268,000
Long-term leasehold office lots	4,958,800	-	-	4,958,800	4,958,800
	<u>12,226,800</u>	<u>-</u>	<u>-</u>	<u>12,226,800</u>	<u>12,226,800</u>
AFS financial assets:					
Corporate debt securities	1	-	1	-	1
Wholesale unit trust funds	73,231,365	73,231,365	-	-	73,231,365
	<u>73,231,366</u>	<u>73,231,365</u>	<u>1</u>	<u>-</u>	<u>73,231,366</u>
Financial assets at FVTPL:					
Malaysian Government Securities	531,558	-	531,558	-	531,558
Corporate debt securities	120,952,558	-	120,952,558	-	120,952,558
REITs	2,499,097	2,499,097	-	-	2,499,097
Equity securities	84,756,891	84,756,891	-	-	84,756,891
	<u>208,740,104</u>	<u>87,255,988</u>	<u>121,484,116</u>	<u>-</u>	<u>208,740,104</u>

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31. FAIR VALUE ESTIMATION (CONT'D.)

As at 31 December 2019, the fair value of the Group's and the Company's financial assets at FVTPL and AFS Financial assets and property and equipment are as follows: (Cont'd.)

Company	Carrying Value RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
Property and equipment:					
Freehold office lots	7,268,000	-	-	7,268,000	7,268,000
Long-term leasehold office lots	4,958,800	-	-	4,958,800	4,958,800
	<u>12,226,800</u>	<u>-</u>	<u>-</u>	<u>12,226,800</u>	<u>12,226,800</u>
AFS financial assets:					
Corporate debt securities	1	-	1	-	1
Wholesale unit trust funds	200,371,781	200,371,781	-	-	200,371,781
	<u>200,371,782</u>	<u>200,371,781</u>	<u>1</u>	<u>-</u>	<u>200,371,782</u>
Financial assets at FVTPL:					
REITs	2,499,097	2,499,097	-	-	2,499,097
Equity securities	84,756,891	84,756,891	-	-	84,756,891
	<u>87,255,988</u>	<u>87,255,988</u>	<u>-</u>	<u>-</u>	<u>87,255,988</u>

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31. FAIR VALUE ESTIMATION (CONT'D.)

As at 31 December 2018, the fair value of the Group's and the Company's financial assets at FVTPL and AFS Financial assets and property and equipment are as follows:

Group	Carrying Value RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
Property and equipment:					
Freehold office lots	7,426,000	-	-	7,426,000	7,426,000
Long-term leasehold office lots	5,066,600	-	-	5,066,600	5,066,600
	<u>12,492,600</u>	<u>-</u>	<u>-</u>	<u>12,492,600</u>	<u>12,492,600</u>
AFS financial assets:					
Corporate debt securities	5,004,701	-	5,004,701	-	5,004,701
Wholesale unit trust funds	67,622,018	67,622,018	-	-	67,622,018
	<u>72,626,719</u>	<u>67,622,018</u>	<u>5,004,701</u>	<u>-</u>	<u>72,626,719</u>
Financial assets at FVTPL:					
Malaysian Government Securities	8,524,461	-	8,524,461	-	8,524,461
Corporate debt securities	109,717,271	-	109,717,271	-	109,717,271
REITs	1,874,111	1,874,111	-	-	1,874,111
Equity securities	71,796,441	71,796,441	-	-	71,796,441
	<u>191,912,284</u>	<u>73,670,552</u>	<u>118,241,732</u>	<u>-</u>	<u>191,912,284</u>

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31. FAIR VALUE ESTIMATION (CONT'D.)

As at 31 December 2018, the fair value of the Group's and the Company's financial assets at FVTPL and AFS Financial assets and property and equipment are as follows: (Cont'd.)

Company	Carrying Value RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
Property and equipment:					
Freehold office lots	7,426,000	-	-	7,426,000	7,426,000
Long-term leasehold office lots	5,066,600	-	-	5,066,600	5,066,600
	<u>12,492,600</u>	<u>-</u>	<u>-</u>	<u>12,492,600</u>	<u>12,492,600</u>
AFS financial assets:					
Corporate debt securities	5,004,701	-	5,004,701	-	5,004,701
Wholesale unit trust funds	190,981,706	190,981,706	-	-	190,981,706
	<u>195,986,407</u>	<u>190,981,706</u>	<u>5,004,701</u>	<u>-</u>	<u>195,986,407</u>
Financial assets at FVTPL:					
REITs	1,874,111	1,874,111	-	-	1,874,111
Equity securities	71,796,441	71,796,441	-	-	71,796,441
	<u>73,670,552</u>	<u>73,670,552</u>	<u>-</u>	<u>-</u>	<u>73,670,552</u>

For investments in unit trust funds consisting of Real Estate Investment Trust ("REIT"), fair value is determined by reference to published net asset values, while the fair values of equity securities are obtained from Bursa Malaysia. The fair value of wholesale unit trust funds, REITs and equity securities are regarded as Level 1 as the fair values are derived from prices quoted in an active market.

The fair values of Malaysian Government Securities and corporate debt securities are obtained from Bond Pricing Agency Malaysia ("BPAM"). These financial instruments are regarded as Level 2 as the significant inputs are observable.

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31. FAIR VALUE ESTIMATION (CONT'D.)

For property and equipment, the fair value is obtained from valuations performed by external valuers using the comparison method and are regarded as Level 3 as the significant inputs are not observable.

There were no changes in classification of assets under Level 1 and Level 2 of the fair value hierarchy.

The following financial assets and liabilities are not carried at fair values, but their carrying values approximate fair values as they are short term in nature or the impact of discounting is not material:

- Loans and receivables (that are classified as financial instruments)
- Insurance receivables
- Cash and bank balances
- Other financial liabilities
- Insurance payables
- Other payables (that are classified as financial instruments)

32. UPDATE ON THE MALAYSIAN COMPETITION COMMISSION'S ("MYCC") CASE AGAINST 22 GENERAL INSURERS AND PIAM

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

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32. UPDATE ON THE MALAYSIAN COMPETITION COMMISSION'S ("MYCC") CASE AGAINST 22 GENERAL INSURERS AND PIAM (CONT'D.)

On 22 February 2017, MyCC had issued a proposed decision against PIAM and 22 of its members (including PIB) for the alleged infringement of the CA ("Proposed Decision"). The Proposed Decision includes proposed financial penalties of 10% of the worldwide turnover of each enterprise on all the 22 general insurers, including PIB. The proposed financial penalty included in the notice against PIB amounted to RM1,369,585. Up to the date of this report, the Proposed Decision is not finalised as the PIAM members have been given the opportunity to make its written and oral representations to the MyCC. On 5 April 2017, PIB filed its written representations with the MyCC to defend its position and PIB, represented by its legal counsels, will be making oral representations with the MyCC to further fortify its written representations. On 1 March 2017 Bank Negara Malaysia issued a press statement confirming that the arrangement which is the subject of MyCC's proposed decision was put in place in response to a clear directive from Bank Negara Malaysia to the general insurers in 2011. PIB in consultation with its legal advisers will take such appropriate actions to defend its position that it has not infringed Section 4(2)(a) of the CA 2010 and at all times maintain that it has acted in accordance with the directives issued by BNM.

PIB represented by its appointed legal counsel Messrs Azim, Farik & Wang had attended the Oral Representation sessions with MyCC pursuant to Section 37 of the Competition Act 2010 and made their representation during the sessions on 21 February 2019, 13 May 2019, 17 June 2019 and 18 June 2019. However, MyCC has not made a final decision to date which is expected this year.

Based on the current status of the case, the Directors are of the opinion that there is no liability or contingent liability to the Company.

33. UPDATE ON THE NEGOTIATIONS WITH POTENTIAL STRATEGIC PARTNER

PIB commenced negotiations with China Taiping Insurance Holdings Company Limited (CTIH), a foreign company, after obtaining approval from Bank Negara Malaysia (BNM) on 30 August 2017 to dispose of up to 49% equity interest in PIB, subject to all parties concluding negotiations within six months from the date of approval. PIB had twice applied for extensions from BNM till 30th November 2018 to conclude negotiations.

On 13 July 2018, the Ministry of Finance Sabah representing Sabah Government as the major shareholder, directed PIB not to proceed with negotiations with CTIH for the proposed acquisition of a significant minority equity interest in PIB. BNM was informed of the cessation of negotiations on 15 November 2019.

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**33. UPDATE ON THE NEGOTIATIONS WITH POTENTIAL STRATEGIC PARTNER
 (CONT'D.)**

In August 2019, PIB was informed that the State Government approved resumption of the negotiations with CTIH. As directed, PIB applied to Bank Negara Malaysia for formal approval in compliance with the Financial Services Act 2013 to resume negotiations on 17th September 2019. Approval was granted by BNM on 22 October 2019 subject to all parties concluding negotiations within six months from the date of approval.

CTIH had completed their update due diligence and PIB submitted proposed amendments to the draft Transaction Documents, comprising the draft Share Subscription Agreement and draft Shareholders' Agreement to CTIH for consideration. PIB is currently awaiting their response.

34. REGULATORY CAPITAL REQUIREMENTS

The Company is required to comply with the mandatory capital requirements prescribed in the RBC Framework issued by BNM. Under the RBC Framework, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. As at 31 December 2019 and 31 December 2018, the Company has a capital adequacy ratio in excess of the minimum requirement.

The capital structure of the Company as prescribed under the RBC Framework is provided below:

	2019	2018
	RM	RM
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000,000	100,000,000
Retained earnings	<u>157,112,718</u>	<u>139,136,829</u>
	<u>257,112,718</u>	<u>239,136,829</u>
Tier 2 Capital		
Eligible reserves	<u>13,896,103</u>	<u>8,494,070</u>
	<u>13,896,103</u>	<u>8,494,070</u>
Deduction		
Amount deducted from capital	<u>(252,053)</u>	<u>(1,879,791)</u>
	<u>(252,053)</u>	<u>(1,879,791)</u>
Total capital available	<u>270,756,768</u>	<u>245,751,108</u>

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35. CLASSIFICATION AND MEASUREMENT IMPACT APPLYING MFRS 9 FINANCIAL INSTRUMENTS

The following tables show the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 for the Group's and the Company's financial assets as at 31 December 2019 and 31 December 2018.

(a) MFRS 139 measurement impact

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
<u>AFS Financial Assets:</u>				
Corporate debt securities	1	5,004,701	1	5,004,701
Wholesale unit trust funds	73,231,365	67,622,018	200,371,781	190,981,706
	73,231,366	72,626,719	200,371,782	195,986,407
<u>Financial Assets at FVTPL:</u>				
Malaysian Government				
Securities	531,558	8,524,461	-	-
Corporate debt securities	120,952,558	109,717,271	-	-
REITs	2,499,097	1,874,111	2,499,097	1,874,111
Equity securities	84,756,891	71,796,441	84,756,891	71,796,441
	208,740,104	191,912,284	87,255,988	73,670,552
<u>Amortised Costs Assets:</u>				
Other receivables	50,639,731	56,904,086	50,639,731	56,904,086
Fixed and call deposits	84,412,998	63,018,538	74,798,356	59,248,066
Insurance receivables	16,192,623	15,833,075	16,192,623	15,833,075
	151,245,352	135,755,699	141,630,710	131,985,227
Retained earnings	162,270,796	140,705,964	157,112,718	139,136,829
AFS reserves	2,524,268	752,413	7,736,771	2,334,738

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35. CLASSIFICATION AND MEASUREMENT IMPACT APPLYING MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

(b) MFRS 9 measurement impact

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
<u>Financial Assets at FVTPL:</u>				
Malaysian Government				
Securities	531,558	8,524,461	-	-
Corporate debt securities	120,952,559	114,721,972	1	5,004,701
Wholesale unit trust funds	73,231,365	67,622,018	200,371,781	190,981,706
REITs	2,499,097	1,874,111	2,499,097	1,874,111
Equity securities	84,756,891	71,796,441	84,756,891	71,796,441
	281,971,470	264,539,003	287,627,770	269,656,959
<u>Amortised Costs Assets:</u>				
Other receivables	50,639,731	56,904,086	50,639,731	56,904,086
Fixed and call deposits	84,412,998	63,018,538	74,798,356	59,248,066
Insurance receivables	16,192,623	15,833,075	16,192,623	15,833,075
	151,245,352	135,755,699	141,630,710	131,985,227
Retained earnings	164,795,064	141,458,377	164,849,489	141,471,567
AFS reserves	-	-	-	-

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35. CLASSIFICATION AND MEASUREMENT IMPACT APPLYING MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

The following tables show the new measurement categories under MFRS 9 for the Group's and the Company's financial assets as at 31 December 2019 and 31 December 2018 by their credit rating:

Credit risk

Group	Malaysian								Not Subject to Credit risk	Total
	AAA	AA	A	Institutions/ Insurers	Licensed Financial Securities	Government	D	Not-rated		
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
31 December 2019										
Financial assets at FVTPL	28,856,898	62,769,028	16,761,737	-	531,558	1	12,564,895	160,487,353	281,971,470	
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	50,605,277	-	50,605,277	
Fixed and call deposits	-	-	-	50,412,998	-	-	34,000,000	-	84,412,998	
Insurance receivables	-	-	453	16,190,790	-	-	1,380	-	16,192,623	
	28,856,898	62,769,028	16,762,190	66,603,788	531,558	1	97,171,552	160,487,353	433,182,368	

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35. CLASSIFICATION AND MEASUREMENT IMPACT APPLYING MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

The following tables show the new measurement categories under MFRS 9 for the Group's and the Company's financial assets as at 31 December 2019 and 31 December 2018 by their credit rating: (Cont'd.)

Credit risk (Cont'd.)

Group	Malaysian								Not Subject to Credit risk	Total
	AAA	AA	A	Institutions/ Insurers	Financial Securities	Government	D	Not-rated		
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
31 December 2018										
Financial assets at FVTPL	39,385,619	53,824,782	13,396,598	-	8,524,461	1	8,114,972	141,292,570	264,539,003	
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	56,821,105	-	56,821,105	
Fixed and call deposits	-	-	-	29,018,538	-	-	34,000,000	-	63,018,538	
Insurance receivables	-	-	60,997	15,622,270	-	-	149,808	-	15,833,075	
	39,385,619	53,824,782	13,457,595	44,640,808	8,524,461	1	99,085,885	141,292,570	400,211,721	

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35. CLASSIFICATION AND MEASUREMENT IMPACT APPLYING MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

The following tables show the new measurement categories under MFRS 9 for the Group's and the Company's financial assets as at 31 December 2019 and 31 December 2018 by their credit rating: (Cont'd.)

Credit risk (Cont'd.)

Company	Malaysian								Not Subject to Credit risk	Total
	AAA	AA	A	Financial Institutions/ Insurers	Malaysian Securities	Government	D	Not-rated		
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
31 December 2019										
Financial assets at FVTPL	-	-	-	-	-	-	1	-	287,627,769	287,627,770
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	-	50,605,277	-	50,605,277
Fixed and call deposits	-	-	-	40,798,356	-	-	34,000,000	-	74,798,356	
Insurance receivables	-	-	453	16,190,790	-	-	1,380	-	16,192,623	
	-	-	453	56,989,146	-	1	84,606,657	287,627,769	429,224,026	

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35. CLASSIFICATION AND MEASUREMENT IMPACT APPLYING MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

The following tables show the new measurement categories under MFRS 9 for the Group's and the Company's financial assets as at 31 December 2019 and 31 December 2018 by their credit rating: (Cont'd.)

Credit risk (Cont'd.)

Company	Malaysian								Not Subject to Credit risk	Total
	AAA RM	AA RM	A RM	Institutions/ Insurers RM	Financial Securities RM	Government RM	D RM	Not-rated RM		
31 December 2018										
Financial assets at FVTPL	5,004,700	-	-	-	-	-	1	-	264,652,258	269,656,959
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	-	56,821,105	-	56,821,105
Fixed and call deposits	-	-	-	25,248,066	-	-	34,000,000	-	59,248,066	
Insurance receivables	-	-	60,997	15,622,270	-	-	149,808	-	15,833,075	
	5,004,700	-	60,997	40,870,336			1	90,970,913	264,652,258	401,559,205