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

Directors' Report and Audited Financial Statements
31 December 2018

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

CORPORATE INFORMATION

DIRECTORS

Datuk Datu Harun bin Datu Mansor, JP (Chairman)
Datuk Francis Lai @ Lai Vun Sen
Datuk Siau Wui Kee
Datuk Janice Lim Fung Ha
Tuan Haji Mohamed Rifai Bin Mohd Razi
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin
Petrus Gimbad (Tenure expired on 31 October 2018)

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
Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damanlela
50490 Kuala Lumpur

19002-P

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

CONTENTS **PAGE**

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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 2018.

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 4(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 2018 are as follows:

	Group RM	**Company RM**
Net profit for the year	7,418,585	7,051,905
Attributable to:		
Equity holders of the Company	7,242,702	
Non-controlling interest	175,883	
	7,418,585	

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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 2017 and as reported in the Director's report of that year:	
Final single tier dividend of 13.00% on 100,000,000 ordinary shares declared and paid on 24 April 2018 to the largest shareholder, Ministry of Finance Sabah (RM11,322,350). The balance of the dividend was paid on 2 May 2018 and 7 May 2018 to the other shareholders.	13,000,000

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

SIGNIFICANT AND SUBSEQUENT EVENTS

There were no significant events during the year nor subsequent to the reporting date.

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.

DIRECTORS AND THEIR INTERESTS IN SHARES

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

Datuk Datu Harun bin Datu Mansor, JP
Datuk Francis Lai @ Lai Vun Sen
Datuk Siau Wui Kee
Datuk Janice Lim Fung Ha
Tuan Haji Mohamed Rifai Bin Mohd Razi
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin
Petrus Gimbad (Tenure expired on 31 October 2018)

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

DIRECTORS AND THEIR INTERESTS IN SHARES (CONT'D.)

Datuk Janice Lim Fung Ha and Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin retire pursuant to Section 205 of the Companies Act, 2016 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 17(a), 17(b) and 26(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 total amount of indemnity coverage and insurance premium paid for the Directors and the officers of the Company was approximately RM22,535 and the sum insured was RM10,000,000 for any due occurrence and in the aggregate.

19002-P

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

AUDITORS AND AUDITORS' REMUNERATION

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

The auditors' remuneration are disclosed in Note 17 to the financial statements.

Signed on behalf of the Board
in accordance with a resolution
of the Directors dated 13 March 2019

DATUK DATU HARUN BIN DATU MANSOR, JP)
)
)
) DIRECTORS
)
)
)
DATUK FRANCIS LAI @ LAI VUN SEN)

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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 Datu Harun bin Datu Mansor, JP	Chairman - Non-executive	7/7	Yes
Datuk Francis Lai @ Lai Vun Sen	Executive	7/7	Yes
Datuk Siau Wui Kee	Non-executive	6/7	Yes
Datuk Janice Lim Fung Ha	Non-executive	5/7	No
Tuan Haji Mohamed Rifai Bin Mohd Razi	Non-executive (Independent)	5/7	No
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Non-executive (Independent)	6/7	Yes
Petrus Gimbad (Tenure expired on 31 October 2018)	Non-executive (Independent)	5/5	Yes

As at the date of this report, the Board comprises five (5) non-executive Directors, of which two (2) are independent, and one (1) Executive Director/Chief Executive Officer. The Board consists mainly of non-executive Directors which have enhanced the Board's objectivity and enabled it to effectively discharge its oversight function. 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.

BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

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 and Examination Committee

The activities of the Audit and Examination Committee ("AEC") 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 three (3) meetings were held during the year ended 31 December 2018. 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 AEC 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, ten (10) full audits were presented to the AEC in 2018.

Members		**Meetings Attended**
Tuan Haji Mohamed Rifai Bin Mohd Razi (Effective from 1 November 2018)	Chairman - Non-executive (Independent)	2/3
Datuk Siau Wui Kee	Non-executive	3/3
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Non-executive (Independent)	3/3
Petrus Gimbad (Tenure expired on 31 October 2018)	Chairman - Non-executive (Independent)	3/3

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

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 Datu Harun bin Datu Mansor, JP	Non-executive	4/4
Datuk Siau Wui Kee	Non-executive	3/4
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Non-executive (Independent)	4/4
Petrus Gimbad (Tenure expired on 31 October 2018)	Non-executive (Independent)	3/3

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**
Datuk Siau Wui Kee	Non-executive	1/1
Datuk Janice Lim Fung Ha	Non-executive	1/1
Tuan Haji Mohamed Rifai Bin Mohd Razi	Non-executive (Independent)	1/1
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Non-executive (Independent)	1/1
Petrus Gimbad (Tenure expired on 31 October 2018)	Chairman - Non-executive (Independent)	1/1

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

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.

Members		**Meetings Attended**
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	Chairman - Non-executive (Independent)	3/3
Datuk Datu Harun bin Datu Mansor, JP	Non-executive	3/3
Datuk Janice Lim Fung Ha	Non-executive	2/3
Tuan Haji Mohamed Rifai Bin Mohd Razi	Non-executive (Independent)	2/3
Petrus Gimbad (Tenure expired on 31 October 2018)	Non-executive (Independent)	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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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.

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 Datu Harun bin Datu Mansor, JP
Chairman

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

Datuk Francis Lai @ Lai Vun Sen

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

Datuk Siau Wui Kee

- 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 in September 2002.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

CORPORATE GOVERNANCE (CONT'D.)

Board of Directors' Profile (Cont'd.)

Datuk Janice Lim Fung Ha

- 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 in July 2007.

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 in 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 in July 2015.

Petrus Gimbad (Tenure expired on 31 October 2018)

- Chartered Accountant of the Malaysian Institute of Accounts and Fellow of The Chartered Association of Certified Accountants, UK.
- Holds a Master of Business Administration (Bath) and a Master in Advanced Business Practice (South Australia).
- Present Position: Director of Sabah Development Bank amongst others.
- Appointed to the Board of Progressive Insurance Bhd in November 2012.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

CORPORATE GOVERNANCE (CONT'D.)

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.

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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

REMUNERATION POLICY (CONT'D.)

Remuneration Policy for Members of Board of Directors (Cont'd.)

(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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

REMUNERATION POLICY (CONT'D.)

Remuneration Policy For Employees (Cont'd.)

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

(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.

(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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

REMUNERATION POLICY (CONT'D.)

Remuneration Policy For Employees (Cont'd.)

(3) Long-term incentives ("LTI") (Cont'd.)

(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.

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 Establishment Committee.

(2) Establishment Committee

The decision and deliberation of the Establishment Committee shall be tabled by way of recommendation to the Board for consideration and approval. The Establishment 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 Establishment 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 Establishment Committee, shall have the final decision on matters regarding remuneration policies in the Company.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

REMUNERATION POLICY (CONT'D.)

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 Establishment Committee before the amendment is effective.

Senior Management

All Executive Committee ("EXCO") members are defined as senior management, of which there are 15 officers in total. Senior Management received contractual bonuses for the financial year ended 31 December 2018 amounting to approximately RM1,180,104.

Total value of remuneration awards for Senior Management in 2018

	Unrestricted RM
Fixed remuneration	
- Cash-based	2,983,696
- Shares and share-linked instruments	-
- Other	-
Variable remuneration	
- Cash-based	1,180,104
- Shares and share-linked instruments	-
- Other	276,147
	4,439,947

19002-P

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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

We, **Datuk Datu Harun bin Datu Mansor, JP** and **Datuk Francis Lai @ Lai Vun Sen**, 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 25 to 129 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 2018 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 13 March 2019

DATUK DATU HARUN BIN DATU MANSOR, JP)
)
)
) DIRECTORS
)
)
)
DATUK FRANCIS LAI @ LAI VUN SEN)

19002-P

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 25 to 129 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 13 March 2019

LEONG PANG CHEUNG
MIA No. 2638

Before me,

PESURUHJAYA SUMPAH
W.490
S. ARULSAMY
1.7.2018 - 31.12.2020
MALAYSIA

16 - Tingkat Bawah Jalan Pudu,
55100 Kuala Lumpur.

EY
Building a better working world

Ernst & Young AF: 0039
SST ID: W10-1808-31043558
Chartered Accountants
Level 23A Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
50490 Kuala Lumpur Malaysia

Tel: +603 7495 8000
Fax: +603 2095 5332 (General line)
+603 2095 9076
+603 2095 9078
ey.com

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 2018 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 25 to 129.

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 2018, 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.

Building a better working world

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.

EY

Building a better working world

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.)

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.

EY
Building a better working world

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
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
13 March 2019

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	Group		Company	
		2018	2017	2018	2017
		RM	RM	RM	RM
ASSETS					
Property and equipment	3	14,420,270	15,170,545	14,420,270	15,170,545
Investments:		264,539,003	299,019,339	269,656,959	301,540,217
- Available-for-sale ("AFS") financial assets	4 (a)	72,626,719	69,425,692	195,986,407	200,958,362
- Financial assets at fair value through profit or loss ("FVTPL")	4 (b)	191,912,284	229,593,647	73,670,552	100,581,855
Reinsurance assets	5	72,620,688	79,815,607	72,620,688	79,815,607
Loans and other receivables	6	119,922,624	136,914,369	116,152,152	130,903,103
Tax recoverable		1,880,359	917,984	1,880,359	917,984
Deferred tax assets	7	1,703,949	-	1,703,949	-
Insurance receivables	8	15,833,075	18,358,208	15,833,075	18,358,208
Cash and bank balances		16,166,682	6,849,738	10,834,229	6,575,966
TOTAL ASSETS		507,086,650	557,045,790	503,101,681	553,281,630
EQUITY AND LIABILITIES					
Share capital	9	100,000,000	100,000,000	100,000,000	100,000,000
Reserves	10	147,617,709	152,765,437	147,630,899	152,825,370
		247,617,709	252,765,437	247,630,899	252,825,370
Non-controlling interests		3,906,312	3,722,151	-	-
TOTAL EQUITY		251,524,021	256,487,588	247,630,899	252,825,370

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (CONT'D.)

		Group		Company	
	Note	**2018 RM**	**2017 RM**	**2018 RM**	**2017 RM**
Insurance contract liabilities	11	201,856,732	231,207,397	201,856,732	231,207,397
Deferred tax liabilities	7	-	1,954,513	-	1,954,513
Other financial liabilities	12	28,141,382	34,910,602	28,141,382	34,910,602
Insurance payables	13	19,991,308	21,646,346	19,991,308	21,646,346
Other payables	14	5,573,207	10,839,344	5,481,360	10,737,402
TOTAL LIABILITIES		255,562,629	300,558,202	255,470,782	300,456,260
TOTAL EQUITY AND LIABILITIES		507,086,650	557,045,790	503,101,681	553,281,630

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 2018

		Group		Company	
	Note	**2018**	**2017**	**2018**	**2017**
		RM	**RM**	**RM**	**RM**
Gross written premiums	11(ii)	141,149,081	137,553,225	141,149,081	137,553,225
Change in unearned premiums provision		(6,234,912)	582,214	(6,234,912)	582,214
Gross earned premiums	11(ii)	134,914,169	138,135,439	134,914,169	138,135,439
Gross written premiums ceded to reinsurers	11(ii)	(81,185,439)	(66,551,606)	(81,185,439)	(66,551,606)
Change in unearned premiums provision		8,099,722	2,871,971	8,099,722	2,871,971
Premiums ceded to reinsurers	11(ii)	(73,085,717)	(63,679,635)	(73,085,717)	(63,679,635)
Net earned premiums		61,828,452	74,455,804	61,828,452	74,455,804
Investment income, net	16	13,241,524	13,965,744	12,746,271	13,461,319
Realised gains and losses	18	4,954,135	9,564,732	4,970,313	9,276,098
Fair value gains and losses	19	(17,181,418)	12,618,623	(17,495,037)	11,936,853
Commission income		16,790,108	15,054,744	16,790,108	15,054,744
Other operating income	20	4,483,210	5,322,645	4,480,710	5,322,645
Other income		22,287,559	56,526,488	21,492,365	55,051,659
Gross claims paid		(74,653,885)	(75,411,149)	(74,653,885)	(75,411,149)
Claims ceded to reinsurers		29,849,012	26,789,056	29,849,012	26,789,056
Gross change in contract liabilities		35,585,577	25,842,293	35,585,577	25,842,293
Change in contract liabilities ceded to reinsurers		(15,294,641)	(17,234,294)	(15,294,641)	(17,234,294)
Net claims incurred	21	(24,513,937)	(40,014,094)	(24,513,937)	(40,014,094)
Commission expenses		(17,339,773)	(18,702,230)	(17,339,773)	(18,702,230)
Management expenses					
- General fund	17	(34,722,966)	(37,304,616)	(34,294,452)	(36,858,134)
- Shareholders' fund		(295,369)	(38,525)	(295,369)	(38,525)
Other expenses		(52,358,108)	(56,045,371)	(51,929,594)	(55,598,889)

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONT'D.)

		Group		Company	
	Note	**2018**	**2017**	**2018**	**2017**
		RM	**RM**	**RM**	**RM**
Profit before taxation		7,243,966	34,922,827	6,877,286	33,894,480
Taxation	22	174,619	(6,460,000)	174,619	(6,460,000)
Net profit for the year		7,418,585	28,462,827	7,051,905	27,434,480
Earnings per ordinary share (sen) - basic and diluted	23	7.4	28.5		
Net profit for the year attributable to:					
Equity holders of the Company		7,242,702	28,283,515		
Non-controlling interests		175,883	179,312		
		7,418,585	28,462,827		

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 2018

		Group		Company	
	Note	**2018**	**2017**	**2018**	**2017**
		RM	**RM**	**RM**	**RM**
Net profit for the year		7,418,585	28,462,827	7,051,905	27,434,480
Other comprehensive income/(loss)					
Items that may be reclassified to income statements in subsequent periods:					
Fair value changes on AFS financial assets:					
Gain/(loss) on fair value changes		609,186	(39,157)	923,462	806,635
Transferred to profit or loss upon disposal	18	-	(711,355)	(170,222)	(711,355)
Deferred tax	7	384	398,720	384	398,720
Other comprehensive income/(loss) for the year, net of tax		609,570	(351,792)	753,624	494,000
Total comprehensive income for the year		8,028,155	28,111,035	7,805,529	27,928,480
Total comprehensive income for the year attributable to:					
Equity holders of the Company		7,852,272	27,931,723	7,805,529	27,928,480
Non-controlling interests		175,883	179,312	-	-
		8,028,155	28,111,035	7,805,529	27,928,480

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 2018

Group

	← Attributable to owners of the Company				→		
	← Non-distributable		→	Distributable			
	Share capital RM (Note 9)	Property revaluation reserve RM (Note 10)	Available for sale ("AFS") reserve RM (Note 10)	Retained earnings RM (Note 10)	Total RM	Non-controlling interests RM	Total equity RM
At 1 January 2017	100,000,000	6,159,332	494,635	129,759,747	236,413,714	3,535,641	239,949,355
Total comprehensive income for the year	-	-	(351,792)	28,283,515	27,931,723	179,312	28,111,035
Dividend paid during the year (Note 24)	-	-	-	(11,580,000)	(11,580,000)	-	(11,580,000)
Net cancellation of units in wholesale unit trust funds	-	-	-	-	-	7,198	7,198
At 31 December 2017	100,000,000	6,159,332	142,843	146,463,262	252,765,437	3,722,151	256,487,588
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 24)	-	-	-	(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

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 2018

Company

	Attributable to owners of the Company				
	Non-distributable			Distributable	
	Share capital RM (Note 9)	Property revaluation reserve RM (Note 10)	Available for sale ("AFS") reserve RM (Note 10)	Retained earnings RM (Note 10)	Total equity RM
At 1 January 2017	100,000,000	6,159,332	1,087,114	129,230,444	236,476,890
Total comprehensive income for the year	-	-	494,000	27,434,480	27,928,480
Dividend paid during the year (Note 24)	-	-	-	(11,580,000)	(11,580,000)
At 31 December 2017	100,000,000	6,159,332	1,581,114	145,084,924	252,825,370
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 24)	-	-	-	(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

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 2018

Group	2018 RM	2017 RM
Cash flow from operating activities		
Profit before taxation	7,243,966	34,922,827
Investment (income)/losses and cash flows:		
Interest income	(8,524,697)	(11,478,182)
Dividend income	(3,032,997)	(3,039,433)
Distribution income	(2,591,841)	(456,435)
Realised gains recorded in income statement	(4,954,135)	(9,564,732)
Fair value losses/(gains) recorded in income statement	17,181,418	(12,618,623)
Purchase of AFS financial assets	(2,591,841)	(75,127,427)
Proceeds from disposal of AFS financial assets	-	69,449,044
Purchase of FVTPL financial assets	(139,264,532)	(135,254,283)
Proceeds from disposal of FVTPL financial assets	164,355,289	121,588,313
Interest received	8,865,500	13,021,246
Dividends received	3,032,997	3,039,433
Reinvestment of distributions	2,591,841	456,435
Non-cash items:		
Depreciation of property and equipment	1,396,120	1,419,149
Net amortisation of premiums	162,426	327,781
Net allowance for impairment on insurance receivables	1,775,523	1,272,221
Property and equipment written off	9,129	-
Gains on disposal of property and equipment	(25,800)	(119,700)
Changes in working capital:		
Decrease in loans and receivables	5,994,617	2,541,178
Decrease/(increase) in insurance receivables	749,610	(1,570,954)
Decrease in insurance contract liabilities	(22,155,746)	(12,062,184)
Decrease in fixed and call deposits	10,857,222	22,311,482
(Decrease)/increase in insurance payables	(1,655,038)	696,588
(Decrease)/increase in other payables	(12,035,357)	5,178,291
Cash generated from operating activities	27,383,674	14,932,035
Income tax paid, net	(4,445,834)	(7,199,316)
Net cash generated from operating activities	22,937,840	7,732,719

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONT'D.)

Group	**2018** **RM**	**2017** **RM**
Investing Activities		
Proceeds from disposal of property and equipment	25,800	119,700
Purchase of property and equipment	(654,974)	(1,511,748)
Net cash used in investing activities	(629,174)	(1,392,048)
Financing Activities		
Dividends paid to shareholders	(13,000,000)	(11,580,000)
Proceeds from creation of units in wholesale unit trusts to non-controlling interests	8,278	7,198
Net cash used in financing activities	(12,991,722)	(11,572,802)
Net increase/(decrease) in cash and cash equivalents	9,316,944	(5,232,131)
Cash and cash equivalents at beginning of year	6,849,738	12,081,869
Cash and cash equivalents at end of year	16,166,682	6,849,738

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 2018

Company	**2018**	**2017**
	RM	**RM**
Cash flow from operating activities		
Profit before taxation	6,877,286	33,894,480
Investment (income)/losses and cash flows:		
Interest income	(2,354,276)	(5,211,582)
Dividend income	(3,032,997)	(3,039,433)
Distribution income	(8,104,583)	(6,001,941)
Realised gains recorded in income statement	(4,970,313)	(9,276,098)
Fair value losses/(gains) recorded in income statement	17,495,037	(11,936,853)
Purchase of AFS financial assets	(8,104,583)	(80,456,264)
Proceeds from disposal of AFS financial assets	14,000,000	69,449,044
Purchase of FVTPL financial assets	(100,212,211)	(84,403,265)
Proceeds from disposal of FVTPL financial assets	114,428,568	87,371,167
Interest received	2,494,182	5,409,489
Dividends received	3,032,997	3,039,433
Reinvestment of distributions	8,104,583	6,001,941
Non-cash items:		
Depreciation of property and equipment	1,396,120	1,419,149
Net amortisation of premiums	-	111,112
Net allowance for impairment on insurance receivables	1,775,523	1,272,221
Property and equipment written off	9,129	-
Gains on disposal of property and equipment	(25,800)	(119,700)
Changes in working capital:		
Decrease in loans and receivables	5,994,185	2,541,178
Decrease/(increase) in insurance receivables	749,610	(1,570,954)
Decrease in insurance contract liabilities	(22,155,746)	(12,062,184)
Decrease in fixed and call deposits	8,616,860	12,969,274
(Decrease)/increase in insurance payables	(1,655,038)	696,588
(Decrease)/increase in other payables	(12,025,262)	5,160,289
Cash generated from operating activities	22,333,271	15,257,091
Income tax paid, net	(4,445,834)	(7,199,316)
Net cash generated from operating activities	17,887,437	8,057,775

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONT'D.)

Company	2018 RM	2017 RM
Investing Activities		
Proceeds from disposal of property and equipment	25,800	119,700
Purchase of property and equipment	(654,974)	(1,511,748)
Net cash used in investing activities	(629,174)	(1,392,048)
Financing Activity		
Dividends paid to shareholders, representing net cash used in financing activity	(13,000,000)	(11,580,000)
Net increase/(decrease) in cash and cash equivalents	4,258,263	(4,914,273)
Cash and cash equivalents at beginning of year	6,575,966	11,490,239
Cash and cash equivalents at end of year	10,834,229	6,575,966

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

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 4(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 13 March 2019.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of Preparation (Cont'd.)

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

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 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(w) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of Preparation (Cont'd.)

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

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

Premiums are recognised in the same financial period when risks are assumed. Premiums in respect of risks assumed for which billings have yet to be raised as at the reporting date are accrued to the extent that they can be reliably estimated.

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

(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.

(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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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 occured 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.

(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:

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 (Cont'd.)

(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.

(iii) Rental Income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(g) Income Tax (Cont'd.)

(ii) Deferred Tax

At each reporting date, the carrying amount of deferred tax assets is reviewed 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.

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

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.

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(k) Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company 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) Financial Assets at FVTPL

Financial assets are classified as financial assets at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(k) Financial Assets (Cont'd.)

(i) Financial Assets at FVTPL (Cont'd.)

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

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as LAR. 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.

(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 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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(k) Financial Assets (Cont'd.)

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.

(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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

(i) Financial Assets Carried at Amortised Cost (Cont'd.)

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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.

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 cash at bank and on hand which are subjected to an insignificant risk of changes in value. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(o) Product Classification (Cont'd.)

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.

(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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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**

  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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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.)**

  - 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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(u) Leases

(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.

(v) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(v) Fair Value Measurement (Cont'd.)

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.

(w) 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;

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(w) Investment in subsidiaries (Cont'd.)

(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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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

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.

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 28 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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2018, the Group and the Company adopted the following new and amended MFRSs for annual financial periods beginning on or after 1 January 2018.

Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*
Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
Amendments to MFRS 140 *Transfers of Investment Property*
Annual Improvement to MFRS standards 2014-2016 Cycle
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
MFRS 15 *Revenue from Contracts with Customers*

The adoption of the above pronouncements did not have any significant impact on the financial statements of the Group and of the Company.

The Group and the Company applied the temporary exemption from MFRS 9 as permitted by the amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts* issued in September 2016. The temporary exemption permits the Group and the Company to continue applying MFRS 139 rather than MFRS 9 for annual periods beginning before 1 January 2021.

The Group and the Company concluded that it qualified for the temporary exemption from MFRS 9 because its activities are predominantly connected with insurance. As at 31 December 2017, the Group’s and the Company's gross liabilities arising from contracts within the scope of MFRS 4 represented 84% of the total carrying amount of all its liabilities. Since 31 December 2017, there have been no changes in the activities of the Group and the Company that require reassessment of the use of the temporary exemption and the Group and the Company have confirmed that the initial assessment is still valid as at 31 December 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Standards Issued but Not Yet Effective

Effective for financial periods beginning on or after 1 January 2019

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:

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)
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)

Effective for financial periods beginning on or after 1 January 2020

Amendments to MFRS 3 *Business Combinations*
Amendments to MFRS 101 *Presentation of Financial Statements*
Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective for financial periods beginning on or after 1 January 2021

MFRS 17 *Insurance Contracts*

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

Deferred

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

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:

(a) MFRS 16 *Leases*

MFRS 16 will replace MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Lease-Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

The standard includes two recognition exemptions for lessees – leases of ‘low value’ assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019 and the Group and the Company will apply the standard from its mandatory adoption date. The Group and the Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expense).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(a) MFRS 16 *Leases* (Cont'd.)

Based on the information currently available, the Group and the Company expect to recognise lease liabilities of RM3,724,666 and right-of-use assets amounting to RM3,835,899 as at 1 January 2019. The Group and the Company do not expect the adoption of MFRS 16 to impact its ability to comply with the regulatory capital requirements described in Note 31.

(b) 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. The Group and the Company plans to adopt the new standard on the required effective date. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity as well as presentation and disclosures in the Group's and the Company's financial statements.

The Company had appointed two consultants to undertake gap analysis relating to MFRS 9 and MFRS 17. Both consultants have submitted their respective Gap Analysis Report. The Management and the Board which will form the basis for formulation of a implementation plan. Currently an internal Project Management Office was set up to support a Project Working Committee to manage the project.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

3. PROPERTY AND EQUIPMENT

Group/Company	At Valuation		At Cost					
	Freehold Office Lots RM	Long-term Leasehold Office Lots RM	Office Equipment RM	Furniture, Fixtures & Fittings RM	Motor Vehicles RM	Office Renovation RM	Soft Furnishings RM	Total 2018 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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

3. PROPERTY AND EQUIPMENT (CONT'D.)

Group/Company	At Valuation		At Cost					
	Freehold Office Lots RM	Long-term Leasehold Office Lots RM	Office Equipment RM	Furniture, Fixtures & Fittings RM	Motor Vehicles RM	Office Renovation RM	Soft Furnishings RM	Total 2017 RM
VALUATION/COST								
At 1 January 2017	7,900,000	5,390,000	5,991,536	844,057	1,316,582	2,706,841	159,897	24,308,913
Additions	-	-	367,884	84,304	473,919	585,641	-	1,511,748
Disposal	-	-	-	-	(399,946)	-	-	(399,946)
At 31 December 2017	7,900,000	5,390,000	6,359,420	928,361	1,390,555	3,292,482	159,897	25,420,715
ACCUMULATED DEPRECIATION								
At 1 January 2017	158,000	107,800	5,077,555	682,880	1,119,085	1,925,839	159,808	9,230,967
Charge for the year	158,000	107,800	528,002	35,323	160,615	429,385	24	1,419,149
Disposal	-	-	-	-	(399,946)	-	-	(399,946)
At 31 December 2017	316,000	215,600	5,605,557	718,203	879,754	2,355,224	159,832	10,250,170
NET BOOK VALUE								
At 31 December 2017	7,584,000	5,174,400	753,863	210,158	510,801	937,258	65	15,170,545

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	
	2018	**2017**
	RM	**RM**
Freehold office lots	2,253,959	2,404,222
Long-term leasehold office lots	1,729,307	1,795,227
	3,983,266	4,199,449

(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:

	Valuation technique	**Unobservable inputs**	**Range**
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 RM892

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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: (cont'd.)

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 hierachy as disclosed in Note 29 and the reconciliation of the carrying amount of the property are as shown on page 63 and page 64.

4. INVESTMENTS

(a) AFS Financial Assets

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Corporate debt securities	5,004,701	5,006,301	5,004,701	5,006,301
Wholesale unit trust funds	67,622,018	64,419,391	190,981,706	195,952,061
Total (a)	72,626,719	69,425,692	195,986,407	200,958,362

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

4. INVESTMENTS (CONT'D.)

(b) Financial Assets at FVTPL

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Held for trading:				
Malaysian Government Securities	8,524,461	3,574,222	-	-
Corporate debt securities	109,717,271	125,437,570	-	-
Unit trust funds	1,874,111	3,784,490	1,874,111	3,784,490
Equity securities	71,796,441	96,797,365	71,796,441	96,797,365
Total (b)	191,912,284	229,593,647	73,670,552	100,581,855
Total investments (a) + (b)	264,539,003	299,019,339	269,656,959	301,540,217

Management's assessment of the potential impact of adopting MFRS 9 on the effective date is set out in Note 32.

(c) Investments in subsidiaries - Wholesale unit trust funds

Details of the Company's investments in subsidiaries which are wholesale unit trust funds amounting to RM123,359,688 (2017: RM131,532,670) in Malaysia are as follows:

Established in Malaysia	**Effective Direct Interests**	
	2018	**2017**
Affin Hwang Institutional Bond Fund	96.51%	96.71%
United Institutional Income Fund	97.86%	98.00%

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

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

4. INVESTMENTS (CONT'D.)

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

The principal activities of the subsidiaries are as follows:

Subsidiary	Principal activity
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

5. REINSURANCE ASSETS

		Group/Company	
	Note	2018 RM	2017 RM
Reinsurance of insurance contracts			
Claim liabilities	11 (i)	43,509,359	58,804,000
Premium liabilities	11 (ii)	29,111,329	21,011,607
		72,620,688	79,815,607

6. LOANS AND OTHER RECEIVABLES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Other receivables:				
Other receivables and deposits	2,658,750	2,115,765	2,658,750	2,115,765
Prepayments	82,981	258,450	82,981	258,450
Income due and accrued	781,057	920,963	781,057	920,963
Share of net assets held by Malaysian Motor Insurance Pool (MMIP)	52,762,863	58,443,958	52,762,863	58,443,958
Amounts receivable from sale of shares/ matured bonds	618,435	1,299,473	618,435	1,299,041
	56,904,086	63,038,609	56,904,086	63,038,177

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Fixed and call deposits with:				
Licensed banks in Malaysia	29,018,538	34,875,760	25,248,066	28,864,926
Other financial institutions	34,000,000	39,000,000	34,000,000	39,000,000
	63,018,538	73,875,760	59,248,066	67,864,926
Total loans and other receivables	119,922,624	136,914,369	116,152,152	130,903,103

* The share of net assets of MMIP includes the Group's and the Company's net cash contributions of RM21,859,477 (2017: RM25,359,477) made to MMIP.

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 their 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 11.

Included in the fixed and call deposits are cash collaterals received from policyholders of RM27,039,770 (2017: RM33,681,885) for guarantees issued on behalf of policyholders (Note 12).

The weighted average effective interest rates of the fixed and call deposits as at 31 December 2018 were 3.71% (2017: 3.63%) per annum.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

7. DEFERRED TAXATION

	Group/Company	
	2018	**2017**
	RM	**RM**
At 1 January	(1,954,513)	442,489
Recognised in profit or loss (Note 22)	3,658,078	(2,795,722)
Recognised in other comprehensive income	384	398,720
At 31 December	1,703,949	(1,954,513)

Presented after appropriate offsetting as follow:

	Group/Company	
	2018	**2017**
	RM	**RM**
Deferred tax assets	3,778,080	3,136,755
Deferred tax liabilities	(2,074,131)	(5,091,268)
	1,703,949	(1,954,513)

7. 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

	Premium liabilities RM	Provisions RM	Fair value losses on financial assets at FVTPL RM	Impaired AFS financial assets RM	Total RM
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	2,574	1,061,519	1,513,987	1,200,000	3,778,080
At 1 January 2017	-	884,485	-	1,210,000	2,094,485
Recognised in:					
Profit or loss	-	1,052,270	-	(10,000)	1,042,270
At 31 December 2017	-	1,936,755	-	1,200,000	3,136,755

7. DEFERRED TAXATION (CONT'D.)

Group/Company - Deferred tax liabilities

	Accelerated capital allowances RM	Accretion of discounts net of amortisation of premiums 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 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	(30,762)	-	-	(2,042,240)	-	(1,129)	(2,074,131)
At 1 January 2017	683,290	(7,456)	(40,865)	(1,706,709)	(180,023)	(400,233)	(1,651,996)
Recognised in:							
Profit or loss	(971,671)	7,456	(21,539)	(347,439)	(2,504,799)	-	(3,837,992)
Other comprehensive income	-	-	-	-	-	398,720	398,720
At 31 December 2017	(288,381)	-	(62,404)	(2,054,148)	(2,684,822)	(1,513)	(5,091,268)

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

8. INSURANCE RECEIVABLES

	Group/Company 2018 RM	Group/Company 2017 RM
Due premiums including agents/brokers and co-insurers balances	17,264,621	18,500,148
Due from reinsurers and cedants	4,123,135	3,877,213
	21,387,756	22,377,361
Less: Allowance for impairment	(5,554,681)	(4,019,153)
	15,833,075	18,358,208

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 carrying amount RM	Gross amounts offset in the statements of financial position RM	Net amounts in the statements of financial position RM
31 December 2018			
Premium ceded	3,730,611	(1,421,428)	2,309,183
Commissions payable	(908,713)	276,431	(632,282)
Claims recoveries	2,120,112	326,122	2,446,234
	4,942,010	(818,875)	4,123,135
31 December 2017			
Premium ceded	4,522,350	(1,204,149)	3,318,201
Commissions payable	(1,031,707)	270,321	(761,386)
Claims recoveries	968,430	351,968	1,320,398
	4,459,073	(581,860)	3,877,213

	Group/Company Individually impaired RM	Collectively impaired RM	Total RM
Movement in allowance accounts:			
At 1 January 2018	1,651,344	2,367,809	4,019,153
Allowance for impairment loss (Note 17)	1,721,882	53,641	1,775,523
Write off of impairment loss	(215,323)	(24,672)	(239,995)
At 31 December 2018	3,157,903	2,396,778	5,554,681

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

8. INSURANCE RECEIVABLES (CONT'D.)

	Group/Company		
	Individually impaired RM	**Collectively impaired RM**	**Total RM**
Movement in allowance accounts:			
At 1 January 2017	371,626	2,709,167	3,080,793
Allowance for impairment loss (Note 17)	1,448,168	(175,947)	1,272,221
Write off of impairment loss	(168,450)	(165,411)	(333,861)
At 31 December 2017	1,651,344	2,367,809	4,019,153

9. SHARE CAPITAL

	Group/Company			
	2018		2017	
	No. of shares	**RM**	**No. of shares**	**RM**
At beginning/end of year				
Issued and fully paid up	100,000,000	100,000,000	100,000,000	100,000,000

10. 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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

11. INSURANCE CONTRACT LIABILITIES

Group/Company	2018 Gross RM	2018 Reinsurance RM	2018 Net RM	2017 Gross RM	2017 Reinsurance RM	2017 Net RM
Provision for claims reported by policyholders	92,900,299	(34,294,450)	58,605,849	116,084,194	(48,801,598)	67,282,596
Provision for incurred but not reported claims ("IBNR")	32,460,478	(5,115,399)	27,345,079	42,535,057	(4,934,695)	37,600,362
Claims handling expenses	1,879,265	-	1,879,265	2,377,154	-	2,377,154
Provision of risk margin for adverse deviations ("PRAD")	8,968,719	(4,190,611)	4,778,108	10,797,933	(5,067,707)	5,730,226
Less: Impairment on reinsurance assets	-	91,101	91,101	-	-	-
Claim liabilities (i)	136,208,761	(43,509,359)	92,699,402	171,794,338	(58,804,000)	112,990,338
Premium liabilities (ii)	65,647,971	(29,111,329)	36,536,642	59,413,059	(21,011,607)	38,401,452
	201,856,732	(72,620,688)	129,236,044	231,207,397	(79,815,607)	151,391,790

(i) Claim Liabilities	2018 Gross RM	2018 Reinsurance RM	2018 Net RM	2017 Gross RM	2017 Reinsurance RM	2017 Net RM
At 1 January	171,794,338	(58,804,000)	112,990,338	197,636,631	(76,038,294)	121,598,337
Claims incurred in the current accident year	99,446,706	(15,736,163)	83,710,543	125,726,974	(24,108,648)	101,618,326
Movements in claims incurred in prior accident years	(60,378,398)	1,181,792	(59,196,606)	(76,158,118)	14,553,886	(61,604,232)
Claims paid during the year (Note 21)	(74,653,885)	29,849,012	(44,804,873)	(75,411,149)	26,789,056	(48,622,093)
At 31 December	136,208,761	(43,509,359)	92,699,402	171,794,338	(58,804,000)	112,990,338

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

11. INSURANCE CONTRACT LIABILITIES (CONT'D)

Group/Company (Cont'd.)	2018			2017		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
(ii) Premium Liabilities						
At 1 January	59,413,059	(21,011,607)	38,401,452	59,995,273	(18,139,636)	41,855,637
Premiums written in the year	141,149,081	(81,185,439)	59,963,642	137,553,225	(66,551,606)	71,001,619
Premiums earned during the year	(134,914,169)	73,085,717	(61,828,452)	(138,135,439)	63,679,635	(74,455,804)
At 31 December	65,647,971	(29,111,329)	36,536,642	59,413,059	(21,011,607)	38,401,452

As at 31 December 2018, the insurance contract liabilities above includes the Group's and the Company’s share of MMIP's claims and premium liabilities amounting to RM34,258,755 (2017: RM41,397,547) and RM3,194,238 (2017: RM3,326,141), respectively.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

11. 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 6. 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	
	2018	**2017**
	RM	**RM**
Assets/(liabilities):		
Total Assets:		
- Accumulated cash contributions to MMIP	21,859,477	25,359,477
- Other assets	31,142,557	34,047,611
Insurance payables	(36,590)	(64,833)
Other payables and provisions	(202,581)	(898,297)
Net assets held under MMIP (Note 6)	52,762,863	58,443,958
Insurance contract liabilities		
- Claim liabilities	(34,258,755)	(41,397,547)
- Premium liabilities	(3,194,238)	(3,326,141)
Net assets position	15,309,870	13,720,270

12. OTHER FINANCIAL LIABILITIES

	Group/Company	
	2018	**2017**
	RM	**RM**
Cash collateral deposits received from from policyholders (Note 6)	27,039,770	33,681,885
Interest on cash collateral deposits received from policyholders	1,101,612	1,228,717
	28,141,382	34,910,602

13. INSURANCE PAYABLES

	Group/Company	
	2018	**2017**
	RM	**RM**
Due to reinsurers and cedants	18,992,759	20,547,984
Due to agents/brokers and co-insurers balances	998,549	1,098,362
	19,991,308	21,646,346

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

13. INSURANCE PAYABLES (CONT'D.)

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 RM	Gross amounts offset in the statements of financial position RM	Net amounts in the statements of financial position RM
31 December 2018			
Premium ceded	(21,366,994)	376,163	(20,990,831)
Commissions payable	2,930,048	(54,103)	2,875,945
Claims recoveries	(4,529,653)	3,651,780	(877,873)
	(22,966,599)	3,973,840	(18,992,759)
31 December 2017			
Premium ceded	(12,738,642)	24	(12,738,618)
Commissions payable	1,465,146	(5)	1,465,141
Claims recoveries	(9,274,507)	-	(9,274,507)
	(20,548,003)	19	(20,547,984)

14. OTHER PAYABLES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Provision for bonus	1,654,550	3,597,760	1,654,550	3,597,760
Amounts payable for purchase of shares/ bonds	481,251	3,320,964	481,251	3,320,964
Provision for professional and legal fees	124,828	125,966	124,828	125,966
Salaries and wages control	239,069	304,240	239,069	304,240
Other payables	2,887,180	1,471,937	2,795,333	1,369,995
Accrued expenses	186,329	2,018,477	186,329	2,018,477
	5,573,207	10,839,344	5,481,360	10,737,402

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

15. OPERATING REVENUE

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Gross earned premium	134,914,169	138,135,439	134,914,169	138,135,439
Investment income before investment expenses (Note 16)	13,987,109	14,646,269	13,491,856	14,141,844
	148,901,278	152,781,708	148,406,025	152,277,283

16. INVESTMENT INCOME, NET

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Financial assets at FVTPL				
Dividend income:				
Equity securities quoted in Malaysia	2,922,570	2,820,568	2,922,570	2,820,568
Unit trust funds	110,427	218,865	110,427	218,865
Interest/profit income:				
Malaysian Government Securities	348,439	328,682	-	-
Corporate debt securities	5,583,354	5,621,773	-	-
Amortisation of premium net of accretion of discounts	(162,426)	(216,669)	-	-
Total (a)	8,802,364	8,773,219	3,032,997	3,039,433

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

16. INVESTMENT INCOME, NET (CONT'D.)

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
<u>AFS financial assets</u>				
Interest/profit income:				
Malaysian Government Securities	-	37,234	-	37,234
Corporate debt securities	213,165	2,942,781	213,165	2,942,781
Amortisation of premium net of accretion of discounts	-	(111,112)	-	(111,112)
Distribution income from wholesale unit trust funds	2,591,841	456,435	8,104,583	6,001,941
Interest/profit income from fixed and call deposits	2,379,739	2,547,712	2,141,111	2,231,567
Total (b)	5,184,745	5,873,050	10,458,859	11,102,411
Investment income before investment expenses (Note 15) **(a) + (b)**	13,987,109	14,646,269	13,491,856	14,141,844
Less: Investment expenses	(745,585)	(680,525)	(745,585)	(680,525)
	13,241,524	13,965,744	12,746,271	13,461,319

17. MANAGEMENT EXPENSES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Employee benefits expenses (a)	20,573,046	22,029,560	20,573,046	22,029,560
Non-executive directors remuneration (b):	591,500	564,000	591,500	564,000
- Fees	575,500	548,000	575,500	548,000
- Other emoluments	16,000	16,000	16,000	16,000

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

17. MANAGEMENT EXPENSES (CONT'D.)

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Auditors' remuneration:				
- Audit fees	199,000	180,000	199,000	180,000
- Other auditors' fees	25,800	21,000	-	-
- Regulatory related fees	33,000	33,000	33,000	33,000
- Non-audit fees	23,500	22,900	16,000	15,000
Management/survey fees	544,473	2,318,857	544,473	2,318,857
Allowance for impairment on insurance receivables (Note 8)	1,775,523	1,272,221	1,775,523	1,272,221
Depreciation (Note 3)	1,396,120	1,419,149	1,396,120	1,419,149
Operating leases:				
- Expenses for premises	525,626	522,651	525,626	522,651
- Expenses for office equipment	59,801	55,212	59,801	55,212
Computer maintenance charges	1,617,747	1,424,905	1,617,747	1,424,905
Printing and stationery	584,186	428,440	584,186	428,440
Advertisement and publicity	662,727	822,354	662,727	822,354
Bank charges	496,989	784,244	496,989	784,244
Other expenses	5,613,928	5,406,123	5,218,714	4,988,541
Total management expense	34,722,966	37,304,616	34,294,452	36,858,134

(a) Employee benefits expenses

	Group/Company	
	2018	**2017**
	RM	**RM**
Wages, salaries and bonuses	16,306,481	16,490,705
Social security contributions	158,255	139,488
Contribution to Employees Provident Fund	1,955,103	2,813,407
Other benefits	2,153,207	2,585,960
	20,573,046	22,029,560

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

17. MANAGEMENT EXPENSES (CONT'D.)

(a) Employee benefits expenses (cont'd.)

Included in employee benefits expenses is the executive director's/chief executive officer's remuneration amounting to RM1,767,618 (2017: RM1,548,841) as disclosed in Note 17a(i).

	Group/Company	
	2018	**2017**
	RM	**RM**
(i) Executive Director -		
Datuk Francis Lai @ Lai Vun Sen		
- Salary	748,840	680,763
- Allowance	130,000	120,000
- Defined contribution plan	259,072	227,191
- Bonus	629,706	520,887
Total salary costs (Note 17)	1,767,618	1,548,841
Benefits-in-kind	46,517	46,631
	1,814,135	1,595,472
(ii) Non-Executive Directors		
- Fees	575,500	548,000
- Other emoluments	16,000	16,000
	591,500	564,000
	2,405,635	2,159,472

(b) Directors' remuneration

	Group/Company	
	2018	**2017**
	RM	**RM**
Name:		
Datuk Datu Harun bin Datu Mansor, JP	173,750	175,000
Datuk Siau Wui Kee	83,000	77,000
Datuk Janice Lim Fung Ha	78,000	73,000
Tuan Haji Mohamed Rifai Bin Mohd Razi	85,000	80,750
Tuan Haji Pg Mahmuddin Bin Pg Md Tahir Nasruddin	87,750	78,500
Petrus Gimbad (Tenure expired on 31 October 2018)	84,000	79,750
	591,500	564,000

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

18. REALISED GAINS AND LOSSES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Financial assets at FVTPL:				
Equity securities	4,800,091	8,564,743	4,800,091	8,564,743
Corporate debt securities	154,044	288,634	-	-
AFS financial assets:				
Corporate debt securities	-	724,402	-	724,402
Malaysian Government Securities	-	(13,047)	-	(13,047)
Wholesale unit trust funds	-	-	170,222	-
	4,954,135	9,564,732	4,970,313	9,276,098

19. FAIR VALUE GAINS AND LOSSES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Fair value (losses)/gains on financial assets at FVTPL	(17,181,418)	12,618,623	(17,495,037)	11,936,853

20. OTHER OPERATING INCOME

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Sundry income	4,476,316	5,196,062	4,473,816	5,196,062
Gains on disposal of property and equipment	25,800	119,700	25,800	119,700
Realised (losses)/gains on foreign exchange	(18,906)	6,883	(18,906)	6,883
	4,483,210	5,322,645	4,480,710	5,322,645

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

21. NET CLAIMS INCURRED

	Group/Company	
	2018	**2017**
	RM	**RM**
Gross claims paid less salvage	74,653,885	75,411,149
Claims ceded to reinsurers	(29,849,012)	(26,789,056)
Net claims paid	44,804,873	48,622,093
Gross change in contract liabilities:		
At 31 December	136,208,761	171,794,338
At 1 January	(171,794,338)	(197,636,631)
	(35,585,577)	(25,842,293)
Change in contract liabilities ceded to reinsurers:		
At 31 December	(43,509,359)	(58,804,000)
At 1 January	58,804,000	76,038,294
	15,294,641	17,234,294
	24,513,937	40,014,094

22. TAXATION

	Group/Company	
	2018	**2017**
	RM	**RM**
Current income tax	3,698,922	4,004,515
Over provision of income tax in prior years	(215,463)	(340,237)
	3,483,459	3,664,278
Deferred tax (Note 7):		
- Relating to origination and reversal of temporary differences	(3,873,678)	2,795,722
- Under provision of deferred tax in prior years	215,600	-
	(3,658,078)	2,795,722
	(174,619)	6,460,000

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

22. 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	
	2018	**2017**
	RM	**RM**
Profit before taxation	7,243,966	34,922,827
Taxation at Malaysian statutory tax rate of 24%	1,738,552	8,381,478
Income not subject to tax	(2,868,424)	(2,523,889)
Expenses not deductible for tax purposes	955,116	942,648
Over provision of income tax in prior years	(215,463)	(340,237)
Under provision of deferred tax in prior years	215,600	-
Taxation for the year	(174,619)	6,460,000

	Company	
	2018	**2017**
	RM	**RM**
Profit before taxation	6,877,286	33,894,480
Taxation at Malaysian statutory tax rate of 24%	1,650,549	8,134,675
Income not subject to tax	(2,677,577)	(2,169,929)
Expenses not deductible for tax purposes	852,272	835,491
Over provision of income tax in prior years	(215,463)	(340,237)
Under provision of deferred tax in prior years	215,600	-
Taxation for the year	(174,619)	6,460,000

23. EARNINGS PER ORDINARY SHARE

The basic earnings per ordinary share is calculated based on the net profit for the year of the Group of RM7,418,585 (2017: RM28,462,827) and the number of ordinary shares in issue during the year of 100,000,000 (2017: 100,000,000).

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

24. DIVIDENDS

	Recognised in Year	
	2018	**2017**
	RM	**RM**
In respect of financial year:		
2017: Final single-tier dividend of 13.00% on 100,000,000 ordinary shares (13.00 sen net per ordinary share)	13,000,000	-
2016: Final single-tier dividend of 11.58% on 100,000,000 ordinary shares (11.58 sen net per ordinary share)	-	11,580,000

25. 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:

Future minimum rental payments:

	2018	**2017**
	RM	**RM**
Not later than 1 year	585,926	569,762
Later than 1 year and not later than 5 years	1,627,099	1,749,441
Later than 5 years	493	270,247
	2,213,518	2,589,450

Expenses incurred in relation to operating leases are disclosed in Note 17.

26. 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.

Name	Relationship
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	
	2018	**2017**
	RM	**RM**
Wholesale unit trust funds:		
Distribution income	5,512,742	5,545,506

	Group/Company	
	2018	**2017**
	RM	**RM**
Significant shareholders:		
Balances:		
Corporate debt securities	5,000,000	-
Fixed deposits placement at year end	-	5,000,000
Transactions:		
Interest income	226,048	425,244
Related Companies:		
Balances:		
Corporate debt securities	-	5,000,000
Transactions:		
Gross premium	9,593,033	9,475,007
Gross claims paid	(5,974,957)	(3,559,523)
Commission expenses	(417,935)	(425,961)
Interest income	143,370	-

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

26. RELATED PARTY DISCLOSURES (CONT'D.)

(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 17(a) and Note 17(b).

27. CAPITAL COMMITMENTS

	2018 RM	2017 RM
Authorised but not contracted for - property and equipment	14,606,000	4,748,400

28. 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.

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:

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

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 · Claims Department · Management Information Systems Department · Human Resource Department · Accounts and 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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

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 and Examination Committee ("AEC") and is responsible to ascertain that the risk policies are implemented and complied with.

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

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Capital Management Plan (Cont'd.)

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 Notes 2.1 and 31 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.

The stress testing process has been designed to suit 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 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.

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

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.

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 Notes 2.2(q).

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Insurance risk (Cont'd.)

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.

(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.

28. 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.

	2018			2017		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Motor	33,810	(2,571)	31,239	40,122	(1,600)	38,522
Fire	29,724	(19,777)	9,947	24,850	(14,236)	10,614
MAT	5,459	(4,885)	574	11,645	(11,011)	634
Miscellaneous	72,156	(53,952)	18,204	60,936	(39,704)	21,232
	141,149	(81,185)	59,964	137,553	(66,551)	71,002

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

	2018			2017		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Motor	111,241	(16,344)	94,897	123,249	(10,533)	112,716
Fire	16,649	(9,447)	7,202	32,937	(23,947)	8,990
MAT	8,934	(8,119)	815	12,093	(11,200)	893
Miscellaneous	65,033	(38,711)	26,322	62,929	(34,136)	28,793
	201,857	(72,621)	129,236	231,208	(79,816)	151,392

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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 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 sensivity 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 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 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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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 2017					
Average claim cost	+10%	12,665	7,306	(7,306)	(5,552)
Average number of claims	+10%	12,522	6,539	(6,539)	(4,970)
Average claims settlement period	Increased by 6 months	3,750	2,362	(2,362)	(1,795)
31 December 2017					
Average claim cost	-10%	(12,665)	(7,306)	7,306	5,552
Average number of claims	-10%	(12,522)	(6,539)	6,539	4,970
Average claims settlement period	Decreased by 6 months	(3,637)	(2,285)	2,285	1,737

* 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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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								
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
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	0	
Two years later	64,934	61,256	71,735	53,799	63,890	52,531	0	0	
Three years later	66,547	66,488	74,649	55,638	72,625	0	0	0	
Four years later	67,259	68,140	75,065	59,258	0	0	0	0	
Five years later	66,966	69,230	76,518	0	0	0	0	0	
Six years later	67,333	69,552	0	0	0	0	0	0	
Seven years later	67,391	0	0	0	0	0	0	0	
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**

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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								
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
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	0	
Two years later	33,925	44,033	47,312	47,244	47,420	44,212	0	0	
Three years later	33,377	43,491	45,533	46,061	45,165	0	0	0	
Four years later	33,147	43,566	44,841	45,227	0	0	0	0	
Five years later	32,618	43,556	43,337	0	0	0	0	0	
Six years later	31,457	43,074	0	0	0	0	0	0	
Seven years later	31,180	0	0	0	0	0	0	0	
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	0	
Two years later	28,053	38,573	38,669	38,826	39,218	37,446	0	0	
Three years later	29,846	40,529	40,729	40,483	40,248	0	0	0	
Four years later	30,426	41,410	41,188	43,608	0	0	0	0	
Five years later	30,447	42,466	41,831	0	0	0	0	0	
Six years later	30,679	42,757	0	0	0	0	0	0	
Seven years later	30,745	0	0	0	0	0	0	0	
Cumulative payments to date	30,745	42,757	41,831	43,608	40,248	37,446	29,234	15,767	**281,636**
Direct & Fac. Inwards	435	317	1,506	1,619	4,917	6,765	12,153	23,715	**51,427**
Treaty Inwards									**356**
MMIP									**34,259**
Best Estimate of Claim Liabilities									**86,042**
Claim Handling Expenses									**1,879**
Fund PRAD at 75% Confidence Interval									**4,778**
Net General Insurance Claim Liabilities									**92,699**

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

2017 Claims development table - Group and Company

Analysis of Claims Development - Gross of Reinsurance (RM'000)
Total Gross Business Within Malaysia

	Accident Year								
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Ultimate Claims Incurred									
At end of accident year	60,757	82,342	80,888	85,032	71,721	93,129	69,387	75,701	
One year later	57,470	79,687	79,812	89,579	68,465	97,043	66,423		
Two years later	54,668	77,393	77,431	84,380	66,708	85,411			
Three years later	49,665	73,107	75,262	82,765	66,242				
Four years later	48,525	72,252	76,293	81,482					
Five years later	48,147	71,281	71,888						
Six years later	47,799	69,711							
Seven years later	48,364								
Current estimate of cumulative claims incurred	48,364	69,711	71,888	81,482	66,242	85,411	66,423	75,701	**565,222**
Cumulative Claims Paid									
At end of accident year	20,195	32,702	21,118	28,730	25,115	27,209	24,781	23,874	
One year later	42,828	58,368	50,920	64,655	45,868	48,473	46,802		
Two years later	45,819	64,934	61,256	71,735	53,799	63,890			
Three years later	45,589	66,547	66,488	74,649	55,638				
Four years later	46,910	67,259	68,140	75,065					
Five years later	47,385	66,966	69,230						
Six years later	47,245	67,333							
Seven years later	47,224								
Cumulative payments to date	47,224	67,333	69,230	75,065	55,638	63,890	46,802	23,874	**449,056**
Direct & Fac. Inwards	1,140	2,378	2,658	6,417	10,604	21,520	19,621	51,827	116,165
Treaty Inwards									**1,056**
MMIP									**41,398**
Best Estimate of Claim Liabilities									**158,619**
Claim Handling Expenses									**2,377**
Fund PRAD at 75% Confidence Interval									**10,798**
Gross General Insurance Claim Liabilities									**171,794**

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

2017 Claims development table - Group and Company (Cont'd.)

Analysis of Claims Development - Net of Reinsurance (RM'000)
Total Net Business Within Malaysia

	Accident Year								
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Ultimate Claims Incurred									
At end of accident year	35,192	37,822	43,789	53,489	47,621	47,818	48,461	44,792	
One year later	33,759	35,033	44,230	48,671	48,200	48,924	47,068		
Two years later	32,811	33,925	44,033	47,312	47,244	47,420			
Three years later	30,541	33,377	43,491	45,533	46,061				
Four years later	30,718	33,147	43,566	44,841					
Five years later	30,584	32,618	43,556						
Six years later	30,398	31,457							
Seven years later	30,435								
Current estimate of cumulative claims incurred	30,435	31,457	43,556	44,841	46,061	47,420	47,068	44,792	**335,630**
Cumulative Claims Paid									
At end of accident year	12,434	14,867	15,254	19,006	18,775	18,827	18,353	15,061	
One year later	24,605	24,017	30,241	34,116	33,736	35,238	34,289		
Two years later	26,999	28,053	38,573	38,669	38,826	39,218			
Three years later	28,311	29,846	40,529	40,729	40,483				
Four years later	29,520	30,426	41,410	41,188					
Five years later	30,013	30,447	42,466						
Six years later	29,985	30,679							
Seven years later	29,817								
Cumulative payments to date	29,817	30,679	42,466	41,188	40,483	39,218	34,289	15,061	**273,201**
Direct & Fac. Inwards	618	778	1,090	3,653	5,578	8,202	12,779	29,731	**62,429**
Treaty Inwards									**1,056**
MMIP									**41,398**
Best Estimate of Claim Liabilities									**104,883**
Claim Handling Expenses									**2,377**
Fund PRAD at 75% Confidence Interval									**5,730**
Net General Insurance Claim Liabilities									**112,990**

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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

	AAA	AA	A	Malaysian Licensed Financial Institutions/ Insurers	Malaysian Government Securities	D	Not-rated	Not Subject to Credit risk	Total
	RM	RM	RM	RM	RM	RM	RM	RM	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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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	AAA RM	AA RM	A RM	Malaysian Licensed Financial Institutions/ Insurers RM	Malaysian Government Securities RM	D RM	Not-rated RM	Not Subject to Credit risk RM	Total RM
31 December 2017									
Financial assets at FVTPL	33,694,375	75,347,419	6,197,221	-	3,574,222	-	10,198,555	100,581,855	229,593,647
AFS financial assets	5,006,300	-	-	-	-	1	-	64,419,391	69,425,692
Reinsurance assets	-	1,402,435	15,639,923	60,511,138	-	-	2,262,111	-	79,815,607
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	62,780,159	-	62,780,159
Fixed and call deposits	-	-	-	34,875,760	-	-	39,000,000	-	73,875,760
Insurance receivables	-	-	244	18,208,156	-	-	149,808	-	18,358,208
Cash and bank balances	-	-	-	6,849,738	-	-	-	-	6,849,738
	38,700,675	76,749,854	21,837,388	120,444,792	3,574,222	1	114,390,633	165,001,246	540,698,811

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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	AAA RM	AA RM	A RM	Malaysian Licensed Financial Institutions/ Insurers RM	Malaysian Government Securities RM	D RM	Not-rated RM	Not Subject to Credit risk RM	Total 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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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

	AAA RM	AA RM	A RM	Malaysian Licensed Financial Institutions/ Insurers RM	Malaysian Government Securities RM	D RM	Not-rated RM	Not Subject to Credit risk RM	Total RM
31 December 2017									
Financial assets at FVTPL	-	-	-	-	-	-	-	100,581,855	100,581,855
AFS financial assets	5,006,300	-	-	-	-	1	-	195,952,061	200,958,362
Reinsurance assets	-	1,402,435	15,639,923	60,511,138	-	-	2,262,111	-	79,815,607
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	-	-	-	62,779,727	-	62,779,727
Fixed and call deposits	-	-	-	28,864,926	-	-	39,000,000	-	67,864,926
Insurance receivables	-	-	244	18,208,156	-	-	149,808	-	18,358,208
Cash and bank balances	-	-	-	6,575,966	-	-	-	-	6,575,966
	5,006,300	1,402,435	15,640,167	114,160,186	-	1	104,191,646	296,533,916	536,934,651

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28 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	Malayisan Licensed Financial Institutions/Insurers					
	Investment grade RM	**Neither past due nor impaired RM**	**Past due RM**	**Not rated RM**	**Not Subject to Credit risk RM**	**Total RM**
31 December 2018						
Financial assets at FVTPL	110,126,760	-	-	8,114,972	73,670,552	191,912,284
AFS financial assets	5,004,700	-	-	-	67,622,018	72,626,718
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
	175,888,642	68,416,276	2,374,160	101,027,442	141,292,570	488,999,090

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28 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

	Malayisan Licensed Financial Institutions/Insurers					
	Investment grade RM	Neither past due nor impaired RM	Past due RM	Not rated RM	Not Subject to Credit risk RM	Total RM
31 December 2017						
Financial assets at FVTPL	118,813,237	-	-	10,198,555	100,581,855	229,593,647
AFS financial assets	5,006,300	-	-	-	64,419,391	69,425,691
Reinsurance assets	17,042,358	60,511,138	-	2,262,111	-	79,815,607
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	62,780,159	-	62,780,159
Fixed and call deposits	34,875,760	-	-	39,000,000	-	73,875,760
Insurance receivables	244	18,099,910	108,246	149,808	-	18,358,208
Cash and bank balances	6,849,738	-	-	-	-	6,849,738
	182,587,637	78,611,048	108,246	114,390,633	165,001,246	540,698,810

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28 RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Credit exposure by credit quality (Cont'd.)

Company	Malayisan Licensed Financial Institutions/Insurers					
	Investment grade RM	Neither past due nor impaired RM	Past due RM	Not rated RM	Not Subject to Credit risk RM	Total RM
31 December 2018						
Financial assets at FVTPL	-	-	-	-	73,670,552	73,670,552
AFS financial assets	5,004,700	-	-	-	190,981,706	195,986,406
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
	56,658,957	68,416,276	2,374,160	92,912,470	264,652,258	485,014,121

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28 RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(i) Credit risk (Cont'd.)

Credit exposure by credit quality (Cont'd.)

Company	Malayisan Licensed Financial Institutions/Insurers					
	Investment grade RM	Neither past due nor impaired RM	Past due RM	Not rated RM	Not Subject to Credit risk RM	Total RM
31 December 2017						
Financial assets at FVTPL	-	-	-	-	100,581,855	100,581,855
AFS financial assets	5,006,300	-	-	-	195,952,061	200,958,361
Reinsurance assets	17,042,358	60,511,138	-	2,262,111	-	79,815,607
Loans and other receivables, excluding fixed and call deposits and prepayments	-	-	-	62,779,727	-	62,779,727
Fixed and call deposits	28,864,926	-	-	39,000,000	-	67,864,926
Insurance receivables	244	18,099,910	108,246	149,808	-	18,358,208
Cash and bank balances	6,575,966	-	-	-	-	6,575,966
	57,489,794	78,611,048	108,246	104,191,646	296,533,916	536,934,650

28 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				
	6-12 Months RM	More than 12 months RM	Total* RM	Past due and impaired RM	Total RM
2018					
Insurance receivables	574,936	1,799,224	2,374,160	5,554,681	7,928,841
2017					
Insurance receivables	8,601	99,645	108,246	4,019,153	4,127,399

* 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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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						
	Carrying value RM	Up to a year RM	1-3 years RM	3-5 years RM	5-15 years RM	Over 15 years RM	No maturity RM	Total 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

28. 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**		→		
	Carrying value RM	**Up to a year RM**	**1-3 years RM**	**3-5 years RM**	**5-15 years RM**	**Over 15 years RM**	**No maturity RM**	**Total RM**
31 December 2017								
Financial assets at FVTPL	229,593,647	18,243,240	49,318,500	33,892,245	55,947,510	6,246,800	100,581,855	264,230,150
AFS financial assets	69,425,692	213,750	5,213,750	-	-	-	64,419,391	69,846,891
Reinsurance assets, excluding premium liabilities	58,804,000	41,852,634	15,923,395	1,006,327	21,644	-	-	58,804,000
Loans and receivables, excluding fixed and call deposits and prepayments	62,780,159	38,905,335	19,615,724	4,009,945	249,155	-	-	62,780,159
Fixed and call deposits	73,875,760	74,960,466	-	-	-	-	-	74,960,466
Insurance receivables	18,358,208	18,358,208	-	-	-	-	-	18,358,208
Cash and bank balances	6,849,738	6,849,738	-	-	-	-	-	6,849,738
Total assets	519,687,204	199,383,371	90,071,369	38,908,517	56,218,309	6,246,800	165,001,246	555,829,612
Insurance contract liabilities, excluding premium liabilities	171,794,338	107,559,617	55,721,293	8,115,649	397,779	-	-	171,794,338
Other financial liabilities	34,910,602	17,845,299	13,888,695	3,231,665	314,833	-	-	35,280,492
Insurance payables	21,646,346	21,646,346	-	-	-	-	-	21,646,346
Other payables	10,839,344	10,839,344	-	-	-	-	-	10,839,344
Total liabilities	239,190,630	157,890,606	69,609,988	11,347,314	712,612	-	-	239,560,520

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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				→		
	Carrying value RM	Up to a year RM	1-3 years RM	3-5 years RM	5-15 years RM	Over 15 years RM	No maturity RM	Total 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	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	5,481,360	5,481,360	-	-	-	-	-	5,481,360
Total liabilities	189,822,811	122,764,185	54,658,246	11,293,192	1,410,093	-	-	190,125,716

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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		→		
	Carrying value RM	Up to a year RM	1-3 years RM	3-5 years RM	5-15 years RM	Over 15 years RM	No maturity RM	Total RM
31 December 2017								
Financial assets at FVTPL	100,581,855	-	-	-	-	-	100,581,855	100,581,855
AFS financial assets	200,958,362	213,750	5,213,750	-	-	-	195,952,061	201,379,561
Reinsurance assets, excluding premium liabilities	58,804,000	41,852,634	15,923,395	1,006,327	21,644	-	-	58,804,000
Loans and receivables, excluding fixed and call deposits and prepayments	62,779,727	38,905,067	19,615,589	4,009,918	249,153	-	-	62,779,727
Fixed and call deposits	67,864,926	68,823,234	-	-	-	-	-	68,823,234
Insurance receivables	18,358,208	18,358,208	-	-	-	-	-	18,358,208
Cash and bank balances	6,575,966	6,575,966	-	-	-	-	-	6,575,966
Total assets	515,923,044	174,728,859	40,752,734	5,016,245	270,797	-	296,533,916	517,302,551
Insurance contract liabilities, excluding premium liabilities	171,794,338	107,559,617	55,721,293	8,115,649	397,779	-	-	171,794,338
Other financial liabilities	34,910,602	17,845,299	13,888,695	3,231,665	314,833	-	-	35,280,492
Insurance payables	21,646,346	21,646,346	-	-	-	-	-	21,646,346
Other payables	10,737,402	10,737,402	-	-	-	-	-	10,737,402
Total liabilities	239,088,688	157,788,664	69,609,988	11,347,314	712,612	-	-	239,458,578

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. 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 Investment Committee and 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.

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(iii) Market risk (Cont'd.)

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

	Group				
	0.00%	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Increase in interest rates	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
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
2017					
Decrease in AFS reserve	69	87	103	121	137
Decrease in profit and loss after taxation/equity	4,168	5,154	6,122	7,068	7,995

	Company				
	1.00%	**1.25%**	**1.50%**	**1.75%**	**2.00%**
Increase in interest rates	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2018					
Decrease in AFS reserve	34	43	51	60	68
2017					
Decrease in AFS reserve	69	87	103	121	137

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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(iii) Market risk (Cont'd.)

(c) Price risk (cont'd.)

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.

		Group/Company			
		31 December 2018		31 December 2017	
	Changes in variable	Impact on income statements RM	Impact on equity* RM	Impact on income statement RM	Impact on equity* RM
Equity prices	+25%	17,949,110	13,641,324	24,199,341	18,391,499
Equity prices	-25%	(17,949,110)	(13,641,324)	(24,199,341)	(18,391,499)
NAV of funds ^	+2%	37,482	28,486	75,690	57,524
NAV of funds ^	-2%	(37,482)	(28,486)	(75,690)	(57,524)

* 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.

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

28. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Financial risks (Cont'd.)

(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.

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, Investment Committee, AEC and the Board.

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

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

29. FAIR VALUE ESTIMATION

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
	12,492,600	-	-	12,492,600	12,492,600
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
	72,626,719	67,622,018	5,004,701	-	72,626,719
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
Unit trust funds	1,874,111	1,874,111	-	-	1,874,111
Equity securities	71,796,441	71,796,441	-	-	71,796,441
	191,912,284	73,670,552	118,241,732	-	191,912,284

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

29. 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
	12,492,600	-	-	12,492,600	12,492,600
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
	195,986,407	190,981,706	5,004,701	-	195,986,407
Financial assets at FVTPL:					
Unit trust funds	1,874,111	1,874,111	-	-	1,874,111
Equity securities	71,796,441	71,796,441	-	-	71,796,441
	73,670,552	73,670,552	-	-	73,670,552

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

29. FAIR VALUE ESTIMATION (CONT'D.)

As at 31 December 2017, 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	7,584,000	-	-	7,584,000	7,584,000
Long-term leasehold office lots	5,174,400	-	-	5,174,400	5,174,400
	12,758,400	-	-	12,758,400	12,758,400
AFS financial assets:					
Corporate debt securities	5,006,301	-	5,006,301	-	5,006,301
Wholesale unit trust funds	64,419,391	64,419,391	-	-	64,419,391
	69,425,692	64,419,391	5,006,301	-	69,425,692
Financial assets at FVTPL:					
Malaysian Government Securities	3,574,222	-	3,574,222	-	3,574,222
Corporate debt securities	125,437,570	-	125,437,570	-	125,437,570
Unit trust funds	3,784,490	3,784,490	-	-	3,784,490
Equity securities	96,797,365	96,797,365	-	-	96,797,365
	229,593,647	100,581,855	129,011,792	-	229,593,647

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

29. FAIR VALUE ESTIMATION (CONT'D.)

As at 31 December 2017, 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	7,584,000	-	-	7,584,000	7,584,000
Long-term leasehold office lots	5,174,400	-	-	5,174,400	5,174,400
	12,758,400	-	-	12,758,400	12,758,400
AFS financial assets:					
Corporate debt securities	5,006,301	-	5,006,301	-	5,006,301
Wholesale unit trust funds	195,952,061	195,952,061	-	-	195,952,061
	200,958,362	195,952,061	5,006,301	-	200,958,362
Financial assets at FVTPL:					
Unit trust funds	3,784,490	3,784,490	-	-	3,784,490
Equity securities	96,797,365	96,797,365	-	-	96,797,365
	100,581,855	100,581,855	-	-	100,581,855

29. FAIR VALUE ESTIMATION (CONT'D.)

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, unit trust funds 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.

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)

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

30. LEGAL UPDATE

(a) 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.

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.

On 29 and 30 January 2019, PIB represented by its appointed legal counsel Messrs Azim, Farik & Wang had attended the Third Session of the Oral Representations with MyCC pursuant to Section 37 of the Competition Act 2010. On 21 February 2019, the counsel for PIAM made their oral representations to the MyCC Commissioners and further oral representations is scheduled to be held on 13 and 14 May 2019 and 17 and 18 June 2019. The Company’s legal counsel will be making their representations during the June 2019 session.

As at the approval date of the financial statements, there have been no further developments on this matter.

30. LEGAL UPDATE (CONT'D.)

(b) On 11 September 2017, PIB had initiated merger and acquisitions discussions with a potential foreign buyer China-Taiping Insurance Holdings Company Limited for significant interest in PIB. PIB had applied for a further extension on the discussion from BNM as at 12 February 2018.

The Ministry of Finance Sabah as the major shareholder has on 13 July 2018 informed Management of their decision not to proceed with the joint venture discussions with China- Taiping Insurance Holdings Company Limited. The State Government intends to maintain its current control of its investment and management of PIB.

31. 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 2018 and 31 December 2017, 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:

	2018	**2017**
	RM	**RM**
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000,000	100,000,000
Retained earnings	139,136,829	145,084,924
	239,136,829	245,084,924
Tier 2 Capital		
Eligible reserves	8,494,070	7,740,446
	8,494,070	7,740,446
Amount deducted from capital	(1,879,791)	-
Total capital available	245,751,108	252,825,370

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

32. 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 financial assets as at 31 December 2018 and 31 December 2017.

(a) MFRS 139 measurement impact

	Group		Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
AFS Financial Assets				
Corporate debt securities	5,004,701	5,006,301	5,004,701	5,006,301
Wholesale unit trust funds	67,622,018	64,419,391	190,981,706	195,952,061
	72,626,719	69,425,692	195,986,407	200,958,362
Financial Assets at FVTPL				
Malaysian Government Securities	8,524,461	3,574,222	-	-
Corporate debt securities	109,717,271	125,437,570	-	-
Unit trust funds	1,874,111	3,784,490	1,874,111	3,784,490
Equity securities	71,796,441	96,797,365	71,796,441	96,797,365
	191,912,284	229,593,647	73,670,552	100,581,855
Total Investments	264,539,003	299,019,339	269,656,959	301,540,217
Amortised Costs Assets				
Fixed and call deposits	63,018,538	73,875,760	59,248,066	67,864,926
Insurance receivables	15,833,075	18,358,208	15,833,075	18,358,208
Loans and other receivables	56,904,086	63,038,609	56,904,086	63,038,177
	135,755,699	155,272,577	131,985,227	149,261,311
Retained earnings	140,705,964	146,463,262	139,136,829	145,084,924
AFS reserves	752,413	142,843	2,334,738	1,581,114

PROGRESSIVE INSURANCE BHD
(Incorporated in Malaysia)

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

(b) MFRS 9 measurement impact

	Group		Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Financial Assets at FVTPL				
Malaysian Government Securities	8,524,461	3,574,222	-	-
Corporate debt securities	114,721,972	130,443,871	5,004,701	5,006,301
Unit trust funds	1,874,111	3,784,490	1,874,111	3,784,490
Equity securities	71,796,441	96,797,365	71,796,441	96,797,365
Wholesale unit trust funds	67,622,018	64,419,391	190,981,706	195,952,061
	264,539,003	299,019,339	269,656,959	301,540,217
Total Investments	264,539,003	299,019,339	269,656,959	301,540,217
Amortised Costs Assets				
Fixed and call deposits	63,018,538	73,875,760	59,248,066	67,864,926
Insurance receivables	15,833,075	18,358,208	15,833,075	18,358,208
Loans and other receivables	56,904,086	63,038,609	56,904,086	63,038,177
	135,755,699	155,272,577	131,985,227	149,261,311
Retained earnings	141,458,377	146,606,105	141,471,567	146,666,038
AFS reserves	-	-	-	-