Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2020

(In Ringgit Malaysia)

Domiciled in Malaysia
Principal place of business
Level 29, Menara Allianz Sentral,
203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Contents **Page**

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2020

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

Principal activity

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

Results

	RM'000
Profit for the year	322,108

Dividends

Since the end of the previous financial year, the Company paid:

(i) a single tier interim dividend of 52.7 sen per ordinary share totaling RM199,821,637.71 in respect of the financial year ended 31 December 2019 on 14 January 2020; and

(ii) a single tier interim dividend of 65.9 sen per ordinary share totaling RM249,871,839.19 in respect of the financial year ended 31 December 2020 on 19 January 2021.

The Directors do not recommend any final dividend to be paid for the financial year under review.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Insurance claim liabilities and insurance premium liabilities

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that the insurance claim liabilities and insurance premium liabilities are adequate in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC") issued by Bank Negara Malaysia ("BNM").

Bad and doubtful debts

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts or the amount of provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

Current assets

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the financial statements of the Company, have been written down to an amount which they might be expected to realise.

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

Valuation methods

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

Contingent and other liabilities

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

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

Contingent and other liabilities (continued)

(ii) any contingent liability in respect of the Company that has arisen since the end of the financial year, other than those disclosed in Note 39 of the financial statements.

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of the above paragraphs, contingent liability or other liability do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

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 Company that would render any amount stated in the financial statements of the Company misleading.

Items of an unusual nature

In the opinion of the Directors, the results of operations of the Company for the financial year ended 31 December 2020 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

Issue of shares

There were no changes in the issued share capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and Insurance for Directors and Officer

The Company maintains a Directors' and Officers' Liability Insurance for the purpose of Section 289(5) of the Companies Act 2016 in Malaysia, throughout the year, which provides appropriate insurance cover for the Directors and Officers of the Company. The amount of insurance premium paid during the financial year amounted to RM18,875.

The Company in its ordinary course of business in underwriting of all classes of general insurance business, provided a Professional Indemnity Insurance to its auditor during the financial year.

Directors of the Company

The Directors of the Company who served during the financial year and during the period from the end of the financial year to the date of this report are:

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairman - Independent Non-Executive Director)
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director)
Dr. Muhammed Bin Abdul Khalid (Independent Non-Executive Director) (Appointed on 10 August 2020)
Zakri Bin Mohd Khir (Non-Independent Executive Director)
Goh Ching Yin (Independent Non-Executive Director) (Resigned on 30 June 2020)
Datuk Gnanachandran A/L S Ayadurai (Independent Non-Executive Director) (Resigned on 10 December 2020)

Company No. 200601015674 (735426-V)

Directors' interests

The Directors of the Company do not hold any shares in the Company as the Company is a wholly-owned subsidiary of Allianz Malaysia Berhad ("AMB"). The interests and deemed interests in the shares of AMB and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
Interests in AMB	At 1.1.2020	Bought	Sold	At 31.12.2020
Zakri Bin Mohd Khir	100	-	-	100

	Number of Irredeemable Convertible Preference Shares ("ICPS")			
Interests in AMB	At 1.1.2020	Bought	Sold	At 31.12.2020
Zakri Bin Mohd Khir	200	-	-	200

	Number of registered shares			
Ultimate Holding Company – Allianz SE	At 1.1.2020	Bought	Sold	At 31.12.2020
Zakri Bin Mohd Khir				
- Direct Interest [(a)]	-	1	-	1
- Indirect Interest [(a)]	-	1 [(b)]	-	1

Note

[(a)] Free share granted under Allianz Free Share Program

[(b)] Deemed Interest by virtue of a share held by his daughter-in-law

Save as disclosed above, none of the other Directors holding office at 31 December 2020 had any interest in the shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as disclosed in note 27.2 in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the 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 financial year which had the objective of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Corporate governance disclosure

A. Board of Directors

The Board of Directors ("Board") has overall responsibility for reviewing and adopting strategic plans for the Company, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control system.

The detailed responsibilities of the Board are set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

A1. Composition of the Board

The Board is made up of 3 Independent Non-Executive Directors and 1 Non-Independent Executive Director.

The Board comprises members from various fields with a balance of skills and experiences appropriate to the business of the Company.

All members of the Board complied with the minimum criteria of "A Fit and Proper Person" as prescribed under the Financial Services Act, 2013 ("FSA 2013").

The appointments and re-appointments of all Board members were approved by BNM.

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

The profiles of the Board members are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim Chairman - Independent Non-Executive Director	
Working experience	Tan Sri Datuk (Dr.) Rafiah started her career as a lecturer at the Faculty of Law, University of Malaya in 1974. In 1988, she ended her service with the University as the Dean of the Faculty. She then moved on to become the Head of the Legal Department of the Malayan Banking Berhad ("Maybank"). In 1991, she was promoted to the post of General Manager of the Human Resource Department at Maybank. She was then invited to serve in Bank Negara Malaysia as the Assistant Governor for the Security Department, Legal Department and Property and Service Department. Tan Sri Datuk (Dr.) Rafiah's international experience includes holding the position of Assistant Secretary General for Human Resource Management, United Nations, New York, from 1997 to 2002 and was the first Malaysian to be appointed to such a high ranking post in the United Nations system. From 2003 to 2006, she was the Executive Director of the International Centre for Leadership in Finance, now known as The ICLIF Leadership and Governance Centre. In 2006, she was appointed as the ViceChancellor/President of the University of Malaya. She was the Executive Director of NAM Institute for the Empowerment of Women from 2009 to 2013. Tan Sri Datuk (Dr.) Rafiah has been awarded the "Darjah Kebesaran Panglima Jasa Negara" and the "Panglima Setia Mahkota" from His Majesty The Yang di-Pertuan Agong.
Shareholding in the Company	Nil

Company No. 200601015674 (735426-V)

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz Independent Non-Executive Director	
Working experience	Tunku Zain is Founding President of the Institute for Democracy and Economic Affairs ("IDEAS"); a Trustee of Yayasan Chow Kit, Yayasan Munarah, Jeffrey Cheah Foundation and Genovasi Foundation; an Independent Non-Executive Director of Allianz Malaysia Berhad and Allianz General Insurance Company (Malaysia) Berhad; an advisor or patron to numerous educational and cultural organisations; a committee member of several societies and associations, including the Squash Racquets Association of Malaysia; a columnist in three newspapers; and a Royal fellow of the National University of Malaysia. Tunku Zain was educated at the Kuala Lumpur Alice Smith School, Marlborough College and the London School of Economics and Political Science, where he obtained his MSc in Comparative Politics. He then worked in the UK Houses of Parliament before moving to Washington DC to join the World Bank as a Public Sector Consultant. Upon returning to Malaysia, Tunku Zain worked at the United Nations Development Programme and the KRA Group before becoming a Research Fellow at the Lee Kuan Yew School of Public Policy at the National University of Singapore. In 2006 he co-founded the Malaysia Think Tank which evolved into IDEAS in 2010. Since 2008 he has maintained a newspaper column: firstly Abiding Times in The Sun, then Roaming Beyond the Fence in the Star and Sin Chew, and now Conservatively Speaking Freely in the Malay Mail, Borneo Post and Oriental Daily. From these articles three books have been compiled, the latest being nominated for the Popular Readers' Choice Awards. Tunku Zain is also authored a coffee table book for the Installation of the Eleventh Yang di-Pertuan Besar of Negeri Sembilan and led a major project to revitalise the State Anthem.

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz (continued) Independent Non-Executive Director	
Working experience	An Eisenhower Fellow, he has been selected for various leadership programmes by the governments of Australia, France and the European Union. Tunku Zain is often invited to speak on subjects ranging from nation building, public policy, history, culture, law, business ethics and youth development.
Shareholding in the Company	Nil

Dr. Muhammed Bin Abdul Khalid Independent Non-Executive Director	
Working experience	Dr. Muhammed is formerly the Economic Adviser to the former Prime Minister, Yang Amat Berbahagia Tun Dr. Mahathir Bin Mohamad. He was also a Member of the Economic Action Council from 2019 to 2020. Dr. Muhammed has served as consultant for the World Bank, United Nations Development Program ("UNDP"), United Nations Children's Fund ("UNICEF") and United Nations Economic and Social Commission for Asia and the Pacific ("UNESCAP"). He had also served as Director of Research at Khazanah Research Institute, Head of Economics at the Securities Commission Malaysia and a Senior Analyst at the Institute of Strategic and International Studies. He was also a Senior Technical Advisor at the UNDP Malaysia. Dr. Muhammed is currently a Research Fellow at the Institute of Malaysian and International Studies of the University Kebangsaan Malaysia, and also a Member of the Board of Trustees of the Malaysian Institute of Economic Research.
Shareholding in the Company	Nil

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Zakri Bin Mohd Khir Chief Executive Officer – Non-Independent Executive Director	
Working experience	Zakri has over 30 years of experience in the insurance industry. He joined Allianz Malaysia Berhad ("AMB") in 2000 as the Head of Industrial Business and subsequently appointed as the Head of Technical Division in 2004. He was the Head of Operations Division of Allianz General Insurance Company (Malaysia) Berhad ("AGIC") before he assumed his current position as the Chief Executive Officer ("CEO") of AGIC in December 2010. He is also the CEO of AMB since 3 September 2014. Prior to his employment with AMB Group, he was the General Manager of the American Malaysian Insurance Berhad.
Shareholding in the Company	Nil

During the financial year, Board members attended various training, amongst others, were as follows:-

- Overview of Section 17A of the Malaysian Anti-Corruption Commission ("MACC") (Amendment) Act 2018
- Overview of Corruption Risk Management and Section 17A of the MACC (Amendment) Act 2018

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A2. Board Meetings

There were 6 Board Meetings held during the financial year ended 31 December 2019 and the attendance of the Directors was as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	6	6
Dr. Muhammed Bin Abdul Khalid	3	3 out of 3 meetings held after his appointment as Director on 10 August 2020
Zakri Bin Mohd Khir	6	6
Goh Ching Yin	3	3 out of 3 meetings held prior to his resignation as Director on 30 June 2020
Datuk Gnanachandran A/L S Ayadurai	6	6

A3. Board Committees

The following Board Committees are centralised at its immediate holding company, AMB:-

(a) Audit Committee;
(b) Risk Management Committee; and
(c) Nomination and Remuneration Committee.

The Board Committees are operating on the terms of reference approved by the Board of AMB and adopted by the Board of the Company, to assist the Board in the execution of its responsibilities.

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.1 Audit Committee of AMB Board ("AC")

The composition of the AC during the financial year is as follows:-

Peter Ho Kok Wai (Chairman - Independent Non-Executive Director of Allianz Life Insurance Malaysia Berhad ("ALIM") and AMB) (Appointed as AC Chairman on 1 July 2020)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)
Goh Ching Yin (Independent Non-Executive Director of ALIM and AMB) (Appointed as AC member on 1 July 2020)
Dato' Dr. Thillainathan A/L Ramasamy (Chairman - Independent Non-Executive Director of ALIM and AMB) (Retired on 30 June 2020)

There were 6 AC Meetings held during the financial year ended 31 December 2020 and the attendance of the abovementioned AC members were as follows:-

Name of Members	No. of AC Meetings Held	No. of AC Meetings Attended
Peter Ho Kok Wai	6	6
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Goh Ching Yin	6	3 out of 3 meetings held after his appointment as AC member on 1 July 2020
Dato' Dr. Thillainathan A/L Ramasamy	6	3 out of 3 meetings held prior to his retirement as AC Chairman on 30 June 2020

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.1 Audit Committee of AMB Board ("AC") (continued)

The AC is charged with the responsibilities of assisting the Board of AMB and its subsidiaries ("AMB Group" or "Group") in its oversight, amongst others, as follows:-

- support the Board in ensuring that there is a reliable and transparent financial reporting process;
- monitor and evaluate the performance and effectiveness of the external and internal audit functions;
- assess the internal control environment; and
- review and report to the Board of conflict of interest situations and related party transactions.

The detailed terms of reference of the AC is set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

A3.2 Risk Management Committee of AMB Board ("RMC")

The composition of the RMC during the financial year is as follows:-

Dr. Muhammed Bin Abdul Khalid (Chairman – Independent Non-Executive Director) (Appointed as RMC Chairman on 10 December 2020)
Goh Ching Yin (Independent Non-Executive Director of ALIM and AMB)
Peter Ho Kok Wai (Independent Non-Executive Director of ALIM and AMB)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director of ALIM and AMB) (Retired on 30 June 2020)
Marzida Binti Mohd Noor (Independent Non-Executive Director of AMB) (Resigned on 1 March 2020)
Datuk Gnanachandran A/L S Ayadurai (Chairman – Independent Non-Executive Director) (Appointed as Member and Chairman of RMC on 1 January 2020 and 1 July 2020 respectively and subsequently resigned on 10 December 2020)

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.2 Risk Management Committee of AMB Board ("RMC")

There were 4 RMC Meetings held during the financial year ended 31 December 2020 and the attendance of the abovementioned RMC members were as follows:-

Name of Members	No. of RMC Meetings Held	No. of RMC Meetings Attended
Dr. Muhammed Bin Abdul Khalid	4	No meeting held after his appointment as RMC Chairman on 10 December 2020
Goh Ching Yin	4	4
Peter Ho Kok Wai	4	4
Marzida Binti Mohd Noor	4	1 out of 1 meeting held prior to her resignation as RMC member on 1 March 2020
Dato' Dr. Thillainathan A/L Ramasamy	4	2 out of 2 meetings held prior to his retirement as RMC member on 30 June 2020
Datuk Gnanachandran A/L S Ayadurai	4	4

Company No. 200601015674 (735426-V)

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.2 Risk Management Committee of AMB Board ("RMC") (continued)

The RMC is responsible for effective risk identification, measurement, monitoring and control of the AMB Group, and oversees the Senior Management's activities in managing the key risk areas of the AMB Group and to ensure that the risk management process is in place and functioning effectively.

The detailed terms of reference of the RMC is set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

A3.3 Nomination and Remuneration Committee of AMB Board ("NRC")

The composition of the NRC during the financial year is as follows:-

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz (Chairman - Independent Non-Executive Director)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)
Goh Ching Yin (Independent Non-Executive Director of ALIM and AMB) (Appointed as NRC Member on 1 July 2020)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director of ALIM and AMB) (Retired on 30 June 2020)
There were 5 NRC Meetings held during the financial year ended 31 December 2020 and the attendance of the abovementioned NRC members were as follows:-

Name of Members	**No. of NRC Meetings Held**	**No. of NRC Meetings Attended**
Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	5	5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5
Goh Ching Yin	5	2 out of 2 meetings held after his appointment as NRC member on 1 July 2020
Dato' Dr. Thillainathan A/L Ramasamy	5	3 out of 3 meetings held prior to his retirement as NRC member on 30 June 2020

Corporate governance disclosure (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

A3.3 Nomination and Remuneration Committee of AMB Board ("NRC") (continued)

The primary objectives of the NRC are:-

(a) to establish a documented formal and transparent procedure for the appointment and removals of Directors, CEOs and Key Responsible Persons ("KRP(s)") of AMB Group;
(b) to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), CEOs and KRPs of AMB Group on an on-going basis;
(c) to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEOs and KRPs of AMB Group; and
(d) to ensure that the compensation is competitive and consistent with the culture, objective and strategy of AMB Group.

The detailed terms of reference of the NRC is set out in the Board Charter, which is available at Allianz Malaysia's website, allianz.com.my.

Corporate governance disclosure (continued)

B. Internal Control Framework

B1. Risk Management Framework

The Board recognises the importance of having in place a risk management system to identify key risks and implement appropriate controls to manage such risks as an integral part of the Company's operations. The Company has in place the Group Risk Management Framework Manual ("RMFM"). The RMFM outlines the guiding principles of the risk management approach, structure, roles, responsibilities, accountabilities, reporting requirements as well as the risk identification, evaluation and monitoring process of the Company. It is designed to formalise the risk management functions and practices across the Company and to increase awareness of the Company's employees to risk identification, measurement, control, on-going monitoring and reporting.

The RMFM is in compliance with the relevant requirements of the guidelines and/or policies issued by BNM and Allianz SE Group.

The system of risk governance process is integrated into the core management processes and forms part of the daily business process so that a value-added contribution in terms of sustainable competitive advantage and improved business performance can be established. Various standards are implemented by the Company, including organisational structure, risk strategy, written policies, authority limits, system documentation and reporting, to ensure accurate and timely flow of risk-related information and a disciplined approach towards decision making and execution.

The Company also adopts the three lines of defence model where the "first line of defence" rests with the business managers. They are responsible in the first instance for both the risks and returns of their decisions.

The "second line of defence" is made up of the oversight functions comprising Compliance and Risk Management that are independent from business operations.

- The Compliance function assists the Board and Senior Management in managing and mitigating the compliance risks due to any non-compliance of the requirements of the law, regulations as well as regulatory and industry guidelines.

- Risk Management function assists the Board and Senior Management to achieve its strategic goals and objectives by implementing risk management activities and controls across the organisation.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Both the Compliance and Risk Management functions report to the RMC which assists Board to discharge its oversight function effectively. As part of its responsibilities, the Compliance and Risk Management functions advise the Board and Senior Management on compliance, risk and regulatory matters; and promote risk and compliance awareness amongst the Company's employees through trainings and workshops.

In addition to the above oversight functions, Legal and Actuarial functions constitute additional components of the "second line of defence". An appropriate control framework has been established to avoid any potential conflict of interest to fulfil their role as the second line of defence.

- The Legal function seeks to mitigate legal risks arising from legislative changes, major litigation and disputes, regulatory proceedings and unclear contractual terms.

- The Actuarial function contributes towards assessing and managing risks in line with regulatory requirements and reports to the Board and Senior Management. Its scope of work includes coordination and calculation of technical reserves, providing oversight on product pricing and profitability and contribution to the effective implementation of the risk management system.

The RMC drives the risk management framework of the Company and reports quarterly to the Board on its recommendations and/or decisions. The Risk Management Working Committee ("RMWC") is established at the Management level and serves as a platform for two-way communications between the Management and the RMC on matters relating to risk strategy and management. Through the quarterly reporting from RMWC, the RMC consolidates the status of the risks and presents them to the Board for consideration.

The Governance and Control Committee ("GovCC") supports the Management to fulfil its responsibilities with respect to regulatory governance, organisational and control requirements. The GovCC also provides a platform for structured and institutionalised interaction and collaboration on cross functional and control related topics to facilitate a consistent approach in terms of processes, methodologies, assessments, materiality and others. GovCC members consist of senior management from governance and operation functions. The GovCC reports to the Senior Management Committee on governance and internal control system related matters.

Corporate governance disclosure (continued)

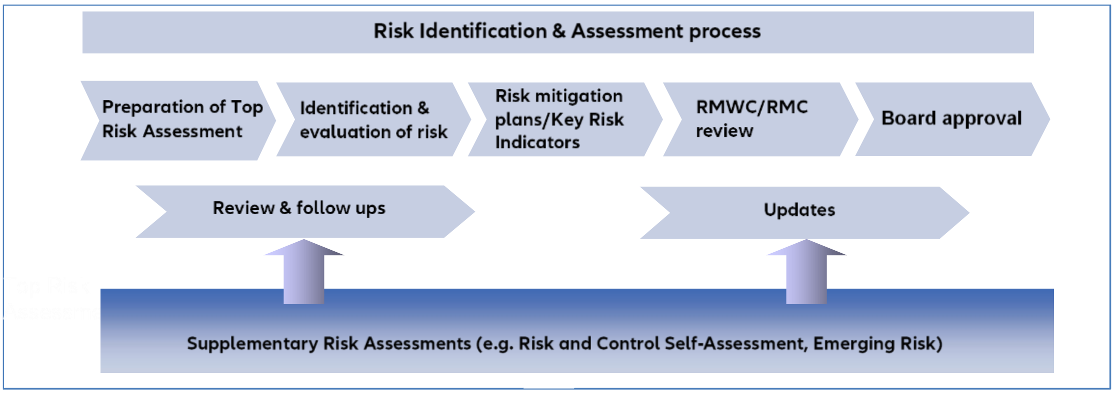
B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process

Risk management is considered and managed as part of the daily process of managing and directing the business. These include the implementation of a limit system, various frameworks, manuals and policies.

Besides the embedded process, the following risk management cycle to identify, assess, mitigate, monitor and report will also be carried out by the Risk Management function together with the respective risk owners: -



(i) Top Risk Assessment ("TRA")

TRA approach is in place to periodically analyse all material quantifiable and non-quantifiable risks including market, credit, underwriting, business, operational, liquidity, reputational and strategic risks.

The Company identifies and remediates significant threats to financial results, operational viability or the delivery of key strategic objectives, regardless of whether they relate to quantifiable or non-quantifiable risks using the approved TRA Matrix. The identified top risks are assessed quarterly by the assigned risk owners; and the same is reviewed by the RMWC and the RMC and approved by the Board. Key risk indicators are also put in place to monitor changes in risk exposure or control effectiveness for the top risks on a quarterly basis. The key risks and their salient points on how the Company manages these risks are set out below:-

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(i) Top Risk Assessment ("TRA") (continued)

Key risks	Broad Definition	Risk Management Practices
Market	Unexpected losses arising due to changes in market prices or parameters influencing market prices, as well as the resultant risk from options and guarantees that are embedded in contracts or from changes to the net worth of assets and liabilities in related undertakings driven by market parameters. In particular, these include changes driven by equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities. It also includes changes in market prices due to worsening of market liquidity.	• Investment activity is strictly governed by the pre-approved limits and appetite and monitored through a front end system. Any exception requires pre-approval. • An asset and liability process has been put in place to manage the risks and returns expected from the insurance obligations. • Selectively using derivative to either hedge the portfolio against adverse market movements or reduce reinvestment risk.
Credit	Unexpected losses in the market value of the portfolio due to deterioration in the credit quality of counterparties including their failure to meet payment obligations or due to non-performance of instruments.	• Credit analyses are conducted prior to purchase and regular review on portfolio. • Investment activity is strictly governed by the pre-approved limits to ensure the diversification of investment portfolio in order to minimise the impact of default by any single counterparty. • Only uses pre-approved reinsurance partners with strong credit profiles.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(i) Top Risk Assessment ("TRA") (continued)

Key risks	Broad Definition	Risk Management Practices
Underwriting	Unexpected financial losses due to inadequacy of premiums for catastrophe and non-catastrophe risks, due to the inadequacy of reserves or due to the unpredictability of mortality or longevity.	• Managed through a comprehensive and strict standard for underwriting limit guidelines. Where necessary, the risk will be surveyed by the loss control engineers. • Regular monitoring of products, assumptions used against actual industry statistics and re-pricing will be considered if necessary. • Adequate reinsurance is purchased and reviewed annually to ensure adequate continuous cover within acceptable appetite and costs. • New products undergo a robust product development process.
Business	Unexpected decrease in actual results as compared to business assumptions, which leads to a decline in income without a corresponding decrease in expenses; this includes lapse risk.	• Regular monitoring of actual experience. • New products undergo a robust product development review process.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(i) Top Risk Assessment ("TRA") (continued)

Key risks	Broad Definition	Risk Management Practices
Legal and Regulatory	Losses arising from a breach of relevant laws and regulations.	• Trainings will be provided and annual declarations required from all staff. • New guidelines will be published in the Group's staff e-portal and highlighted through e-mails. • Regular reviews are conducted to ensure compliance.
Information Security	Information security breach losses triggered by both information technology ("IT") and non-IT leading to loss of data confidentiality, loss of data integrity, as well as business disruption and loss of availability of services resulting in legal costs, fines, forensic costs, remediation costs, compensation and/or reputation management costs.	• Strict policy and disciplinary action for security breach • Staff awareness on IT Security and Privacy • Access Control • Regular review on User ID access • Use of virus protection software • Data Loss Prevention solution • Conduct of Annual Penetration Testing by independent party to detect possible external and internal vulnerabilities • IT security controls in place, such as Firewall, Malware Protection and Distribution Denial-of-Service protection • Privilege Identity Management • Database encryption • Privacy Impact Assessment • Data privacy contractual obligations for Service Providers.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(ii) Operational Risk Management ("ORM")

ORM is a continuous process which includes operational risk identification, measurement, quantification, management and monitoring to mitigate the operational loss resulting from inadequate or failed internal processes, people, system or from external events.

ORM is monitored through a combination of the following activities:-
- Integrated Risk and Control System.
- Analysis of actual loss events reported into the Loss Data Capture database.
- Periodic audits by the Internal Audit Department and reviews by Risk Management function.
- Other key risk indicators and feedback from subject matter experts (for example IT Security Officer, Data Privacy Officer, Business Continuity Management Officers, Anti-Fraud and Anti-Corruption Coordinators, as well as respective operation managers).

(iii) Reputational Risk Management

All activities within Company can influence its reputation, which is determined by the perceptions and beliefs of its stakeholders. Hence, thorough management of any potential reputational risks is required. Any risks that might have significant impact on the Company will be escalated to Allianz SE.

The Company has adopted Allianz SE Group's Allianz Standard for Reputational Risk Management which establishes a core set of principles and processes for the management of reputational risks within the Company. The management of direct reputational risks requires balancing the benefits of a given business decision against the potential reputational impacts, taking into account the Company's reputational risk strategy and Environmental, Social and Governance approach. Indirect reputational risks are managed through the TRA as well as risk and control self-assessment processes, which apply the same reputational risk assessment methodology used for direct reputational risks.

The Corporate Communications function of the Company actively manages the reputational risk by assessing any potential risk arising from media, social media or any transaction relating to pre-defined sensitive areas.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(iv) Liquidity Risk Management

Liquidity risk is a consequential risk, i.e. another adverse event has to happen before the Company runs into liquidity issues. On this background, the Company has identified various events that might lead to liquidity shortages. To mitigate this, limits on the cash position have been put in place and closely monitored.

In addition, as the Company is operating in insurance business, the following risk evaluation tools are also adopted as part of the Company's risk management framework: -

(a) Internal Capital Adequacy Assessment Process ("ICAAP")

ICAAP is an overall process by which the Company adopted to ensure it has adequate capital to meet its capital requirements which reflects its own risk profile on an on-going basis. The formal assessment is conducted at least on an annual basis and its results are reported to the Board.

The review of the ICAAP coincides with the annual planning process and any changes in the strategic directions and business plans of the Company will be updated in its Risk Strategy, and accordingly all risks identified will also be taken into account when computing the Individual Target Capital Level ("ITCL").

The ITCL is validated by stress testing to ensure that it will still be above the Supervisory Target Capital Level imposed by the regulator even after the occurrence of a severe plausible event demonstrating a focus on balance sheet strength and protection of shareholders' value. A Capital Management Plan ("CMP") was drawn up with the objective to optimise risk and return, while maintaining sufficient level of capital in accordance with the Company's risk appetite and regulatory requirements. The CMP identified the action plans and sources of capital that are available for a pre-determined ITCL thresholds if they are triggered to bring the capital adequacy ratio above the internal soft threshold level.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(iv) Liquidity Risk Management (continued)

(b) Stress Testing (continued)

Stress test is an effective risk management tool and the Company conducts such stress test regularly. The stress test process is designed based on the Company's solvency position, lines of business, current position within the market, investment policy, business plan, and general economic conditions. The results of the stress test will then be incorporated into the Company's capital management plan, in determining the extent of capital affected by the threats arising from adverse events and the actions required to mitigate such threats.

The Board and Management participated actively in providing feedback on its stress test results and appropriateness of its methodology and assumptions adopted to perform the stress test.

B2. Internal Audit

The Internal Audit function, which reports to the AC, undertakes independent reviews or assessments of the Company's operations and its system of internal controls. It provides monitoring of the controls and risk management procedures as well as highlights significant risks impacting the Company. The internal audit personnel form the "third line of defence", are independent from the day-to-day activities of the Company and have unrestricted access to all activities conducted by the Company.

Internal Audit Plan is developed based on annual risk assessment and approved by the AC. The audit scope covers auditable areas encompassing financial operations, underwriting and claims operation, operations supports, corporate actuarial, internal and regulatory audit such as business continuity management, replacement of policy, anti-money laundering and IT systems.

Internal audit findings are discussed at management level. Senior and functional line management are tasked to ensure that management action plans are carried out in accordance with the internal audit recommendations. All internal audit reports are submitted to the AC. The AC deliberates on key audit findings and management actions to address these findings during the AC meetings.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B2. Internal Audit (continued)

Follow-up audits are also performed to monitor continued compliance and the internal auditors will provide quarterly updates to the AC on the progress of the management action plans as well as progress of the internal audit plan.

B3. Other Key Internal Control Process

The other key processes that the Board has established to provide effective internal controls include:-

Clear and Defined Organisational Structure

The Company has established an organisational structure with clearly defined lines of responsibility, authority limits and accountability aligned to its business and operation requirements and control environment. Relevant Board Committees with specific responsibilities delegated by the Board are established to provide oversight governance over the Company's activities. The Board Committees are centralised at its immediate holding company, AMB. The Board Committees have the authority to examine matters under their terms of reference and report to the Board with their observations and/or recommendations. The ultimate responsibility for the decision on all matters, however, lies with the Board.

Various Management Committees are established by the Management to assist in managing the day-to-day operations and ensure its effectiveness. The Management Committees formulate tactical plans and business strategies, monitor performance and ensure activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

Management Authority Limit

The Board's approving authority is delegated to the Management through formal and defined operational authority limits that governs business procedures and decision making process in the Company. The operational authority limits incorporate segregation of duties and check and balance in delegation of authority.

The Management's authority limits include limits for underwriting of risks, claims settlement, reinsurance, and capital expenditures and are reviewed and updated to ensure relevance to the Company's operations. Such authority limits are documented and made available to all staff via the Group's staff e-portal.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Management Authority Limit (continued)

In ensuring that the decision making process is transparent and to the best interest of the Company, all Directors and staff including the CEO are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Company, any circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

Policies and Procedures

Clear, formalised and documented internal policies and procedures are in place to ensure continued compliance with internal controls and relevant rules and regulations imposed by the relevant authorities.

These policies and procedures are subject to review and improvement to reflect changing risks and process enhancement, as and when required. Policies and procedures are also made available via the Group's staff e-portal for easy access by the employees.

Annual Business Plan and Performance Review

Annual business plans are submitted to the Board for approval. Financial condition and business performance reports are also submitted to the Board for review during the Board meetings. These reports cover all key operational areas and provide a sound basis for the Board to assess the financial performance of the Company and to identify potential problems or risks faced by the Company, thus enabling the Board to effectively monitor on an on-going basis, the affairs of the Company.

Related Party Transactions

The Company has established the necessary controls and procedures to ensure compliance with the relevant regulatory requirements in respect of related party transaction. Necessary disclosures are made to the Board of the Company and where required, prior approval of the Board of the Company and/or shareholders for the transactions will be obtained prior to execution.

A due diligence working group was formed to review the related party transactions and submit its recommendation in accordance to the level of authority as determined by the Board for consideration. The AC will review the related party transactions fall within its authority limit and submit its recommendation to the Board of the Company for consideration.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Related Party Transactions (continued)

The AC also review the related party transaction review procedures on an annual basis to ensure that the procedures and processes are sufficient and adequate to monitor, track and identify related party transactions including recurrent transactions in a timely and orderly manner.

Underwriting and Reinsurance

The Company employs high standards in its underwriting process. This includes among others, risk segmentation and selection, setting adequate pricing and terms and conditions, setting of right retention limit and adequate reinsurance protection.

Underwriting authority is controlled centrally at the Head Office level. Reinsurance is in place primarily to ensure that no single loss or aggregation of losses arising from a single event will have an adverse financial impact on the Company. Reinsurers selection is guided by the guidelines issued by the regulator and the Allianz SE Group. Reinsurance needs are reviewed annually in respect of reinsurance treaties and on case to case basis on facultative arrangements.

Financial Control Procedures

Financial control procedures are put in place and are documented in the procedural workflows of each business unit. These workflows are subject to reviews and improvements to reflect changing risks and process enhancement as and when required.

Investment

The Investment Committee of the Company is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department. The Investment Department is responsible for managing the investment functions of the Company within the pre-determined parameters.

The Company has in place the Investment Manual which sets out the detailed investment procedures and controls, including an Investment Code of Ethics to ensure that the Company's interests prevail over the personal interests of the employees.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Investment (continued)

The investment limits are set at various levels with limits which are more stringent than the regulatory limits as prescribed by BNM. The investment limits are monitored monthly to ensure compliance with the investment limits as specified in the Risk Based Capital Framework for Insurers issued by BNM.

The investment performance reports are amongst the reports submitted to the Investment Committee and the Board of the Company for review at its quarterly meetings.

Code of Conduct for Business Ethics and Compliance ("COC")

Every employee is required to attest on an annual basis that they understand and comply with the Allianz SE Group's COC. The COC among others, is essential in promoting ethical conduct within the Company and encompasses non-disclosure of the Company's information, accountability and areas on potential conflict of interest.

Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT")

The Company has in place internal policies and procedures relating to AML/CFT to prevent and detect money laundering and terrorism financing activities. The sanctions list screening procedures are in place and any suspicious transactions are reported to the Compliance Department. In respect of education, staff and agents are trained on AML/CFT requirements to promote understanding of their fundamental responsibilities in adhering to the procedures of verifying customers' identities and reporting of suspicious transactions.

Product Development

The Company has in place a Product Development Management Policy ("PDM Policy") which sets out the policies and procedures on product development in accordance with the requirements of the Guideline on Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10) issued by BNM ("BNM Product Guidelines").

The PDM Policy aims to promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risk during the development and marketing stages. The PDM Policy will also assist to ensure that the products developed and marketed by the Company are appropriate to the needs, resources and financial capability of the targeted consumer segments.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Product Development (continued)

The on-going product risk management is embedded within the risk management framework of the Company.

Whistleblowing and Anti-Fraud

The oversight of whistleblowing and fraud matters of the Company is performed by the AMB's Integrity Committee ("InC"). The InC coordinates all activities concerning prevention and detection of fraud and handling of whistleblowing incidents.

The Company has adopted the Allianz SE Group's Anti-Fraud Policy ("AZSE AFP") and the Allianz SE Group's Whistleblowing Policies and Procedures ("AZSE WBPP") to address fraud and whistleblowing issues respectively. The AZSE AFP defines fraud events, investigation process, reporting procedures, fraud risk assessments, training and the roles and responsibilities of Management and employees. The AZSE WBPP on the other hand, describe the Company's Speak-Up Policy, avenues for filing a concern and handling of whistleblowing incidents.

In respect of whistleblowing, the Company has established a whistleblowing mechanism to enable anonymous and non-anonymous reporting of any breach of the COC, any laws, regulations, orders or any internal rules. These whistleblowing cases are assessed confidentially by the InC to determine the validity and appropriate actions to be taken.

The effectiveness of the whistleblowing policies and procedures are reviewed periodically at least once in 3 years.

Anti-Corruption

The Company has adopted a localised Anti-Corruption Policy ("Policy") that outlines the guiding principles of Allianz SE, Malaysian Anti-Corruption Commission Act 2009 ("MACC Act") and Bursa Malaysia Securities Berhad's Main Market Listing Requirements with effect from 16 June 2020. Prior to that, the Company adopted the Allianz SE Group's Anti-Corruption Policy and MACC Act. The Policy serves to outline the Company's existing controls and behavioral guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, charitable contributions, joint ventures and outsourcing agreements as well as facilitation payments.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Anti-Corruption (continued)

The Vendor Integrity Screening process which is a part of the Allianz SE Group's Anti-Corruption Programme aims at ensuring an integrity based due diligence before any third party vendor is engaged. The screening contains a self-assessment section which among others includes questions on anti-corruption to be answered by the potential vendor and a risk evaluation to be completed by the relevant staff/department in charge. Only those vendors whose screening does not reveal any negative findings will be engaged.

Employees

All staff are required to make an annual declaration that they fulfilled the minimum criteria of "A Fit and Proper Person" as prescribed in Section 59(1), (2) and (3) of the FSA 2013. In addition, all staff are also required to attest that they understand and comply with the requirements of the following internal guidelines and policies:-

(i) Related Party Transaction Declaration;
(ii) Disclosure of Data;
(iii) Conflict of Interest;
(iv) COC for Business Ethics and Compliance;
(v) IT Security Policy and Guideline e-Awareness Declaration;
(vi) Anti-Corruption Policy;
(vii) Anti-Fraud Awareness Declaration; and
(viii) Guidelines on the Code of Conduct for the General Insurance Industry.

Sales Policy and Sales Agent Code of Conduct

The Company's insurance intermediaries are guided by the Allianz SE Sales Standard and Allianz SE Singapore Branch ("AZAP") Sales Agent Code of Conduct in order to promote professional sales conduct of intermediaries representing the Company. The Company has established an Ethics and Compliance Committee to deal with intermediary behaviour that are contrary to the Sales Standard and Sales Agent Code of Conduct.

In addition, agents of the Company are also required to comply with the Code of Ethics and Conduct imposed by General Insurance Association of Malaysia ("PIAM").

All internal control deficiencies or breaches related to the Sales Policy and Sales Agent Code of Conduct are reported to the Senior Management Committee together with corrective measures.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Agent Sales Compliance Disciplinary Policy

As part of the measures to improve uniformity in disciplining the agency force, the Company has formalised a Sales Compliance Disciplinary Policy detailing definition of types of offences/misconduct and the associated recommended disciplinary actions.

Business Continuity Management

Business Continuity Plan for the Company has been formulated to ascertain that the Company will recover and restore any interrupted critical functions within a predetermined time upon the occurrence of any disastrous events.

The testing for Business Continuity Plan and Disaster Recovery Plan is conducted at least once a year.

Information System

All employees are required to strictly abide to and comply with the Group Information Technology and Information Security Policy and Standard ("IT and IS Policy") which establishes core principles, responsibilities, tasks and organisational framework for IT and Information Security, in order to facilitate the fulfilment of internal and regulatory requirements.

Following the issuance of the Risk Management in Technology Policy Document ("RMiT Policy") by BNM effective since 1 January 2020, which supersede the Guidelines on Management of IT Environment (GPIS 1) and Guidelines on Internet Insurance (Consolidated) (BNM/RH/GL/003-5), the Company is committed to remedy the gaps to meet the expectations and requirements prescribed under the RMiT Policy. Accordingly, two new frameworks were implemented, i.e., the formulation of Technology Risk Management Framework and Cyber Resilience Framework, which were approved by the Board on 16 June 2020.

The IT & Digital Steering Committee ("ITDSC") is responsible for the overall strategic deployment of IT and digital assets in tandem with the business objectives. Other duties and responsibilities of ITDSC include, establishing effective IT and digital plans, formulation and implementation of technology risks management program, recommending to the respective Senior Management Committees, RMC and Board (whichever applicable) for approval on IT-related expenditure and material deviation from technology-related policies, as well as monitoring the progress of approved IT and digital programs/projects.

Corporate governance disclosure (continued)

B. Internal Control Framework (continued)

B3. Other Key Internal Control Process (continued)

Data Management Framework

The Group Data Management Framework ("DMF") has been in place to establish and maintain a sound data and information management system framework. The objective of the DMF is to manage data and disseminate information effectively, efficiently and to maximise the value of data assets. In addition, the DMF aims to ensure the integrity of data assets by preventing unauthorised or inappropriate use of data and information.

Data Privacy

The Allianz Privacy Standard ("APS"), contains the global minimum requirements applicable within the Allianz SE Group for the processing and transfer of personal data within the Allianz SE Group. The APS takes into account the requirements of the European Union privacy law, the General Data Protection Regulation to facilitate cross-border transfers of personal data originating from or processed in the European Economic Area within the Allianz SE Group. Under the APS, there are functional rules specifying data privacy and protection requirements, which include conducting Privacy Impact Assessment to record processing activities that involve handling of personal data and to comply with the Personal Data Breach Incident Workflow. Compliance with the APS adopted by the Company ensures compliance with the Malaysian Personal Data Protection Act, 2010 and is in line with the Code of Practice on Personal Data Protection for Insurance and Takaful in Malaysia.

Human Resources Policies and Procedures

The Company has established proper policies and procedures on human resource management, including recruitment, learning and development, talent development, performance management and employee benefits. These policies and procedures are reviewed as and when the need arises and changes effected are communicated to relevant employees via-email. The policies and procedures are also made available via the Group's staff e-portal for easy access by the employees.

Corporate governance disclosure (continued)

C. Remuneration

The remuneration policy and practices of the Company ("Policy") are established, implemented and maintained in line with the Company's business and risk management strategy, its risk profile, objectives, risk management practices and the long-term interests and performance. This Policy forms a key component of the governance and incentive structure through which the Board and Senior Management drive performance, convey acceptable risk taking behaviour and reinforce the Company's corporate and risk culture.

The remuneration components of employees are fixed and variable compensation. Base salary is the fixed remuneration component and rewards the role and responsibilities taking account of market conditions and providing for a stable source of income. The fixed component is dependent on position responsibility as well as the experience and qualification of incumbent.

Variable compensation components aim to reward performance and shall not provide incentives for risks which might be incompatible with the risk profile of the Company, including risk limits. Therefore, variable compensation components may not be paid, or payment may be restricted in the case of a breach of risk limits or a compliance breach.

The volume and relative weighting of the variable component shall depend on the level of seniority and the position. Variable components typically consist of annual bonus (short term incentive) and mid-/long-term incentives.

Variable compensation is determined by a combination of assessment of the individual's performance and his business unit as well as overall performance of the Company.

The Company measures performance in an annual process which includes the key steps of agreed priorities, regular feedback, and a mid-year and year-end performance assessment. Personal priorities or targets are agreed for each evaluated employee and reflects financial and non-financial ambitions. The assessment of individual performance is holistic in nature and considers relativity against peers.

Corporate governance disclosure (continued)

C. Remuneration (continued)

The remuneration of KRPs of the Company is not only determined by performance against business objectives but include other factors such as prudent risk-taking and actions affecting the long-term interests of the Company. Remuneration of KRPs is adjusted each year to account for all types of risk and breaches, determined by both quantitative measures and qualitative judgement.

Employees in control functions are measured on the achievement of control function objectives which determine their remuneration. Similar to all employees, actual payout is subject to overall size of bonus pool.

A portion of the variable compensation for CEO contains a deferred component. The deferral period shall be aligned with the nature of the business, its risks, and the activities of the incumbent in question, and adopt a multi-year framework to reflect the time horizon of risks.

Ultimate holding company

The Directors regard Allianz SE, a public listed company incorporated and domiciled in Germany as the Company's ultimate holding company.

Immediate holding company

The immediate holding company is AMB, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Auditors

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

The auditors' remuneration is disclosed in note 27 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz
Director

Zakri Bin Mohd Khir
Director

Kuala Lumpur,

Date: 24 February 2021

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2020

	Note	2020 RM'000	2019 RM'000
Assets			
Property, plant and equipment	3	77,560	63,988
Right-of-use assets	4	35,603	49,951
Investment properties	5	-	16,315
Intangible assets	6	94,780	101,910
Deferred tax assets	15	-	-
Investments	7		
Malaysian government securities		1,731,564	1,462,250
Malaysian government guaranteed bonds		719,862	736,147
Unquoted debt securities		1,285,836	1,255,005
Unquoted equity securities		*	*
Unquoted unit trust in Malaysia		1,284,907	606,101
Fixed deposits		178,318	203,011
Negotiable instruments of deposit with licensed financial institutions		-	20,348
Reinsurance assets	8	827,433	857,473
Insurance receivables	9	142,070	143,020
Loans and other receivables	10	84,305	96,603
Deferred acquisition costs	11	116,171	111,423
Current tax assets		12,937	12,584
Cash and cash equivalents		325,251	690,190
Total assets		6,916,597	6,426,319

* Denotes RM4

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2020 (continued)

	Note	2020 RM'000	2019 RM'000
Equity and liabilities			
Share capital	12	379,168	379,168
Retained earnings	13	1,722,412	1,645,705
Other reserves	13	145,269	91,476
Total equity		2,246,849	2,116,349
Insurance contract liabilities	14	3,900,796	3,658,555
Lease liabilities	16	30,012	42,644
Insurance payables	17	236,595	206,318
Other payables and accruals	18	477,268	388,645
Deferred tax liabilities	15	25,077	13,808
Total liabilities		4,669,748	4,309,970
Total equity and liabilities		6,916,597	6,426,319

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

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2020

	Note	2020 RM'000	2019 RM'000
Operating revenue	19	2,472,705	2,313,101
Gross earned premiums	20	2,284,122	2,123,417
Premiums ceded to reinsurers	20	(256,965)	(265,009)
Net earned premiums		2,027,157	1,858,408
Investment income	21	188,583	189,684
Realised gains and losses	22	1,958	5,394
Fair value gains and losses	23	-	241
Fee and commission income	24	29,984	53,988
Other operating income		3,766	7,411
Other income		224,291	256,718
Gross claims paid		(996,117)	(1,169,615)
Claims ceded to reinsurers		64,821	105,921
Gross change in claims liabilities		(170,311)	(78,853)
Change in claims liabilities ceded to reinsurers		(22,951)	43,309
Net claims incurred	25	(1,124,558)	(1,099,238)
Fee and commission expense	26	(294,977)	(271,474)
Management expenses	27	(399,347)	(373,111)
Interest expenses	28	(1,219)	(1,898)
Other operating expenses		(2,794)	(4,621)
Other expenses		(698,337)	(651,104)
Profit before tax		428,553	364,784
Tax expense	29.1	(106,445)	(90,231)
Profit for the year		322,108	274,553

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2020 (continued)

	Note	2020 RM'000	2019 RM'000
Profit attributable to:			
Owner of the Company		322,108	274,553
Basic earnings per ordinary share (sen)	30	85.0	72.4

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

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Note	2020 RM'000	2019 RM'000
Profit for the year		322,108	274,553
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Fair value of available-for-sale financial assets			
Net unrealised gains arising during the financial year		77,584	85,764
Realised gains transferred to Statement of profit or loss		(1,884)	(5,068)
	7.2	75,700	80,696
Tax effects thereon	29.3	(18,168)	(19,367)
Fair value gains, net of tax		57,532	61,329
Item that may not be reclassified subsequently to profit or loss			
Reversal of deferred tax on revaluation surplus of land and buildings upon disposal		732	-
		732	-
Total other comprehensive income for the year, net of tax		58,264	61,329
Total comprehensive income for the year		380,372	335,882
Total comprehensive income attributable to:			
Owner of the Company		380,372	335,882

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

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2020

		← Non-distributable			→	Distributable	
		Share capital	Capital reserve	Available-for-sale fair value reserve	Asset revaluation reserve	Retained earnings	Total equity
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2019		379,168	4,523	10,082	15,542	1,570,974	1,980,289
Fair value of available-for-sale financial assets		-	-	61,329	-	-	61,329
Total other comprehensive income for the year		-	-	61,329	-	-	61,329
Profit for the year		-	-	-	-	274,553	274,553
Total comprehensive income for the year		-	-	61,329	-	274,553	335,882
Contributions by and distributions to owner of the Company							
- Dividends payable to the owner of the Company	31	-	-	-	-	(199,822)	(199,822)
Total transactions with owner of the Company		-	-	-	-	(199,822)	(199,822)
At 31 December 2019		379,168	4,523	71,411	15,542	1,645,705	2,116,349

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2020 (continued)

		← Non-distributable			→	Distributable	
		Share capital	Capital reserve	Available-for-sale fair value reserve	Asset revaluation reserve	Retained earnings	Total equity
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2020		379,168	4,523	71,411	15,542	1,645,705	2,116,349
Fair value of available-for-sale financial assets		-	-	57,532	-	-	57,532
Disposal of land and buildings		-	-	-	(3,739)	3,739	-
Reversal of deferred tax on revaluation surplus		-	-	-	-	732	732
Total other comprehensive income for the year		-	-	57,532	(3,739)	4,471	58,264
Profit for the year		-	-	-	-	322,108	322,108
Total comprehensive income for the year		-	-	57,532	(3,739)	326,579	380,372
Contributions by and distributions to owner of the Company							
- Dividends payable to the owner of the Company	31	-	-	-	-	(249,872)	(249,872)
Total transaction with owner of the Company		-	-	-	-	(249,872)	(249,872)
At 31 December 2020		379,168	4,523	128,943	11,803	1,722,412	2,246,849
		Note 12	Note 13.1	Note 13.2	Note 13.3	Note 13.4	

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

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2020

	2020 RM'000	2019 RM'000
Operating activities		
Profit before tax	428,553	364,784
Investment income	(188,583)	(189,684)
Realised gains recorded in profit or loss	(1,958)	(5,394)
Change in fair value of investment properties	-	(241)
Rental income of property, plant and equipment	(268)	-
Purchases of available-for-sale investments	(1,342,138)	(902,708)
Placement of fixed deposits	(194,676)	(231,840)
Proceeds from disposal of available-for-sale investments	146,927	231,389
Maturity of available-for-sale investments	328,333	669,000
Maturity of fixed deposits	219,748	153,779
Non-cash items:		
Depreciation of property, plant and equipment	8,562	9,620
Depreciation of right-of-use assets	13,823	14,283
Property, plant and equipment written off	62	994
Amortisation of intangible assets	16,658	13,474
(Reversal)/ Allowance for impairment loss on insurance receivables	(2,260)	224
Reversal of impairment loss on reinsurance assets	(8)	(29)
Reversal of impairment loss on other receivables	(668)	-
Bad debts recovered	(119)	(54)
Bad debts written off on insurance receivables	1,344	237
Bad debts written off on other receivables	1,125	-
Interest expense	863	1,053
Interest on lease liabilities	1,219	1,898
Changes in working capital:		
Change in reinsurance assets	30,048	(20,018)
Change in insurance receivables	1,866	3,920
Change in loans and other receivables	12,363	6,114
Change in deferred acquisition costs	(4,748)	(16,363)
Change in insurance contract liabilities	242,241	152,937
Change in insurance payables	30,277	9,970
Change in other payables and accruals	37,710	38,464
Cash (used in) / generated from operating activities	(213,704)	305,809

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2020 (continued)

	2020 RM'000	2019 RM'000
Cash (used in) / generated from operating activities	(213,704)	305,809
Interest income received	155,394	170,207
Dividend income from unquoted unit trust	34,432	19,266
Rental income received	268	431
Bad debt recovered	119	54
Interest paid on lease liabilities	(1,219)	(1,898)
Income tax paid	(112,965)	(90,279)
Net cash flows (used in) / generated from operating activities	(137,675)	403,590
Investing activities		
Proceeds from disposal of property, plant and equipment	889	5,100
Proceeds from disposal of right-of-use assets	1,812	-
Proceeds from disposal of intangible assets	-	6,375
Purchase of property, plant and equipment	(6,696)	(7,602)
Purchase of right-of-use assets	(136)	-
Purchase of intangible assets	(9,528)	(34,742)
Net cash flows used in investing activities	(13,659)	(30,869)
Financing activities		
Dividends paid to owners of the Company	(199,822)	(159,630)
Repayment of lease liabilities	(13,783)	(12,937)
Net cash flows used in financing activities	(213,605)	(172,567)
Net (decrease) / increase in cash and cash equivalents	(364,939)	200,154
Cash and cash equivalents at beginning of year	690,190	490,036
Cash and cash equivalents at end of year	325,251	690,190
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months)	317,157	680,021
Cash and bank balances	8,094	10,169
	325,251	690,190

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2020 (continued)

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of cash flows for payments of claims incurred for insurance contracts, which are respectively treated under operating activities.

Included in the fixed and call deposits are RM69,118,000 (2019: RM69,091,000) held as cash collateral for guarantees issued on behalf of the policyholders (see Note 17).

Reconciliation of liabilities arising from financing activities

	Lease Liabilities RM'000
At 1 January 2020	42,644
Cash flows	(15,002)
Interest charge	1,219
Lease additions	1,151
At 31 December 2020	30,012

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Notes to the financial statements

Principal activities and general information

Allianz General Insurance Company (Malaysia) Berhad ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Company is as follows:

Level 29, Menara Allianz Sentral,
203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur

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

The immediate holding company is Allianz Malaysia Berhad ("AMB"), a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

The financial statements were authorised for issue by the Board of Directors on 24 February 2021.

1. Basis of preparation

1.1 Statement of compliance

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

The following are accounting standards, amendments, and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") for the financial year beginning on or after 1 January 2020 and adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101, *Presentation of Financial Statements*, and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 9, MFRS 139, MFRS 7 – *Interest Rate Benchmark Reform*
- Amendments to MFRS 4, *Extension of the Temporary Exemption from Applying MFRS 9*

The adoption of new standards, amendments to standards and interpretations by the Company for the first time for the financial year beginning on or after 1 January 2020 did not have any material impact on the current and/or prior periods and is not likely to affect future periods.

The following are accounting standards, amendments to standards and interpretations that have been issued by MASB but not yet effective and have not been early adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- Amendments to MFRS 16, *COVID-19 Related Rent Concessions*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 116, *Proceeds before Intended Use*
- Amendments to MFRS 3, *Reference to Conceptual Framework*
- Amendments to MFRS 137, *Onerous Contracts – Cost of Fulfilling a Contract*
- Annual Improvement to MFRSs 2018 – 2022 Cycle effective for annual periods beginning on or after 1 January 2022

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- Amendments to MFRS101, *Classification of liabilities and current or non-current*
- MFRS 17, *Insurance Contracts*

MFRS 17, *Insurance Contracts*

MFRS 17 replaces the guidance in MFRS 4, *Insurance Contracts.*

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

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

Alternative measurement models are provided for the different insurance coverages:

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

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

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRS 17, *Insurance Contracts (continued)*

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 17.

Except as mentioned above, the initial application of the other new standards, amendments to standards or interpretations issued by MASB effective for periods subsequent to 1 January 2021 are not expected to have any material financial impact to the current period and prior period financial statements of the Company.

1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the financial statements.

1.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1.4 Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2.8 – Determination of the recoverable amounts of other intangible assets
- Note 2.14 – Valuation of insurance contract liabilities

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.23.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

2.1 Foreign currency transactions

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in RM, which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting period except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising from settlement of foreign currency transactions and from retranslation of monetary assets and liabilities are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment except for work-in-progress are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses. Work-in-progress is stated at cost less accumulated impairment losses.

The Company revalues its properties comprising land and buildings every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

The revalued amounts of property are determined by using the comparison method. The comparison method entails critical analysis of recent evidence of values of comparable properties in the neighbourhood and making adjustments for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics. Valuation of properties involves a degree of judgement before arriving at the respective property's revalued amount. As such, the revalued amount of the properties may be different from its actual market price.

Surpluses arising from revaluation are credited to revaluation reserve account via the statement of other comprehensive income. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(a) Recognition and measurement (continued)

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "realised gains and losses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(b) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Work-in-progress are not depreciated until the assets are ready for their intended use.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(c) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	Over lease period
Buildings	50 years
Office equipment, computers, furniture and fittings	2 to 10 years
Motor vehicles	5 years
Office renovations and partitions	10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

2.3 Investment properties

(a) Investment properties carried at fair value

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

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

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

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

2. Significant accounting policies (continued)

2.3 Investment properties (continued)

(b) Reclassification to/from investment properties

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

(c) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment properties portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from its actual market price.

2. Significant accounting policies (continued)

2.4 Intangible assets

(a) Development costs

Expenditure incurred on software development is capitalised, only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use the asset.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(b) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, measured at cost less any accumulated amortisation and any accumulated impairment losses.

(c) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(d) Amortisation

Intangible assets with finite useful lives are amortised from the date that they are available for use. Amortisation is based on the cost of an intangible asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for the current and comparative periods is as follows:

Capitalised software development costs	5 years
Other intangible assets	6 - 18 years

Amortisation methods, useful life and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2. Significant accounting policies (continued)

2.5 Leases

Accounting by lessee

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

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

Lease term

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

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

ROU assets

ROU assets are initially measured at cost comprising the following:
- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at valuation/cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

2. Significant accounting policies (continued)

2.5 Leases (continued)

Accounting by lessee (continued)

ROU assets (continued)

While the Company revalues land and building (presented as part of property, plant and equipment) that it owns, it has chosen not to revalue the ROU building held by the Company.

The Company applies the fair value model to ROU assets that meet the definition of investment property of MFRS 140 consistent with those investment properties owned by the Company. Refer to Note 2.3 for accounting policy on investment properties.

The Company presents ROU assets that meet the definition of investment property in the statement of financial position as investment property. ROU assets that are not investment properties are presented as a separate line item in the statement of financial position.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include fixed payments (including in-substance fixed payments), less any lease incentive receivable.

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

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

2. Significant accounting policies (continued)

2.5 Leases (continued)

Accounting by lessee (continued)

Lease liabilities (continued)

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

Short term leases and leases of low value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise photocopiers. Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

2.6 Financial instruments

(a) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

(i) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market that include staff loans, other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(ii) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

(iii) Insurance receivables

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

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(iii) Insurance receivables (continued)

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.7(b).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.6(d), have been met.

All financial assets of the Company are subject to review for impairment (See Note 2.7).

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date; and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(d) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets

(a) Financial assets, excluding insurance receivables

All financial assets (except for fixed and call deposits) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2.7(b) below) is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the financial asset's acquisition cost (net of any principal repayment and amortisation) and the financial asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the financial asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

(b) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the insurance receivable's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. Significant accounting policies (continued)

2.8 Impairment of other assets

The carrying amounts of other assets (except for deferred tax assets and investment properties that are measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that largely independent of the cash inflows of other assets or groups of assets (known as "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows 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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of the assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

2. Significant accounting policies (continued)

2.9 Equity instruments

Instrument classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(a) Ordinary share capital

Ordinary share capital is classified as equity.

(b) Dividends on ordinary share capital

Dividends on ordinary share capital are recognised as a liability and deducted from equity when they are declared and appropriately authorised.

Dividends for the year that are approved after the end of the reporting period are dealt with as a subsequent event.

2.10 Product classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the "insurer") has accepted significant insurance risk from another party (the "policyholders") by agreeing to compensate the policyholders if a specified uncertain future event (the "insured event") adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains as an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2. Significant accounting policies (continued)

2.11 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums ceded and claims recoveries are recognised in the same accounting period as the original policy/contract in which the reinsurance relates, and presented on a gross basis for both ceded and assumed reinsurance in the statement of profit or loss and statement of financial position.

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

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

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

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

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

2. Significant accounting policies (continued)

2.12 Commission and agency expenses

Gross commission and agency expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurance in the course of ceding of premiums to reinsurers, are charged to profit or loss in the period in which they are incurred or deferred where appropriate as set out in Note 2.13(e).

2.13 General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

(a) Gross premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period.

(b) Reinsurance premiums

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

Inwards treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inceptions dates of these risks and contractually accounted for as such to reinsurers under the terms of the proportional treaties. In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premiums are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

2. Significant accounting policies (continued)

2.13 General insurance underwriting results (continued)

(c) Unearned premium reserves

Unearned premium reserves ("UPR") represent 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.

In determining UPR at the end of the reporting period, the method that most accurately reflects the actual unearned premium used is as follows:

- 25% method for marine cargo, aviation cargo and transit
- $1/24^{th}$ method (or other more accurate) for all other classes of Malaysian general policies
- $1/8^{th}$ method for all other classes of overseas inward treaty business
- Non-annual policies are time-apportioned over the period of the risks

(d) Claims and expenses

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

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the end of the reporting period.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the end of the reporting period, using a mathematical method of estimation.

(e) Acquisition costs and deferred acquisition cost ("DAC")

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

Such costs are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, deferred acquisition cost is amortised/ allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

2. Significant accounting policies (continued)

2.13 General insurance underwriting results (continued)

(e) Acquisition costs and deferred acquisition cost ("DAC") (continued)

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. DAC is also considered in the liability adequacy test for each accounting period.

DAC is derecognised when the related contracts are either settled or disposed of.

2.14 Insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities

Claims liabilities are recognised in respect of both direct insurance and inward reinsurance. Claims liabilities refer to the obligation by the Company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date (See Note 2.23). These include provision for claims reported, claims incurred but not reported ("IBNR"), claims incurred but not enough reserved ("IBNER") together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation ("PRAD") at a 75% confidence level as required by BNM calculated at the overall Company level. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserve is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

2. Significant accounting policies (continued)

2.14 Insurance contract liabilities (continued)

Premium liabilities

Premium liabilities is the higher of the aggregate of the UPR and the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the PRAD at a 75% confidence level as required by BNM calculated at the overall Company level.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred for administering these policies and settling the relevant claims, and expected future premium refunds.

2.15 Other revenue recognition

The following specific recognition criteria must also be met before revenue is recognised.

(a) Rental income

Rental income from investment properties and self-occupied properties are recognised in profit or loss on a straight-line basis over the term of the lease.

(b) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss.

(c) Dividend income

Dividend income is recognised in profit or loss on the date the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

2. Significant accounting policies (continued)

2.15 Other revenue recognition (continued)

(d) Realised gains and losses on investments

Realised gains and losses recorded in profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the differences between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

2.16 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised in full using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised if the temporary difference arises from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2.3, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are not discounted.

2. Significant accounting policies (continued)

2.16 Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

2.17 Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

2.18 Employee benefits

Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

2. Significant accounting policies (continued)

2.18 Employee benefits

Short-term employee benefits (continued)

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

2.19 Other financial liabilities and insurance payables

Other financial liabilities and insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

2.20 Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hand, balances and deposits held at call with financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 2.6(b)(i).

2.21 Earnings per ordinary share

The Company presents basic earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

No diluted EPS is disclosed in these financial statements as there are no dilutive potential ordinary shares.

2. Significant accounting policies (continued)

2.22 Fair value measurement

Fair value of an asset or a liability, is determined as 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

2.23 Significant accounting judgements, estimates and assumptions

(a) Valuation of general insurance claims liabilities

For general insurance contracts, claims liabilities are the outstanding claims reserve required for the future settlement of losses on claims which have occurred but have yet to be fully settled. Claims liabilities fall into two categories: expected ultimate cost of claims reported and expected ultimate cost of claims incurred but not yet reported at the end of the reporting period.

2. Significant accounting policies (continued)

2.23 Significant accounting judgements, estimates and assumptions

(a) Valuation of general insurance claims liabilities (continued)

It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The expected ultimate cost of claims reported are based on estimates of future payments that will be made with respect to individual claims. Such estimates are made on a case-by-case basis, based on the information available at the time the reserves are established. The estimates reflect the informed judgement of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim.

These reserves are regularly re-evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available. IBNR reserves are established to recognise the estimated cost of losses that have occurred but where the Company has not yet been notified. The valuation of IBNR reserves is carried out by an Appointed Actuary approved by BNM using professional judgement in applying actuarial methodology and assumptions, based on the Company's current and past claims experience, taking into account the Company's underwriting practice and industry experience. IBNR reserves are estimated based on actuarial statistical projections of the expected cost of the ultimate settlement and administration of claims. The projections are based on available information at the time and include factors such as trends in claims frequency, severity and speed of settlement. IBNR reserves are reviewed and revised quarterly as additional information becomes available with the actual claims development.

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience. These uncertainties may arise from changes in the underlying risks, changes in the spread of risk, changes in the speed of reporting and settlement of claims as well as the suitability of the methodology used in the projection model and its underlying assumptions.

2. Significant accounting policies (continued)

2.23 Significant accounting judgements, estimates and assumptions (continued)

(b) Determination of recoverable amount of other intangible asset

The Company assesses the recoverable amount of other intangible assets when there is indication of impairment in accordance with its accounting policy in Note 2.8. The recoverable amount of the other intangible asset is determined based on the value in use method, which requires the use of estimates for cash flow projections which have reflect the weighted average of all possible outcomes. The key assumptions used in the assessment are disclosed in Note 6.

2.24 Investment in subsidiaries

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

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

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

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

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

3. Property, plant and equipment

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Cost/Valuation									
At 1 January 2019		19,406	37,259	1,659	89,802	1,057	20,217	1,432	170,832
Effects of adoption of MFRS 16		(10,437)	-	-	-	-	-	-	(10,437)
At 1 January 2019, as restated		8,969	37,259	1,659	89,802	1,057	20,217	1,432	160,395
Additions		-	-	-	3,612	65	1,231	2,694	7,602
Disposals		(2,069)	(1,451)	-	(60)	(140)	-	-	(3,720)
Reclassification		-	-	-	1,836	-	1,150	(2,986)	-
Written off		-	-	-	(14,748)	-	(4,844)	-	(19,592)
At 31 December 2019 / At 1 January 2020		6,900	35,808	1,659	80,442	982	17,754	1,140	144,685
Additions		-	-	-	3,772	30	742	2,152	6,696
Disposals		-	(880)	-	(20)	-	(9)	(50)	(959)
Reclassification		-	-	-	393	-	733	(1,126)	-
Transfer from investment properties	5	-	16,315	-	-	-	-	-	16,315
Written off		-	-	-	(249)	-	(400)	-	(649)
At 31 December 2020		6,900	51,243	1,659	84,338	1,012	18,820	2,116	166,088

3. Property, plant and equipment (continued)

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Depreciation									
At 1 January 2019		352	2,790	105	73,666	677	12,815	-	90,405
Effects of adoption of MFRS 16		(352)	-	-	-	-	-	-	(352)
At 1 January 2019, as restated		-	2,790	105	73,666	677	12,815	-	90,053
Depreciation for the year	27	-	1,483	37	6,450	157	1,493	-	9,620
Disposals		-	(256)	-	(59)	(63)	-	-	(378)
Written off		-	-	-	(14,449)	-	(4,149)	-	(18,598)
At 31 December 2019 / At 1 January 2020		-	4,017	142	65,608	771	10,159	-	80,697
Depreciation for the year	27	-	1,400	20	5,432	141	1,569	-	8,562
Disposals		-	(126)	-	(18)	-	-	-	(144)
Written off		-	-	-	(188)	-	(399)	-	(587)
At 31 December 2020		-	5,291	162	70,834	912	11,329	-	88,528

3. Property, plant and equipment (continued)

	Note	Land	Buildings	Land and buildings*	Office equipment, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work-in-progress	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Carrying amounts									
At 1 January 2019		19,054	34,469	1,554	16,136	380	7,402	1,432	80,427
At 31 December 2019/ 1 January 2020		6,900	31,791	1,517	14,834	211	7,595	1,140	63,988
At 31 December 2020		6,900	45,952	1,497	13,504	100	7,491	2,116	77,560

* The carrying amounts of land and buildings are not segregated as the required information is not available.

Included in property, plant and equipment are fully depreciated assets which are still in use costing RM81,128,000 (2019 : RM52,661,000).

3. Property, plant and equipment (continued)

3.1 Revaluation of properties

The Company's land and buildings were revalued by C H Williams Talhar & Wong Sdn Bhd and Rahim & Co International Sdn Bhd, independent professional qualified valuers using the Comparison Method in 2016. This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, the land and buildings are compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered. There is no material change in fair value in 2020.

Had the land and buildings of the Company been carried under the cost model, their carrying amounts would have been as follows:

	2020 RM'000	2019 RM'000
Land	3,401	3,401
Buildings	41,422	26,959
Land and buildings	1,237	1,253
	46,060	31,613

3.2 Fair value information

Fair value of land and buildings of the Company are categorised as follows:

	2020			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	-	6,900	6,900
Buildings	-	-	45,952	45,952
Land and buildings	-	-	1,497	1,497
	-	-	54,349	54,349

	2019			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	-	6,900	6,900
Buildings	-	-	31,791	31,791
Land and buildings	-	-	1,517	1,517
	-	-	40,208	40,208

3. Property, plant and equipment (continued)

3.2 Fair value information (continued)

Level 3 fair value

The Level 3 unobservable input used in the valuation of land and building is the price per square foot ("psf") which is adjusted for differences in location, property size, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building, finishes and services and other relevant characteristics.

The estimated fair value would increase/(decrease) if the price per square foot were higher or lower and the historical sales transaction value were higher or lower.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique used	2020 Fair Value (RM'000)	2020 Adjusted psf RM/psf	2019 Fair Value (RM'000)	2019 Adjusted psf RM/psf
Sales comparison approach	54,349	283 – 2,643	40,208	283 – 2,643

4. Right-of-use assets

	Leasehold land RM'000	Buildings and equipment RM'000	Total RM'000
Valuation/Cost			
At 1 January 2019	10,437	55,298	65,735
Additions	-	391	391
Disposal	(1,514)	(159)	(1,673)
At 31 December 2019 / At 1 January 2020	8,923	55,530	64,453
Additions	-	-	-
Modifications/ Renewals	-	1,170	1,170
Disposal	(1,770)	(26)	(1,796)
At 31 December 2020	7,153	56,674	63,827

4. Right-of-use assets (continued)

	Leasehold land	Buildings and equipment	Total
Depreciation			
At 1 January 2019	352	-	352
Depreciation for the year	267	14,016	14,283
Disposal	(82)	(51)	(133)
At 31 December 2019 / At 1 January 2020	537	13,965	14,502
Depreciation for the year	125	13,698	13,823
Disposal	(101)	-	(101)
At 31 December 2020	561	27,663	28,224
Carrying amounts			
At 31 December 2019/1 January 2020	8,386	41,565	49,951
At 31 December 2020	6,592	29,011	35,603

The Company leases a number of buildings for its office space and branches. The leases typically run for a period of 1 to 5 years, but may have extension options.

In 2020, the total cash outflow for leases amounting to RM15,002,000 (2019: RM14,835,000) and income from subleasing right-of-use assets amounting to RM2,555,000 (2019:RM2,499,000).

4.1 Right-of-use assets under the revaluation model

The leasehold land was last revalued in 2016 by external independent professional qualified valuers using the Comparison Method. This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, the leasehold is compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered. There is no material change in fair value in 2020.

Had the leasehold land been carried at historical cost less accumulated amortisation, the carrying amounts would have been RM3,151,000 (2019: RM3,654,000).

4.2 Fair value information

Fair value of leasehold land is categorised as level 3 of the fair value hierarchy.

4. Right-of-use assets (continued)

4.2 Fair value information (continued)

Level 3 fair value

The Level 3 unobservable input used in the valuation of leasehold land is the price per square foot ("psf") which is adjusted for differences in location, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building erected thereon and other relevant characteristics.

The estimated fair value would increase/(decrease) if the price per square foot were higher or lower and the historical sales transaction value were higher or lower.

The following table shows the valuation technique used in the determination of fair values within Level 3, as well as the significant unobservable input used in the valuation model.

Valuation technique used	2020 Fair Value (RM'000)	2020 Adjusted psf RM/psf	2019 Fair Value (RM'000)	2019 Adjusted psf RM/psf
Sales comparison approach	6,592	278 – 1,334	8,386	278 – 1,334

5. Investment properties

	Note	2020 RM'000	2019 RM'000
At 1 January		16,315	16,074
Change in fair value recognised in profit or loss	23	-	241
Transfer to property, plant and equipment	3	(16,315)	-
At 31 December		-	16,315

Included in the above is:

	2020 RM'000	2019 RM'000
At fair value:		
Buildings	-	16,315

5. Investment properties (continued)

Fair value information

Fair values of investment properties are categorised as follows:

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Buildings	-	-	-	-

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Buildings	-	-	16,315	16,315

Level 3 fair value

The fair values of the investment properties as at 31 December 2019 were determined by external independent valuers. This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, the investment properties are compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered.

The Level 3 unobservable input used in the valuation of investment properties is the price per square foot ("psf") which is adjusted for differences in location, property size, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building, finishes and services and other relevant characteristics.

The estimated fair value would increase/(decrease) if the price per square foot were higher or lower and the historical sales transaction value were higher or lower.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique used	**2020 Fair Value (RM'000)**	**2020 Adjusted psf RM/psf**	**2019 Fair Value (RM'000)**	**2019 Adjusted psf RM/psf**
Sales comparison approach	-	-	16,315	1,015

6. Intangible assets

	Note	Software development costs RM'000	Other intangible asset RM'000	Total RM'000
Cost				
At 1 January 2019		55,115	67,000	122,115
Additions		7,242	27,500	34,742
Disposal	3	(6,375)	-	(6,375)
At 31 December 2019/ 1 January 2020		55,982	94,500	150,482
Additions		9,528	-	9,528
Disposal		-	-	-
At 31 December 2020		65,510	94,500	160,010
Amortisation				
At 1 January		28,398	6,700	35,098
Amortisation for the year	27	8,289	5,185	13,474
At 31 December 2019/ 1 January 2020		36,687	11,885	48,572
Amortisation for the year	27	8,924	7,734	16,658
At 31 December 2020		45,611	19,619	65,230
Carrying amounts				
At 1 January 2019		26,717	60,300	87,017
At 31 December 2019/ 1 January 2020		19,295	82,615	101,910
At 31 December 2020		19,899	74,881	94,780

The software development costs are in relation to internal development expenditures incurred for the Alternate Front End System, Open Product Underwriting System and Business Intelligence System. These systems are designed to improve the efficiency of the business activities of the Company.

Other intangible assets are in relation to the exclusive Bancassurance Agreement which is effective from 1 July 2017 and Marketing Agreement which is effective from 1 October 2019 for the distribution of the Company's insurance products.

For the Bancassurance Agreement, the fee for the exclusive right is amortised over its useful life of 15 years using the straight-line method, whereas for the Marketing Agreement, the fee for the exclusive right is amortised over its useful life of 6 years using the straight-line method.

6. Intangible assets (continued)

The Company conducts impairment assessment during the year in accordance with its accounting policies in Note 2.8. In the impairment assessment conducted by the Company, the future economic benefits that are attributable to the Bancassurance Agreement was valued at the present value of projected future cash flows to be derived from the remaining tenure of the agreement of 15 years, using the discounted cash flow model.

The following key assumptions used in cash flow projections in respect of Bancassurance Agreement have taken into account COVID-19 impact:

Key assumptions	**2020**	**2019**
Bancassurance average annualised gross written premium growth rate	5.4%	11.8%
Discount rate - pre tax	10.2%	10.8%

Sensitivity to changes in key assumptions

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

7. Investments

	2020 RM'000	2019 RM'000
Malaysian government securities	1,731,564	1,462,250
Malaysian government guaranteed bonds	719,862	736,147
Unquoted debt securities	1,285,836	1,255,005
Unquoted equity securities	*	*
Unquoted unit trust in Malaysia	1,284,907	606,101
Fixed deposits	178,318	203,011
Negotiable instruments of deposit with licensed financial institutions	-	20,348
	5,200,487	4,282,862

* Denotes RM4

7.1 The Company's financial investments are summarised by categories as follows:

	2020 RM'000	2019 RM'000
Loans and receivables ("L&R")	178,318	203,011
Available-for-sale financial assets ("AFS")	5,022,169	4,079,851
	5,200,487	4,282,862

7. Investments (continued)

7.1 The Company's financial investments are summarised by categories as follows: (continued)

	2020		2019	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Loans and receivables				
Fixed deposits	178,318	178,318	203,011	203,011
Available-for-sale financial assets				
Malaysian government securities	1,731,564	1,731,564	1,462,250	1,462,250
Malaysian government guaranteed bonds	719,862	719,862	736,147	736,147
Unquoted unit trust in Malaysia	1,284,907	1,284,907	606,101	606,101
Unquoted debt securities	1,285,836	1,285,836	1,255,005	1,255,005
Unquoted equity securities	*	-	*	-
Negotiable instruments of deposit with licensed financial institutions	-	-	20,348	20,348
	5,022,169	5,022,169	4,079,851	4,079,851
	5,200,487	5,200,487	4,282,862	4,282,862

* Denotes RM4

7. Investments (continued)

7.2 The movements in carrying values of the financial investments are as follows:

	L&R RM'000	AFS RM'000	Total RM'000
At 1 January 2019	123,828	3,996,640	4,120,468
Purchases	231,840	902,708	1,134,548
Maturities	(153,779)	(669,000)	(822,779)
Disposals	-	(226,321)	(226,321)
Fair value gain recorded in other comprehensive income	-	80,696	80,696
Accretion	-	766	766
Amortisation	-	(986)	(986)
Movement in income due and accrued	1,122	(4,652)	(3,530)
At 31 December 2019/1 January 2020	203,011	4,079,851	4,282,862
Purchases	194,676	1,342,138	1,536,814
Maturities	(219,748)	(328,333)	(548,081)
Disposals	-	(145,043)	(145,043)
Fair value gain recorded in other comprehensive income	-	75,700	75,700
Accretion	-	1,698	1,698
Amortisation	-	(2,941)	(2,941)
Movement in income due and accrued	379	(901)	(522)
At 31 December 2020	178,318	5,022,169	5,200,487

8. Reinsurance assets

	Note	2020 RM'000	2019 RM'000
Non-current			
Reinsurance of insurance contracts			
Claims liabilities		257,251	268,049
Current			
Reinsurance of insurance contracts			
Claims liabilities		480,146	492,307
Allowance for impairment	36.1.3	(2,578)	(2,586)
		477,568	489,721
Premium liabilities	14.2	92,614	99,703
		570,182	589,424
		827,433	857,473

9. Insurance receivables

	Note	2020 RM'000	2019 RM'000
Current			
Due premiums including agent, brokers and co-insurers balances		134,238	138,586
Due from reinsurers and cedants		55,561	57,852
		189,799	196,438
Allowance for impairment	36.1.3	(53,415)	(55,675)
		136,384	140,763
Due from related companies	9.1	5,686	2,257
		142,070	143,020

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting year due to the relatively short term nature of these financial instruments.

9.1 Amounts due from related companies

The amounts due from related companies are unsecured, interest free and repayable on demand.

9. Insurance receivables (continued)

9.2 Financial assets

There is no netting off of gross amount of recognised financial assets against the gross amount of financial liabilities in the statement of financial position. There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2019: Nil).

10. Loans and other receivables

	Note	2020 RM'000	2019 RM'000
Non-current			
Staff loans			
Mortgage loans		5,652	5,088
Other secured loans		871	1,153
		6,523	6,241
Other receivables			
Other receivables, deposits and prepayments		5,212	4,145
		5,212	4,145
		11,735	10,386
Current			
Staff loans			
Mortgage loans		681	595
Other secured loans		287	367
		968	962
Other receivables			
Deposits		3,496	4,211
Malaysian Motor Insurance Pool ("MMIP")		47,244	48,889
Other receivables and prepayments		20,847	32,903
Allowance for impairment	36.1.3	(742)	(1,410)
		70,845	84,593
Due from related companies	10.1	757	662
		71,602	85,255
		72,570	86,217
Total loans and other receivables		84,305	96,603

10. Loans and other receivables (continued)

The carrying amounts of other receivables reasonably approximate their fair values at the end of the reporting year due to the relatively short term nature of these financial instruments.

10.1 Amounts due from related companies

The amounts due from related companies are unsecured, interest free and repayable on demand.

11. Deferred acquisition costs

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2019		106,803	(11,743)	95,060
Movement during the year	24,26	13,955	2,408	16,363
At 31 December 2019/ 1 January 2020		120,758	(9,335)	111,423
Movement during the year	24,26	3,536	1,212	4,748
At 31 December 2020		124,294	(8,123)	116,171

12. Share capital

	2020		2019	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares issued and fully paid				
At 1 January/31 December	379,168	379,168	379,168	379,168

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

13. Retained earnings and other reserves

13.1 Capital reserve

The capital reserve comprises the equity portion of financial instruments issued.

13.2 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

13.3 Revaluation reserve

The revaluation reserve represents the surplus on revaluation of owner occupied properties.

13.4 Retained earnings

Restriction on payment of dividends

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividends would impair its Capital Adequacy Ratio position to below its internal target.

Pursuant to the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend with effect from the financial year beginning 1 January 2014.

14. Insurance contract liabilities

General insurance contract liabilities consist of:

	Note	2020 Gross RM'000	2020 Reinsurance RM'000 (Note 8)	2020 Net RM'000	2019 Gross RM'000	2019 Reinsurance RM'000 (Note 8)	2019 Net RM'000
Provision for claims reported by policyholders		1,992,729	(526,197)	1,466,532	1,872,966	(537,797)	1,335,169
Provision for incurred but not reported claims ("IBNR")		731,826	(211,200)	520,626	681,278	(222,559)	458,719
		2,724,555	(737,397)	1,987,158	2,554,244	(760,356)	1,793,888
Allowance for impairment		-	2,578	2,578	-	2,586	2,586
Provision for outstanding claims	14.1	2,724,555	(734,819)	1,989,736	2,554,244	(757,770)	1,796,474
Provision for unearned premiums	14.2	1,176,241	(92,614)	1,083,627	1,104,311	(99,703)	1,004,608
		3,900,796	(827,433)	3,073,363	3,658,555	(857,473)	2,801,082

14. Insurance contract liabilities (continued)

14.1 Provision for outstanding claims - movements

		2020			2019		
	Note	Gross RM'000	Reinsurance RM'000 (Note 8)	Net RM'000	Gross RM'000 (Note 8)	Reinsurance RM'000	Net RM'000
At 1 January	25	2,554,244	(757,770)	1,796,474	2,475,391	(714,461)	1,760,930
Claims incurred in the current accident year		1,429,162	(155,329)	1,273,833	1,505,454	(230,305)	1,275,149
Other movements in claims incurred in prior accident years		(262,734)	113,459	(149,275)	(256,986)	81,075	(175,911)
Claims paid during the year	25	(996,117)	64,821	(931,296)	(1,169,615)	105,921	(1,063,694)
At 31 December	25	2,724,555	(734,819)	1,989,736	2,554,244	(757,770)	1,796,474

14. Insurance contract liabilities (continued)

14.2 Provision for unearned premiums - movements

	Note	2020 Gross RM'000	2020 Reinsurance RM'000 (Note 8)	2020 Net RM'000	2019 Gross RM'000	2019 Reinsurance RM'000 (Note 8)	2019 Net RM'000
At 1 January		1,104,311	(99,703)	1,004,608	1,030,227	(122,965)	907,262
Premiums written in the year	20	2,356,052	(249,876)	2,106,176	2,197,501	(241,747)	1,955,754
Premiums earned during the year	20	(2,284,122)	256,965	(2,027,157)	(2,123,417)	265,009	(1,858,408)
At 31 December		1,176,241	(92,614)	1,083,627	1,104,311	(99,703)	1,004,608

15. Deferred tax assets/(liabilities)

15.1 Recognised deferred tax assets/(liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment						
- Capital allowance	-	-	(1,329)	(906)	(1,329)	(906)
- Revaluation reserve	-	-	(2,761)	(3,493)	(2,761)	(3,493)
Intangible assets	-	-	(18,631)	(19,877)	(18,631)	(19,877)
Allowance for impairment on insurance receivables	12,013	12,551	-	-	12,013	12,551
Other payables and accruals	24,572	18,690	-	-	24,572	18,690
Investments						
- Fair value reserve	-	-	(40,719)	(22,551)	(40,719)	(22,551)
- Impairment	1,778	1,778	-	-	1,778	1,778
Offset of tax	(38,363)	(33,019)	38,363	33,019	-	-
Net deferred tax assets	-	-	(25,077)	(13,808)	(25,077)	(13,808)

15. Deferred tax assets/(liabilities) (continued)

15.2 Movement in temporary differences during the year

	At 1 January 2019	Recognised in profit or loss (Note 29.1)	Recognised in other comprehen-sive income (Note 29.3)	At 31 December 2019/At 1 January 2020	Recognised in profit or loss (Note 29.1)	Recognised in other comprehen-sive income (Note 29.3)	At 31 December 2020
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment							
- Capital allowance	(1,986)	1,080	-	(906)	(423)	-	(1,329)
- Revaluation reserve	(3,493)	-	-	(3,493)	-	732	(2,761)
Intangible assets	(15,253)	(4,624)	-	(19,877)	1,246	-	(18,631)
Allowance for impairment on insurance receivables	12,483	68	-	12,551	(538)	-	12,013
Other payables and accruals	20,984	(2,294)	-	18,690	5,882	-	24,572
Investments							
- Fair value reserve	(3,184)	-	(19,367)	(22,551)	-	(18,168)	(40,719)
- Impairment	1,778	-	-	1,778	-	-	1,778
Other items	2,722	(2,722)	-	-	-	-	-
	14,051	(8,492)	(19,367)	(13,808)	6,167	(17,436)	(25,077)

16. Lease liabilities

	2020 RM'000	2019 RM'000
Non-current	16,324	28,456
Current	13,688	14,188
	30,012	42,644

17. Insurance payables

	Note	2020 RM'000	2019 RM'000
Non-current			
Performance bond deposits	17.1	15,992	24,292
Current			
Due to reinsurers and cedants		66,062	54,303
Due to agents and intermediaries		48,088	36,978
Performance bond deposits	17.1	53,126	44,799
Due to related companies	17.2	53,327	45,946
		220,603	182,026
		236,595	206,318

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting year due to relatively short term nature of these financial instruments.

17.1 Performance bond deposits

Performance bond deposits are interest bearing collateral deposits received from policyholders for guarantees issued on behalf of policyholders.

17.2 Amounts due to related companies

The amounts due to related companies are unsecured, interest free and repayable on demand.

17.3 Financial liabilities

There is no netting off of gross amount of recognised financial liabilities against the gross amount of financial assets in the statement of financial position. There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received. (2019: Nil)

18. Other payables and accruals

	Note	2020 RM'000	2019 RM'000
Current			
Due to ultimate holding company	18.1	7,217	5,105
Due to immediate holding company	18.1	2,225	4,434
Other payables		86,824	74,549
Accrued expenses		131,130	104,735
Dividend payable	31	249,872	199,822
		477,268	388,645

The carrying amounts disclosed above reasonably approximate their fair values at the end of the reporting year due to the relatively short term nature of these financial instruments.

18.1 Amounts due to ultimate/immediate holding company

The amounts due to ultimate/immediate holding company are unsecured, interest free and repayable on demand.

19. Operating revenue

	Note	2020 RM'000	2019 RM'000
Gross earned premiums	20	2,284,122	2,123,417
Investment income	21	188,583	189,684
		2,472,705	2,313,101

20. Net earned premiums

	Note	2020 RM'000	2019 RM'000
Gross premiums	14.2	2,356,052	2,197,501
Change in unearned premiums provision		(71,930)	(74,084)
Gross earned premiums	14.2, 19	2,284,122	2,123,417
Gross premiums ceded	14.2	(249,876)	(241,747)
Change in unearned premiums provision		(7,089)	(23,262)
Premiums ceded to reinsurers	14.2	(256,965)	(265,009)
Net earned premiums	14.2	2,027,157	1,858,408

21. Investment income

	Note	2020 RM'000	2019 RM'000
Rental income		-	431
Available-for-sale financial investments:			
Interest income from			
Malaysian government securities		57,201	59,363
Malaysian government guaranteed bonds		28,787	29,734
Unquoted bonds of corporations in Malaysia		55,336	61,593
Negotiable instruments of deposit with licensed financial institutions		564	1,409
Gross dividend from unquoted unit trust in Malaysia		34,432	19,266
Loans and receivables financial investments:			
Interest income from			
Fixed deposits		7,097	5,680
Loans and other receivables and cash and cash equivalents		5,166	12,208
	19	188,583	189,684

22. Realised gains and losses

	2020 RM'000	2019 RM'000
Property, plant and equipment		
Realised gain	74	326
Available-for-sale financial investments		
Realised gains:		
Malaysian government securities	1,667	1,797
Malaysian government guaranteed bonds	-	317
Corporate bonds	217	2,954
	1,884	5,068
Net realised gains for available-for-sale financial investments	1,884	5,068
	1,958	5,394

23. Fair value gains and losses

	Note	2020 RM'000	2019 RM'000
Investment properties	5	-	241
		-	241

24. Fee and commission income

	Note	2020 RM'000	2019 RM'000
Reinsurance commission income		28,772	51,580
Deferred acquisition costs	11	1,212	2,408
		29,984	53,988

25. Net claims incurred

	Note	2020 RM'000	2019 RM'000
Gross claims paid less salvage	14.1	996,117	1,169,615
Claims ceded to reinsurers	14.1	(64,821)	(105,921)
Net claims paid	14.1	931,296	1,063,694
Gross change in claims liabilities:			
At 31 December	14.1	2,724,555	2,554,244
At 1 January	14.1	(2,554,244)	(2,475,391)
		170,311	78,853
Change in claims liabilities ceded to reinsurers:			
At 31 December	14.1	(734,819)	(757,770)
At 1 January	14.1	757,770	714,461
		22,951	(43,309)
		1,124,558	1,099,238

26. Fee and commission expense

	Note	2020 RM'000	2019 RM'000
Gross direct commission		298,513	285,429
Deferred acquisition costs	11	(3,536)	(13,955)
		294,977	271,474

27. Management expenses

	Note	2020 RM'000	2019 RM'000
Employee benefit expenses	27.1	184,604	169,369
Executive directors' emoluments	27.2	3,164	5,182
Non-executive directors' emoluments	27.2	874	920
Auditors' remuneration:			
- Audit fees		363	342
- Non-audit fees		53	61
Depreciation of property, plant and equipment	3	8,562	9,620
Depreciation of right-of-use	4	13,823	14,283
Amortisation of intangible assets	6	16,658	13,474
(Reversal of)/Allowance for impairment loss on insurance receivables		(2,260)	224
Reversal of impairment loss on other receivables		(668)	-
Bad debts recovered		(119)	(54)
Bad debts written off on insurance receivables		1,344	237
Bad debts written off on other receivables		1,125	-
Advertising expenses		8,704	10,831
Rental of office equipment		-	172
Rental of premises		901	637
Other expenses		162,219	147,813
		399,347	373,111

27.1 Employee benefit expenses

	Note	2020 RM'000	2019 RM'000
Wages and salaries		104,948	96,259
Bonus		56,540	52,376
Social security contributions		1,128	1,097
Contribution to Employees' Provident Fund		20,460	18,812
Other benefits		1,528	825
	27	184,604	169,369

27. Management expenses (continued)

27.2 Key management personnel compensation

	2020 RM'000	2019 RM'000
Executive director:		
Salaries and other emoluments	2,482	2,263
Bonus	682	2,919
Estimated monetary value of benefits-in-kind	96	85
	3,260	5,267
Non-executive directors:		
Fees	666	713
Other emoluments	208	207
Estimated monetary value of benefits-in-kind	10	-
	884	920
Other key management personnel* :		
Short-term employee benefits	4,803	4,845
	8,947	11,032

* Other key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

The details of remuneration receivable by the Chief Executive Officer during the year are as follows:

	Note	2020 RM'000	2019 RM'000
Salaries and other emoluments		2,482	2,263
Bonus		682	2,919
Estimated monetary value of benefits-in-kind		96	85
		3,260	5,267
Amount included in employee benefit expenses	27	3,164	5,182

27. Management expenses (continued)

27.2 Key management personnel compensation (continued)

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors are as follows:

2020	Fees RM'000	Salaries RM'000	Bonus RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
Executive Director/Chief Executive Officer						
- Zakri Bin Mohd Khir	-	1,188	682	1,294	96	3,260
Non-Executive Directors of the Company						
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	180	-	-	160	10	350
- Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	144	-	-	16	-	160
- Dr Muhammed Abdul Khalid	47	-	-	8	-	55
- Goh Ching Yin	98	-	-	8	-	106
- Datuk Gnanachandran A/L S Ayadurai	110	-	-	16	-	126
	579	-	-	208	10	797
Total Directors' Remuneration of the Company (including benefits-in-kind)	579	1,188	682	1,502	106	4,057
Non-Executive Directors of the holding company *						
- Peter Ho Kok Wai	51	-	-	-	-	51
- Dato' Dr. Thillainathan A/L Ramasamy	34	-	-	-	-	34
- Marzida Binti Mohd Noor	2	-	-	-	-	2
Total Directors' Remuneration (including benefits-in-kind)	666	1,188	682	1,502	106	4,144

*Fees (and other emoluments) for their roles as members of the Board Committees.

Company No. 200601015674 (735426-V)

27. Management expenses (continued)

27.2 Key management personnel compensation (continued)

2019	Fees RM'000	Salaries RM'000	Bonus RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
Executive Director/Chief Executive Officer						
- Zakri Bin Mohd Khir	-	1,000	2,919	1,263	85	5,267
Non-Executive Directors of the Company						
- Tan Sri Datuk (Dr.) Rafiah Binti Salim	189	-	-	160	-	349
- Tunku Zain Al-'Abidin Ibni Tuanku Muhriz	152	-	-	16	-	168
- Goh Ching Yin	137	-	-	16	-	153
- Peter Ho Kok Wai	99	-	-	10	-	109
- Datuk Gnanachandran A/L S Ayadurai	29	-	-	5	-	34
	606	-	-	207	-	813
Total Directors' Remuneration of the Company (including benefits-in-kind)	606	1,000	2,919	1,470	85	6,080
Non-Executive Directors of the holding company *						
- Foo San Kan	35	-	-	-	-	35
- Dato' Dr. Thillainathan A/L Ramasamy	69	-	-	-	-	69
- Marzida Binti Mohd Noor	3	-	-	-	-	3
Total Directors' Remuneration (including benefits-in-kind)	713	1,000	2,919	1,470	85	6,187

*Fees (and other emoluments) for their roles as members of the Board Committees.

28. Interest expense

	Note	2020 RM'000	2019 RM'000
Interest expense on lease liabilities		1,219	1,898

29. Tax expense

29.1 Recognised in profit or loss

	Note	2020 RM'000	2019 RM'000
Current tax expense			
Current year		115,582	92,382
Over provision in prior year		(2,970)	(10,643)
		112,612	81,739
Deferred tax (income)/expense			
Origination and reversal of temporary differences		(7,238)	4,474
Under provision in prior year		1,071	4,018
	15.2	(6,167)	8,492
Tax expense		106,445	90,231

29.2 Reconciliation of tax expense

	2020 RM'000	2019 RM'000
Profit before tax	428,553	364,784
Tax at Malaysian tax rate of 24% (2019: 24%)	102,853	87,548
Non-deductible expenses	15,533	13,956
Non-taxable income	(8,514)	(4,648)
Difference in tax rate for inward reinsurance business	(1,528)	-
	108,344	96,856
Over provision in prior year	(1,899)	(6,625)
Tax expense	106,445	90,231

29. Tax expense (continued)

29.3 Income tax recognised directly in other comprehensive income

	Note	2020 RM'000	2019 RM'000
Tax effects on Available-for-sale fair value reserve			
At 1 January		22,551	3,184
Net gain arising from change in fair value	15.2	18,168	19,367
At 31 December		40,719	22,551
Tax effects on Asset Revaluation reserve			
At 1 January		3,493	3,493
Net loss arising from change in fair value	15.2	(732)	-
At 31 December		2,761	3,493

30. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholder and a weighted average number of ordinary shares outstanding during the year calculated as follows:

	2020 RM'000	2019 RM'000
Profit for the year attributable to ordinary shareholder	322,108	274,553

	2019 '000	2018 '000
Weighted average number of ordinary shares during the year	379,168	379,168
Basic earnings per ordinary share	85.0	72.4

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the end of the reporting year.

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

31. Dividends

Dividend declared in each financial year by the Company as appropriation of profits is as follows:

	Sen per share (single tier)	Total amount RM'000	Date of payment
2020			
Interim 2020 ordinary	65.9	249,872	19 January 2021
2019			
Interim 2019 ordinary	52.7	199,822	14 January 2020

32. Capital expenditure commitments

	2020 RM'000	2019 RM'000
Property, plant and equipment		
Contracted but not provided for	685	1,120
Software development		
Contracted but not provided for	1,794	83

33. Related parties

Identity of related parties

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

Related Parties	Relationship
Allianz SE, Munich	Ultimate holding company
Allianz Malaysia Berhad	Holding company
Allianz Life Insurance Malaysia Berhad	Related company
Allianz Technology SE [Formerly known as Allianz Managed & Operations Services SE]	Related company
Allianz Investment Management SE	Related company
Allianz Investment Management Singapore Pte Ltd	Related company
Euler Hermes Singapore Services Pte Ltd	Related company
Euler Hermes Deutschland AG, Singapore branch	Related company
PT Asuransi Allianz Utama Indonesia Ltd	Related company
Allianz SE General Reinsurance Branch Labuan	Related company
Allianz Global Corporate & Specialty SE Hong Kong Branch	Related company
Allianz Global Corporate & Specialty SE	Related company
AWP Services Sdn Bhd	Related company
Rapidpro Consulting Sdn Bhd	Related company - Company connected to Director

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company and certain members of senior management of the Company. Compensation of key management personnel have been disclosed in Note 27.2. Apart from this, there are no other transactions with key management personnel.

33. Related parties (continued)

The significant related party transactions of the Company are as follows:

	Amount transacted for the year ended 31 December 2020 RM'000	Amount transacted for the year ended 31 December 2019 RM'000
Non-trade		
Ultimate holding company		
Payment of global marketing costs	(1,700)	(1,528)
Payment of HR consulting fee	(17)	-
Payment of training and other fees	(54)	(81)
Payment of software license fees	-	(38)
Payment of / Reversal of accrual for business building and regional investment	(2,112)	1,135
Payment of global technical support fees	(2,616)	(1,858)
Reimbursement of expenses made on behalf	(51)	(13)
Payment of Employee Share Purchase Plan	(2,263)	(1,217)
Immediate holding company		
Payment of expenses related to common resources	(11,986)	(10,697)
Receipt of rental of office premises	458	447
Payment of expenses made on behalf	(261)	(642)
Related companies*		
Payment of expenses related to common resources	(2,382)	(1,996)
Reimbursement of expenses made on behalf	4,796	15,084
Receipt of rental of office premises	155	103
Payment for insurance premium	(638)	(410)
Payment of investment advisory fees	(723)	(782)
Payment of service fees	(1,794)	(1,776)

33. Related parties (continued)

	Amount transacted for the year ended 31 December 2020 RM'000	Amount transacted for the year ended 31 December 2019 RM'000
Non-trade (continued)		
Related companies* (continued)		
Payment of training and other fees	-	(20)
Payment of software license fees	(8,268)	(4,900)
Payment of professional fees	-	(12)
Related party – Company connected with Director		
Payment of training and other fees	(584)	(1,162)
Trade		
Related companies*		
Reinsurance premiums ceded	(156,064)	(147,801)
Reinsurance commission income	15,026	12,874

* Related companies are companies within the Allianz SE group.

Related party transactions have been entered into the normal course of business under normal trade term.

Significant related party balances related to the above transactions are disclosed in Notes 9, 10, 17 and 18.

34. Risk management framework

As a provider of insurance services, the Company considers risk management to be one of its core competencies. It is an integral part of the Company's business process. In order to protect its assets, the Company has established a risk management framework to promote a strong risk management culture supported by a robust risk governance structure.

This framework ensures that risks are identified, analysed and evaluated. Risk appetite is defined by the Company's risk strategy and limit structure. Close monitoring and reporting allows the Company to detect deviations from its risk tolerance limits at an early stage.

The Allianz risk management framework consists of the following four primary components:

Risk underwriting and identification

A sound risk underwriting and identification framework including risk assessment, risk standards, and clear targets form the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, strategic or tactical asset allocation.

Risk reporting and monitoring

The Company's qualitative and quantitative risk reporting and controlling framework provides transparency and risk indicators to senior management with regards to its overall risk profile and whether the profile is within the delegated limits and authorities.

Risk strategy and risk appetite

The Company's risk strategy clearly defines its risk appetite. It ensures that returns are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into management and decision making process. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within its risk appetite.

Communication and transparency

Finally, a transparent and robust risk disclosure provides a basis for communicating this strategy to the Company's internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

34. Risk management framework (continued)

Risk governance structure

The Board of Directors of the Company ("the Board") assumes the ultimate responsibility over the effectiveness of the Company's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the responsibility to establish and supervise the operation of the risk management framework to the Risk Management Committee ("RMC") to discharge its oversight function effectively.

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Company. RMC also oversees the Senior Management's activities in managing the key risk areas of the Company and to ensure that risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of Allianz Malaysia Berhad Group of companies ("AMB Group") and to report to the Board on its recommendations and/or decisions. Through structured reporting from the Risk Management Working Committee ("RMWC"), RMC will consolidate the status of the risks and present them to the Board for consideration.

RMWC serves as and provides a platform for two way communications between the management and the RMC on matters of the AMB Group's risk management framework and its strategies. RMWC is responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendations to the Board. RMWC determines the allocation of risks by cascading and/or escalating to the relevant owners. RMWC also oversees the compliance of all risk management process by all departments of the Company and provides pre-emptive recommendations to ensure timely action is taken in managing and mitigating the identified risks.

Governance and regulatory framework

The Company is required to comply with the requirements of the Financial Services Act ("FSA"), 2013, relevant laws and guidelines required by BNM and Persatuan Insurans Am Malaysia ("PIAM").

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

35. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims, frequency and severity and risk of change in the legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks through a formalised reinsurance arrangement with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines, limits and standards.

The insurance risk of general insurance contracts consists of premium and reserve risks. Premium risk represents the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Reserve risks represent the risk of loss resulting from deviations between payments for incurred losses that have not yet been settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves.

The table below sets out the concentration of the general insurance risk based on the provision for outstanding claims (before impairment of reinsurance assets) as at the end of the reporting period by class of business.

	2020			2019		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Fire	366,739	(92,821)	273,918	360,755	(165,609)	195,146
Motor	1,493,730	(98,646)	1,395,084	1,368,723	(94,522)	1,274,201
Marine, aviation, cargo and transit	169,843	(140,589)	29,254	208,890	(173,930)	34,960
Miscellaneous	694,243	(405,341)	288,902	615,876	(326,295)	289,581
Total	2,724,555	(737,397)	1,987,158	2,554,244	(760,356)	1,793,888

35. Insurance risk (continued)

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claims costs, claims handling cost and claims numbers for each accident year. Additional qualitative judgments 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.

No discounting is made to the recommended claims and premium liability provisions as a prudent measure. In addition, no explicit inflation adjustment has been made to claims amount payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development. It is worthwhile to note that discounting is unlikely to result in any material impact due to the short tail nature of almost all classes, coupled with the low prevailing interest rate environment.

The Company has based its risk margin for adverse deviation ("PRAD") for the unexpired risks reserves and insurance claims at the minimum 75% confidence level of sufficiency, according to the requirement set by BNM under the Risk-Based Capital ("RBC") Framework for Insurers. The valuation of claims and premium liabilities as at 31 December 2020 have taken into account the COVID-19 impact.

Sensitivities

Analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its insurance contracts. The table presented below demonstrates the sensitivity of the insurance contract liabilities estimates to particular movements in assumptions used in the estimation process.

The analysis below is performed for reasonable possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

35. Insurance risk (continued)

Sensitivities (continued)

	Change in assumptions	Impact on Gross Liabilities	Impact on Net Liabilities	Impact on Profit after Tax	Impact on Equity*
31 December 2020		**RM'000**	**RM'000**	**RM'000**	**RM'000**
Average claim cost	+10%	275,699	203,359	(154,553)	(154,553)
Average number of claims	+10%	275,955	231,201	(175,713)	(175,713)
Average claim settlement period	Increased by 6 months	27,423	20,615	(15,667)	(15,667)
31 December 2019					
Average claim cost	+10%	254,536	181,949	(138,281)	(138,281)
Average number of claims	+10%	300,307	237,923	(180,822)	(180,822)
Average claim settlement period	Increased by 6 months	30,293	22,305	(16,952)	(16,952)

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

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

35. Insurance risk (continued)

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at 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 of the past on current unpaid loss balances.

The management of the Company believes that the estimate of total claims outstanding as of 31 December 2020 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

35. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2020:

Accident year	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
At end of accident year		1,145,412	1,251,432	1,349,116	1,430,684	1,471,640	1,465,757	1,509,464	1,429,139	
One year later		1,182,773	1,193,164	1,278,469	1,368,219	1,406,527	1,380,596	1,453,938	-	
Two years later		1,119,096	1,154,151	1,256,084	1,352,452	1,362,861	1,372,723	-	-	
Three years later		1,096,339	1,141,005	1,235,679	1,325,371	1,336,934	-	-	-	
Four years later		1,167,402	1,141,354	1,224,698	1,254,542	-	-	-	-	
Five years later		1,157,674	1,135,385	1,203,126	-	-	-	-	-	
Six years later		1,132,788	1,103,220	-	-	-	-	-	-	
Seven years later		1,108,045	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		1,108,045	1,103,220	1,203,126	1,254,542	1,336,934	1,372,723	1,453,938	1,429,139	

35. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2020: (continued)

Accident year	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
At end of accident year		344,439	375,685	387,586	514,882	561,727	541,747	575,409	498,001	
One year later		729,326	771,098	861,538	924,136	979,473	946,706	886,123	-	
Two years later		857,382	924,769	1,013,855	1,054,371	1,104,992	1,052,957	-	-	
Three years later		916,928	986,338	1,070,252	1,116,845	1,145,041	-	-	-	
Four years later		1,065,902	1,017,591	1,092,007	1,134,220	-	-	-	-	
Five years later		1,072,513	1,024,854	1,102,559	-	-	-	-	-	
Six years later		1,077,989	1,029,103	-	-	-	-	-	-	
Seven years later		1,081,856	-	-	-	-	-	-	-	
Cumulative payments to-date		1,081,856	1,029,103	1,102,559	1,134,220	1,145,041	1,052,957	886,123	498,001	
Gross general insurance claims liabilities (direct and facultative)	98,700	26,189	74,117	100,567	120,322	191,893	319,766	567,815	931,138	2,430,507
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										40,359
Best estimate of claims liabilities										2,470,866
Claims handling expenses										25,714
PRAD at 75% confidence level										227,975
Gross general insurance claims liabilities										2,724,555

Company No. 200601015674 (735426-V)

35. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2019:

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		951,237	1,145,412	1,251,432	1,349,116	1,430,684	1,471,640	1,465,757	1,509,464	
One year later		848,149	1,182,773	1,193,164	1,278,469	1,368,219	1,406,527	1,380,596	-	
Two years later		835,047	1,119,096	1,154,151	1,256,084	1,352,452	1,362,861	-	-	
Three years later		834,615	1,096,339	1,141,005	1,235,679	1,325,371	-	-	-	
Four years later		824,626	1,167,402	1,141,354	1,224,698	-	-	-	-	
Five years later		822,964	1,157,674	1,135,385	-	-	-	-	-	
Six years later		811,411	1,132,788	-	-	-	-	-	-	
Seven years later		770,745	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		770,745	1,132,788	1,135,385	1,224,698	1,325,371	1,362,861	1,380,596	1,509,464	

35. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2019: (continued)

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		259,072	344,439	375,685	387,586	514,882	561,727	541,747	575,409	
One year later		544,612	729,326	771,098	861,538	924,136	979,473	946,706	-	
Two years later		648,982	857,382	924,769	1,013,855	1,054,371	1,104,991	-	-	
Three years later		711,572	916,928	986,338	1,070,252	1,116,845	-	-	-	
Four years later		731,860	1,065,902	1,017,591	1,092,007	-	-	-	-	
Five years later		740,708	1,072,513	1,024,854	-	-	-	-	-	
Six years later		741,565	1,077,989	-	-	-	-	-	-	
Seven years later		743,512	-	-	-	-	-	-	-	
Cumulative payments to-date		743,512	1,077,989	1,024,854	1,092,007	1,116,845	1,104,991	946,706	575,409	
Gross general insurance claims liabilities (direct and facultative)	100,624	27,233	54,799	110,531	132,691	208,526	257,870	433,890	934,055	2,260,219
Gross general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										44,839
Best estimate of claims liabilities										2,305,058
Claims handling expenses										23,858
PRAD at 75% confidence level										225,328
Gross general insurance claims liabilities										2,554,244

35. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2020:

Accident year	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
At end of accident year		875,651	971,458	1,101,455	1,200,101	1,279,931	1,316,381	1,288,646	1,275,378	
One year later		817,971	932,778	1,073,872	1,123,821	1,228,773	1,250,031	1,262,739	-	
Two years later		799,099	906,323	1,049,986	1,097,165	1,198,917	1,224,761	-	-	
Three years later		798,047	897,675	1,021,432	1,075,612	1,173,951	-	-	-	
Four years later		791,855	888,196	1,014,846	1,069,385	-	-	-	-	
Five years later		768,990	882,916	1,003,396	-	-	-	-	-	
Six years later		749,930	857,984	-	-	-	-	-	-	
Seven years later			-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		749,930	857,984	1,003,396	1,069,385	1,173,951	1,224,761	1,262,739	1,275,378	

35. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2020: (continued)

Accident year	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000	Total RM'000
At end of accident year		294,253	326,832	356,733	468,300	518,300	507,250	496,380	478,287	
One year later		572,157	638,954	746,891	817,863	896,008	888,891	839,564	-	
Two years later		667,310	743,920	872,368	925,817	998,910	983,920	-	-	
Three years later		704,910	790,073	918,932	972,070	1,034,851	-	-	-	
Four years later		724,817	809,772	934,819	988,580	-	-	-	-	
Five years later		729,683	815,609	943,446	-	-	-	-	-	
Six years later		733,554	817,744	-	-	-	-	-	-	
Seven years later		735,919	-	-	-	-	-	-	-	
Cumulative payments to-date		735,919	817,744	943,446	988,580	1,034,851	983,920	839,564	478,287	
Net general insurance claims liabilities (direct and facultative)	15,503	14,012	40,240	59,950	80,805	139,099	240,841	423,174	797,091	1,810,716
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										36,755
Best estimate of claims liabilities										1,847,471
Claims handling expenses										25,715
PRAD at 75% confidence level										116,550
Net general insurance claims liabilities										1,989,736

35. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2019:

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		675,019	875,651	971,458	1,101,455	1,200,101	1,279,931	1,316,381	1,288,646	
One year later		616,026	817,971	932,778	1,073,872	1,123,821	1,228,773	1,250,031	-	
Two years later		611,364	811,555	906,323	1,049,986	1,097,165	1,198,917	-	-	
Three years later		612,798	799,099	897,675	1,021,432	1,075,612	-	-	-	
Four years later		605,242	798,047	888,196	1,014,846	-	-	-	-	
Five years later		605,079	791,855	882,916	-	-	-	-	-	
Six years later		594,527	768,990	-	-	-	-	-	-	
Seven years later		571,148	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		571,148	768,990	882,916	1,014,846	1,075,612	1,198,917	1,250,031	1,288,646	

35. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2019: (continued)

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		216,325	294,253	326,832	356,733	468,300	518,300	507,250	551,634	
One year later		424,771	572,157	638,954	746,891	817,863	896,008	888,891	-	
Two years later		497,895	667,310	743,920	872,368	925,817	998,910	-	-	
Three years later		533,335	704,910	790,073	918,932	972,070	-	-	-	
Four years later		546,263	724,817	809,772	934,819	-	-	-	-	
Five years later		551,615	729,683	815,608	-	-	-	-	-	
Six years later		553,220	733,553	-	-	-	-	-	-	
Seven years later		554,799	-	-	-	-	-	-	-	
Cumulative payments to-date		554,799	733,553	815,608	934,819	972,070	998,910	888,891	551,634	
Net general insurance claims liabilities (direct and facultative)	15,079	16,349	35,437	67,308	80,027	103,542	200,007	361,140	737,012	1,615,901
Net general insurance claims liabilities (treaty inwards, MNRB, Business outside Malaysia, MMIP and other adjustments)										41,020
Best estimate of claims liabilities										1,656,921
Claims handling expenses										23,857
PRAD at 75% confidence level										115,696
Net general insurance claims liabilities										1,796,474

36. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate risk, equity price risk) and operational risks arises in the normal course of the Company's business. The Company is guided by its risk management framework as well as policies and guidelines from the ultimate holding company, Allianz SE which sets out its general risk management philosophy. Through financial risk management, business strategies are evaluated to ensure their appropriateness to the strategic, operational and financial risks tolerance.

36.1 Credit risk

Credit risk involves the potential losses that may result from the default of counterparties to meet their contractual obligations. The Company is exposed to credit risk from the underwriting of general insurance business and investment in fixed income instruments. Financial losses may materialise when the counterparties failed to meet payment obligations for various reasons.

The Company has policies in place to mitigate the credit risk from underwriting of insurance business and it is monitored on an ongoing basis. Reinsurance is prioritised to local insurers or reinsurers, and if the Company has to place overseas, only counterparties with a credit rating that is acceptable based on Allianz Guideline for Reinsurance Security are used.

With effect from 12 September 2008, all new bond investments must carry a minimum rating of AA- or P1 by rating agencies established in Malaysia or minimum rating of BBB- by any internationally recognised rating agency as outlined in the Company's Investment Mandate which is approved by the Board of Directors.

The Company considers ratings of BBB and above as investment grades and ratings below BBB as non-investment grades. Assets which are not rated by rating agencies are classified as non-rated.

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure

The tables below provide information regarding the credit risk exposure of the Company by classifying financial assets according to the Company's credit ratings of counterparties.

	Neither past-due nor impaired				
	Investment grade	Non-investment grade	Non-rated	Past-due but not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2020					
Loans and receivables					
Loans and other receivables	-	-	84,305	-	84,305
Fixed deposits	178,318	-	-	-	178,318
Cash and cash equivalents	325,168	-	83	-	325,251
Available-for-sale financial investments					
Malaysian government securities	-	-	1,731,564	-	1,731,564
Malaysian government guaranteed bonds	-	-	719,862	-	719,862
Unquoted debt securities	1,285,836	-	-	-	1,285,836
Reinsurance assets (reported claims)	437,919	-	88,278	-	526,197
Insurance receivables	39,789	-	78,342	23,939	142,070
	2,267,030	-	2,702,434	23,939	4,993,403

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

	Neither past-due nor impaired				
	Investment grade RM'000	Non-investment grade RM'000	Non-rated RM'000	Past-due but not impaired RM'000	Total RM'000
31 December 2019					
Loans and receivables					
Loans and other receivables	-	-	96,603	-	96,603
Fixed deposits	203,011	-	-	-	203,011
Cash and cash equivalents	690,115	-	75	-	690,190
Available-for-sale financial investments					
Malaysian government securities	-	-	1,462,250	-	1,462,250
Malaysian government guaranteed bonds	-	-	736,147	-	736,147
Unquoted debt securities	1,255,005	-	-	-	1,255,005
Negotiable instruments of deposit with licensed financial institutions	20,348	-	-	-	20,348
Reinsurance assets (reported claims)	464,078	-	73,719	-	537,797
Insurance receivables	40,034	-	88,835	14,151	143,020
	2,672,591	-	2,457,629	14,151	5,144,371

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company by classifying financial assets according to rating agencies' credit ratings of counterparties. AAA is the highest possible rating. Financial assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2020							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	84,305	84,305
Fixed deposits	45,757	132,561	-	-	-	-	178,318
Cash and cash equivalents	273,637	50,618	913	-	-	83	325,251
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,731,564	1,731,564
Malaysian government guaranteed bonds	-	-	-	-	-	719,862	719,862
Unquoted debt securities	652,822	603,521	25,744	3,749	-	-	1,285,836
Reinsurance assets (reported claims)	-	345,626	91,497	796	-	88,278	526,197
Insurance receivables	-	2,371	37,409	9	-	102,281	142,070
	972,216	1,134,697	155,563	4,554	-	2,726,373	4,993,403

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2019							
Loans and receivables							
Loans and other receivables	-	-	-	-	-	96,603	96,603
Fixed deposits	100,693	102,318	-	-	-	-	203,011
Cash and cash equivalents	452,388	237,727	-	-	-	75	690,190
Available-for-sale financial investments							
Malaysian government securities	-	-	-	-	-	1,462,250	1,462,250
Malaysian government guaranteed bonds	-	-	-	-	-	736,147	736,147
Unquoted debt securities	746,213	474,257	30,786	3,749	-	-	1,255,005
Negotiable instruments of deposit with licensed financial institutions	20,348	-	-	-	-	-	20,348
Reinsurance assets (reported claims)	-	370,190	93,857	31	-	73,719	537,797
Insurance receivables	-	3,044	36,990	-	-	102,986	143,020
	1,319,642	1,187,536	161,633	3,780	-	2,471,780	5,144,371

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.1 Credit exposure (continued)

The tables below provide information regarding the credit risk exposure of the Company according to the Company's categorisation of counterparties by credit rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2020							
Investment grade	972,216	1,134,697	155,563	4,554	-	-	2,267,030
Non-investment grade	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	2,702,434	2,702,434
Past-due but not impaired	-	-	-	-	-	23,939	23,939
	972,216	1,135,610	154,650	4,554	-	2,726,373	4,993,403

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Total RM'000
31 December 2019							
Investment grade	1,319,642	1,187,536	161,633	3,780	-	-	2,672,591
Non-investment grade	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	2,457,629	2,457,629
Past-due but not impaired	-	-	-	-	-	14,151	14,151
	1,319,642	1,187,536	161,633	3,780	-	2,471,780	5,144,371

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.2 Age analysis of financial assets past-due but not impaired

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past-due but not impaired as at the reporting date is as follows:

	1 to 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	More than 90 days RM'000	Total RM'000
31 December 2020					
Insurance receivables	6,421	2,418	6,261	8,839	23,939
31 December 2019					
Insurance receivables	3,572	2,294	2,171	6,114	14,151

36. Financial risks (continued)

36.1 Credit risk (continued)

36.1.3 Impaired financial assets

At 31 December 2020, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables amounting to RM53,415,000 (2019: RM55,675,000), loans and other receivables of RM742,000 (2019: RM1,410,000) and reinsurance assets of RM2,578,000 (2019: RM2,586,000). No collateral is held as security for any past-due or impaired assets. The Company records impairment allowance for insurance receivables and loans and other receivables in separate 'Allowance for Impairment' accounts and impairment allowance for reinsurance assets in net claims incurred. The movements of the allowance for impairment losses for insurance receivables, reinsurance assets and loans and other receivables are as follows:

	Insurance receivables		Reinsurance assets		Loans and other receivables	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
At 1 January	55,675	55,451	2,586	2,615	1,410	1,410
Impairment loss (reversed) / recognised	(916)	461	(8)	(29)	457	-
Written off during the year	(1,344)	(237)	-	-	(1,125)	-
At 31 December	53,415	55,675	2,578	2,586	742	1,410

36. Financial risks (continued)

36.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Company, refinancing is only possible at higher interest rates or assets may have to be liquidated at a discount.

Besides monitoring the liquidity position of the Company on a daily basis, the investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets in the portfolio. Some other tools used by the Company include ensuring that its assets and liabilities are adequately matched and drawing down of funds to meet claims payment should the claims event exceed a certain amount as provided for in the reinsurance contracts.

36.2.1 Maturity profiles

The tables below summarise the maturity profile of the financial liabilities of the Company at the end of the reporting year based on remaining undiscounted contractual obligations, including interest/profit payable.

For provision for claims, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

36. Financial risks (continued)

36.2 Liquidity risk (continued)

36.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2020								
Provision for claims (reported claims)	1,992,729	1,221,487	624,000	121,576	25,666	-	-	1,992,729
Lease liabilities	30,012	14,371	16,649	-	-	-	-	31,020
Insurance payables	236,595	220,603	14,012	1,980	-	-	-	236,595
Other payables and accruals	477,268	477,268	-	-	-	-	-	477,268
Total financial liabilities	2,736,604	1,933,729	654,661	123,556	25,666	-	-	2,737,612

36. Financial risks (continued)

36.2 Liquidity risk (continued)

36.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2019								
Provision for claims (reported claims)	1,872,966	1,184,299	573,917	94,135	20,615	-	-	1,872,966
Lease liabilities	42,644	15,148	29,886	-	-	-	-	45,034
Insurance payables	206,318	182,026	24,076	216	-	-	-	206,318
Other payables and accruals	388,645	388,645	-	-	-	-	-	388,645
Total financial liabilities	2,510,573	1,770,118	627,879	94,351	20,615	-	-	2,512,963

36. Financial risks (continued)

36.3 Market risk

Market risk is the risk of loss arising from changes in market prices or parameters influencing market prices. This includes changes in market prices due to a worsening of market liquidity. Market risk comprises of currency risk, interest rate risk and equity price risk.

The following risk mitigation actions are in place to control and monitor such risk:

- Investment Committee actively monitors the investment activities undertaken by the Company;
- The Investment Policy and Mandate which formulated the single counterparty limits, group limits and sector limits are in place. Compliance to such limits is monitored closely and reported to RMWC/RMC on a quarterly basis;
- Stress tests are performed as and when needed;
- Stop loss policy is in place.

36.3.1 Currency risk

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

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act, 2013 and hence, primarily denominated in the same currency as its insurance contract liabilities. Thus, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

As the Company's main foreign exchange risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

36. Financial risks (continued)

36.3 Market risk (continued)

36.3.2 Interest rate risk

The Company is affected by changes in market interest rates which will impact the fair value of available-for-sale financial instruments and will incur an economic loss when the interest rates increase.

Interest rate sensitivity analysis
The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit after tax and equity.

	Change in variables	Impact on Profit after Tax	Impact on Equity*
31 December 2020		**RM'000**	**RM'000**
Interest rate	+ 100 basis points	-	(100,984)
Interest rate	+ 50 basis points	-	(50,492)
Interest rate	- 100 basis points	-	100,984
Interest rate	- 50 basis points	-	50,492
31 December 2019			
Interest rate	+ 100 basis points	-	(88,665)
Interest rate	+ 50 basis points	-	(44,332)
Interest rate	- 100 basis points	-	88,665
Interest rate	- 50 basis points	-	44,332

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

It should be noted that movements in these variables are non-linear.

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

36. Financial risks (continued)

36.3 Market risk (continued)

36.3.3 Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market prices (other than those arising from changes in interest rates or foreign exchange rates), whether those changes are caused by factors specific to individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk policy requires it to prioritise capital preservation besides setting limits on overall portfolio, single security and sector holdings. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of equity price risk.

36.4 Operational risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives resulting from inadequate or failed internal processes and systems, human factors or external events.

Relevant operational risks and control weaknesses are identified and evaluated via a structured self-assessment. Besides, operational risk events are collected so that significant losses can be used to analyse and provide measures aimed at avoiding or reducing future losses.

The Company puts in place the following controls to monitor and mitigate such risk:

- Effective segregation of duties;
- Access controls, authorisation and reconciliation procedures;
- Automation of processes where possible;
- Staff training; and
- Evaluation procedures such as internal audit.

36. Financial risks (continued)

36.5 Fair value of financial instruments

The basis of estimation of fair values for financial instruments is as follows:

(a) The fair values of structured deposits and negotiable instruments of deposit are based on the indicative market prices from the issuing banks.

(b) The fair values of Malaysian government securities, Malaysian government guaranteed bonds and unquoted debt securities are based on the fair values provided by the Company's custodian bank.

(c) The fair values of unquoted unit trust in Malaysia are based on the net asset values of the unquoted unit trust in Malaysia as at the date of the statements of assets and liabilities obtained from fund managers.

(d) The carrying amounts of fixed deposits are assumed to reasonably approximate their fair values.

(e) The carrying amounts of cash and cash equivalents, insurance receivables and other receivables, insurance payables, and other payables and accruals reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Company's investment in unquoted equity securities due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

36. Financial risks (continued)

36.5 Fair value of financial instruments (continued)

36.5.1 Fair value hierarchy

The tables below analyse financial instruments carried at fair value in the statement of financial position by the various levels within the fair value hierarchy.

	Fair value of financial instruments carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
31 December 2020						
Financial assets						
Malaysian government securities	-	1,731,564	-	1,731,564	1,731,564	1,731,564
Malaysian government guaranteed bonds	-	719,862	-	719,862	719,862	719,862
Unquoted debt securities	-	1,285,836	-	1,285,836	1,285,836	1,285,836
Unquoted unit trust in Malaysia	-	1,284,907	-	1,284,907	1,284,907	1,284,907
	-	5,022,169	-	5,022,169	5,022,169	5,022,169

36. Financial risks (continued)

36.5 Fair value of financial instruments (continued)

36.5.1 Fair value hierarchy (continued)

	Fair value of financial instruments carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
31 December 2019						
Financial assets						
Malaysian government securities	-	1,462,250	-	1,462,250	1,462,250	1,462,250
Malaysian government guaranteed bonds	-	736,147	-	736,147	736,147	736,147
Unquoted debt securities	-	1,255,005	-	1,255,005	1,255,005	1,255,005
Unquoted unit trust in Malaysia	-	606,101	-	606,101	606,101	606,101
Negotiable instruments of deposit with licensed financial institutions	-	20,348	-	20,348	20,348	20,348
	-	4,079,851	-	4,079,851	4,079,851	4,079,851

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2019: no transfer in either directions).

37. Capital management

The RBC Framework was first issued on 1 January 2009 and with the latest update that takes effect from 17 December 2018. Under the RBC Framework, insurance companies need to maintain a capital adequacy level that commensurate with their risk profiles. All insurance companies are required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130% and an internal target capital level required by BNM or level determined under the Internal Capital Adequacy Assessment Process. The internal target will include additional capacity to absorb unexpected losses beyond those that are covered under the minimum required CAR.

The Company has been in compliance with the said requirement by maintaining a CAR that is in excess of minimum requirement.

Regulatory capital requirements

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

	2020 RM'000	2019 RM'000
Tier 1 Capital		
Paid up share capital	379,168	379,168
Retained earnings	1,722,412	1,645,705
	2,101,580	2,024,873
Tier 2 Capital		
Reserves	145,269	91,476
	145,269	91,476
Amounts deducted from capital		
Intangible assets	(94,780)	(101,910)
Deferred tax assets	-	(18)
	(94,780)	(101,928)
Total capital available	2,152,069	2,014,421

38. Contingencies

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 the Company of Section 4(2)(a) of the Competition Act 2010 ("CA"). The alleged infringement is in relation to the agreement reached between PIAM and the Federation Of Automobile Workshop Owners' Association Of Malaysia ("FAWOAM") in relation to trade discount rates for parts for certain vehicle makes and labour hourly rates for PIAM Approved Repairers Scheme workshops. These rates were applied by the Company pursuant to a members' circular issued by PIAM, which arose from Bank Negara Malaysia ("BNM")'s directive to PIAM to engage FAWOAM to resolve the issues of parts trade discounts and labour hourly rate.

On 22 February 2017, the Company received MyCC's notice of proposed decision ("Proposed Decision") that the Company and all the other 21 general insurers who are members of PIAM have infringed one of the prohibitions under Part II of the CA. The Proposed Decision includes a proposed financial penalty of RM213,454,814 on all the 22 general insurers. The Company, as one of the members of PIAM, will have a share of RM27,480,883 of the proposed penalty.

On 5 April and 25 April 2017, the Company submitted the written representations as requested by MyCC. The first session for the Hearing of the Oral Representation took place on 16 October 2017 (on preliminary issues) and 17 October 2017 (on PIAM's Oral Representation). The second session took place on 12 December 2017 and 14 December 2017 wherein other insurers had submitted their Oral Representations. The Company's Oral Representation took place on 29 January 2018 and the remaining insurers submitted their Oral Representations on 30 January 2018, bringing the Oral Representations of all insurers to a close. Due to the changes of the Members of Commission who heard the Company's Oral Representation, the Company's solicitors had requested MyCC to hold de novo (new) proceedings in relation to the Company's Oral Representation before the new Members of Commission. The Company's Oral Representation sessions took place on 19 and 20 February 2019. PIAM had commenced its Oral Representation on 21 February 2019. BNM's Oral Representation took place on 13 May 2019 followed by Oral Representations by several counsel covering 6 insurers. The session on 14 May 2019 was vacated and the Oral Representation of PIAM's Competition Economist (RBB Economics) and the remaining insurers' counsel were heard over 17 and 18 June 2019.

On 25 September 2020, the Company's solicitors received the Decision that parties have infringed the prohibition under section 4 of the CA and which imposes on each of the 22 general insurers financial penalties for the said infringement.

In view of the impact of the Covid-19 pandemic, MyCC granted a reduction of 25% of the financial penalties imposed on the 22 general insurers and a moratorium period of up to 6 months for the payment of the financial penalties to be made by 6 equal monthly instalments. The financial penalty imposed on the Company, taking into account the 25% reduction amounts to RM18,549,595.97.

38. Contingencies (continued)

The Company had on 13 October 2020 filed a Notice of Appeal with the Competition Appeal Tribunal ("CAT") against the Decision, pursuant to Section 52 of the CA ("Appeal"). On 23 October 2020, the Company filed a Stay Application with the CAT pursuant to Section 53 of the CA for the grant of a stay of the Decision particularly in respect of the financial penalty imposed on the Company and at CAT's request, a formal Notice of Application was filed in relation to the stay of the Decision on 12 November 2020.

In response to the Company's Notice of Appeal, MyCC had filed a Statement in Reply ("SIR") dated 20 November 2020 with the CAT. The Company then filed with the CAT on 11 December 2020 its Reply to the SIR to put on record that except for statements of fact, the Company denies the remaining contents of the SIR and also to reiterate that all issues raised by MyCC had already been addressed in the Company's Notice of Appeal.

CAT in a letter dated 20 January 2021 informed all parties that the initial case management date for the Appeal and Hearing of the Stay Application fixed for 27 January 2021 was rescheduled to 18 February 2021. The case management and Hearing date earlier fixed for 18 February 2021 before the CAT has now been rescheduled to 25 February 2021 and this would be a virtual session.

The management of the Company believes that the criteria to disclose the above as a contingent liability are met. Saved as disclosed above, the Company does not have any other contingent assets and liabilities since the last annual balance sheet date.

39. Material litigation

Virginia Surety Company Labuan Branch ("VSC") had provided reinsurance support to Commerce Assurance Berhad (now known as Bright Mission Berhad and which has since wound up) ("CAB") previously in respect of CAB's Extended Warranty Program ("EWP").

The Company took over the general insurance business of CAB on 1 January 2009 and this included the reinsurance business relating to the EWP.

A dispute arose between both parties on the continuing subsistence of the reinsurance agreement from 1 October 2011 onwards. The Company's legal position was that the reinsurance continued to remain in force from 1 October 2011 and determined only on 30 September 2013. This was disputed by VSC who claimed that the treaty reinsurance lapsed on 30 September 2011.

On 11 December 2013, the Company commenced arbitration proceedings against VSC seeking, inter alia:

(a) A declaration that the reinsurance subsisted until 30 September 2013;

39. Material litigation (continued)

(b) A declaration that VSC will pay and/or indemnify the Company for its claims and losses arising from the reinsurance for the period from 1 October 2011 to 30 September 2013; and

(c) Damages to be assessed including for loss of profits and breach of contract.

The Closing Submissions and Reply Submissions were filed on 30 August 2017 and 27 September 2017 respectively and the Oral Submissions took place on 12 October 2017 and 13 October 2017. Both parties then filed further written submissions bringing the arbitration proceedings to an end.

An Arbitration Award dated 8 February 2018 was received on 20 February 2018. The award, made by 2 arbitrators of the Panel of 3 arbitrators, was in favour of VSC ("Award") whilst the Dissenting Arbitrator found in favour of the Company.

The Award ordered AGIC to pay the following:

(a) RM30,593.64 as reimbursement of payment in respect of the Kuala Lumpur Regional Centre for Arbitration's administrative expenses;
(b) RM425,324.32 as reimbursement of payment in respect of fees and expenses of the arbitral tribunal;
(c) RM668,160. 69 for costs and expenses incurred by VSC; and
(d) USD10,969.31 as reimbursement for costs incurred in respect of VSC's ex-employee.

<u>AGIC's Originating Summons – High Court</u>

AGIC's solicitors were of the view that there were reasonable grounds to seek a review of the Award, including to set aside the Award. An Originating Summons was filed at the Kuala Lumpur High Court on 29 March 2018 to set aside the Award under Section 37(2)(b)(ii) of the Arbitration Act 2005 ("Act") and for a Reference of Questions of law under Section 42 of the Act. AGIC's solicitors presented their Oral Submissions at the Hearing on 18 February 2019. The Hearing continued on 13 March 2019 during which VSC's solicitor presented its oral arguments and Further Written Submissions. AGIC's solicitors filed the response to VSC's Further Written Submissions on 10 April 2019 and VSC filed its Reply Submissions on 17 April 2019. The Hearing continued and concluded on 18 April 2019. On 28 June 2019, the Court declined the application to set aside the Award ("Decision").

AGIC's solicitors filed a Notice of Appeal to the Court of Appeal against the Decision on 15 July 2019 ("Appeal"). At the first case management on 4 September 2019, the Court of Appeal fixed the next case management for 9 October 2019 and directed the filing of the Record of Appeal by 26 September 2019.

Separately, VSC's solicitors filed an Originating Summons dated 11 September 2019 ("VSC's OS") to recognise and enforce the Award against AGIC, which if allowed, would have resulted in AGIC having to pay VSC all the costs ordered by the Award.

39. Material litigation (continued)

Update on VSC's OS Application

At the first case management on VSC's OS on 26 September 2019, AGIC's solicitors informed the Court that as the Appeal was pending before the Court of Appeal, VSC's OS was premature. The Court then fixed the matter for further case management for VSC's solicitors to address the issue of holding over of VSC's OS, pending the determination of the Appeal. AGIC's solicitors filed a stay application on VSC's OS and on 7 November 2019, the Judge allowed AGIC's stay application and ordered VSC's enforcement proceedings be stayed pending the final determination of the appeal at the Court of Appeal. As the Judge was of the view that VSC'S OS should be withdrawn and filed afresh (should VSC succeed in dismissing the appeal), and since VSC agreed to withdraw the matter, the Judge ordered that VSC's OS be struck out with liberty to file afresh.

Update on AGIC's Appeal

At the case management on AGIC's Appeal on 9 October 2019, a further case management was fixed on 20 November 2019. On 20 November 2019, a further case management was fixed on 13 January 2020, pending the High Court's substantive Grounds of Decision ("Grounds"). At the case management on 13 January 2020, the Court of Appeal fixed a further case management on 19 February 2020, as AGIC's solicitors had yet to receive the Grounds. On 17 February 2020, the Court of Appeal wrote to parties' solicitors to give notice that the case management fixed for 19 February 2020 was rescheduled to 26 February 2020. On 26 February 2020, the Court of Appeal was informed that AGIC's solicitors had yet to receive the Grounds. As such, a further case management was fixed for 8 April 2020. Just before the effective date of the Movement Control Order, the High Court notified that the Grounds were ready for collection but since AGIC's solicitors were unable to collect the Grounds, at the e-review of the matter on 8 April 2020, a new date for case management was fixed for 15 May 2020. On 15 May 2020, AGIC's solicitors informed the Court of Appeal that the Grounds had since been collected and the Court of Appeal directed for the Memorandum of Appeal and Supplementary Record of Appeal to be filed before the next case management fixed for 9 July 2020. On 9 July 2020, the Court of Appeal fixed a further case management date on 19 August 2020 as the Notes of Proceedings were still pending. At the case management on 19 August 2020, the Court of Appeal fixed the Appeal for Hearing on 2 February 2021 and a further Case Management on 26 January 2021 for the Court to monitor compliance with all appeal directions. On 26 January 2021, the Court of Appeal was updated that all appeal directions had been complied with and the Court of Appeal then directed that the Hearing on 2 February 2021 be conducted virtually via Zoom. On 2 February 2021, the Hearing of the Appeal was adjourned to a date to be fixed later as several other cases were also fixed for hearing that day.

40. Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 Insurance Contracts ("the Amendments")

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities and on hedge accounting, effective for annual periods beginning on or after 1 January 2018.

The Company has applied the temporary exemption under Amendments to MFRS 4 - Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts which enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2023 at the latest. Hence, the Company has not adopted MFRS 9 for the financial year beginning on or after 1 January 2018.

An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018 and may start applying the overlay approach when it applies MFRS 9 for the first time.

The Amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9, Financial Instruments before the forthcoming new insurance contracts standard.

The Amendments provide 2 different approaches for the Company:

(i) temporary exemption from MFRS 9 for entities that meet specific requirements; and

(ii) the overlay approach. Both approaches are optional

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2023 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

The Company's business activity is predominantly insurance as the liabilities connected with the Company's insurance businesses made up of approximately 90% of the Company's total liabilities. Hence, the Company qualifies for the temporary exemption from applying MFRS 9 and will defer and adopt MFRS 9 together with MFRS 17, Insurance Contracts for the financial year beginning on or after 1 January 2023.

The following additional disclosures, required by Amendments to MFRS 4 for entity qualified and elected the temporary exemption from applying MFRS 9, present the Company's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

40. Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts (continued)

Fair value as at 31 December 2020	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total
Malaysian government securities	1,731,564	-	1,731,564
Malaysian government guaranteed bonds	719,862	-	719,862
Unquoted debt securities	1,285,836	-	1,285,836
Unquoted unit trust in Malaysia	-	1,284,907	1,284,907
Fixed deposits	178,318	-	178,318
Loans and other receivables	84,305	-	84,305
Cash and cash equivalents	325,251	-	325,251
Total financial assets	4,325,136	1,284,907	5,610,043

Fair value as at 31 December 2019	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total
Malaysian government securities	1,462,250	-	1,462,250
Malaysian government guaranteed bonds	736,147	-	736,147
Unquoted debt securities	1,255,005	-	1,255,005
Unquoted unit trust in Malaysia	-	606,101	606,101
Negotiable instruments of deposit with licensed financial institutions	20,348	-	20,348
Fixed deposits	203,011	-	203,011
Loans and other receivables	96,603	-	96,603
Cash and cash equivalents	690,190	-	690,190
Total financial assets	4,463,554	606,101	5,069,655

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

Other than the financial assets included in the table above and assets that are within the scope of MFRS 17, *Insurance Contracts*, all other assets in the statement of financial position are non-financial assets.

40. Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts (continued)

31 December 2020 **Changes in fair value during the year**	**Financial assets with SPPI cash flows** **RM'000**	**All other financial assets** **RM'000**	**Total**
Malaysian government securities	27,592	-	27,592
Malaysian government guaranteed bonds	13,963	-	13,963
Unquoted debt securities	19,086	-	19,086
Unquoted unit trust in Malaysia	-	15,109	15,109
Negotiable instruments of deposit with licensed financial institutions	(50)	-	(50)
Total financial assets	60,591	15,109	75,700

31 December 2019 **Changes in fair value during the year**	**Financial assets with SPPI cash flows** **RM'000**	**All other financial assets** **RM'000**	**Total**
Malaysian government securities	30,283	-	30,283
Malaysian government guaranteed bonds	23,091	-	23,091
Unquoted debt securities	26,706	-	26,706
Unquoted unit trust in Malaysia	-	723	723
Negotiable instruments of deposit with licensed financial institutions	(107)	-	(107)
Total financial assets	79,973	723	80,696

40. Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4 *Insurance Contracts* (continued)

31 December 2020
Financial assets with SPPI cash flows

Gross carrying amounts under MFRS MFRS 139 by credit risk rating grades	**AAA RM'000**	**AA RM'000**	**A RM'000**	**BBB RM'000**	**Non-investment grade RM'000**	**Non-rated RM'000**	**Past-due but not impaired RM'000**	**Total RM'000**
Investments								
Malaysian government securities	-	-	-	-	-	1,731,564	-	1,731,564
Malaysian government guaranteed bonds	-	-	-	-	-	719,862	-	719,862
Unquoted debt securities	652,822	603,520	25,744	11,097	-	-	-	1,293,183
Fixed deposits	45,757	132,561	-	-	-	-	-	178,318
Loans and other receivables	-	-	-	-	-	84,305	-	84,305
Cash and cash equivalents	273,637	50,618	913	-	-	83	-	325,251
	972,216	786,699	26,657	11,097	-	2,535,814	-	4,332,483

Financial assets with SPPI cash flows

All financial assets with SPPI cash flows of the Company as at 31 December 2020 have low credit risk.

40. Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4 *Insurance Contracts* (continued)

31 December 2019
Financial assets with SPPI cash flows

Gross carrying amounts under MFRS MFRS 139 by credit risk rating grades	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Past-due but not impaired RM'000	Total RM'000
Investments								
Malaysian government securities	-	-	-	-	-	1,462,250	-	1,462,250
Malaysian government guaranteed bonds	-	-	-	-	-	736,147	-	736,147
Unquoted debt securities	746,213	474,257	30,786	11,097	-	-	-	1,262,353
Negotiable instruments of deposit with licensed financial institutions	20,348	-	-	-	-	-	-	20,348
Fixed deposits	100,693	102,318	-	-	-	-	-	203,011
Loans and other receivables	-	-	-	-	-	96,603	-	96,603
Cash and cash equivalents	452,388	237,727	-	-	-	75	-	690,190
	1,319,642	814,302	30,786	11,097	-	2,295,075	-	4,470,902

Financial assets with SPPI cash flows

All financial assets with SPPI cash flows of the Company as at 31 December 2019 have low credit risk.

41. Implication of COVID-19 on the company business

The World Health Organisation ("WHO") had on 11 March 2020 declared COVID-19 as a pandemic and it has caused one of the most severe economic and financial market turmoil.

COVID-19 continues to disrupt economies and capital markets worldwide. The operating environment continues to be challenging in the near term as consumer and retailer sentiments are expected to remain subdued against the backdrop of economic uncertainties.

While the results of the Company for the year have remained resilient, the Company remains cautious in maintaining the same level of profitability amid ongoing uncertainties to the economy arising from the COVID-19 pandemic.

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 37 to 156 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 position of the Company as at 31 December 2020 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tunku Zain Al-'Abidin Ibni Tuanku Muhriz

Zakri Bin Mohd Khir

Kuala Lumpur,

Date: 24 February 2021

Allianz General Insurance Company (Malaysia) Berhad

Company No. 200601015674 (735426-V)
(Incorporated in Malaysia)

Statutory declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Zakri Bin Mohd Khir**, the Director primarily responsible for the financial management of Allianz General Insurance Company (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 37 to 156 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Zakri Bin Mohd Khir, I/C No: 631004-08-6325, at Kuala Lumpur in the Federal Territory on 24 February 2021.

Zakri Bin Mohd Khir

Before me:

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANZ GENERAL INSURANCE COMPANY (MALAYSIA) BERHAD
(Incorporated in Malaysia)
(Company No. 200601015674 (735426-V))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Allianz General Insurance Company (Malaysia) Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 37 to 156.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANZ GENERAL INSURANCE COMPANY (MALAYSIA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 200601015674 (735426-V))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANZ GENERAL INSURANCE COMPANY (MALAYSIA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 200601015674 (735426-V))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANZ GENERAL INSURANCE COMPANY (MALAYSIA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 200601015674 (735426-V))

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2021 J
Chartered Accountant

Kuala Lumpur
24 February 2021