

Company No.
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2019

Company No.
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the Group and Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

FINANCIAL RESULTS

	Group RM	Company RM
Net profit for the financial year	<u>43,146,918</u>	<u>43,118,308</u>

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

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

DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2019.

DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

Datuk Abu Hassan bin Kendut (appointed as Chairman effective from 24 March 2020)

Sammy Chan Sum Yu

Hashim bin Harun

Dr. Arumugam a/l Saminathan

Ajit Nair (appointed on 18 December 2019)

Dato' Chan Choy Lin (appointed on 18 March 2020)

Dato' Khalid bin Abdol Rahman (appointed on 19 May 2020)

Dato' Huang Sin Cheng (retired as Chairman on 23 March 2020)

Zainul Abidin bin Mohamed Rasheed (retired on 30 October 2019)

In accordance with Article 62 (ii) of the Company's Constitution, Datuk Abu Hassan bin Kendut and Dr. Arumugam a/l Saminathan will retire at the forthcoming Annual General Meeting and separate resolutions will be proposed for their re-appointment as Directors in accordance with Article 62 (ii) of the Company's Constitution to hold office until the conclusion of the next Annual General Meeting of the Company.

In accordance with Article 59 of the Company's Constitution, Ajit Nair, Dato' Chan Choy Lin and Dato' Khalid bin Abdol Rahman will retire at the forthcoming Annual General Meeting and they being eligible, offer themselves for re-election.

In accordance with Article 65 of the Company's Constitution, Hashim bin Harun will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that financial year, did there subsist any arrangement, to which the Company was a party, whereby the Directors might acquire benefits by means of acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Notes 24 and 30 to the financial statements and the financial statements of its related corporations or the fixed salary and benefits of a full-time employee of the holding company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, the interest of a Director in office at the end of the financial year in shares and options in the Company and its related corporations during the financial year was as follows:

	<u>Holdings registered in name of a Director</u>			
	<u>01.01.2019</u>	<u>Acquired</u>	<u>Exercised</u>	<u>31.12.2019</u>
<u>Ultimate Holding Company</u>				
- Fairfax Financial Holdings Limited				
("FFHL")				
<i>(Common or Subordinate voting</i>				
<i>shares of no par value each)</i>				
Sammy Chan Sum Yu	26,460	72	-	26,532

Other than as disclosed, none of the Directors in office at the end of the financial year had any interest in shares and in options in the Company or its related corporations during the financial year.

DIRECTORS' REMUNERATION

	<u>Group</u>	<u>Company</u>
	<u>RM</u>	<u>RM</u>
Directors' fees	420,438	420,438

Details of Directors' remuneration are set out in Note 24(b) to the financial statements.

INDEMNIFICATION OF DIRECTORS

The Directors and Officers of the Company are covered by a Directors' and Officers' Liability insurance maintained by the ultimate holding company, Fairfax Financial Holdings Limited ("FFHL"). The insurance covers the Malaysian subsidiaries of FFHL up to an aggregate limit of RM40,934,954 (USD10 million) against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Directors and Officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. The premium for the insurance is RM22,539.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE

(a) Board Responsibility and Oversight

Board Responsibility

The Board is committed to ensure that the highest standards of corporate governance are observed in the Company so that the affairs of the Company are conducted with professionalism, accountability and integrity with the objective of enhancing shareholders' value as well as safeguarding the interests of other stakeholders.

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines, BNM Policy Document ("PD") on Corporate Governance issued on 3 August 2016. The Company has complied with the standards and adopted management practices that are consistent with these guidelines and PD.

The Board has overall responsibility for the strategic direction and development plans in furthering the achievements of the Company. The Board meets regularly and has a formal schedule of matters specifically reserved for its consideration and approval, which includes the annual business and strategic plans, business operations, financial performance, risk management, investment, as well as compliance requirements under the Risk-Based Capital Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers. The Board's approval is also sought for transactions by the Company on outsourcing of certain business functions, major acquisition and disposal of assets, as well as material related party transactions. In addition, the Board reviews the Company's investment risk management and reinsurance practices and approves the authority levels for the Company's core functions, including expenditure approving, risk acceptance and claims approval.

On an ongoing basis, the Directors are kept informed through relevant training programmes and briefings to assist them to keep abreast with developments in the market place. The Directors are also updated with the policy and administrative changes as well as new guidelines issued by BNM and relevant professional bodies.

Board Composition and Meetings

On a yearly basis, the Directors are subject to an internal declaration to review their status of compliance with BNM/RH/GL 018-5 on Fit and Proper Criteria, BNM Policy Document on Corporate Governance issued on 3 August 2016 and Section 60 of the Financial Services Act, 2013 on the fulfilment of the minimum criteria of a "fit and proper person". In accordance with Section 54 of the Financial Services Act, 2013, all Directors are appointed and reappointed to the Board after prior approval has been obtained from BNM. All Directors comply with the prescribed maximum number of directorships held and none of them are active politicians.

The Directors are persons of calibre, credibility and integrity. Collectively they bring with them a wide range of business and management experience, skills and specialised knowledge that are required to lead and oversee the affairs of the Company.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Composition and Meetings (continued)

The Company's Board of Directors consists of seven (7) Directors as set out below:

<u>Members:</u>	<u>Status of Directorship</u>
Datuk Abu Hassan bin Kendut (appointed as Chairman effective from 24 March 2020)	Independent Non-Executive Director, Chairman
Sammy Chan Sum Yu	Executive Director
Hashim bin Harun	Independent Non-Executive Director
Dr. Arumugam a/l Saminathan	Non-Independent Non-Executive Director
Ajit Nair (appointed on 18 December 2019)	Independent Non-Executive Director
Dato' Chan Choy Lin (appointed on 18 March 2020)	Independent Non-Executive Director
Dato' Khalid bin Abdol Rahman (appointed on 19 May 2020)	Independent Non-Executive Director
Dato' Huang Sin Cheng (Chairman, until retirement date on 23 March 2020)	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed (retired on 30 October 2019)	Independent Non-Executive Director

The Board met five (5) times during the financial year and the details of the Directors' attendance are as follows:

<u>Name</u>	<u>Number of Board Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Datuk Abu Hassan bin Kendut	5/5	100
Sammy Chan Sum Yu	5/5	100
Hashim bin Harun	5/5	100
Dr. Arumugam a/l Saminathan	4/4	100
Ajit Nair (appointed on 18 December 2019)	1/1	100
Dato' Huang Sin Cheng (retired on 23 March 2020)	5/5	100
Zainul Abidin bin Mohamed Rasheed (retired on 30 October 2019)	4/4	100

The Board members are provided with adequate and timely information and reports, including background explanatory information, on matters brought before the Board. All the Directors have full and unrestricted access to all information and records of the Company as well as services and advice of the Company Secretary and the senior management of the Company to assist them in discharging their duties and responsibilities.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile

Datuk Abu Hassan bin Kendut
Chairman / Independent Non-Executive Director

Datuk Abu Hassan bin Kendut was first appointed to the Board on 16 May 2012 as an Independent Non-Executive Director. He was appointed as Chairman of the Board effective from 24 March 2020. He is also a member of the Board Audit Committee and of the Board Remuneration Committee.

Datuk Abu Hassan is a member of The Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants ("MIA").

Datuk Abu Hassan has more than 40 years of experience in the field of audit and finance. He is currently the Chairman of Metrod Holding Berhad. He is also a past President of MICPA and the Asean Federation of Accountants, and was also formerly the Senior Partner of Coopers & Lybrand (currently known as PricewaterhouseCoopers PLT).

Sammy Chan Sum Yu
Executive Director

Mr. Sammy Chan Sum Yu was first appointed to the Board on 24 March 2011. He is also a member of the Board Nomination Committee.

Mr. Sammy Chan graduated from the University of Waterloo with a Bachelor of Mathematics (major in Actuarial Science).

Mr. Sammy Chan has over 40 years of experience in property and casualty insurance companies. Currently, he is the President of Fairfax Asia Ltd. and a key member of the due diligence team on mergers and acquisition. He is also a member of the Board of Directors of Falcon Insurance Limited, Hong Kong; Falcon (1998) Co. Ltd., Hong Kong; The Falcon Insurance Public Co. Ltd., Thailand; as well as Alltrust Insurance Co. Ltd., China.

Hashim bin Harun
Independent Non-Executive Director

Mr. Hashim bin Harun was first appointed to the Board on 23 July 2015 as an Independent Non-Executive Director. He was appointed the Chairman of the Board Nomination Committee on 19 December 2019 and as Chairman of the Board Remuneration Committee effective from 24 March 2020. Mr. Hashim is also a member of the Board Risk Management Committee and of the Board Audit Committee.

Mr. Hashim graduated with a Bachelor of Arts (Hons) from the University of Malaya.

Mr. Hashim has more than 35 years of working experience at senior levels that included more than 15 years in the general insurance and reinsurance industries in Malaysia. He was the past Chairman of the Malaysian Insurance Institute ("MII") where he has served as its Chairman from 2009 to 2017. He was also a Director of the Asian Institute of Finance ("AIF") from 2012 to 2017.

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CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile (continued)

Hashim bin Harun (continued)
Independent Non-Executive Director (continued)

Mr. Hashim was previously the CEO of both Uni.Asia General Insurance Berhad and Malaysian Reinsurance Berhad ("Malaysian Re") where he had been instrumental in leading both companies to a steady progress and scaling new heights by enhancing their competitiveness and efficiency.

Dr. Arumugam a/l Saminathan
Non-Independent Non-Executive Director

Dr. Arumugam a/l Saminathan was appointed to the Board on 19 March 2019 as a Non-Independent Non-Executive Director. He is also a member of the Board Audit Committee and of the Board Remuneration Committee.

Dr. Arumugam graduated with a Diploma in Business Administration from Wales University, UK in 1988. He also obtained a Certificate in Finance from COADY Institute St. Francis University Canada in 1989 and a Diploma in Social Studies Rural Leadership from Xavier University, Philippines in 1993. He later obtained his Master of Business Administration from Southern Pacific University, USA in 2005, and was conferred an Honorable Doctorate from University California.

Dr. Arumugam is currently the Chairman of two (2) cooperatives namely, Koperasi MCIS Berhad and Koperasi Kredit Pekerja Berhad. He is also the Director of Koperasi Konsumer Berhad and MCIS Travel & Tours Sdn. Bhd.

Ajit Nair
Independent Non-Executive Director

Mr. Ajit Nair was appointed to the Board on 18 December 2019 as an Independent Non-Executive Director. He was appointed the Chairman of the Board Risk Management Committee on 19 December 2019. He is also a member of the Board Nomination Committee and of the Board Audit Committee.

Mr. Ajit graduated with a Bachelor of Arts in Economics from the National University of Singapore in 1982. In his 30-years career at IBM, he had held several roles in various divisions including System and Technology, Industry Business Units and Channel and Partner Management at regional and global levels. He has domain expertise in financial services and was the first person in Asia Pacific to be certified as an IBM client executive for his in-depth knowledge of banking.

Mr. Ajit is currently an independent board member of MS First Capital Insurance Limited where he sits on various board committees including as Chairman of Risk Committee and Nominating Committee.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Directors' Profile (continued)

Dato' Chan Choy Lin
Independent Non-Executive Director

Dato' Chan Choy Lin (also known as "Dato' Carol Chan") was appointed to the Board on 18 March 2020 as an Independent Non-Executive Director. She was appointed the Chairman of the Board Audit Committee effective from 24 March 2020. She is also a member of the Board Nomination Committee and of the Board Risk Management Committee.

Dato' Carol Chan is a member of The Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants ("MIA").

Dato' Carol Chan has more than 30 years' experience with public listed companies that engaged in the businesses of banking and insurance, automotive manufacturing and distribution, trading and services, property and construction, plantation, hospitality and education. Dato' Carol Chan's senior management experience covers the areas of mergers, acquisitions and divestments, finance, treasury, corporate social responsibilities, corporate secretarial and legal, including corporate governance, risk management and internal control. Over the years, Dato' Carol Chan has held several key management positions. She was a key member of various group committees and she also served as a nominee director on the boards of various group companies of a public listed conglomerate.

Dato' Carol Chan is currently an Independent Non-Executive Director of Ann Joo Resources Berhad, APM Automotive Holdings Berhad and GHL Systems Berhad.

Dato' Khalid bin Abdol Rahman
Independent Non-Executive Director

Dato' Khalid bin Abdol Rahman ("Dato' Khalid") was appointed to the Board on 19 May 2020 as an Independent Non-Executive Director. He is also a member of the Board Remuneration Committee, the Board Risk Management Committee and the Board Nomination Committee.

Dato' Khalid holds a Diploma in Accountancy from University Institute of Technology (MARU) in Selangor. He then went on to obtain a Bachelor of Science degree in Finance from Indiana State University, Indiana, United States, and a Master of Business Administration degree in Marketing from University of New Haven, Connecticut, United States.

Dato' Khalid has more than 30 years of experience in the fields of corporate planning, business development, mergers and acquisitions, corporate finance and corporate advisory services.

Dato' Khalid is currently the Deputy CEO of SRT - EON Security Services Sdn. Bhd.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Training attended by Board of Directors

The following are the trainings attended by the Directors:

- (i) Briefing by the in-house Accountant on MFRS 17: Insurance Contracts
- (ii) Briefing by Ernst & Young on MFRS 17: Insurance Contracts
- (iii) Breakfast Talk on MFRS 17: Understanding its Impact and Consequences organised by Ernst & Young
- (iv) Briefing on Treaty & Reinsurance by AON Benfield, Singapore
- (v) Briefing by in-house Head of Legal & Compliance on Corporate Liability under Section 17A of the Malaysian Anti-Corruption Commission (Amendment) Act 2018
- (vi) Financial Institution Directors' Education ("FIDE") Refresher Elective Programme on the topic of "Understanding the Evolving Cybersecurity Landscape" organised by Iclif, attended by Datuk Abu Hassan bin Kendut and Mr. Hashim bin Harun.
- (vii) Briefing Session on "Annual Report 2018/Financial Stability and Payments Systems Report 2018" organised by Bank Negara Malaysia, attended by Mr. Hashim bin Harun.
- (viii) FIDE Refresher Elective Programme on the topic of "Understanding Fintech and its Implications" for Banks organised by Iclif, attended by Mr. Hashim bin Harun.
- (ix) IT Risk Management Training for Board Member of Member Companies organised by Persatuan Insurans Am Malaysia, attended by Mr. Zainul Abidin bin Mohamed Rasheed.
- (x) Regional Conference on Climate Change organised by Bank Negara Malaysia, attended by Mr. Zainul Abidin bin Mohamed Rasheed.
- (xi) FIDE Core Programme (Module A&B), attended by Dr. Arumugam a/l Saminathan.

Board Committees

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees, namely the Board Audit Committee, Board Risk Management Committee and the Board Nomination Committee as well as the Board Remuneration Committee which operate within clearly defined terms of reference. The Committees report to the Board on matters discussed at their meetings and make recommendations on items that require the Board's approval.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

The memberships, roles and terms of reference of the Audit, Risk Management, Nomination and Remuneration Committees of the Board during the financial year are as follows:

(i) Board Audit Committee

The Board Audit Committee ("BAC") comprises four (4) members who are Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The composition of the BAC is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Dato' Chan Choy Lin (appointed as Member on 18 March 2020 and as Chairman effective from 24 March 2020)	Independent Non-Executive Director, Chairman
Datuk Abu Hassan bin Kendut (Chairman, until 23 March 2020)	Independent Non-Executive Director
Hashim bin Harun	Independent Non-Executive Director
Dr. Arumugam a/l Saminathan	Non-Independent Non-Executive Director
Ajit Nair (appointed on 19 December 2019)	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed (retired on 30 October 2019)	Independent Non-Executive Director

The BAC met five (5) times during the financial year and the details of the members' attendance are as follows:

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Datuk Abu Hassan bin Kendut	5/5	100
Hashim bin Harun	5/5	100
Dr. Arumugam a/l Saminathan	3/3	100
Ajit Nair (appointed on 19 December 2019)	0/0	-
Zainul Abidin bin Mohamed Rasheed (retired on 30 October 2019)	4/4	100

The BAC's terms of reference are in compliance with BNM PD on Corporate Governance. The BAC has independent access to the Company's internal auditors, external auditors and management so as to enable it to discharge its functions, which include the reinforcement of the independence and objectivity of the internal and external audit functions and their scope of work and results. The BAC reviewed the findings of the internal/external auditors and those of the examiners from BNM, as well as management's responses and actions taken to address the findings. The BAC also reviewed, inter-alia, the Company's financial statements, the impact of new or proposed changes in accounting standards and policies on the financial statements and the maintenance of a sound system of internal controls to safeguard shareholders' investment and the Company's assets. Besides reviewing and approving the Annual Audit Plan, the BAC also evaluated the independence, objectivity and effectiveness of the external auditors before recommending to the shareholders on their appointment or reappointment.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(ii) Board Risk Management Committee

The Board Risk Management Committee ("BRMC") supports the Board in the overall risk management oversight of the Company and comprises four (4) members who are Independent Non-Executive Directors. The composition of the BRMC is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Ajit Nair (appointed as Member on 18 December 2019 and as Chairman on 19 December 2019)	Independent Non-Executive Director, Chairman
Hashim bin Harun	Independent Non-Executive Director
Dato' Chan Choy Lin (appointed on 18 March 2020)	Independent Non-Executive Director
Dato' Khalid bin Abdol Rahman (appointed on 19 May 2020)	Independent Non-Executive Director
Dato' Huang Sin Cheng (retired on 23 March 2020)	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed (Chairman, until retirement date on 30 October 2019)	Independent Non-Executive Director

The BRMC met four (4) times during the financial year and the details of the members' attendance are as follows:

<u>Name</u>	<u>Number of Meetings Attended</u>	<u>Percentage (%)</u>
Ajit Nair (appointed on 18 December 2019)	1/1	100
Hashim bin Harun	4/4	100
Dato' Huang Sin Cheng (retired on 23 March 2020)	4/4	100
Zainul Abidin bin Mohamed Rasheed (retired on 30 October 2019)	3/3	100

BNM's Guidelines BNM/RH/GL 013-5 on Risk Governance requires the Board to ensure that the Company's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities. The Board must also provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework. During the financial year 2019, the BRMC reviewed periodic management reports on risk exposure, risk portfolio and management strategies, mitigation plans and control measures ensuring adequacy of infrastructure, resources and systems for effective risk management, assessing adequacy of policies and framework for identifying, measuring, monitoring and controlling risks, as well as reviewing the extent to which these are operating effectively.

The role and responsibilities for BRMC is to support the Board in meeting the expectations on risk management as set out in the BNM PDs, which include amongst others, the PDs on Corporate Governance, Risk Governance, Operational Risk Management and Risk-Based Capital Framework for Insurers ("RBC").

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(iii) Board Nomination and Board Remuneration Committees

The terms of reference of both Board Nomination Committee ("BNC") and Board Remuneration Committee ("BRC") are in compliance with the guidelines on the functions and responsibilities of the committees for insurers issued under BNM's PD on Corporate Governance.

Board Nomination Committee

The BNC comprises four (4) members who are Independent Non-Executive Directors and one (1) member who is an Executive Director. The composition of the BNC is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Hashim bin Harun (appointed as Chairman on 19 December 2019)	Independent Non-Executive Director, Chairman
Sammy Chan Sum Yu	Executive Director
Ajit Nair (appointed on 18 December 2019)	Independent Non-Executive Director
Dato' Chan Choy Lin (appointed on 18 March 2020)	Independent Non-Executive Director
Dato' Khalid bin Abdol Rahman (appointed on 19 May 2020)	Independent Non-Executive Director
Dato' Huang Sin Cheng (retired on 23 March 2020)	Independent Non-Executive Director
Zainul Abidin bin Mohamed Rasheed (Chairman, until retirement date on 30 October 2019)	Independent Non-Executive Director

The BNC met four (4) times during the financial year and the details of the members' attendance are as follows:

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Hashim bin Harun	4/4	100
Sammy Chan Sum Yu	4/4	100
Ajit Nair (appointed on 18 December 2019)	1/1	100
Dato' Huang Sin Cheng (retired on 23 March 2020)	4/4	100
Zainul Abidin bin Mohamed Rasheed (retired on 30 October 2019)	3/3	100

The BNC is entrusted with the responsibility to consider and evaluate the appointment of new Directors and Directors to sit on Board Committees of the Company and to recommend candidates to the Board for appointment and reappointment or re-election. The committee is also responsible to recommend to the Board the appointment of the Chief Executive Officer and key senior officers of the Company. With regard to retiring directors, the BNC reviews the suitability and competencies and contributions of Directors for re-election and reappointment before recommending them to the Board for approval and subsequently to the shareholders for approval at the Annual General Meeting.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Board Responsibility and Oversight (continued)

Board Committees (continued)

(iii) Board Nomination and Board Remuneration Committees (continued)

Board Nomination Committee (continued)

The BNC also annually reviews the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. It also assesses on an annual basis, the effectiveness of the Board as a whole and the Board Committees and the contributions of each individual Director. In addition, the BNC deliberates on Board succession plans as and when appropriate.

Board Remuneration Committee

The BRC comprises three (3) members who are Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The composition of the BRC is as follows:

<u>Members:</u>	<u>Status of Directorship</u>
Hashim bin Harun (appointed as Chairman effective from 24 March 2020)	Independent Non-Executive Director, Chairman
Datuk Abu Hassan bin Kendut (Chairman, until 23 March 2020)	Independent Non-Executive Director
Dr. Arumugam a/l Saminathan	Non-Independent Non-Executive Director
Dato' Khalid bin Abdol Rahman (appointed on 19 May 2020)	Independent Non-Executive Director
Dato' Huang Sin Cheng (retired on 23 March 2020)	Independent Non-Executive Director

The BRC met three (3) times during the financial year and the details of the members' attendance are as follows:

<u>Name</u>	<u>Number of Meetings</u>	
	<u>Attended</u>	<u>Percentage (%)</u>
Datuk Abu Hassan bin Kendut	3/3	100
Dr. Arumugam a/l Saminathan	2/2	100
Dato' Huang Sin Cheng (retired on 23 March 2020)	3/3	100

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate the Directors, Chief Executive Officer and key senior officers of the quality required to manage the Company. In this respect, the BRC reviews and approves the remuneration packages of the Directors, Chief Executive Officer and key senior officers of the Company.

(b) Management Accountability

The Company has an organisational structure with clearly communicated defined lines of accountability and delegated authority to ensure proper identification of responsibilities and segregation of duties. The operational authority limits covering all aspects of operations which include underwriting, claims and finance are reviewed and updated as appropriate.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(b) Management Accountability (continued)

Clearly documented job descriptions for all management and executive employees are maintained while formal appraisals of performance are conducted at least once annually. Any changes to the organisational structure are communicated to all staff. The Directors who hold office or possess property do not have any direct or indirect interest, which is in conflict with their duty or interest as Directors, as referred to in Section 58 of the Financial Services Act, 2013.

(c) Remuneration Policy

The Remuneration Policy ("Policy") is one of the key components of the Human Resources strategy to fully support the overall business strategy.

The main functions of the Policy are to:

- support the Company's strategy to build a healthy and high performance based culture that attracts, retains, motivates and rewards employees based on merit.
- promote the achievement of strategic objectives within the Company's risk appetite.

Scope of Coverage

The policy is applicable to all permanent and contract employees of the Company. We believe the long term success of the Company is directly linked to the positive attitude and caliber of employees that we employ and the working environment that we create.

Remuneration Philosophy

The Company's remuneration philosophy is to:

- recruit, motivate, reward and retain employees who believe in, and live by, the Company's culture and values.
- maintain a healthy working environment that motivates high performance so that all employees can positively contribute to the strategy, vision, goals and values of the Company.
- set employees' total remuneration package at a competitive level by benchmarking to the market and providing incentives geared to agreed performance outcomes, where appropriate.

Key Remuneration Principles

The Remuneration Policy is based fundamentally on the following principles:

- The Policy is aligned to the overall business strategy, objectives and values of the Company without being detrimental to the interests of its policy holders.
- The Policy contains arrangements for ensuring that executive remuneration is fair and responsible in the context of overall company remuneration.
- The remuneration includes fixed, variable, short and long-term as well as intangible rewards (in line with market practice), or any other rewards the Company may deem fit from time to time.
- The Policy encourages employees to be prudent risk takers and to act in the interest of the Company.
- Incentives aimed at encouraging retention are clearly distinguished from those relating to rewarding performance.
- Bonus is at the discretion of the Board, subject to the performance of the Company.
- The Policy ensures compliance with the regulatory requirements and law.
- Performance measures take into account both quantitative as well as qualitative factors consistent with Company's culture.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(c) Remuneration Policy (continued)

Remuneration Guiding Principle

Base Principle

- The key objective is to provide the base element of remuneration that reflects the person's role/position in the Company and is payable for doing the expected job.
- Base Salary is determined generally by job at a competitive and fair market rate.
- Base Salary should exclude Fixed Allowances.
- Base Salary is targeted at market median (P50) in general, but can be targeted at between market P50 to P75 for critical positions, key talents and high-value specialists.
- External competitiveness and internal equity should be well balanced.

Market Benchmarking & Positioning

- Comparisons of reward programs are primarily made against major companies that the Company competes with for business and talents in the markets where we operate in.
- Pay positioning is benchmarked to both local and foreign companies of similar size in the market.
- Participation in the remuneration survey of the financial services industry.
- Internal salary structure should be market competitive and reviewed as and when necessary.

Benefits

- Risk and non-risk benefits are market driven whilst always maintaining a balance between benefits to employees and costs to / long term interest of the Company.
- Cope with emerging benefits trends.
- Comply with local regulations.
- Long term cost containment.

Elements of the Remuneration Plan

The remuneration plan includes, but is not limited to, the following elements:

Remuneration Element	Purpose
Guaranteed package	<ul style="list-style-type: none">- Pays based on overall job requirements, accountability, complexity / variety of tasks.- Ensures that the Company attracts and retains high-performing people by paying market based guaranteed package.- May be performance based.
Short-term incentives <ul style="list-style-type: none">- Performance Bonus- Pay-for-Performance	<ul style="list-style-type: none">- Focuses on attaining results in both the short and medium term, whilst at the same time ensuring successful execution of the Company's strategic plan.- Variable component that rewards contributions based on performance and prudent risk taking behavior.- Offers the opportunity for Pay-for-Performance to incentivise employees.
Long-term incentives	<ul style="list-style-type: none">- Crucial in retaining dedication and committed employees.- Rewards sustainable performance.
Recognition	<ul style="list-style-type: none">- Supports and reinforces innovation and entrepreneurship.- Recognises employees living the values of the Company and contributing towards an entrepreneurial culture.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(c) Remuneration Policy (continued)

Communication

- Email communication to the Head of Departments ("HODs") on the annual appraisal exercise and the requirements.
- Communicate the key elements and process to managers.

Interpretation

The Chief Executive Officer is authorised to resolve any issues which may arise in the course of administering the Compensation Schemes/Plans.

Policy Review

The Policy shall be reviewed from time to time, as necessary and appropriate. Any revision to the Policy shall be reviewed by the Remuneration Committee to recommend to the Board for approval.

Material Risk Takers

Material Risk Takers are also the key management personnel and the remuneration structure is as disclosed in Note 30 to the financial statements.

(d) Corporate Independence

The Company has met all the requirements of BNM's Guidelines BNM/RH/GL 018-6 on Related Party Transactions and BNM Circular on Intercompany Charges paid to Related Entities. Other than the provision of financial services which are on normal commercial terms and in the ordinary course of business, all material related party transactions have been disclosed in the audited financial statements in accordance with MFRS124 *Related Party Disclosures*.

(e) Internal Controls and Operational Risk Management

The Board must oversee the design and development of the risk management framework and ensure that the framework is effective for controlling risk-taking activities of the Company in line with its risk appetite and has taken into account changes in the business environment. In doing so, the Board should provide constructive challenge to management on the credibility and robustness of the framework to ensure that there are no material gaps or weaknesses.

The risk management framework must enable the identification, measurement, and continuous monitoring of all relevant and material risks on a group and company-wide basis, supported by robust management information systems that facilitate the timely and reliable reporting of risks and the integration of information across the Company. The sophistication of the Company's risk management framework must keep pace with any changes in the Company's risk profile (including its business growth and complexity) and the external risk environment.

The Board has the overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company in order to provide reasonable assurance for effective and efficient operations, internal financial controls and compliance with laws and regulations.

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THE PACIFIC INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(e) Internal Controls and Operational Risk Management (continued)

There is a continuous process present for identifying, evaluating and managing the key risks of the Company. This process is periodically reviewed by the RMC and the Board. A formal risk management framework has been maintained in the Company by the Risk Management Department ("RMD") which is headed by the Head of Risk Management. The RMD reports directly and independently to the RMC of the Company.

During the financial year, the RMD identified and assessed the Company's key risks on an annual basis. The key risks of the Company comprised of strategic risks, insurance risks (i.e. product risks and underwriting risks), financial risks, operational risks, and emerging risks. All the key risks were reflected in the Company's Risk Profile. RMD will review and monitor the Company's key risks and controls/ action on a quarterly basis.

The disclosure of the Company's risk management policies are set out under Notes 31, 32 and 33 to the financial statements.

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company:

- (i) The Executive Risk Management Committee, which was established on 8 November 2018, is an executive-led management committee accountable to the BRMC. The purpose of the Committee is to assist the BRMC in fulfilling its oversight responsibilities relating to risk management, legal and regulatory compliance, business continuity management, capital management and related matters as well as risks and opportunities relating to strategic decisions undertaken by the Company.
- (ii) The Business Continuity Management Committee is tasked to prepare, review and periodically test the effectiveness of the Company's business continuity plan ("BCP") to support critical business functions in the event of a disruption to the operations. It also has in place an IT Disaster Recovery Plan ("ITDRP") which aims to ensure that disruptions to IT operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had tested the BCP and the ITDRP last year, with observation by the internal audit team.
- (iii) The Information Technology Steering Committee is an executive-led management committee accountable to monitor the overall efficiency, performance and effectiveness of IT services. The purpose of the Committee is to assist senior management in fulfilling its oversight responsibilities relating to the Company's Information Technology matters, risks and opportunities relating to IT strategies and strategic decisions to fulfill the Company's long-term goals.
- (iv) The Pricing Steering Committee addresses the challenges of the detariffication for motor and fire. In 2017, the Company increased the scope of the Pricing Steering Committee to a Product Development and Pricing Steering Committee to include the review of existing products and undertake the planning, design and development of new products, to meet the prevailing BNM guidelines, e.g. BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure. The Committee has hence been renamed to Product Development and Pricing Steering Committee. All newly developed products within the scope of the policy document are submitted to the Board for notation or approval and where appropriate to BNM for approval.

THE PACIFIC INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(e) Internal Controls and Operational Risk Management (continued)

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company (continued):

- (v) The Occupational Safety and Health Management Committee is committed to provide a working environment that emphasises on the safety and health of the employees. The Committee develops and adopts relevant policies and applicable best practices to improve the standard of safety and health environment of the Company.

The Company operates in a highly regulated business environment that is subject to prudential and supervisory review by BNM and Persatuan Insuran Am Malaysia ("PIAM"). The Company Secretary and Management keep the Board apprised of new laws and guidelines and changes thereof as well as new accounting and insurance standards to be adopted by the Company. To address compliance risks, the Company has a designated Compliance Officer who is responsible for implementing a compliance framework to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines. The Compliance Department submits a compliance statement to the Board on a quarterly basis.

The Internal Audit department is headed by the Chief Internal Auditor. The Internal Audit department reports directly to the BAC.

The roles and responsibilities of the BAC with respect to Internal Audit functions are in accordance with BNM's PD on Corporate Governance issued on 3 August 2016.

Internal Audit function adopts a systematic and disciplined, risk-based audit methodology, and prepares its audit strategy and annual plan based on the risk profiles of the business and functional departments of the Company, identified through an audit risk management process. Internal Audit independently reviews the risk exposures and control processes of governance, operations and information systems implemented by Management. Internal Audit activities are guided by the annual audit plan approved by the BAC, with its status of achievement reported at every BAC meeting.

Internal Audit reports are tabled at the BAC meetings, after audit findings have been addressed by Management. Follow-up procedures are carried out by Internal Audit to ensure that agreed action plans to improve controls are implemented by Management on a timely basis. The BAC meets with the external auditors at least once annually without the presence of management to discuss any problems, issues and concerns arising from the interim and final statutory audits, as well as any other relevant matters.

These initiatives, together with the implementation of the external auditors' recommendations for improvement on internal controls, provide reasonable assurance that necessary control procedures are in place.

The other key elements of the Company's system of internal control are stated below:

(i) Corporate culture

The Board and Management of the Company set the requirements for an effective control culture in the organisation through the Company's core corporate values i.e. professionalism, integrity, excellent customer service, teamwork and governance.

THE PACIFIC INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(e) Internal Controls and Operational Risk Management (continued)

(ii) Organisation structure

The Company has an organisational structure showing clearly defined lines of accountability and delegated authority levels to ensure effectiveness of the internal control system. Any changes to organisational structure are communicated to all staff to ensure proper identification of responsibilities and segregation of duties.

(iii) Communication

Regular Management meetings are held in the Company to discuss the financial performance, operational performance, business issues, implications of new risks and any other relevant matters.

(iv) Staff competency and succession planning

The professionalism and competency of staff are enhanced through continuous training and development programmes and a structured recruitment process. A performance planning and appraisal system of staff is in place with established key performance indicators and competencies subject to annual review. The Company has a Code of Ethics that guides all staff in their work performance and in upholding their ethical standards.

The Board is cognisant of its responsibilities to identify and develop viable candidates for long term succession planning of the senior management. The senior management has identified key staff for critical functions to ensure a smooth succession plan is in place.

(v) Whistleblowing program

Whistleblowing is considered an effective safeguard against fraud, corruption or other malpractice that undermines the internal control system and organisational reporting lines. Hence, the Company has implemented a whistleblowing program to encourage its staff to report, in good faith, any suspicion of fraud, irregularity or misdemeanour, without fear of reprisals by any party. The Board shall review concerns, including anonymous complaints, which staff or external parties may, in confidence, raise about possible misconduct or improprieties within the Company and shall have the concerns independently investigated by the internal audit department and/or external service providers whom the Board may think fit.

(vi) Independence of external auditors

The Company has adopted a policy on the provision of non-audit services to be rendered by the external auditors. The Company ensures that the external auditors' ability to conduct audits objectively and independently is not impaired, or perceived to be impaired. Unless specifically allowed by the Board, the Company only engages the services of the external auditors for audit assurance. The Board also reviews the total fees earned by the external auditors from non-audit services rendered to the Company for assurance that the independence of the external auditors is not impaired.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(f) Public Accountability and Fair Practices

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company has taken the appropriate steps to ensure that all insurance policies issued or delivered to all policyholders contain the necessary information to alert them of the existence of the Ombudsman for Financial Services and BNM LINK, in compliance with the requirements of BNM's BNM/RH/GL 003-9 Guidelines on Claims Settlement Practices (Consolidated) and BNM/RH/GL 000-3 Guidelines on Product Transparency and Disclosure. The Ombudsman for Financial Services and BNM LINK were set up with the view to provide alternative avenues for the policyholders/claimants to seek redress if the complaint/appeal is not resolved by the Financial Service Provider.

The Company has also taken the necessary measures to comply with the requirements pursuant to BNM's BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators, BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure, BNM/RH/PD 029-8 Phased Liberalisation of Motor and Fire Tariffs and BNM/RH/GL/003-20 Guidelines on Medical and Health Insurance Business (Revised).

In line with the Bank Negara Malaysia Financial Sector Blueprint 2012-2020, the Company has taken the necessary actions to migrate payment to e-payment, as a means to improve payment efficiency to the insuring public and the prevention of fraud.

(g) Financial Reporting

The Board has overall oversight responsibility for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the provisions of the Companies Act 2016 in Malaysia and relevant regulatory requirements.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Group and Company were made out, the Directors took reasonable steps:

- (i) to ascertain that proper action had been taken in relation to the writing-off of impaired debts and the making of impairment allowance for impaired debts, and had satisfied themselves that all known impaired debts had been written off and that adequate impairment allowance had been made for impaired debts; and
- (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

- (i) the amount written off for bad debts or the amount of the allowance for impairment of the Group and Company inadequate to any substantial extent; and
- (ii) the values attributed to the current assets in the financial statements of the Group and Company misleading.

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THE PACIFIC INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.
- (d) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group and Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group and Company which has arisen since the end of the financial year other than as disclosed in Note 35.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group and Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (f) In the opinion of the Directors:
 - (i) no contingent or other liability other than as disclosed in Note 35 has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and Company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and Company for the financial year in which this report is made.

For the purpose of paragraphs (e) and (f), contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Group and the Company.

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

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77, is the immediate holding company. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.

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THE PACIFIC INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

SUBSEQUENT EVENT

In the first quarter of 2020, the rapid spread of the Covid-19 has been declared by World Health Organisation as a pandemic. Globally, increasing measures are being taken to contain it and these have led to a significant volatility in the financial markets and have resulted in an adverse impact on the global business and economic activity.

Disruptions have been observed in the Group's and the Company's business activity and may lead to lower than planned premium target. However, as the situation is rapidly evolving, it is not practical to quantify the potential financial impact of the outbreak to the Group and the Company.

The Group and the Company are closely monitoring the developing situation and the potential impact of Covid-19 on their operations and financial position to ensure vigilant steps and appropriate actions could be taken in a timely manner.

Except as disclosed above, there has not arisen in the interval between the end of financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or the Company for the financial year in which this report is made.

AUDITORS' REMUNERATION


	<u>Group</u> <u>RM</u>	<u>Company</u> <u>RM</u>
Auditors' remuneration	441,985	422,600

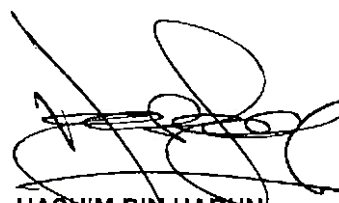
The auditors' remuneration is disclosed in Note 24 to the financial statements.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 May 2020.


DATUK ABU HASSAN BIN KENDUT
DIRECTOR


HASHIM BIN HARUN
DIRECTOR

THE PACIFIC INSURANCE BERHAD
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STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019		2018	
		Group RM	Company RM	Group RM	Company RM
Gross earned premiums	19(a)	551,210,998	551,210,998	561,198,012	561,198,012
Earned premiums ceded to reinsurers	19(b)	(292,809,391)	(292,809,391)	(300,917,397)	(300,917,397)
Net earned premiums	19	<u>258,401,607</u>	<u>258,401,607</u>	<u>260,280,615</u>	<u>260,280,615</u>
Investment income	20	25,814,546	32,593,515	25,802,841	24,905,128
Realised gains/(losses)	21	8,450,184	257,010	(5,623,939)	(5,076,718)
Fair value gains/(losses)	22	7,295,444	7,842,420	(10,146,264)	(10,146,264)
Fee and commission income	23	47,490,655	47,490,655	64,448,518	64,448,518
Other operating revenue		2,016,098	2,016,098	1,004,752	1,001,002
Other revenue		<u>91,066,927</u>	<u>90,199,698</u>	<u>75,485,908</u>	<u>75,131,666</u>
Total revenue		<u>349,468,534</u>	<u>348,601,305</u>	<u>335,766,523</u>	<u>335,412,281</u>
Gross benefits and claims paid	14(i)	(311,387,516)	(311,387,516)	(287,510,644)	(287,510,644)
Claims ceded to reinsurers	14(i)	150,850,109	150,850,109	132,571,009	132,571,009
Gross change to claims liabilities		(80,911,033)	(80,911,033)	(49,770,966)	(49,770,966)
Change to claims liabilities ceded to reinsurers		102,678,070	102,678,070	30,268,762	30,268,762
Net benefits and claims		<u>(138,770,370)</u>	<u>(138,770,370)</u>	<u>(174,441,839)</u>	<u>(174,441,839)</u>
Fee and commission expenses		(64,434,536)	(64,434,536)	(68,632,829)	(68,632,829)
Management expenses	24	(93,986,536)	(93,147,917)	(93,494,768)	(92,623,052)
Other expenses		<u>(158,421,072)</u>	<u>(157,582,453)</u>	<u>(162,127,597)</u>	<u>(161,255,881)</u>
Finance cost		<u>(2,142,519)</u>	<u>(2,142,519)</u>	<u>(1,703,625)</u>	<u>(1,703,625)</u>
Profit/(Loss) before taxation		<u>50,134,573</u>	<u>50,105,963</u>	<u>(2,506,538)</u>	<u>(1,989,064)</u>
Taxation	25	(6,987,655)	(6,987,655)	3,657,474	3,657,474
Net profit for the financial year		<u>43,146,918</u>	<u>43,118,308</u>	<u>1,150,936</u>	<u>1,668,410</u>
Net profit for the financial year attributable to:					
Owner of the Company		43,112,967	43,118,308	1,131,095	1,668,410
Unitholders		33,951	-	19,841	-
		<u>43,146,918</u>	<u>43,118,308</u>	<u>1,150,936</u>	<u>1,668,410</u>
Earnings per share attributable to owner of the Company (sen)					
Basic	26	<u>19.6</u>	<u>19.6</u>	<u>0.5</u>	<u>0.8</u>

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

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THE PACIFIC INSURANCE BERHAD
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**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	2019		2018	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Net profit for the financial year	43,146,918	43,118,308	1,150,936	1,668,410
Other comprehensive income: <u>Items that may be subsequently</u> <u>reclassified to the Statements of Income</u>				
Fair value gain arising during the financial year	-	-	381,666	400,972
Fair value gain transferred to Statements of Income	-	-	(71,573)	(618,795)
	-	-	310,093	(217,823)
Tax effect thereon (Note 15)	-	-	(430)	(430)
	-	-	309,663	(218,253)
Total comprehensive income for the financial year	<u>43,146,918</u>	<u>43,118,308</u>	<u>1,460,599</u>	<u>1,450,157</u>
Total comprehensive income attributable to:				
Owner of the Company	43,112,967	43,118,308	1,437,596	1,450,157
Unitholders	33,951	-	23,003	-
	<u>43,146,918</u>	<u>43,118,308</u>	<u>1,460,599</u>	<u>1,450,157</u>

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

THE PACIFIC INSURANCE BERHAD
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STATEMENTS OF FINANCIAL POSITION
AS At 31 DECEMBER 2019

	Note	2019		2018	
		<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
		RM	RM	RM	RM
ASSETS					
Property and equipment	3	45,145,011	45,145,011	44,957,879	44,957,879
Investment properties	4	16,796,723	16,796,723	16,494,223	16,494,223
Intangible assets	5	41,708,843	41,708,843	41,172,631	41,172,631
Investments:					
Available-for-sale financial assets	6	-	-	442,729,936	453,463,740
Fair value through profit or loss financial assets	6	501,510,211	512,812,741	31,426,016	31,426,016
Amortised cost/loans and receivables	6	55,774,229	55,774,229	52,312,288	52,312,288
Reinsurance assets	8	634,146,422	634,146,422	527,707,036	527,707,036
Insurance and other receivables	9	116,135,916	116,135,916	127,921,184	128,176,088
Right-of-use assets	10	7,094,059	7,094,059	-	-
Loans	11	914,083	914,083	943,557	943,557
Deferred tax asset	15	3,011,853	3,011,853	6,997,899	6,997,899
Tax recoverable		6,051,210	6,051,210	11,318,150	11,318,150
Cash and cash equivalents		182,915,615	170,764,379	199,875,565	188,325,242
Total assets		<u>1,611,204,175</u>	<u>1,610,355,469</u>	<u>1,503,856,364</u>	<u>1,503,294,749</u>
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	12	219,875,038	219,875,038	219,875,038	219,875,038
Available-for-sale reserves		-	-	3,387,028	3,671,784
Retained profits		181,261,821	181,279,003	138,104,163	137,831,248
Total equity		<u>401,136,859</u>	<u>401,154,041</u>	<u>361,366,229</u>	<u>361,378,070</u>
Liabilities					
Insurance contract liabilities	14	1,018,274,660	1,018,274,660	938,893,006	938,893,006
Subordinated loans	17	32,486,891	32,486,891	30,783,265	30,783,265
Insurance and other payables	16	152,060,270	151,194,382	172,813,864	172,240,408
Lease liability	18	7,245,495	7,245,495	-	-
Total liabilities		<u>1,210,067,316</u>	<u>1,209,201,428</u>	<u>1,142,490,135</u>	<u>1,141,916,679</u>
Total equity and liabilities		<u>1,611,204,175</u>	<u>1,610,355,469</u>	<u>1,503,856,364</u>	<u>1,503,294,749</u>

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

Company No.
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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

Group	Note	Attributable to owners of the Company			
		Share capital RM	Available for-sale reserves RM	Retained earnings RM	Total equity RM
At 1 January 2018		219,875,038	3,080,527	136,973,068	359,928,633
Net profit for the financial year		-	-	1,131,095	1,131,095
Other comprehensive income for the financial year		-	306,501	-	306,501
At 31 December 2018		<u>219,875,038</u>	<u>3,387,028</u>	<u>138,104,163</u>	<u>361,366,229</u>
At 31 December 2018		219,875,038	3,387,028	138,104,163	361,366,229
Effects of adoption of MFRS 9		-	(3,387,028)	44,691	(3,342,337)
At 1 January 2019 (Restated)	2.1(a)	<u>219,875,038</u>	<u>-</u>	<u>138,148,854</u>	<u>358,023,892</u>
Net profit for the financial year		-	-	43,112,967	43,112,967
At 31 December 2019		<u>219,875,038</u>	<u>-</u>	<u>181,261,821</u>	<u>401,136,859</u>

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019		2018	
	Group	Company	Group	Company
	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(Loss) before taxation	50,134,573	50,105,963	(2,506,538)	(1,989,064)
Adjustment for:				
Depreciation of property and equipment	2,307,812	2,307,812	2,460,632	2,460,632
Gain on disposal of property and equipment	(143,026)	(143,026)	(11,399)	(11,399)
Property and equipment written-off	32,622	32,622	49,322	49,322
Intangible assets written-off	2,555	2,555	-	-
Finance cost on subordinated loans	1,703,626	1,703,626	1,703,625	1,703,625
Finance cost on lease liability	438,894	438,894	-	-
Change in fair value of FVTPL financial assets	(7,327,022)	(7,873,999)	11,155,899	11,155,899
Foreign currency translation differences	31,579	31,579	(1,009,635)	(1,009,635)
Depreciation of investment properties	359,896	359,896	121,228	121,228
Amortisation of intangible assets	357,234	357,234	297,910	297,910
Depreciation of right-of-use assets	4,075,429	4,075,429	-	-
Net gain on disposal of:				
FVTPL financial assets	(8,342,334)	(149,160)	(5,657,590)	(5,657,590)
AFS financial assets	-	-	(74,735)	(618,795)
Investment income	(19,310,129)	(26,590,989)	(25,402,566)	(24,504,853)
Bad debts (recovery)/written-off	(165,399)	(165,399)	315,703	315,703
(Write-back of)/Provision for allowance for impairment losses:				
Insurance receivables and reinsurance recoverables	(4,428,328)	(4,428,328)	(868,095)	(868,095)
Reinsurance assets	(374,124)	(374,124)	(1,132,066)	(1,132,066)
Other income	(5,505)	(5,505)	-	-
Profit/(Loss) from operations before changes in operating assets and liabilities	19,348,353	19,685,080	(20,558,305)	(19,687,178)
Changes in working capital:				
Purchase of investments	(598,808,060)	(112,062,068)	(722,473,137)	(285,357,817)
Proceeds from disposal/ maturity of investments	583,335,708	88,543,539	742,568,718	297,900,994
Increase in loans and receivables	29,474	29,474	113,942	52,670
Decrease in reinsurance assets	(106,065,262)	(106,065,262)	(36,030,713)	(36,030,713)
Increase in insurance and other receivables	11,981,182	12,236,086	19,234,973	19,201,442

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019		2018	
	Group	Company	Group	Company
	RM	RM	RM	RM
Increase in insurance contract liabilities	79,381,654	79,381,654	69,563,037	69,563,037
(Decrease)/Increase in insurance and other payables	(20,531,556)	(20,756,083)	12,622,213	12,601,977
Net (decrease)/increase in working capital	(31,328,507)	(39,007,580)	65,040,728	58,244,412
Investment income received	19,604,061	26,716,172	25,486,932	24,504,853
Interest paid on lease liabilities	(438,894)	(438,894)	-	-
Income tax paid	(3,983,182)	(3,983,182)	-	-
Income tax refund	7,303,988	7,303,988	-	-
Tax penalty paid	(289,943)	(289,943)	-	-
Net cash (used in)/generated from operating activities	(9,132,477)	(9,699,439)	90,527,660	82,749,265
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(2,691,950)	(2,691,950)	(2,125,579)	(2,125,579)
Purchase of intangible assets	(742,721)	(742,721)	(494,556)	(494,556)
Purchase of investment property	(662,396)	(662,396)	-	-
Proceeds from disposal of property and equipment	154,130	154,130	11,399	11,399
Distribution to unitholders	33,951	-	(8,591)	-
Net cash used in investing activities	(3,908,986)	(3,942,937)	(2,617,327)	(2,608,736)
CASH FLOWS FROM FINANCING ACTIVITY				
Repayment of lease liabilities	(3,918,487)	(3,918,487)	-	-
Net cash used in financing activity	(3,918,487)	(3,918,487)	-	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(16,959,950)	(17,560,863)	87,910,333	80,140,529
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	199,875,565	188,325,242	111,965,232	108,184,713
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	182,915,615	170,764,379	199,875,565	188,325,242

Company No.
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019		2018	
	Group	Company	Group	Company
	RM	RM	RM	RM
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions	157,921,567	145,971,175	162,327,395	150,808,452
Cash and cash equivalents	24,994,048	24,793,204	37,548,170	37,516,790
	<u>182,915,615</u>	<u>170,764,379</u>	<u>199,875,565</u>	<u>188,325,242</u>

Reconciliation of liabilities arising from financing activities

	2019		2018	
	Principal	Interest payable	Principal	Interest payable
	RM	RM	RM	RM
<u>Group and Company</u>				
Subordinated Loans				
At 1 January	24,337,504	6,445,761	24,337,504	4,742,136
Interest charge	-	1,703,626	-	1,703,625
At 31 December	<u>24,337,504</u>	<u>8,149,387</u>	<u>24,337,504</u>	<u>6,445,761</u>

	2019
	RM
Lease Liability	
At 31 December 2018, as previously reported	-
Effects of adoption of MFRS 16	<u>9,311,758</u>
At 1 January 2019, as restated	9,311,758
Cash flows	(4,357,381)
Interest charge	438,894
Lease additions	1,971,481
Modification of lease term	(65,438)
Change in consideration	<u>(53,819)</u>
At 31 December 2019	<u>7,245,495</u>

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

Company No.
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

1. CORPORATE INFORMATION

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity of the Company during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 40-1, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur, 50470 Kuala Lumpur.

The Company is a subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited, a company incorporated in Canada.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 20 May 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The Company has met the minimum capital requirements as prescribed by the RBC Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers as at the date of the statements of financial position.

The preparation of financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statements of financial position and the reported amounts of revenues and expenses during the reported financial year. It also requires the Directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

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 2.3 to the financial statements.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company that are effective

On 1 January 2019, the Group and the Company adopted the following new and amended standards and interpretation mandatory for annual financial periods beginning on or after 1 January 2019.

- MFRS 16 - *Leases*
- Amendments to MFRS 3 *Business Combinations* (Annual Improvements to MFRS Standards 2015-2017 cycle)
- Amendments to MFRS 11 *Joint Arrangement* (Annual Improvements to MFRS Standards 2015-2017 cycle)
- Amendments to MFRS 112 *Income Taxes* (Annual Improvements to MFRS Standards 2015-2017 cycle)
- Amendments to MFRS 123 *Borrowing Costs* (Annual Improvements to MFRS Standards 2015-2017 cycle)
- Amendments to MFRS 128 *Long-term Interest in Associates and Joint Ventures*
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*

With effect from 1 January 2019, the Group and the Company have ceased applying the temporary exemption from MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 and have fully adopted MFRS 9.

The adoption of MFRS 9 *Financial Instruments* and MFRS 16 *Leases* resulted in changes in accounting policies. Other than that, the application of the above new and amended standards and interpretation issued by MASB do not have any material impact to the current and prior periods financial statements upon their initial adoption.

MFRS 9 Financial Instruments

MFRS 9 *Financial Instruments* replaces MFRS 139 *Financial Instruments* that relate to the classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

As permitted by the transitional provisions of MFRS 9, the Group and the Company elected not to restate comparative figures, which continue to be reported under MFRS 139. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits of the current financial year.

- (i) Classification and measurement

MFRS 9 requires debt instruments to be classified either at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Classification under MFRS 9 for debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI").

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company that are effective (continued)

MFRS 9 Financial Instruments (continued)

- (i) Classification and measurement (continued)

An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are classified as FVOCI.

Under the new model, FVTPL is the residual category – financial assets should therefore be classified as FVTPL if they do not meet the criteria of FVOCI or amortised cost. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. The gains or losses of debt instruments initially classified as FVOCI are recycled to profit or loss on derecognition.

MFRS 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses, on an instrument-by-instrument basis on initial recognition, to present fair value changes in other comprehensive income, with no recycling of gains or losses in profit or loss on derecognition.

The assessment of the Group's and the Company's business model were made as of the date of initial application, 1 January 2019. The classification depends on the Group's and the Company's business model for managing the financial assets and the contractual terms of the cash flows.

From 1 January 2019, the Group and the Company classify their financial assets in the following measurement categories:

- those to be measured subsequently at fair value (through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

- (ii) Impairment

From 1 January 2019, the Group and the Company assess on a forward looking basis the expected credit losses associated with their debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company that are effective (continued)

MFRS 9 Financial Instruments (continued)

(ii) Impairment (continued)

For insurance receivables, the Group and the Company apply the simplified approach permitted by MFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The adoption of MFRS 9 *Financial Instruments* from 1 January 2019 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The total impact on the Group's and the Company's retained earnings as at 1 January 2019 is as follows:

	<u>1.1.2019</u> RM
<u>Group</u>	
Closing retained earnings as at 31 December 2018 - MFRS 139	138,104,163
Reclassify investments from available-for-sale to FVTPL	3,387,028
Increase in impairment allowance for insurance and other receivables	(4,397,812)
Deferred tax assets resulting from the increase in impairment allowance for insurance and other receivables	1,055,475
Adjustment to retained earnings from adoption of MFRS 9 on 1 January 2019	44,691
Opening retained earnings as at 1 January 2019 - MFRS 9	<u>138,148,854</u>
<u>Company</u>	
Closing retained earnings as at 31 December 2018 - MFRS 139	137,831,248
Reclassify investments from available-for-sale to FVTPL	3,671,784
Increase in impairment allowance for insurance and other receivables	(4,397,812)
Deferred tax assets resulting from the increase in impairment allowance for insurance and other receivables	1,055,475
Adjustment to retained earnings from adoption of MFRS 9 on 1 January 2019	329,447
Opening retained earnings as at 1 January 2019 - MFRS 9	<u>138,160,695</u>

Company No.
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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company that are effective (continued)

MFRS 9 Financial Instruments (continued)

The following table shows the material reclassifications arising from the adoption of MFRS 9 as well as the impact, net of tax, in fair value reserves and retained earnings.

<u>Group</u>	<u>Original carrying amount under MFRS 139</u>	<u>Impact arising from classification and measurement under MFRS 9</u>	<u>Impact arising from ECL under MFRS 9</u>	<u>New carrying amount under MFRS 9</u>
	RM	RM	RM	RM
Assets				
Investments				
- Available-for-sale financial assets	442,729,936	(442,729,936)	-	-
- Fair value through profit or loss financial assets	31,426,016	442,729,936	-	474,155,952
- Loans and other receivables	52,312,288	(52,312,288)	-	-
- Amortised cost	-	52,312,288	-	52,312,288
Insurance and other receivables	127,921,184	-	(4,397,812)	123,523,372
Deferred tax assets	6,997,899	-	1,055,475	8,053,374
Equity				
Available-for-sale reserves	3,387,028	(3,387,028)	-	-
Retained earnings	138,104,163	3,387,028	(3,342,337)	138,148,854

Company No.
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company that are effective (continued)

MFRS 9 Financial Instruments (continued)

The following table shows the material reclassifications arising from the adoption of MFRS 9 as well as the impact, net of tax, in fair value reserves and retained earnings.

<u>Company</u>	Original carrying amount under MFRS 139 RM	Impact arising from classification and measurement under MFRS 9 RM	Impact arising from ECL under MFRS 9 RM	New carrying amount under MFRS 9 RM
Assets				
Investments				
- Available-for-sale financial assets	453,463,740	(453,463,740)	-	-
- Fair value through profit or loss financial assets	31,426,016	453,463,740	-	484,889,756
- Loans and other receivables	52,312,288	(52,312,288)	-	-
- Amortised cost	-	52,312,288	-	52,312,288
Insurance and other receivables	128,176,088	-	(4,397,812)	123,778,276
Deferred tax assets	6,997,899	-	1,055,475	8,053,374
Equity				
Available-for-sale reserves	3,671,784	(3,671,784)	-	-
Retained earnings	137,831,248	3,671,784	(3,342,337)	138,160,695

* The Group and the Company reclassify the available-for-sale investments to fair value through profit or loss as the Group's and the Company's business model is to hold the investments for sale.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company that are effective (continued)

MFRS 16 Leases

The Group and the the Company have adopted MFRS 16 for the first time in the 2019 financial statements with the date of initial application ("DIA") of 1 January 2019 by applying the simplified retrospective transition method. Under the simplified retrospective transition method, the 2018 comparative information was not restated, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Upon adoption of MFRS 16, the Group and the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.51% per annum.

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

- (i) Practical expedients applied

In applying MFRS 16 for the first time, the Group and the Company have used the practical expedient permitted by the standard by using a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group and the Company have elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group and the Company relied on their assessment made applying MFRS 117 Leases and IC Int. 4 *Determining whether an Arrangement contains a Lease*.

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company that are effective (continued)

MFRS 16 Leases (continued)

- (ii) Measurement of lease liabilities on 1 January 2019

The reconciliation between the operating lease commitments disclosed applying MFRS 117 at 31 December 2018 to the lease liabilities recognised at 1 January 2019 is as follows:

	RM'000
Operating lease commitments disclosed as at 31 December 2018	9,749,411
Discounted using the lessee's incremental borrowing rate of 5.51% at the Date of Initial Application	8,659,311
<i>(Less):</i>	
Contracts reassessed as service agreements	(674,246)
<i>Add:</i>	
Adjustments as a result of a different treatment of extension and termination options	1,326,693
Lease liabilities recognised as at 1 January 2019	9,311,758
Of which are:	
Current lease liabilities	4,046,149
Non-current lease liabilities	5,265,609
	9,311,758

- (iii) Adjustments recognised in the statements of financial position on 1 January 2019

The change in accounting policy affected the following items in the statements of financial position on 1 January 2019:

- Right-of-use assets – increased by RM9,311,758
- Lease liabilities – increased by RM9,311,758

There was no impact on retained earnings on 1 January 2019.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Group and the Company but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group and the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions except as discussed below:

MFRS 17 Insurance Contracts

MFRS 17 "Insurance Contracts" (effective 1 January 2021) replaces MFRS 4 "Insurance Contracts". On 17 March 2020, the International Accounting Standards Board ("IASB") has decided to defer the effective date of IFRS 17 "Insurance Contracts" to annual reporting periods beginning on or after 1 January 2023. IASB expects to issue the amendments to IFRS 17 "Insurance Contracts" in the second quarter of 2020.

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". An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) 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:

- (i) Simplified Premium Allocation Approach if the insurance coverage period is a year or less.
- (ii) 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. Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Group and the Company but not yet effective (continued)

MFRS 17 Insurance Contracts (continued)

The Group and the Company plan to adopt MFRS 17 on the required effective date and a Project Steering Committee has been formed to oversee the implementation of MFRS 17. The Group and the Company expect MFRS 17 to result in important changes to accounting policies for insurance contract liabilities of the Group and the Company and is likely to have a material impact on financial performance and position together with the Group's and the Company's financial statements' presentation and disclosures.

2.2 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. See accounting policy Note 5 to the financial statements on goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the gain is recognised directly in the statements of income. Acquisition related costs are expensed as incurred.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. This may indicate an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary which is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the statements of income attributable to the parent.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statements of comprehensive income, statements of changes in equity and statements of financial position respectively.

(ii) Investment in subsidiaries

In the Group's separate financial statements, investment in a subsidiary is stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 2.2(k) to the financial statements on impairment of financial assets. The amount due from subsidiary of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in the subsidiary.

(iii) Change in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost with change in carrying amount recognised in statement of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture, or financial asset.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iv) Disposal of subsidiaries (continued)

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of income.

(b) Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries (including structured entities) are carried at fair value in accordance with MFRS 9 *Financial Instruments: Recognition and Measurement*. On disposal of investment in subsidiaries, the difference between the disposal proceeds and the carrying amounts of the investment is recognised in the statements of income.

(c) Property and equipment

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statements of income during the financial period in which they are incurred.

The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable for operating in the manner intended by management.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Depreciation is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Leasehold land and building	Over the remaining period of the lease or 50 years whichever is shorter
Office renovation	33 ¹ /3%
Motor vehicles	20%
Furniture, fixtures and fittings	10%
Office equipment	10%
Computer equipment	20% - 50%

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Property and equipment (continued)

A depreciation rate of 50% is applied to computer notebooks on loan to agents of the Company.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the statements of income.

(d) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both are classified as investment properties.

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Depreciation is provided for on a straight-line basis over the estimated useful life of 50 years for the investment properties. The residual values and useful lives of the investment properties are reviewed, and adjusted if appropriate, at the end of each reporting period.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal is recognised in the statements of income in the year in which it arises.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Intangible assets

Intangible assets of the Group and the Company consist of computer software and goodwill.

Computer software

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

The computer software is amortised on a straight-line basis over the estimated economic useful life of five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

Goodwill arising on acquisition of general insurance business represents the excess of the cost of acquisition of the general insurance business over the fair value of the identifiable net assets recognised at the date of acquisition. Goodwill on acquisition of general insurance business is included in the statements of financial position as intangible assets. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

Goodwill on acquisition of general insurance business is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment loss on goodwill on acquisition of general insurance business is recognised immediately as an expenses and is not subsequently reversed as set out in Note 2.2(f) on the accounting policy for impairment for non-financial assets.

Goodwill is allocated to cash-generating unit ("CGU") for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. The Group and the Company allocate goodwill to the combined general insurance business as a whole, which has been identified as a CGU.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

(g) Investments and other financial assets (prior to 1 January 2019)

The Group and the Company classify its investments into financial assets at fair value through profit or loss ("FVTPL"), loans and other receivables ("LAR") and available-for-sale financial assets ("AFS").

The Group and the Company determine the classification of its investments at initial recognition, depending on the purpose for which the investments were acquired or originated and re-evaluates them at every reporting date.

The Group and the Company initially recognise financial assets including cash and short-term deposits, loans and other receivables when it becomes a party to the contractual provisions of the instruments.

All regular way purchases and sales of financial assets with delivery of assets within the time period established by regulation or market convention are recognised or derecognised on the trade date (i.e., the date that the Group and the Company commit to purchase or sell the asset).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (prior to 1 January 2019) (continued)

(i) FVTPL

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at FVTPL.

Certain financial assets are designated at initial recognition at fair value through profit or loss when one of the designation criteria is met:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- Its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The item is a hybrid contract that contains one or more embedded derivatives.

These investments are initially recorded at fair value and transaction costs are expensed in the statement of income. Subsequent to initial recognition, these assets are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in the statements of income. Interest and dividend income are separately recognised in the profit or loss.

(ii) LAR

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. After initial measurement, LAR assets are measured at amortised cost, using the effective interest method, less allowance for impairment. The Company's LAR comprises fixed deposits with licensed financial institutions.

(iii) AFS

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statements of income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statements of income.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (prior to 1 January 2019) (continued)

(iii) AFS (continued)

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividends income on available-for-sale equity instruments are recognised in profit or loss when the Group's and the Company's right to receive payments is established.

(h) Investments and other financial assets (after 1 January 2019)

i. Classification

The Group and the Company classify their financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

ii. Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group and the Company commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Company have transferred substantially all the risks and rewards of ownership.

iii. Measurement

At initial recognition, the Group and the Company measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Company's business model for managing the asset and the cash flow characteristics of the asset. The Group and the Company reclassify debt investments when and only when its business model for managing those assets changes.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

iii. Measurement (continued)

Debt instruments (continued)

There are two measurement categories into which the Group and the Company classify its debt instruments:

a. Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in realised gains/(losses). Impairment losses are presented as separate line item in the statements of income.

b. FVTPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Group and the Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in statements of income.

Equity instruments

Equity instruments are instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuers' net assets.

The Group and the Company subsequently measure all equity instruments at FVTPL. Dividend will be recognised in income statements as investment income when the Group's and the Company's right to receive payments is established.

Changes in fair value of financial assets at FVTPL are included in the fair value gains/(loss) in the statements of income.

iv. Reclassification

Reclassification of financial assets is required when, and only when, the Group and the Company change their business model for managing the assets. In such cases, the Group and the Company are required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at FVTPL, or equity instruments that have been designated as at FVOCI even when there is a change in business model. Such designations are irrevocable.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Fair value of financial instruments

All financial instruments are recognised initially at the transacted price, which is the best indicator of fair value. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For financial instruments where there is no active market such as unquoted securities, fair value is determined based on quotes from independent brokers.

(j) Impairment of financial assets (prior to 1 January 2019)

The Group and the Company assess at each date of the statements of financial position, whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate/yield. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recorded in the statements of income.

The Group and the Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at the date of the statements of financial position.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statements of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets (prior to 1 January 2019) (continued)

(ii) AFS financial asset

For debt securities, the Group and the Company use criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through profit or loss.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss in subsequent periods.

(k) Impairment of financial assets (after 1 January 2019)

The Group and the Company recognise an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVTPL. The Group and the Company assess on a forward looking basis the ECL associated with their debt instruments carried at amortised cost. ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Group and the Company expect to receive, over the remaining life of the financial instrument.

The Group and the Company have two types of financial instruments that are subject to the ECL model:

- Insurance receivables and reinsurance recoverables
- Other receivables

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(k) Impairment of financial assets (after 1 January 2019) (continued)

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions; and
- forecasts of future economic conditions.

i. General 3-stage approach for other receivables

At each reporting date, the Group and the Company measure ECL through loss allowance at an amount equal to 12 months ECL if credit risk on other receivables has not increased significantly since initial recognition. For all other receivables, a loss allowance at an amount equal to lifetime ECL is required.

ii. Simplified approach for insurance receivables and reinsurance recoverables

The Group and the Company apply the MFRS 9 simplified approach to measure ECL which use a lifetime ECL for insurance receivables and reinsurance recoverables. The expected loss allowance is based on provisional matrix with the usage of forward-looking information in determining of ECL, including the use of macroeconomic information.

Write-off

The Group and the Company write off financial assets, in whole or in part, when they have exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Group and the Company may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in gains recognised in statements of income.

(l) Derecognition of financial assets

Financial assets are derecognised when the Group's and the Company's contractual rights to the cash flows from the financial assets expires or when the Group and the Company transfer the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

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

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statements of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statements of financial position.

(n) Equity instruments

Ordinary shares are classified as equity on the statements of financial position.

Dividends on ordinary shares are recognised and reflected in the statements of changes in equity when they are approved by the Group's and the Company's shareholders. Interim dividends are deducted from equity when they are paid.

(o) Product classification

The Group and the Company issue contracts that transfer insurance risk only.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Group and the Company (the insurer) have 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 Group and the Company determine whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Reinsurance

The Group and the Company cede insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amount 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 Group and the Company from their obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

Gains or losses on buying reinsurance are recognised in the statements of income immediately at the date of purchase and are not amortised.

The Group and the Company also assume 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 have expired or when the contract is transferred to another party.

(q) Underwriting results

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

(i) Premium income

Premiums from direct business are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted before the end of the reporting period for which policies are issued subsequent to the end of the reporting period are accrued at the end of the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Underwriting results (continued)

(i) Premium income (continued)

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

(ii) Premium liabilities

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year, and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force at the end of the financial year including allowance for insurer's expenses.

(a) Unexpired risk reserves

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

(b) 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 year.

In determining the UPR at reporting date, the method that most accurately reflects the actual liability is used, as follows:

- 25% method for marine cargo, aviation cargo and transit business.
- 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower:
 - Motor and bonds 10%
 - Fire, engineering, aviation and marine hull 15%
 - Medical 10 - 15%
 - Other classes 25%
- non-annual policies are time-apportioned over the period of the risks.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Underwriting results (continued)

(iii) Claim liabilities

Claim liabilities are recognised as the obligation to make future payments in relation to all claims that have been incurred as at the end of the financial year. They are recognised in respect of both direct insurance and inward reinsurance. The value is the best estimate value of claim liabilities which include provision for claims reported, claims incurred but not enough reserved ("IBNER"), claims incurred but not reported ("IBNR") and direct and indirect claim-related expenses as well as PRAD at a 75% confidence level calculated at the overall Company level. These estimates are based on an actuarial valuation performed by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development patterns.

(iv) Acquisition costs

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

(r) Insurance receivables and reinsurance recoverable

Insurance receivables and reinsurance recoverables are recognised when due and measured at the fair value of the consideration received and receivable.

If there is objective evidence that the insurance receivables and reinsurance recoverables is impaired, the Group and the Company reduce the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statements of income. The Group and the Company gather the objective evidence that an insurance receivable is impaired using the same process and method as described in Note 2.2(k) to the financial statements.

(s) Insurance contract liabilities

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

These liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the end of the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(s) Insurance contract liabilities (continued)

The liability is calculated at the end of the reporting period using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The unearned premiums reserves represent 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.

At each reporting date, the Group and the Company review their unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the statements of income by setting up a provision for liability adequacy.

(t) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Gross dividend/distribution income from unit trust funds

Gross dividend/distribution income from unit trust funds is recognised on a declared basis when the shareholder's/ unitholders' right to receive payment is established.

(iv) Net realised gain/loss on investment

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the statements of income.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(u) Income tax

Income tax on the profit or loss for the year comprises of current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the end of the reporting period.

Deferred tax is provided in full using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted at the end of the reporting period. Deferred tax is recognised as an income or an expense and included in the statements of income for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

(v) Employee benefits

(i) Short-term benefits

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

Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group and the Company pay fixed contributions into a separate entity and will have no legal or constructive obligation. The Group and the Company make statutory and voluntary contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the statements of income as incurred.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(iii) Employee share ownership plan

Employee share ownership plan ("ESOP") is a long term investment plan for the employees within the Fairfax group to invest in the shares of Fairfax Financial Holdings Ltd through the employees' salary deduction. The Company makes contributions to the plan and such contributions are recognised as an expense in the income statement as incurred.

(w) Foreign currencies

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

Foreign currency transactions are translated into RM using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of income.

(x) Other financial liabilities and insurance payables

Other liabilities and payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

(y) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash and bank balances and fixed and call deposits with financial institutions with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

The statements of cash flows have been prepared using the indirect method.

(z) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(z) Financial instruments (continued)

Recognition method

The particular recognition method adopted for financial instruments recognised on the statements of financial position is disclosed in the individual accounting policy note associated with each item.

Fair value estimation

The Group's and the Company's basis of estimation of fair values for financial instruments is as follow:

- the fair values of Malaysian Government Securities and Government investment issues are based on the indicative market prices;
- the fair values of unquoted corporate debt securities are based on the indicative market yield obtained from dealers and brokers;
- the fair values of quoted equity securities and Real Estate Investment Trusts ("REITs") are based on quoted prices;
- the fair values of the unit trust funds are based on the fair value of the underlying assets of the fund; and
- the carrying amounts for other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess 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 Group and the Company recognise transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(aa) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statements of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statements of income within.

Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(ab) Operating Leases (prior to 1 January 2019)

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the lease period.

Initial direct costs incurred by the Group and the Company in negotiating and arranging operating leases are recognised in profit or loss when incurred.

(ac) Leases in which the Group and the Company are lessee (after 1 January 2019)

From 1 January 2019, 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 Group and the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Group and the Company allocate 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 Group and the Company are 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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(ac) Leases in which the Group and the Company are lessee (after 1 January 2019) (continued)

(i) Lease term

In determining the lease term, the Group and the Company consider 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 Group and the Company reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Group and the Company and affects whether the Group and the Company are 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 (refer to (iv) below).

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

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

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

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2.2(f) Impairment of non-financial assets.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(ac) Leases in which the Group and the Company are lessee (after 1 January 2019) (continued)

(iii) Lease liabilities

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

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

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group and 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.

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Group and the Company present the lease liabilities as a separate line item in the statements of financial position. Interest expense on the lease liability is presented within the finance cost in the statements of income.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(ac) Leases in which the Group and the Company are lessee (after 1 January 2019) (continued)

(iv) Reassessment of lease liabilities

A reassessment of the lease liability takes place if the cash flows change based on the original terms and conditions, for example:

- (a) A change in lease term due to the Group and the Company exercise an option (purchase / termination / extension) in a different way than the entity had previously determined was reasonably certain;
- (b) A change in lease term due to an event occurs that contractually obliged / prohibits the Group and the Company from exercise the option;
- (c) A change in the amounts expected to be payable under a residual value guarantee; or
- (d) A change in future lease payments resulting from a change in an index or rate used to determine those payments

(v) Short-term leases asset

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases of equipment are recognised on a straight-line basis as an expense in profit or loss.

2.3 Significant accounting estimates and judgements

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements made in applying the Group's and the Company's accounting policies

In the process of applying the Group's and the Company's accounting policies, management is of the opinion that there are no instances of judgement which are expected to have a significant financial impact on the amounts and balances recognised in the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty and assumptions

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Valuation of insurance contract liabilities (continued)

For insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims IBNR reserves at the end of the reporting period.

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

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratio. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, level of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(ii) Impairment of goodwill

The Group and the Company assess the impairment of goodwill on an annual basis in accordance with its accounting policy in Note 2.2(f) to the financial statements. The recoverable amount of the goodwill has been determined based on the value of expected future new business, taking into account of expected future expense overruns. The key assumptions used in the assessment are disclosed in Note 5 to the financial statements.

(iii) Provision for sliding scale commission

The Group and the Company recognise commission income on certain proportional reinsurance ceded that is subjected to commission adjustment based on incurred loss ratio of the ceded portfolio. Adjustments made for each financial period are based on the Group's and the Company's best estimate of ultimate incurred loss ratio for the ceded portfolio as it can take a significant period of time before the ultimate claims cost can be established with certainty.

The main assumption underlying the estimation are past claims development experience and claims incurred up to the date. The impact to financial performance and position on the possible change in commission rate is disclosed in Note 32 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3. PROPERTY AND EQUIPMENT

<u>Group/Company</u>	<u>Office renovations</u> RM	<u>Motor vehicles</u> RM	<u>Furniture, fixtures, office equipment and computers</u> RM	<u>Building</u> RM	<u>Capital work-in progress</u> RM	<u>Total</u> RM
<u>2019</u>						
<u>Cost</u>						
At 1 January 2019	1,492,885	533,032	9,773,812	41,993,293	172,479	53,965,501
Additions	28,140	390,750	488,048	1,627,232	157,780	2,691,950
Disposals	-	(385,863)	(267,580)	-	-	(653,443)
Write-offs	(266,949)	-	(418,821)	-	-	(685,770)
Reclassification	40,962	-	116,818	-	(157,780)	-
Reclassification to intangible assets	-	-	-	-	(153,280)	(153,280)
At 31 December 2019	1,295,038	537,919	9,692,277	43,620,525	19,199	55,164,958
<u>Accumulated depreciation</u>						
At 1 January 2019	945,447	381,611	4,803,276	2,877,288	-	9,007,622
Charge for the financial year	274,017	106,346	1,077,354	850,095	-	2,307,812
Disposals	-	(379,431)	(261,919)	-	-	(641,350)
Write-offs	(266,949)	-	(387,188)	-	-	(654,137)
At 31 December 2019	952,515	108,526	5,231,523	3,727,383	-	10,019,947
Net book value	342,523	429,393	4,460,754	39,893,142	19,199	45,145,011

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3. PROPERTY AND EQUIPMENT (CONTINUED)

<u>Group/Company</u>	<u>Office renovations</u> RM	<u>Motor vehicles</u> RM	<u>Furniture, fixtures, office equipment and computers</u> RM	<u>Building</u> RM	<u>Capital work-in progress</u> RM	<u>Total</u> RM
<u>2018</u>						
<u>Cost</u>						
At 1 January 2018	1,441,994	536,725	9,753,853	58,740,000	261,779	70,734,351
Additions	309,093	-	903,993	912,493	-	2,125,579
Disposals	-	-	(94,161)	-	-	(94,161)
Write-offs	(258,202)	(3,693)	(789,873)	-	-	(1,051,768)
Reclassification to investment properties and intangible assets	-	-	-	(17,659,200)	(89,300)	(17,748,500)
At 31 December 2018	1,492,885	533,032	9,773,812	41,993,293	172,479	53,965,501
<u>Accumulated depreciation</u>						
At 1 January 2018	985,101	279,077	4,560,835	2,937,000	-	8,762,013
Charge for the financial year	213,268	105,858	1,082,802	1,058,704	-	2,460,632
Disposals	-	-	(94,161)	-	-	(94,161)
Write-offs	(252,922)	(3,324)	(746,200)	-	-	(1,002,446)
Reclassification to investment properties	-	-	-	(1,118,416)	-	(1,118,416)
At 31 December 2018	945,447	381,611	4,803,276	2,877,288	-	9,007,622
Net book value	547,438	151,421	4,970,536	39,116,005	172,479	44,957,879

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

4. INVESTMENT PROPERTIES

<u>Group/Company</u>	<u>2019</u> <u>RM</u>	<u>2018</u> <u>RM</u>
<u>Cost</u>		
At 1 January	17,834,200	175,000
Additions	662,396	-
Reclassification from property and equipment (Note 3)	-	17,659,200
At 31 December	<u>18,496,596</u>	<u>17,834,200</u>
<u>Accumulated depreciation</u>		
At 1 January	1,339,977	100,333
Charge for the financial year	359,896	121,228
Reclassification from property and equipment (Note 3)	-	1,118,416
31 December	<u>1,699,873</u>	<u>1,339,977</u>
Net book value	<u>16,796,723</u>	<u>16,494,223</u>
Fair value	<u>18,850,000</u>	<u>18,850,000</u>

The fair value of the properties are estimated at RM18,850,000 based on valuations performed by an independent professionally qualified valuer. The fair value is the estimated amount for which a property should exchange on the date of 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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

4. INVESTMENT PROPERTIES (CONTINUED)

The fair value of investment properties are categorized at Level 2 of the fair value hierarchy. Fair value of the investment properties are measured in whole by reference to inputs other than the quoted price included within Level 1 that are observable for the investment properties, either directly or indirectly. The investment properties are valued using the Comparison Method.

There were no transfers between Level 1 and 2 fair value measurements during the financial year.

As at 31 December 2019, two commercial investment properties held by the Company are leased to third parties. Rental income from the properties is included in Note 20 to the financial statements.

5. INTANGIBLE ASSETS

<u>Group/Company</u>	<u>Goodwill</u> RM	<u>Computer Software</u> RM	<u>Capital work-in progress</u> RM	<u>Total</u> RM
<u>2019</u>				
<u>Cost</u>				
At 1 January 2019	40,103,501	1,580,490	542,543	42,226,534
Additions	-	160,599	582,122	742,721
Written Off	-	(25,762)	-	(25,762)
Reclassification from property and equipment (Note 3)	-	153,280	-	153,280
At 31 December 2019	<u>40,103,501</u>	<u>1,868,607</u>	<u>1,124,665</u>	<u>43,096,773</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

5. INTANGIBLE ASSETS (CONTINUED)

<u>Accumulated Amortisation</u>	<u>Goodwill</u> RM	<u>Computer Software</u> RM	<u>Capital work-in progress</u> RM	<u>Total</u> RM
At 1 January 2019	-	1,053,903	-	1,053,903
Charge for the financial year	-	357,234	-	357,234
Written Off	-	(23,207)	-	(23,207)
At 31 December 2019	-	1,387,930	-	1,387,930
Net book value	40,103,501	480,677	1,124,665	41,708,843
<u>Group/Company</u>				
<u>2018</u>				
<u>Cost</u>				
At 1 January 2018	40,103,501	1,644,814	-	41,748,315
Additions	-	41,313	453,243	494,556
Written Off	-	(105,637)	-	(105,637)
Reclassification from property and equipment (Note 3)	-	-	89,300	89,300
At 31 December 2018	40,103,501	1,580,490	542,543	42,226,534

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

5. INTANGIBLE ASSETS (CONTINUED)

	<u>Goodwill</u> RM	<u>Computer Software</u> RM	<u>Capital work-in progress</u> RM	<u>Total</u> RM
<u>Accumulated Amortisation</u>				
At 1 January 2018	-	861,630	-	861,630
Charge for the financial year	-	297,910	-	297,910
Written Off	-	(105,637)	-	(105,637)
At 31 December 2018	-	1,053,903	-	1,053,903
Net book value	40,103,501	526,587	542,543	41,172,631

(a) The Company tests goodwill on acquisition of general insurance business for impairment annually in accordance with its accounting policy as stated in Note 2.2(e). More regular reviews will be performed if events indicate that this is necessary. This was not the case in the current financial year.

(b) Goodwill is allocated to cash-generating units ("CGU"), being the combined general business as a whole, for the purpose of impairment testing.

In testing whether impairment is necessary, the recoverable amount of the goodwill has been determined based on future new business. Management's judgement is involved in estimating the value of expected future new business. The key assumptions are detailed as follow:

- (i) The growth is projected based on expected future new business at a growth rate ranging from 4.5% to 7.1% p.a (2018: ranging from 4.5% p.a. to 6.8% p.a.).
- (ii) Loss ratio are projected based on the management's expectation of claims experience ranging from 60.0% to 61.0% (2018: expectation of 61.5%).
- (iii) Pre tax discount rate at 10.4% (2018: 11.2%).
- (iv) Other assumption used include expense ratio, commission ratio and investment return.

At 31 December 2019, the recoverable amount exceeds the carrying value of goodwill.

A reasonably possible change in any key assumption is not expected to cause the recoverable amount of the CGU to fall below its carrying amount.

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6. INVESTMENTS

	2019		2018	
	<u>Group</u> <u>RM</u>	<u>Company</u> <u>RM</u>	<u>Group</u> <u>RM</u>	<u>Company</u> <u>RM</u>
Malaysian Government Securities	55,155,902	-	68,781,903	-
Government Investment Issues	108,921,976	-	82,809,272	-
Corporate Bonds	131,725,569	-	126,052,724	7,195,116
Unit Trust Investments	172,228,508	479,334,485	165,086,037	446,268,624
Equity securities	30,122,056	30,122,056	28,199,020	28,199,020
Real Estate Investment Trusts ("REITs")	3,356,200	3,356,200	3,226,996	3,226,996
Deposits with Licensed Financial Institutions	55,774,229	55,774,229	52,312,288	52,312,288
	<u>557,284,440</u>	<u>568,586,970</u>	<u>526,468,240</u>	<u>537,202,044</u>

The financial investments are summarised by categories as follows:

AFS financial assets	-	-	442,729,936	453,463,740
FVTPL financial assets	501,510,211	512,812,741	31,426,016	31,426,016
LAR	-	-	52,312,288	52,312,288
AC	55,774,229	55,774,229	-	-
	<u>557,284,440</u>	<u>568,586,970</u>	<u>526,468,240</u>	<u>537,202,044</u>

The following investments mature
after 12 months:

AFS financial assets	-	-	272,518,683	7,195,116
FVTPL financial assets	<u>277,572,945</u>	-	-	-

(a) AFS financial assets

Fair value

Malaysian Government Securities	-	-	68,781,903	-
Government Investment Issues	-	-	82,809,272	-
Unit Trust Investments:				
- Quoted in Malaysia	-	-	165,086,037	165,086,037
- Unquoted in Malaysia	-	-	-	281,182,587
Corporate bonds	-	-	126,052,724	7,195,116
	<u>-</u>	<u>-</u>	<u>442,729,936</u>	<u>453,463,740</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

6. INVESTMENTS (CONTINUED)

	2019		2018	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
(b) FVTPL financial assets				
<u>Fair value</u>				
Malaysian Government Securities	55,155,902	-	-	-
Government Investment Issues	108,921,976	-	-	-
Unit Trust Investments:				
- Quoted in Malaysia	172,228,508	172,228,508	-	-
- Unquoted in Malaysia	-	307,105,977	-	-
Corporate bonds	131,725,569	-	-	-
Equity securities	30,122,056	30,122,056	28,199,020	28,199,020
REITs	3,356,200	3,356,200	3,226,996	3,226,996
	<u>501,510,211</u>	<u>512,812,741</u>	<u>31,426,016</u>	<u>31,426,016</u>

(c) AC/LAR

Amortised cost

Deposits with Commercial Banks	<u>55,774,229</u>	<u>55,774,229</u>	<u>52,312,288</u>	<u>52,312,288</u>
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Deposits with Commercial Banks have interest rates which range from 3.45% to 4.10% (2018: 3.60% to 4.10%) per annum with an average maturity period of 365 days (2018: 365 days).

(d) Carrying values of financial investments

	<u>AFS</u>	<u>FVTPL</u>	<u>AC/LAR</u>	<u>Total</u>
	RM	RM	RM	RM
<u>2019</u>				
<u>Group</u>				
At 1 January 2019	442,729,936	31,426,016	52,312,288	526,468,240
Effects of adoption of MFRS 9	(442,729,936)	442,729,936	-	-
At 1 January 2019 (Restated)	-	474,155,952	52,312,288	526,468,240
Purchases	-	544,029,847	54,778,213	598,808,060
Maturities	-	(34,953,300)	(51,394,379)	(86,347,679)
Disposals	-	(488,645,695)	-	(488,645,695)
Fair value gains recorded in Statements of Income	-	7,327,022	-	7,327,022
Currency translations differences	-	(31,579)	-	(31,579)
Movement in accrued interest	-	(48,370)	78,107	29,737

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6. INVESTMENTS (CONTINUED)

(d) Carrying values of financial investments (continued)

	<u>AFS</u> <u>RM</u>	<u>FVTPL</u> <u>RM</u>	<u>AC/LAR</u> <u>RM</u>	<u>Total</u> <u>RM</u>
<u>2019</u>				
<u>Group (continued)</u>				
Dividend received	-	(84,196)	-	(84,196)
Amortisation of premiums	-	(239,470)	-	(239,470)
At 31 December 2019	-	501,510,211	55,774,229	557,284,440
<u>2018</u>				
<u>Group</u>				
At 1 January 2018	451,257,917	52,691,351	46,446,574	550,395,842
Purchases	671,078,758	-	51,394,379	722,473,137
Maturities	(153,446,540)	-	(45,645,480)	(199,092,020)
Disposals	(526,544,268)	(11,203,267)	-	(537,747,535)
Fair value (losses)/gains recorded in:				
Statements of Income	-	(11,155,899)	-	(11,155,899)
Other comprehensive income	601,280	-	-	601,280
Currency translations differences	-	1,009,635	-	1,009,635
Fair value gain transferred to Statements of Income	(71,573)	-	-	(71,573)
Movement in accrued interest	(61,272)	-	116,815	55,543
Dividend receivable	-	84,196	-	84,196
Amortisation of premiums	(84,366)	-	-	(84,366)
At 31 December 2018	442,729,936	31,426,016	52,312,288	526,468,240
<u>2019</u>				
<u>Company</u>				
At 1 January 2019	453,463,740	31,426,016	52,312,288	537,202,044
Effects of adoption of MFRS 9	(453,463,740)	453,463,740	-	-
At 1 January 2019 (Restated)	-	484,889,756	52,312,288	537,202,044
Purchases	-	57,283,855	54,778,213	112,062,068
Maturities	-	(30,000,000)	(51,394,379)	(81,394,379)
Disposals	-	(7,000,000)	-	(7,000,000)
Fair value gains recorded in:				
Statements of Income	-	7,873,999	-	7,873,999
Currency translations differences	-	(31,579)	-	(31,579)
Movement in accrued interest	-	(119,094)	78,107	(40,987)
Dividend received	-	(84,196)	-	(84,196)
At 31 December 2019	-	512,812,741	55,774,229	568,586,970

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(d) Carrying values of financial investments (continued)

	<u>AFS</u> RM	<u>FVTPL</u> RM	<u>LAR</u> RM	<u>Total</u> RM
<u>2018</u>				
<u>Company</u>				
At 1 January 2018	454,274,373	52,691,351	46,446,574	553,412,298
Purchases	233,963,438	-	51,394,379	285,357,817
Maturities	(130,000,000)	-	(45,645,480)	(175,645,480)
Disposals	(104,775,862)	(11,203,267)	-	(115,979,129)
Fair value (losses)/gains recorded in:				
Statements of Income	-	(11,155,899)	-	(11,155,899)
Other comprehensive income	620,586	-	-	620,586
Currency translations differences	-	1,009,635	-	1,009,635
Fair value gain transferred to Statements of Income	(618,795)	-	-	(618,795)
Movement in accrued interest	-	-	116,815	116,815
Dividend receivable	-	84,196	-	84,196
At 31 December 2018	<u>453,463,740</u>	<u>31,426,016</u>	<u>52,312,288</u>	<u>537,202,044</u>

(e) Fair values of financial investments

The following tables show financial investments recorded at fair value analysed by the different basis of fair values and valuation methods as follows:

<u>Group</u>	<u>Level 1</u> RM	<u>Level 2</u> RM
<u>2019</u>		
<u>FVTPL</u>		
- Malaysian Government Securities	-	55,155,902
- Government Investment Issues	-	108,921,976
- Corporate Bonds	-	131,725,569
- Unit Trust Investments	172,228,508	-
- Equity Securities	30,122,056	-
- Real Estate Investment Trusts ("REITs")	3,356,200	-
	<u>205,706,764</u>	<u>295,803,447</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

	<u>Level 1</u> RM	<u>Level 2</u> RM
<u>2018</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Malaysian Government Securities	-	68,781,903
- Government Investment Issues	-	82,809,272
- Corporate Bonds	-	126,052,724
- Unit Trust Investments	165,086,037	-
FVTPL		
- Equity Securities	28,199,020	-
- Real Estate Investment Trusts ("REITs")	3,226,996	-
	<u>196,512,053</u>	<u>277,643,899</u>
<u>Company</u>		
<u>2019</u>		
<u>Recurring fair value measurements</u>		
FVTPL		
- Unit Trust Investments	172,228,508	307,105,977
- Equity Securities	30,122,056	-
- Real Estate Investment Trusts ("REITs")	3,356,200	-
	<u>205,706,764</u>	<u>307,105,977</u>
<u>2018</u>		
<u>Recurring fair value measurements</u>		
AFS		
- Corporate Bonds	-	7,195,116
- Unit Trust Investments	165,086,037	281,182,587
FVTPL		
- Equity Securities	28,199,020	-
- Real Estate Investment Trusts ("REITs")	3,226,996	-
	<u>196,512,053</u>	<u>288,377,703</u>

Included in the quoted market price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis (Level 1).

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6. INVESTMENTS (CONTINUED)

(e) Fair values of financial investments (continued)

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market and instruments with fair values based on broker quotes (Level 2).

Financial instruments that are valued not based on observable market data are categorised as Level 3. There are no financial instruments categorised as Level 3.

There were no transfers between level 1 and 2 during the financial year.

7. STRUCTURED ENTITIES

The Group and the Company have determined that its investment in wholesale unit trust funds amounting to RM307,105,977 (2018: RM281,182,587) as disclosed in Note 6 to the financial statements as investment in structured entities ("investee funds"). The Group and the Company invest in the investee funds whose objectives range from achieving medium to long-term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by approved asset management companies and apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund's net assets.

The investee funds are classified as fair value through profit loss and the changes in the fair value of financial assets at FVTPL are recognised in gains/(losses) in the statements of income as applicable. The Company's exposure to investments in the investee funds is disclosed below.

	2019	2018
	RM	RM
Number of wholesale unit trust fund	3	3
Average net asset value per unit of wholesale unit trust funds:		
Opus Enhanced Income Fund	1.0518	1.0411
Affin Hwang Wholesale Fund 1	0.3662	0.3560
AmIncome Select	1.0194	0.9868
Fair value of underlying assets:		
Corporate bonds	129,920,315	117,098,395
Malaysian Government Securities	54,758,311	68,152,974
Government Investment Securities	107,703,245	81,855,819
Deposits with licensed financial institutions	11,932,294	11,502,188
Receivables	2,973,443	2,902,529
Cash equivalents	200,639	30,250
Other payables	(382,270)	(359,568)
	<u>307,105,977</u>	<u>281,182,587</u>
Total realised gain/(loss) for the financial year	<u>8,184,309</u>	<u>(199,556)</u>

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7. STRUCTURED ENTITIES (CONTINUED)

As the Company has control over these investee funds which are considered wholly owned structured entities, these structured entities are consolidated in the Group's financial statements. The underlying assets of these structured entities have been duly consolidated as shown in Note 6 to the financial statements.

The investee funds for Opus Enhanced Income Fund, Affin Hwang Wholesale Fund 1 and AmlIncome Select Fund are audited by Crowe Horwath, PricewaterhouseCoopers PLT and Ernst & Young respectively.

8. REINSURANCE ASSETS

	<u>2019</u>	<u>2018</u>
	RM	RM
<u>Group/Company</u>		
Reinsurance of insurance contracts (Note 14)	<u>634,146,422</u>	<u>527,707,036</u>

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair value at the date of the statements of financial position.

9. INSURANCE AND OTHER RECEIVABLES

	<u>2019</u>		<u>2018</u>	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Due premiums including agents /brokers and co-insurers balances	39,321,373	39,321,373	45,207,819	45,207,819
Allowance for impairment	(1,001,336)	(1,001,336)	(742,764)	(742,764)
	<u>38,320,037</u>	<u>38,320,037</u>	<u>44,465,055</u>	<u>44,465,055</u>
Amounts due from reinsurers/ ceding companies	26,361,557	26,361,557	23,662,017	23,662,017
Allowance for impairment	(4,698,254)	(4,698,254)	(4,987,342)	(4,987,342)
	<u>21,663,303</u>	<u>21,663,303</u>	<u>18,674,675</u>	<u>18,674,675</u>
Total insurance receivables and reinsurance recoverables	<u>59,983,340</u>	<u>59,983,340</u>	<u>63,139,730</u>	<u>63,139,730</u>
Other receivables:				
Other receivables, deposits and prepayments	6,897,756	6,897,756	11,299,469	11,299,469
Malaysian Motor Insurance Pool ("MMIP")				
- Cash call made	16,859,477	16,859,477	21,859,477	21,859,477
- Other assets held in MMIP	32,029,403	32,029,403	31,038,529	31,038,529
GST receivable	-	-	483,910	483,910
Income due and accrued	365,940	365,940	100,069	354,973
Total other receivables	<u>56,152,576</u>	<u>56,152,576</u>	<u>64,781,454</u>	<u>65,036,358</u>

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9. INSURANCE AND OTHER RECEIVABLES (CONTINUED)

	2019		2018	
	Group RM	Company RM	Group RM	Company RM
Total insurance and other receivables	<u>116,135,916</u>	<u>116,135,916</u>	<u>127,921,184</u>	<u>128,176,088</u>
Receivable within 12 months	<u>116,135,916</u>	<u>116,135,916</u>	<u>127,921,184</u>	<u>128,176,088</u>

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances.

MMIP as at 31 December 2019 is a net receivable of RM14,535,624 (2018: RM12,443,499) after setting-off the amount payable from MMIP against the Company's share of claims and premium liabilities amounting to RM34,353,176 (2018: RM40,454,507) included in Note 14 to the financial statements.

Financial assets

There is no netting off of the gross amount of recognised financial assets against the gross amount of financial liabilities in the statements of financial position.

There are no financial assets that are subject to enforceable master netting arrangements or similar arrangements to financial instruments received as collateral or any cash collateral pledged or received (2018: Nil).

10. RIGHT-OF-USE ASSETS

	Properties RM	Equipment RM	Total RM
<u>Group/Company</u>			
<u>Cost</u>			
31 December 2018	-	-	-
Effects of adoption of MFRS 16	1,862,899	7,448,859	9,311,758
1 January 2019	1,862,899	7,448,859	9,311,758
Additions	591,970	1,379,511	1,971,481
Modification of lease term	-	(59,933)	(59,933)
Change in consideration	-	(53,818)	(53,818)
At 31 December 2019	<u>2,454,869</u>	<u>8,714,619</u>	<u>11,169,488</u>
<u>Accumulated depreciation</u>			
1 January 2019	-	-	-
Depreciation for the year	949,692	3,125,737	4,075,429
At 31 December 2019	<u>949,692</u>	<u>3,125,737</u>	<u>4,075,429</u>
Net book value	<u>1,505,177</u>	<u>5,588,882</u>	<u>7,094,059</u>

The leases typically run for a period of 1 to 5 years, but may have extension options. In 2019, total cash outflow for leases amounted to RM4,357,381.

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11. LOANS

	<u>2019</u> RM	<u>2018</u> RM
<u>Group/Company</u>		
Staff loans:		
Secured	901,606	940,923
Unsecured	12,477	2,634
	<u>914,083</u>	<u>943,557</u>
Receivable after 12 months	<u>736,251</u>	<u>733,577</u>

The weighted average effective interest rate for staff loans as at 31 December 2019 was 2.41% (2018: 2.30%) per annum on the basis of monthly rest.

12. SHARE CAPITAL

	<u>Number of ordinary shares</u>		<u>Amount</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	Unit	Unit	RM	RM
<u>Group/Company</u>				
Issued and paid up:				
At beginning and end of financial year	<u>219,875,038</u>	<u>219,875,038</u>	<u>219,875,038</u>	<u>219,875,038</u>

13. RESERVES

The Company may distribute single-tier tax exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend. Pursuant to the Risk-Based Capital 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.

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14. INSURANCE CONTRACT LIABILITIES

Note	2019			2018		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
<u>Group/Company</u>						
Provision for claims reported by policyholders	541,989,132	(354,494,607)	187,494,525	469,008,884	(286,788,147)	182,220,737
Provision for incurred but not reported ("IBNR")	218,296,611	(138,711,488)	79,585,123	210,365,826	(103,739,878)	106,625,948
	760,285,743	(493,206,095)	267,079,648	679,374,710	(390,528,025)	288,846,685
Less: impairment loss on reinsurance assets	-	356,333	356,333	-	730,457	730,457
Claim liabilities (i)	760,285,743	(492,849,762)	267,435,981	679,374,710	(389,797,568)	289,577,142
Premium liabilities (ii)	257,988,917	(141,296,660)	116,692,257	259,518,296	(137,909,468)	121,608,828
	1,018,274,660	(634,146,422)	384,128,238	938,893,006	(527,707,036)	411,185,970
(i) Claim liabilities						
At 1 January	679,374,710	(390,528,025)	288,846,685	629,603,744	(360,259,263)	269,344,481
Claims incurred in the current accident year	440,585,764	(263,171,704)	177,414,060	420,477,178	(218,484,828)	201,992,350
Claims incurred in prior accident years	(52,789,206)	21,227,391	(31,561,815)	(86,361,471)	56,875,859	(29,485,612)
Movement in PRAD of claim liabilities at 75% confidence level	4,471,949	(11,583,866)	(7,111,917)	1,727,114	(1,230,802)	496,312
Movement in claims handling expenses	30,042	-	30,042	1,438,789	-	1,438,789
Claims paid during the financial year	(311,387,516)	150,850,109	(160,537,407)	(287,510,644)	132,571,009	(154,939,635)
	760,285,743	(493,206,095)	267,079,648	679,374,710	(390,528,025)	288,846,685
Less: impairment loss on reinsurance assets	-	356,333	356,333	-	730,457	730,457
At 31 December	760,285,743	(492,849,762)	267,435,981	679,374,710	(389,797,568)	289,577,142

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

14. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Premium liabilities

Note	2019			2018		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	RM	RM	RM	RM	RM	RM
At 1 January	259,518,296	(137,909,468)	121,608,828	239,726,225	(133,279,583)	106,446,642
Premiums written during the financial year	19 549,681,619	(296,196,583)	253,485,036	580,990,083	(305,547,282)	275,442,801
Premiums earned during the financial year	19 (551,210,998)	292,809,391	(258,401,607)	(561,198,012)	300,917,397	(260,280,615)
At 31 December	<u>257,988,917</u>	<u>(141,296,660)</u>	<u>116,692,257</u>	<u>259,518,296</u>	<u>(137,909,468)</u>	<u>121,608,828</u>

15. DEFERRED TAX ASSET

<u>Group/Company</u>	<u>2019</u>	<u>2018</u>
	RM	RM
At 1 January	6,997,899	2,107,181
Effects of adoption of MFRS 9	1,055,475	-
At 1 January (Restated)	8,053,374	2,107,181
Recognised in statements of income	(5,041,521)	4,891,148
Recognised in other comprehensive income	-	(430)
At 31 December	<u>3,011,853</u>	<u>6,997,899</u>

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15. DEFERRED TAX ASSET (CONTINUED)

2019	Receivables RM	Fair value changes on investments RM	Premium liabilities RM	Unutilised tax loss RM	Others RM	Total RM
Deferred tax asset						
At 31 December 2018	1,525,003	2,660,874	453,384	2,595,246	1,619,939	8,854,446
Effects of adoption of MFRS 9	1,055,475	-	-	-	-	1,055,475
At 1 January 2019 (Restated)	2,580,478	2,660,874	453,384	2,595,246	1,619,939	9,909,921
Recognised in statements of income	(1,127,056)	-	(7,153)	(2,595,246)	784,300	(2,945,155)
Reclassification to deferred tax liability	-	(2,660,874)	-	-	-	(2,660,874)
At 31 December 2019 (before offsetting)	1,453,422	-	446,231	-	2,404,239	4,303,892
Offsetting						(1,292,039)
Net deferred tax assets (after offsetting)						3,011,853

Net deferred tax assets (after offsetting)

2019	Fair value changes on investments RM	Property and equipment RM	Total RM
Deferred tax liabilities			
At 1 January 2019	1,159,511	697,036	1,856,547
Recognised in statements of income	2,188,785	(92,419)	2,096,366
Reclassification from deferred tax asset	(2,660,874)	-	(2,660,874)
At 31 December 2019 (before offsetting)	687,422	604,617	1,292,039
Offsetting			(1,292,039)
Net deferred tax liabilities (after offsetting)			-

Net deferred tax liabilities (after offsetting)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

15. DEFERRED TAX ASSET (CONTINUED)

	Receivables	Fair value changes on investments	Premium liabilities	Unutilised tax loss	Others	Total
	RM	RM	RM	RM	RM	RM
2018						
<u>Deferred tax asset</u>						
At 1 January 2018	2,001,223	225,771	208,199	-	1,963,682	4,398,875
Recognised in statements of income	(476,220)	2,435,103	245,185	2,595,246	(343,743)	4,455,571
At 31 December 2018 (before offsetting)	1,525,003	2,660,874	453,384	2,595,246	1,619,939	8,854,446
Offsetting						(1,856,547)
Net deferred tax assets (after offsetting)						6,997,899

	Fair value changes on investments	Property and equipment	Total
	RM	RM	RM
2018			
<u>Deferred tax liabilities</u>			
At 1 January 2018	1,159,081	1,132,613	2,291,694
Recognised in statements of income	-	(435,577)	(435,577)
Recognised in other comprehensive income	430	-	430
At 31 December 2018 (before offsetting)	1,159,511	697,036	1,856,547
Offsetting			(1,856,547)
Net deferred tax assets (after offsetting)			-

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15. DEFERRED TAX ASSET (CONTINUED)

	2019 RM	2018 RM
Current	3,616,470	7,694,935
Non-current	(604,617)	(697,036)

16. INSURANCE AND OTHER PAYABLES

	2019		2018	
	Group RM	Company RM	Group RM	Company RM
Trade payables:				
Amount due to reinsurers/ ceding companies	76,161,265	76,161,265	89,698,133	89,698,133
Amount due to brokers, co-insurers and insureds	11,957,625	11,957,625	16,112,205	16,112,205
	<u>88,118,890</u>	<u>88,118,890</u>	<u>105,810,338</u>	<u>105,810,338</u>
Other payables:				
Accrual for agents' profit commission	2,640,406	2,640,406	2,993,490	2,993,490
Accrual for bonus (including EPF for bonus)	6,900,000	6,900,000	4,250,000	4,250,000
Amount due to unitholders	-	-	446,589	-
Cash collateral held for bond business	1,004,020	1,004,020	1,175,917	1,175,917
Premium funds withheld	33,775,420	33,775,420	37,349,284	37,349,284
Other payables and accrued liabilities	19,621,534	18,755,646	20,788,246	20,661,379
	<u>63,941,380</u>	<u>63,075,492</u>	<u>67,003,526</u>	<u>66,430,070</u>
Total insurance and other payables	<u>152,060,270</u>	<u>151,194,382</u>	<u>172,813,864</u>	<u>172,240,408</u>
Payable within 12 months	<u>118,125,843</u>	<u>117,259,955</u>	<u>135,106,126</u>	<u>134,532,670</u>
Payable after 12 months	<u>33,934,427</u>	<u>33,934,427</u>	<u>37,707,738</u>	<u>37,707,738</u>

The carrying amounts disclosed above approximate fair value at the reporting date.

Financial liabilities

There is no netting off of gross amount of recognised financial liabilities against the gross amount of financial assets in the statements 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 (2018: Nil).

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17. SUBORDINATED LOANS

	<u>2019</u>	<u>2018</u>
	RM	RM
<u>Group/Company</u>		
Subordinated Loans	24,337,504	24,337,504
Add: Interest Payable	8,149,387	6,445,761
	<u>32,486,891</u>	<u>30,783,265</u>
Payable within 12 months	<u>8,149,387</u>	<u>6,445,761</u>
Payable after 12 months	<u>24,337,504</u>	<u>24,337,504</u>

The fair value of the subordinated loans as at 31 December 2019 amounted to RM24.3 million (2018: RM24.3 million). The fair value is estimated based on discounted cash flow model for the remaining term of maturity and is within level 2 of the fair value hierarchy.

18. LEASE LIABILITY

	<u>2019</u>	<u>2018</u>
	RM	RM
<u>Group/Company</u>		
Current lease liabilities	3,749,832	-
Non-current lease liabilities	3,495,663	-
	<u>7,245,495</u>	<u>-</u>

19. NET EARNED PREMIUMS

	<u>2019</u>	<u>2018</u>
	RM	RM
<u>Group/Company</u>		
(a) Gross premiums written	549,681,619	580,990,083
Change in premium liabilities	1,529,379	(19,792,071)
Gross earned premiums	<u>551,210,998</u>	<u>561,198,012</u>
(b) Premium ceded to reinsurers		
Ceded premiums (Note 14(ii))	(296,196,583)	(305,547,282)
Change in premium liabilities	3,387,192	4,629,885
Earned premiums ceded to reinsurers	<u>(292,809,391)</u>	<u>(300,917,397)</u>
Net earned premiums	<u>258,401,607</u>	<u>260,280,615</u>

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20. INVESTMENT INCOME

	2019		2018	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Rental income from operating lease:				
Investment properties	1,212,826	1,212,826	400,275	400,275
Financial assets at FVTPL				
Interest income - equity securities	-	-	16,726	16,726
Dividend income - REITs	171,496	171,496	167,228	167,228
AFS financial assets				
Interest income	-	-	13,119,220	483,000
Dividend income – unit trusts	-	-	6,127,312	18,297,353
Financial assets at FVTPL				
Interest income	12,723,832	438,197	-	-
Dividend income – unit trusts	4,540,782	23,867,804	-	-
Interest income from AC/LAR	2,113,492	2,113,492	1,865,715	1,865,715
Profit and interest income from cash & cash equivalents	5,291,591	4,789,700	4,190,731	3,674,831
Amortisation of premiums, net of accretion of discounts	(239,473)	-	(84,366)	-
	<u>25,814,546</u>	<u>32,593,515</u>	<u>25,802,841</u>	<u>24,905,128</u>

21. REALISED GAINS/(LOSSES)

	2019		2018	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
<u>Financial assets at FVTPL</u>				
Realised gains/(losses):				
Equity securities	-	-	(5,657,590)	(5,657,590)
Corporate bonds	2,690,416	149,160	-	-
Malaysian Government Securities	5,651,918	-	-	-
	<u>8,342,334</u>	<u>149,160</u>	<u>(5,657,590)</u>	<u>(5,657,590)</u>
<u>AFS financial assets</u>				
Realised gains/(losses):				
Corporate bonds	-	-	(580,509)	-
Government Investment Issues	-	-	379,065	-
Unit trusts	-	-	273,018	618,795
	<u>-</u>	<u>-</u>	<u>71,574</u>	<u>618,795</u>

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21. REALISED GAINS/(LOSSES) (CONTINUED)

Property, equipment and intangible assets

Realised gains	143,027	143,027	11,399	11,399
Realised losses	(35,177)	(35,177)	(49,322)	(49,322)
	107,850	107,850	(37,923)	(37,923)
	8,450,184	257,010	(5,623,939)	(5,076,718)

22. FAIR VALUE GAINS/(LOSSES)

	2019	2018
	RM	RM
<u>Group</u>		
Financial assets at FVTPL	7,295,444	(10,146,264)
<u>Company</u>		
Financial assets at FVTPL	7,842,420	(10,146,264)

23. FEES AND COMMISSION INCOME

	2019	2018
	RM	RM
<u>Group/Company</u>		
Reinsurance commission income	47,490,655	64,448,518

24. MANAGEMENT EXPENSES

		2019		2018	
	<u>Note</u>	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
		RM	RM	RM	RM
Employee benefits expenses	24(a)	53,686,599	53,686,599	49,845,090	49,845,090
Directors' remuneration	24(b)	420,438	420,438	455,505	455,505
Auditors' remuneration					
- Audit related services		368,485	349,100	344,179	323,420
- Non-audit related services					
- Current year		73,500	73,500	8,500	8,500
- Underprovision of prior year		-	-	35,850	35,850
Depreciation of property and equipment	3	2,307,812	2,307,812	2,460,632	2,460,632

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24. MANAGEMENT EXPENSES (CONTINUED)

		2019		2018	
	Note	Group RM	Company RM	Group RM	Company RM
Depreciation of investment properties	4	359,896	359,896	121,228	121,228
Depreciation of ROU assets	10	4,075,429	4,075,429	-	-
Direct operating expenses of investment properties					
- revenue generating		15,551	15,551	19,056	19,056
Amortisation of intangible assets	5	357,234	357,234	297,910	297,910
Bad debts (recovery)/written-off		(165,399)	(165,399)	315,703	315,703
Write-back of allowance for impairment losses					
- insurance receivables and reinsurance recoverables		(4,428,328)	(4,428,328)	(868,095)	(868,095)
- reinsurance assets		(374,124)	(374,124)	(1,132,066)	(1,132,066)
Office rental		66,064	66,064	1,139,447	1,139,447
Office equipment rental		327,836	327,836	621,831	621,831
Computer maintenance		2,850,763	2,850,763	5,552,963	5,552,963
Entertainment		1,084,325	1,084,325	1,248,298	1,248,298
Investment advisory fees		2,143,226	2,143,226	1,951,994	1,951,994
Fund managers' fees		85,832	85,832	62,604	62,604
Professional fees		935,698	935,698	436,140	436,140
Networking charges		16,320	16,320	995,941	995,941
Management fees to holding company		2,960,562	2,960,562	2,864,103	2,864,103
Stamp duties		15,558	15,558	20,602	20,602
Credit card and bank charges		3,572,493	3,572,493	3,661,383	3,661,383
Training costs		2,004,445	2,004,445	3,754,078	3,754,078
Advertising and Marketing expenses		5,008,904	5,008,904	3,536,442	3,536,442
Third Party Administrator fees		884,208	884,208	895,380	895,380
Policy printing fees		3,749,307	3,749,307	4,429,067	4,429,067
Transport and travelling		1,238,047	1,238,047	1,337,817	1,337,817
Printing and stationery		377,467	377,467	392,173	392,173
E-JPJ cover note charges		833,044	833,044	1,004,634	1,004,634
Road assistance programme		2,346,903	2,346,903	1,748,230	1,748,230
Other expenses		6,788,441	5,969,207	5,938,149	5,087,192
		<u>93,986,536</u>	<u>93,147,917</u>	<u>93,494,768</u>	<u>92,623,052</u>

(a) Employee benefits expenses

Wages and salaries	43,676,402	43,676,402	40,565,282	40,565,282
Social security contributions	358,728	358,728	350,421	350,421
Contributions to defined contribution plan, EPF	6,198,990	6,198,990	5,910,358	5,910,358
Employee share ownership plan ("ESOP")	208,195	208,195	271,848	271,848

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24. MANAGEMENT EXPENSES (CONTINUED)

(a) Employee benefits expenses (continued)

	2019		2018	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	RM	RM	RM	RM
Staff insurance	1,665,160	1,665,160	1,464,054	1,464,054
Other benefits	1,579,124	1,579,124	1,283,127	1,283,127
	<u>53,686,599</u>	<u>53,686,599</u>	<u>49,845,090</u>	<u>49,845,090</u>

(b) Directors' remuneration

The details of remuneration receivable by Directors during the financial year are as follows:

	2019	2018
	RM	RM
<u>Group/Company</u>		
<u>(i) Directors' fees</u>		
Dato' Huang Sin Cheng	103,200	97,616
Datuk Abu Hassan bin Kendut	96,000	93,328
Hashim bin Harun	85,904	79,416
Dr. Arumugam a/l Saminathan	54,139	-
Ajit Nair	5,990	-
Zainul Abidin bin Mohamed Rasheed	75,205	92,600
Rasalingam a/l Kanagalingam	-	70,791
Abdullah bin Tarmugi	-	21,754
	<u>420,438</u>	<u>455,505</u>

25. TAXATION

	2019	2018
	RM	RM
<u>Group/Company</u>		
Income tax:		
Malaysian income tax	190,489	-
Underprovision of income tax in respect of prior years	<u>1,755,645</u>	<u>1,233,674</u>
	<u>1,946,134</u>	<u>1,233,674</u>
Deferred tax relating to origination and reversal of temporary differences (Note 15)	5,041,521	(4,891,148)
Tax expense/(income) for the financial year	<u>6,987,655</u>	<u>(3,657,474)</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% on the estimated assessable profit for the financial year.

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25. TAXATION (CONTINUED)

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

	<u>2019</u>	<u>2018</u>
	RM	RM
<u>Group</u>		
Profit/(Loss) before taxation	50,134,573	(2,506,538)
Taxation at Malaysian statutory income tax rate of 24%	12,032,298	(601,569)
Expenses not deductible for tax purposes	1,748,818	2,183,340
Income not subject to tax	(7,965,882)	(6,479,982)
Underprovision of income tax in prior year	1,755,645	1,233,674
Temporary differences not recognised in prior year	(583,224)	7,063
Tax expense/(income) for the financial year	<u>6,987,655</u>	<u>(3,657,474)</u>
<u>Company</u>		
Profit/(Loss) before taxation	50,105,963	(1,989,064)
Taxation at Malaysian statutory income tax rate of 24%	12,025,431	(477,375)
Expenses not deductible for tax purposes	1,755,685	2,059,146
Income not subject to tax	(7,965,882)	(6,479,982)
Underprovision of income tax in prior year	1,755,645	1,233,674
Temporary differences not recognised in prior year	(583,224)	7,063
Tax expense/(income) for the financial year	<u>6,987,655</u>	<u>(3,657,474)</u>

26. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on the profit after taxation for the financial year over the number of shares in issue during the financial year of 219,875,038 (2018: 219,875,038).

	<u>2019</u>	<u>2018</u>
<u>Group</u>		
Profit attributable to shareholders (RM)	43,112,967	1,131,095
Weighted average number of shares in issue	219,875,038	219,875,038
Basic earnings per ordinary share (sen)	19.6	0.5

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27. DIVIDENDS

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2019.

28. OPERATING LEASE ARRANGEMENTS

The future aggregate minimum lease payment under non-cancellable leases contracted for as at the end of the reporting period are as follows:

	<u>2019</u>	<u>2018</u>
	RM	RM
Not later than 1 year	-	3,882,486
Later than 1 year and not later than 5 years	-	5,866,925
Total undiscounted lease payments	<u>-</u>	<u>9,749,411</u>

From 1 January 2019, the Group and the Company have recognised right-of-use assets for these leases (see Note 2.1(a), Note 2.2(ac) and Note 10 for further information).

29. CAPITAL COMMITMENTS

	<u>2019</u>	<u>2018</u>
	RM	RM
<u>Group/Company</u>		
Approved and contracted for:		
Intangible asset	6,382,129	6,291,217
Computers	894,004	901,529
Furniture and fittings	482	55,024
	<u>7,276,615</u>	<u>7,247,770</u>
Approved and not contracted for:		
Furniture and fittings	-	20,306
Renovations	-	56,890
Computers	7,950	-
	<u>7,950</u>	<u>77,196</u>

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30. SIGNIFICANT RELATED PARTY DISCLOSURES

- (a) The Company is a subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.
- (b) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group:

<u>Significant transactions</u>	<u>2019</u>	<u>2018</u>
<u>Group/Company</u>	<u>RM</u>	<u>RM</u>
Fellow subsidiaries:		
<u>Income</u>		
Claim recovery		
- Wentworth Insurance Company Limited (Labuan)	7,648,057	10,116,737
- Allied World Assurance Company, Ltd (Labuan)	3,447	15,179
- CRC Reinsurance Limited (Barbados)	48,810	186,249
	<u>7,700,314</u>	<u>10,318,165</u>
Commission Income		
- CRC Reinsurance Limited (Barbados)	4,767	7,696
- Wentworth Insurance Company Limited (Labuan)	2,561,729	1,820,875
- Allied World Assurance Company, Ltd (Labuan)	402,855	272,600
	<u>2,969,351</u>	<u>2,101,171</u>
<u>Expense</u>		
Reinsurance premium ceded		
- CRC Reinsurance Limited (Barbados)	19,003	30,235
- Wentworth Insurance Company Limited (Labuan)	27,239,902	12,310,711
- Allied World Assurance Company, Ltd (Labuan)	2,567,939	1,596,805
	<u>29,826,844</u>	<u>13,937,751</u>
Interest expense on premium withheld		
- Wentworth Insurance Company Limited (Labuan)	128,723	138,221
Investment management fees		
- Hamblin Watsa Investment Counsel Ltd	2,143,226	1,951,994
Management fees		
- Fairfax Asia Limited	2,960,562	2,864,103
Finance cost		
- Fairfax Asia Limited	1,703,626	1,703,625

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30. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

- (b) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties under the FFHL Group (continued):

<u>Significant transactions</u>	<u>2019</u> RM	<u>2018</u> RM
Associate company:		
- Singapore Reinsurance Corporation Limited		
<u>Income</u>		
Commission income	37,868,121	41,681,239
Claim recovery	68,238	235,952
	<u>37,936,359</u>	<u>41,917,191</u>
<u>Expense</u>		
Reinsurance premium ceded	181,498,428	182,761,918
<u>Payables/(Receivables)</u>		
Other balances due to/(due from)		
- CRC Reinsurance Limited (Barbados)	218,471	21,139
- Wentworth Insurance Company Limited (Labuan)	(1,316,939)	1,980,693
- Fairfax Asia Limited	37,444,550	32,803,114
- Hamblin Watsa Investment Counsel Ltd	8,580	1,027,260
- Allied World Assurance Company, Ltd (Labuan)	925,119	498,183
- Singapore Reinsurance Corporation Limited	42,439,810	6,793,828
- PT Asuransi Multi Artha Guna TBK	(14,337)	-
	<u>79,705,254</u>	<u>43,124,217</u>

- (c) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year was as follows:

	<u>2019</u> RM	<u>2018</u> RM
Short-term employee benefits	4,139,878	3,711,638
Defined contribution plan	292,453	317,834
	<u>4,432,331</u>	<u>4,029,472</u>

Includes compensation payable to key management personnel at the end of reporting period of RM783,238 (2018: RM907,505).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company, directly or indirectly. The key management personnel of the Group and the Company includes the Directors, Chief Executive Officer, Senior Executive Vice President and other personnel with corporate ranking General Manager and above.

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30 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Compensation of key management personnel (continued)

The details of remuneration received and receivable by the CEO during the financial year are as follows :

	2019	2018
	RM	RM
<u>Group/Company</u>		
Salary and other emoluments	666,268	621,000
Bonus	103,500	150,000
Contribution to defined contribution plan	19,049	30,163
Estimated money value of benefits-in-kind	345,966	335,682
	<u>1,134,783</u>	<u>1,136,845</u>

31. RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Group and Company's Risk Management Framework ("RMF") sets out a framework of principles on risk management to guide the Board and senior management in performing their risk oversight function, and sets forth the principles and guidelines of the Group and Company's risk management strategy.

The RMF is designed to:

- Provide the Board and senior management reasonable assurance that the Group and Company's business objectives will be achieved by aligning risk appetite and strategy, proactively responding to risks, reducing operational surprises and losses, and identifying and managing cross-enterprise risks.
- Improve deployment of capital.
- Enhance corporate governance and successfully respond to a changing business environment.
- Assist management in implementing a sound and risk-based internal control system and provide the risk reporting tools to be used to identify significant control lapses/ weaknesses and monitor corrective action.
- Guide staff in understanding the risk assessment methodology and strengthen their risk awareness and capability to identify, manage and control business risks.

The RMF has the following core components:

1. A risk appetite framework which sets out the type and amount of risk the Group and the Company are able and willing to accept;
2. A risk management system that is used to identify, assess and manage the risks in accordance with the risk appetite framework; and
3. A risk governance culture which encourages all employees to engage actively in risk management through the operation of risk policies, standards and procedures.

(b) Regulatory framework

Insurers have to comply with the Financial Services Act, 2013 and circulars and guidelines issued by BNM, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policies rests with the Board. The Board exercises oversight on the investments to safeguard the interests of the policyholders and shareholders.

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31. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Capital management

The Group and Company's capital management policy is to deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth. The RBC Framework and Guidelines on ICAAP for the insurance industry came into effect on 1 January 2009 and 1 September 2012 respectively. Under these requirements, the Company has to maintain a capital adequacy ratio (CAR) that commensurate with its risk profile. The minimum Statutory Target Capital Level requirement under the Risk-Based Capital Framework for insurers is 130%. Throughout the financial year, the Company maintained a CAR higher than the minimum requirement set by the Authority.

(d) Counter financing of terrorism

Following the Anti-Money Laundering Anti-Terrorism Financing and Proceeds of Unlawful Activities (AMLATFPUA) (Amendment of First Schedule) Order 2014, whereby general insurers are no longer defined as Reporting Institutions under the AMLATFPUA Act 2001 with effect from 5 November 2014, and the Technical Note dated 14.7.2016 issued by BNM, the scope of AML/CFT risk monitoring under the AMLATFPUA Act 2001 for general insurers had been significantly scaled down. Based on the development, the Company has in place CFT and TFS Policy in accordance with the relevant BNM guidelines/technical note and the AMLATFPUA Act 2001 to mitigate the risk of the Company from being used as a channel for financing of terrorism. Towards this end, the Company is leveraging on IT program to facilitate the screening of the Company's customers name against the database of specified individuals and entities published in the relevant United Nations Security Council Resolutions (UNSCRs) and Ministry of Home Affairs Orders.

32. INSURANCE RISK

In designing and pricing the general insurance products, the Company make several assumptions about the expected number of claims, the average cost of each claim, and the average premium that will be received (together these risks are defined as premium risk). The Company also assesses each year, the expected level of claims that must be paid based on events which have already occurred but where claim settlement remains outstanding (reserve risk). In setting the assumptions, the Company has also taken into consideration the impact and development trend of large insurance claims (large loss risk); as well as the potential exposure to claims arising from natural catastrophe events (natural catastrophe risk). In all the above instances the risk to the Company arises from the fact that the actual outcome will be different from our assumptions.

Hence, the key risk here is the variability of the claim events which may differ from the assumptions made during the acceptance of the business and also during the assessment of the expected level of claims after an event occurs.

The variability of the claim events is reduced through writing a more diversified portfolio of insurance contracts and also through the use of proper reinsurance arrangements. In addition, selection of risks appropriate implementation of underwriting strategy and guidelines, good claims management and adequate control systems aid to ensure a robust insurance risk management.

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32. INSURANCE RISK (CONTINUED)

The objective of the Company is to control and manage insurance risk to reduce volatility of operating profits has been achieved and has done it through the following:

- The Company's underwriting approach is governed by an underwriting policy and guidelines which sets out a control framework for risk acceptance and referrals, underwriting capacity and authority limits granted to the various operations.
- The Company's claims philosophy which provides the framework for claims management, regular claims review and claims handling procedures with the objective to minimise the uncertainty of claims development and inflationary costs as well as to mitigate dubious or fraudulent claims whilst ensuring fair claims
- Reinsurance is used to limit the Company's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.

The key assumptions made when setting the premiums and valuation of technical provisions are that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of the possibility and magnitude of future claims development and also the expenses involved in handling claims. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example isolated occurrence of large claims as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

The risk inherent in general insurance contracts is reflected in the technical provisions which include the premium and claim liabilities, as set out under Note 14 of the financial statements. The premium liabilities comprise reserve for unexpired risks, while the claim liabilities comprise the loss reserves which include both provision for outstanding claims notified and IBNR. This is currently done at the 75% sufficiency level, according to the requirement set by Bank Negara under the RBC Framework.

Estimates of an insurance company's premium and claim liabilities are affected by future events, which can be unpredictable. Hence, the assumptions made may well vary from actual experience. In order for the management to understand the impact of these assumption difference, a Stress Testing exercise is performed annually to test the solvency of the company under various scenarios, simulating changes in major parameters such as new business volume, claims experience, expenses and investment environment, according to regulatory guidelines. This will help inform the management of the key areas with significant impact to the business and to manage the Company more effectively.

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32. INSURANCE RISK (CONTINUED)

<u>Group/Company</u>	2019			2018		
	<u>Gross</u> RM	<u>Reinsurance</u> RM	<u>Net</u> RM	<u>Gross</u> RM	<u>Reinsurance</u> RM	<u>Net</u> RM
<u>Claim liabilities</u>						
Motor	379,798,657	(201,088,471)	178,710,186	362,953,218	(162,742,429)	200,210,789
Fire	73,131,951	(60,439,439)	12,692,512	83,226,297	(66,307,393)	16,918,904
Marine, Aviation and Transit	82,301,210	(70,430,385)	11,870,825	98,658,077	(85,095,253)	13,562,824
Medical and Health	18,379,869	(638,222)	17,741,647	13,191,939	(262,176)	12,929,763
Miscellaneous	206,674,056	(160,609,578)	46,064,478	121,345,179	(76,120,774)	45,224,405
	<u>760,285,743</u>	<u>(493,206,095)</u>	<u>267,079,648</u>	<u>679,374,710</u>	<u>(390,528,025)</u>	<u>288,846,685</u>
<u>Premium liabilities</u>						
Motor	138,716,274	(75,306,242)	63,410,032	152,666,702	(81,907,158)	70,759,544
Fire	29,876,610	(21,097,321)	8,779,289	29,426,695	(21,789,489)	7,637,206
Marine, Aviation and Transit	23,144,689	(19,754,819)	3,389,870	22,430,863	(18,664,216)	3,766,647
Medical and Health	26,114,669	(710,442)	25,404,227	27,945,777	(3,930,897)	24,014,880
Miscellaneous	40,136,675	(24,427,836)	15,708,839	27,048,259	(11,617,708)	15,430,551
	<u>257,988,917</u>	<u>(141,296,660)</u>	<u>116,692,257</u>	<u>259,518,296</u>	<u>(137,909,468)</u>	<u>121,608,828</u>

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Group's and the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims 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, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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32. INSURANCE RISK (CONTINUED)

Other key circumstances affecting the reliability of assumptions include variation in interest rates discounting if any, delays in settlement and changes in foreign currency rates.

Sensitivities

The general insurance claim liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on Gross and Net Liabilities, Profit before Tax and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact due to changes in assumptions, these assumptions are illustrated on an individual basis. It should be noted that movements in these assumptions are non-linear.

<u>Group/Company</u>	<u>Change in assumptions</u>	<u>Impact on gross liabilities</u> RM	<u>Impact on net liabilities</u> RM	<u>Impact on profit before tax</u> RM	<u>Impact on equity</u> RM
<u>2019</u>					
Provision for Risk Margin for Adverse Deviation ("PRAD")					
Loss ratio	+5%	2,633,815	589,972	(589,972)	(448,379)
Claim handling expenses	+5%	121,966,349	58,190,141	(58,190,141)	(44,224,507)
	+5%	631,529	631,529	(631,529)	(479,962)
<u>2018</u>					
PRAD					
Loss ratio	+5%	2,338,797	873,987	(873,987)	(664,230)
Claim handling expenses	+5%	125,269,858	59,176,982	(59,176,982)	(44,974,506)
	+5%	633,364	633,364	(633,364)	(481,357)

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32. INSURANCE RISK (CONTINUED)

Sensitivities (continued)

The following analysis is performed for reasonably possible movements in the key assumption used in determining sliding scale commission, showing the impact on Profit before Tax and Equity.

Group/Company

2019

Sliding scale commission rate
Sliding scale commission rate

<u>Change in assumptions</u>	<u>Impact on gross/net liabilities</u> RM	<u>Impact on profit before tax</u> RM	<u>Impact on equity</u> RM
+0.5%	(2,566,410)	2,566,410	1,950,471
-0.5%	1,521,875	(1,521,875)	(1,156,625)

2018

Sliding scale commission rate
Sliding scale commission rate

<u>Change in assumptions</u>	<u>Impact on gross/net liabilities</u> RM	<u>Impact on profit before tax</u> RM	<u>Impact on equity</u> RM
+0.5%	(1,983,343)	1,983,343	1,507,341
-0.5%	1,983,343	(1,983,343)	(1,507,341)

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32. 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 each reporting date, together with cumulative payments to-date.

In setting provisions for claims, the Group and the Company give consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Three separate tables have been shown to account for claim developments for Pacific Insurance Berhad (PIB) ongoing business, MCIS Insurance Berhad run-off (ex-MCIS) business, Prudential Assurance Berhad run-off (ex-PAMB) respectively with the reasons of :

- Ex-MCIS table consists of cohort of claims from existing risks of MCIS up to the point of acquisition 28 February 2016. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.
- Ex-PAMB table consists of cohort of claims from existing risks of PAMB up to the point of acquisition 30 August 2017. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2019 (PIB):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM
<u>Group/Company</u>							
At end of accident year		123,760,119	203,716,816	317,146,705	335,408,814	412,875,380	435,946,140
One year later		114,975,495	208,908,915	295,572,540	319,931,530	398,191,832	
Two years later		111,045,828	190,026,570	274,896,467	311,531,610		
Three years later		109,759,689	173,811,064	274,210,516			
Four years later		110,560,974	171,364,004				
Five years later		110,354,986					
Current estimate of cumulative claims incurred		110,354,986	171,364,004	274,210,516	311,531,610	398,191,832	435,946,140
At end of accident year		(39,174,817)	(51,264,771)	(84,733,806)	(93,494,069)	(105,157,920)	(111,114,310)
One year later		(73,691,410)	(124,567,293)	(178,156,018)	(195,921,333)	(228,260,824)	
Two years later		(87,747,029)	(150,468,251)	(214,883,707)	(238,771,795)		
Three years later		(95,024,687)	(158,450,240)	(232,806,522)			
Four years later		(98,751,059)	(161,942,575)				
Five years later		(100,356,740)					
Cumulative payments to-date		(100,356,740)	(161,942,575)	(232,806,522)	(238,771,795)	(228,260,824)	(111,114,310)

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2019 (PIB) (continued):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	4,201,963	9,998,246	9,421,429	41,403,994	72,759,815	169,931,008	324,831,830	632,548,285
Gross general insurance outstanding liabilities (treaty inward)								26,736,561
Best estimate of claim liabilities								659,284,846
Claims handling expenses								11,535,066
PRAD at 75% confidence Level								53,947,926
Gross general insurance contract liabilities per statements of financial position								<u>724,767,838</u>

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2019 (MCIS general insurance business run-off):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM
<u>Group/Company</u>							
At end of accident year		86,623,384	18,695,705	167,828	-	-	-
One year later		86,840,507	21,626,874	287,700	-	-	-
Two years later		83,113,690	19,916,415	331,340	-	-	-
Three years later		79,206,629	18,587,448	482,995	-	-	-
Four years later		75,705,886	17,938,550				
Five years later		74,418,707					
Current estimate of cumulative claims incurred		74,418,707	17,938,550	482,995	-	-	-
At end of accident year		(23,780,956)	(3,073,991)	-	-	-	-
One year later		(38,329,500)	(8,496,081)	(19,769)	-	-	-
Two years later		(55,233,080)	(14,298,513)	(76,166)	-	-	-
Three years later		(62,316,541)	(15,784,130)	(159,335)	-	-	-
Four years later		(67,585,119)	(16,677,357)				
Five years later		(68,549,794)					
Cumulative payments to-date		(68,549,794)	(16,677,357)	(159,335)	-	-	-

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2019 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	20,399,787	5,868,913	1,261,193	323,660	-	-	-	27,853,553
Gross general insurance outstanding liabilities (treaty inward)								241,088
Best estimate of claim liabilities								28,094,641
Claims handling expenses								403,877
PRAD at 75% confidence Level								3,416,497
Gross general insurance contract liabilities per statements of financial position								31,915,015

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2019 (Prudential general insurance business run-off):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM
<u>Group/Company</u>							
At end of accident year	-	-	-	-	5,748,141	1,157,937	-
One year later	-	-	-	6,207,659	6,155,823	764,665	-
Two years later	-	-	7,847,268	6,226,732	5,202,769	-	-
Three years later	-	-	-	6,378,643	-	-	-
Four years later	9,196,681	7,830,286	-	-	-	-	-
Five years later	9,215,493	7,754,753	-	-	-	-	-
Current estimate of cumulative claims incurred	9,280,767	7,754,753	6,378,643	5,202,769	764,665	-	-
At end of accident year	-	-	-	(2,656,448)	(3,450,422)	(483,694)	-
One year later	-	-	(5,801,310)	(4,195,671)	(4,435,109)	(594,358)	-
Two years later	(8,967,075)	(6,168,223)	(5,022,474)	(5,079,972)	-	-	-
Three years later	(9,065,935)	(6,184,841)	(5,434,496)	-	-	-	-
Four years later	(9,084,327)	(6,207,630)	-	-	-	-	-
Five years later	(9,171,301)	-	-	-	-	-	-
Cumulative payments to-date	(9,171,301)	(6,207,630)	(5,434,496)	(5,079,972)	(594,358)	-	-

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2019 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	240,722	109,466	1,547,123	944,147	122,797	170,307	-	3,134,562
Gross general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								3,134,562
Claims handling expenses								45,451
PRAD at 75% confidence Level								422,877
Gross general insurance contract liabilities per statements of financial position								3,602,890

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2019 (PIB):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM
<u>Group/Company</u>							
At end of accident year		82,907,814	121,532,796	150,715,647	163,233,359	194,471,543	172,774,434
One year later		64,204,183	121,955,485	142,324,732	157,952,520	178,523,366	
Two years later		60,252,225	115,029,552	135,606,014	156,115,914		
Three years later		59,043,708	108,271,022	133,712,532			
Four years later		58,632,769	106,939,976				
Five years later		58,523,082					
Current estimate of cumulative claims incurred		58,523,082	106,939,976	133,712,532	156,115,914	178,523,366	172,774,434
At end of accident year		(34,893,870)	(42,780,549)	(57,094,912)	(60,684,046)	(68,271,450)	(71,167,728)
One year later		(51,160,371)	(82,033,698)	(96,246,726)	(111,036,463)	(122,478,865)	
Two years later		(54,989,373)	(95,997,486)	(114,319,389)	(130,070,933)		
Three years later		(56,268,953)	(99,383,175)	(122,112,268)			
Four years later		(57,341,537)	(100,974,430)				
Five years later		(57,465,380)					
Cumulative payments to-date		(57,465,380)	(100,974,430)	(122,112,268)	(130,070,933)	(122,478,865)	(71,167,728)

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2019 (PIB) (continued):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	513,274	1,057,702	5,965,546	11,600,264	26,044,981	56,044,501	101,606,706	202,832,974
Net general insurance outstanding liabilities (treaty inward)								26,736,561
Best estimate of claim liabilities								229,569,535
Claims handling expenses								11,535,066
PRAD at 75% confidence Level								16,167,791
Net general insurance contract liabilities per statements of financial position								257,272,392

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2019 (MCIS general insurance business run-off):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM
<u>Group/Company</u>							
At end of accident year		69,675,872	14,530,459	23,937	-	-	-
One year later		71,475,987	14,557,068	39,688	-	-	-
Two years later		43,832,305	13,431,149	38,977	-	-	-
Three years later		42,375,851	12,345,946	47,058	-	-	-
Four years later		41,104,263	11,865,519				
Five years later		40,716,519					
Current estimate of cumulative claims incurred		40,716,519	11,865,519	47,058	-	-	-
At end of accident year		(22,210,967)	(2,922,588)	-	-	-	-
One year later		(33,676,688)	(7,614,617)	(5,387)	-	-	-
Two years later		(34,477,349)	(10,212,208)	(14,557)	-	-	-
Three years later		(37,001,563)	(10,594,819)	(20,596)	-	-	-
Four years later		(38,550,506)	(10,809,612)				
Five years later		(38,822,148)					
Cumulative payments to-date		(38,822,148)	(10,809,612)	(20,596)	-	-	-

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2019 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	3,493,445	1,894,371	1,055,907	26,462	-	-	-	6,470,185
Net general insurance outstanding liabilities (treaty inward)								241,088
Best estimate of claim liabilities								6,711,273
Claims handling expenses								403,877
PRAD at 75% confidence Level								496,098
Net general insurance contract liabilities per statements of financial position								7,611,248

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2019 (Prudential general insurance business run-off):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM
<u>Group/Company</u>							
At end of accident year		8,602,421	6,248,605	6,190,620	5,292,896	1,122,934	-
One year later		7,694,913	6,765,166	5,637,703	5,394,646	739,426	
Two years later		7,678,580	6,388,061	5,633,741	4,510,864		
Three years later		7,550,671	6,367,969	5,711,020			
Four years later		7,569,013	6,302,394				
Five years later		7,632,657					
Current estimate of cumulative claims incurred		7,632,657	6,302,394	5,711,020	4,510,864	739,426	-
At end of accident year		(3,817,365)	(3,456,977)	(2,490,530)	(3,124,049)	(466,517)	-
One year later		(6,587,588)	(5,476,125)	(3,978,040)	(4,079,538)	(573,376)	
Two years later		(7,326,801)	(5,833,496)	(4,629,029)	(4,391,137)		
Three years later		(7,423,196)	(5,848,981)	(4,865,427)			
Four years later		(7,441,128)	(5,871,200)				
Five years later		(7,525,928)					
Cumulative payments to-date		(7,525,928)	(5,871,200)	(4,865,427)	(4,391,137)	(573,376)	-

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2019 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2014 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	2019 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	234,703	106,729	431,194	845,593	119,727	166,050	-	1,903,996
Net general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								1,903,996
Claims handling expenses								45,451
PRAD at 75% confidence Level								246,561
Net general insurance contract liabilities per statements of financial position								2,196,008

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (PIB):

Accident year	Prior to 2013	2013	2014	2015	2016	2017	2018
Group/Company	RM	RM	RM	RM	RM	RM	RM
At end of accident year		116,338,554	123,760,119	203,716,816	317,146,705	335,408,814	412,875,380
One year later		105,807,794	114,975,495	208,908,915	295,572,540	319,931,530	
Two years later		106,791,073	111,045,828	190,026,570	274,896,467		
Three years later		104,834,497	109,759,689	173,811,064			
Four years later		104,377,724	110,560,974				
Five years later		103,587,697					
Current estimate of cumulative claims incurred		103,587,697	110,560,974	173,811,064	274,896,467	319,931,530	412,875,380
At end of accident year		(42,066,707)	(39,174,817)	(51,264,771)	(84,733,806)	(93,494,069)	(105,157,920)
One year later		(71,934,324)	(73,691,410)	(124,567,293)	(178,156,018)	(195,921,333)	
Two years later		(85,486,306)	(87,747,029)	(150,468,251)	(214,883,707)		
Three years later		(91,334,354)	(95,024,687)	(158,450,240)			
Four years later		(97,660,478)	(98,751,059)				
Five years later		(97,908,021)					
Cumulative payments to-date		(97,908,021)	(98,751,059)	(158,450,240)	(214,883,707)	(195,921,333)	(105,157,920)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (PIB) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	3,880,744	5,679,676	11,809,915	15,360,824	60,012,760	124,010,197	307,717,460	528,471,576
Gross general insurance outstanding liabilities (treaty inward)								31,005,248
Best estimate of claim liabilities								559,476,824
Claims handling expenses								10,642,816
PRAD at 75% confidence Level								48,601,698
Gross general insurance contract liabilities per statements of financial position								618,721,338

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (MCIS general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		105,396,000	86,623,384	18,695,705	167,828	-	-
One year later		93,253,432	86,840,507	21,626,874	287,700	-	-
Two years later		92,377,981	83,113,690	19,916,415	331,340	-	-
Three years later		87,378,959	79,206,629	18,587,448	-	-	-
Four years later		84,834,914	75,705,886	-	-	-	-
Five years later		81,080,508	-	-	-	-	-
Current estimate of cumulative claims incurred		81,080,508	75,705,886	18,587,448	331,340	-	-
At end of accident year		(26,581,810)	(23,780,956)	(3,073,991)	-	-	-
One year later		(54,196,942)	(38,329,500)	(8,496,081)	(19,769)	-	-
Two years later		(61,129,585)	(55,233,080)	(14,298,513)	(76,166)	-	-
Three years later		(68,642,256)	(62,316,541)	(15,784,130)	-	-	-
Four years later		(70,289,378)	(67,585,119)	-	-	-	-
Five years later		(70,752,302)	-	-	-	-	-
Cumulative payments to-date		(70,752,302)	(67,585,119)	(15,784,130)	(76,166)	-	-

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	26,588,295	10,328,206	8,120,767	2,803,318	255,174	-	-	48,095,760
Gross general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								48,809,797
Claims handling expenses								1,116,164
PRAD at 75% confidence Level								3,949,272
Gross general insurance contract liabilities per statements of financial position								53,875,233

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (Prudential general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year							
One year later						5,748,141	1,157,937
Two years later					6,207,659	6,155,823	
Three years later			9,196,681	7,847,268	6,226,732		
Four years later		10,164,700	9,215,493	7,830,286			
Five years later		10,211,909					
Current estimate of cumulative claims incurred		10,211,909	9,215,493	7,830,286	6,226,732	6,155,823	1,157,937
At end of accident year							
One year later					(2,656,448)	(3,450,422)	(483,694)
Two years later			(8,967,075)	(5,801,310)	(4,195,671)	(4,435,109)	
Three years later		(9,823,038)	(9,065,935)	(6,168,223)	(5,022,474)		
Four years later		(10,065,433)	(9,084,327)	(6,184,841)			
Five years later		(10,068,448)					
Cumulative payments to-date		(10,068,448)	(9,084,327)	(6,184,841)	(5,022,474)	(4,435,109)	(483,694)

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32. INSURANCE RISK (CONTINUED)

Gross general insurance claims liabilities in 2018 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Gross general insurance outstanding liabilities (direct and facultative)	299,102	143,461	131,166	1,645,445	1,204,258	1,720,714	674,243	5,818,389
Gross general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								5,818,389
Claims handling expenses								195,369
PRAD at 75% confidence Level								764,381
Gross general insurance contract liabilities per statements of financial position								<u>6,778,139</u>

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (PIB):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		76,527,904	82,907,814	121,532,796	150,715,647	163,233,359	194,471,543
One year later		72,915,675	64,204,183	121,955,485	142,324,732	157,952,520	
Two years later		65,794,967	60,252,225	115,029,552	135,606,014		
Three years later		64,247,522	59,043,708	108,271,022			
Four years later		63,869,542	58,632,769				
Five years later		63,601,350					
Current estimate of cumulative claims incurred		63,601,350	58,632,769	108,271,022	135,606,014	157,952,520	194,471,543
At end of accident year		(36,078,103)	(34,893,870)	(42,780,549)	(57,094,912)	(60,684,046)	(68,271,450)
One year later		(56,406,967)	(51,160,371)	(82,033,698)	(96,246,726)	(111,036,463)	
Two years later		(60,685,360)	(54,989,373)	(95,997,486)	(114,319,389)		
Three years later		(61,894,440)	(56,268,953)	(99,383,175)			
Four years later		(62,351,437)	(57,341,537)				
Five years later		(62,396,209)					
Cumulative payments to-date		(62,396,209)	(57,341,537)	(99,383,175)	(114,319,389)	(111,036,463)	(68,271,450)

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (PIB) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	258,084	1,205,141	1,291,232	8,887,847	21,286,625	46,916,057	126,200,093	206,045,079
Net general insurance outstanding liabilities (treaty inward)								31,005,248
Best estimate of claim liabilities								237,050,327
Claims handling expenses								10,642,816
PRAD at 75% confidence Level								22,686,379
Net general insurance contract liabilities per statements of financial position								<u>270,379,522</u>

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (MCIS general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		76,525,000	69,675,872	14,530,459	23,937	-	-
One year later		72,610,787	71,475,987	14,557,068	39,688	-	-
Two years later		72,900,862	43,832,305	13,431,149	38,977	-	-
Three years later		55,813,147	42,375,851	12,345,946	-	-	-
Four years later		54,608,309	41,104,263	-	-	-	-
Five years later		53,252,038	-	-	-	-	-
Current estimate of cumulative claims incurred		53,252,038	41,104,263	12,345,946	38,977	-	-
At end of accident year		(22,034,001)	(22,210,967)	(2,922,588)	-	-	-
One year later		(45,329,555)	(33,676,688)	(7,614,617)	(5,387)	-	-
Two years later		(49,278,223)	(34,477,349)	(10,212,208)	(14,557)	-	-
Three years later		(49,539,391)	(37,001,563)	(10,594,819)	-	-	-
Four years later		(49,937,501)	(38,550,506)	-	-	-	-
Five years later		(50,125,247)	-	-	-	-	-
Cumulative payments to-date		(50,125,247)	(38,550,506)	(10,594,819)	(14,557)	-	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (MCIS general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	3,818,753	3,126,791	2,553,757	1,751,127	24,420	-	-	11,274,848
Net general insurance outstanding liabilities (treaty inward)								714,037
Best estimate of claim liabilities								11,988,885
Claims handling expenses								1,116,164
PRAD at 75% confidence Level								847,038
Net general insurance contract liabilities per statements of financial position								13,952,087

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (Prudential general insurance business run-off):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM
<u>Group/Company</u>							
At end of accident year		10,011,520	8,602,421	6,248,605	6,190,620	5,292,896	1,122,934
One year later		9,343,655	7,694,913	6,765,166	5,637,703	5,394,646	
Two years later		9,082,945	7,678,580	6,388,061	5,633,741		
Three years later		9,081,461	7,550,671	6,367,969			
Four years later		8,993,745	7,569,013				
Five years later		9,039,773					
Current estimate of cumulative claims incurred		9,039,773	7,569,013	6,367,969	5,633,741	5,394,646	1,122,934
At end of accident year		(4,632,641)	(3,817,365)	(3,456,977)	(2,490,530)	(3,124,049)	(466,517)
One year later		(7,947,200)	(6,587,588)	(5,476,125)	(3,978,040)	(4,079,538)	
Two years later		(8,514,934)	(7,326,801)	(5,833,496)	(4,629,029)		
Three years later		(8,664,745)	(7,423,196)	(5,848,981)			
Four years later		(8,896,964)	(7,441,128)				
Five years later		(8,899,905)					
Cumulative payments to-date		(8,899,905)	(7,441,128)	(5,848,981)	(4,629,029)	(4,079,538)	(466,517)

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32. INSURANCE RISK (CONTINUED)

Net general insurance claims liabilities in 2018 (Prudential general insurance business run-off) (continued):

Accident year	Prior to 2013 RM	2013 RM	2014 RM	2015 RM	2016 RM	2017 RM	2018 RM	Total RM
<u>Group/Company</u>								
Net general insurance outstanding liabilities (direct and facultative)	67,781	139,868	127,885	518,988	1,004,712	1,315,108	656,417	3,830,759
Net general insurance outstanding liabilities (treaty inward)								-
Best estimate of claim liabilities								3,830,759
Claims handling expenses								195,369
PRAD at 75% confidence Level								488,948
Net general insurance contract liabilities per statements of financial position								4,515,076

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33. FINANCIAL RISKS

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

Credit risk

Credit risk is the risk of financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The major classes of financial assets of the Group and the Company are deposits with financial institutions, FVTPL (unit trusts and bonds), loan receivables and trade receivables.

Credit risk arises when the Group's and the Company's cash assets are placed in interest-bearing instruments, mainly fixed and call deposits and repurchase agreements with licensed financial institutions. The Group and the Company manage this credit risk by spreading their deposits with a large group of financial institutions.

Trade receivables are monitored regularly and the Group and the Company adopt various control measures such as 60 days Premium Warranty and Cash Before Cover to minimise this credit risk.

Credit exposure

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the maximum amount of each class of financial assets recognised in the statements of financial position.

Credit exposure by credit rating

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

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33. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2019	Government Guaranteed RM	Investment grade RM	Not rated RM	Total RM
<u>Group</u>				
Amortised cost:				
Fixed and call deposits	-	55,774,229	-	55,774,229
Loan	-	-	914,083	914,083
FVTPL financial investments:				
Malaysian Government Securities	55,155,902	-	-	55,155,902
Government Investment Issues	108,921,976	-	-	108,921,976
Corporate bonds	32,369,639	92,289,749	7,066,181	131,725,569
Unit trusts	-	-	172,228,508	172,228,508
Equity securities	-	-	30,122,056	30,122,056
REITs	-	-	3,356,200	3,356,200
Reinsurance assets	-	609,272,632	24,873,790	634,146,422
Insurance receivables and reinsurance recoverables	-	17,009,316	42,974,024	59,983,340
Cash and cash equivalents	-	182,905,515	10,100	182,915,615
	<u>196,447,517</u>	<u>957,251,441</u>	<u>281,544,942</u>	<u>1,435,243,900</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	2019				
		Government Guaranteed	Investment grade	Not rated	Total
		RM	RM	RM	RM
Company					
Amortised cost:					
Fixed and call deposits		-	55,774,229	-	55,774,229
Loan		-	-	914,083	914,083
FVTPL financial investments					
Unit trusts		-	-	479,334,485	479,334,485
Equity securities		-	-	30,122,056	30,122,056
REITs		-	-	3,356,200	3,356,200
Reinsurance assets		-	609,272,632	24,873,790	634,146,422
Insurance receivables and reinsurance recoverables		-	17,009,316	42,974,024	59,983,340
Cash and cash equivalents		-	170,754,279	10,100	170,764,379
		-	852,810,456	581,584,738	1,434,395,194

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33. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired			Past-due but not impaired	Past-due and impaired	Total
	Government Guaranteed	Investment grade	Not rated			
	RM	RM	RM	RM	RM	RM
2018						
<u>Group</u>						
LAR:						
Fixed and call deposits	-	52,312,288	-	-	-	52,312,288
Loan	-	-	943,557	-	-	943,557
AFS financial investments:						
Malaysian Government Securities	68,781,903	-	-	-	-	68,781,903
Government Investment Issues	82,809,272	-	-	-	-	82,809,272
Corporate bonds	21,386,309	93,067,765	11,598,650	-	-	126,052,724
Unit trusts	-	-	165,086,037	-	-	165,086,037
FVTPL financial investments:						
Equity securities	-	-	28,199,020	-	-	28,199,020
REITs	-	-	3,226,996	-	-	3,226,996
Reinsurance assets	-	504,665,763	23,041,273	-	730,457	528,437,493
Insurance receivables and reinsurance recoverables	-	971,691	52,627,228	9,540,811	5,730,106	68,869,836
Cash and cash equivalents	-	199,865,465	10,100	-	-	199,875,565
	172,977,484	850,882,972	284,732,861	9,540,811	6,460,563	1,324,594,691

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33. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2018	Company	Neither past-due nor impaired			Past-due but not impaired	Past-due and impaired	Total
		Government Guaranteed	Investment grade	Not rated			
		RM	RM	RM	RM	RM	RM
LAR:							
Fixed and call deposits		-	52,312,288	-	-	-	52,312,288
Loan		-	-	943,557	-	-	943,557
AFS financial investments:							
Corporate bonds		-	-	7,195,116	-	-	7,195,116
Unit trusts		-	-	446,268,624	-	-	446,268,624
FVTPL financial investments:							
Equity securities		-	-	28,199,020	-	-	28,199,020
REITs		-	-	3,226,996	-	-	3,226,996
Reinsurance assets		-	504,665,763	23,041,273	-	730,457	528,437,493
Insurance receivables and reinsurance recoverables		-	971,691	52,627,228	9,540,811	5,730,106	68,869,836
Cash and cash equivalents		-	188,315,142	10,100	-	-	188,325,242
		-	746,264,884	561,511,914	9,540,811	6,460,563	1,323,778,172

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33. FINANCIAL RISKS (CONTINUED)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit ratings of counterparties obtained from Rating Agency of Malaysia ("RAM"), Malaysian Rating Corporation Berhad ("MARC"), A.M. Best Company ("A.M. Best"), Standard & Poor's ("S&P") and Fitch Solution. AAA is the highest possible rating.

Credit exposure by credit rating (continued)

2019	Government Guaranteed RM	AAA RM	AA RM	A RM	Not rated RM	Total RM
<u>Group</u>						
Amortised cost:						
Fixed and call deposits	-	40,602,760	6,616,209	8,555,260	-	55,774,229
Loan	-	-	-	-	914,083	914,083
FVTPL financial investments:						
Malaysian Government Securities	55,155,902	-	-	-	-	55,155,902
Government Investment Issues	108,921,976	-	-	-	-	108,921,976
Corporate bonds	32,369,639	20,340,363	55,734,120	16,215,266	7,066,181	131,725,569
Unit trusts	-	-	-	-	172,228,508	172,228,508
Equity securities	-	-	-	-	30,122,056	30,122,056
REITs	-	-	-	-	3,356,200	3,356,200
Reinsurance assets	-	-	239,029	609,033,603	24,873,790	634,146,422
Insurance receivables and reinsurance recoverables	-	-	43,037	16,966,279	42,974,024	59,983,340
Cash and cash equivalents	-	36,035,271	146,870,244	-	10,100	182,915,615
	<u>196,447,517</u>	<u>96,978,394</u>	<u>209,502,639</u>	<u>650,770,408</u>	<u>281,544,942</u>	<u>1,435,243,900</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2019	Government Guaranteed RM	AAA RM	AA RM	A RM	Not rated RM	Total RM
Company						
Amortised cost:						
Fixed and call deposits	-	40,602,760	6,616,209	8,555,260	-	55,774,229
Loan	-	-	-	-	914,083	914,083
FVTPL financial investments						
Unit trusts	-	-	-	-	479,334,485	479,334,485
Equity securities	-	-	-	-	30,122,056	30,122,056
REITs	-	-	-	-	3,356,200	3,356,200
Reinsurance assets	-	-	239,029	609,033,603	24,873,790	634,146,422
Insurance receivables and reinsurance recoverables	-	-	43,037	16,966,279	42,974,024	59,983,340
Cash and cash equivalents	-	23,889,575	146,864,704	-	10,100	170,764,379
	-	64,492,335	153,762,979	634,555,142	581,584,738	1,434,395,194

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

2018	Government Guaranteed RM	AAA RM	AA RM	A RM	Not rated RM	Total RM
<u>Group</u>						
LAR:						
Fixed and call deposits	-	44,092,080	2,886,418	5,333,790	-	52,312,288
Loan	-	-	-	-	943,557	943,557
AFS financial investments:						
Malaysian Government Securities	68,781,903	-	-	-	-	68,781,903
Government Investment Issues	82,809,272	-	-	-	-	82,809,272
Corporate bonds	21,386,309	13,561,176	53,453,696	26,052,893	11,598,650	126,052,724
Unit trusts	-	-	-	-	165,086,037	165,086,037
FVTPL financial investments:						
Equity securities	-	-	-	-	28,199,020	28,199,020
REITs	-	-	-	-	3,226,996	3,226,996
Reinsurance assets	-	-	10,769	504,654,994	23,041,273	527,707,036
Insurance receivables and reinsurance recoverables	-	-	4,503	16,317,154	46,818,073	63,139,730
Cash and cash equivalents	-	39,565,897	160,299,568	-	10,100	199,875,565
	<u>172,977,484</u>	<u>97,219,153</u>	<u>216,654,954</u>	<u>552,358,831</u>	<u>278,923,706</u>	<u>1,318,134,128</u>
Neither past-due nor impaired	<u>172,977,484</u>	<u>94,293,569</u>	<u>219,575,062</u>	<u>74,032,909</u>	<u>747,714,293</u>	<u>1,308,593,317</u>
Past-due but not impaired	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,540,811</u>	<u>9,540,811</u>
	<u>172,977,484</u>	<u>94,293,569</u>	<u>219,575,062</u>	<u>74,032,909</u>	<u>757,255,104</u>	<u>1,318,134,128</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

It is the Group's and the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The Group and the Company use the ratings assigned by external rating agencies to assess credit risk.

Set out below is the information about the credit risk exposure on the Group's and the Company's insurance receivables, using provision matrix:

<u>Group/Company</u>	<u>0-3</u> <u>months</u> <u>RM</u>	<u>4-6</u> <u>months</u> <u>RM</u>	<u>7-12</u> <u>months</u> <u>RM</u>	<u>>12</u> <u>months</u> <u>RM</u>	<u>Total</u> <u>RM</u>
31 December 2019					
Expected credit loss rate	2%	3%	9%	76%	
Insurance receivables and reinsurance recoverables	46,576,765	10,278,651	3,033,489	5,794,025	65,682,930
Expected credit loss	776,157	257,601	268,892	4,396,940	5,699,590
1 January 2019					
Expected credit loss rate	3%	54%	41%	65%	
Insurance receivables and reinsurance recoverables	54,200,403	2,610,525	2,435,426	9,623,482	68,869,836
Expected credit loss	1,425,261	1,412,914	999,376	6,290,367	10,127,918

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33. FINANCIAL RISKS (CONTINUED)

At 31 December 2019, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables, reinsurance recoverables and reinsurance assets of RM6,055,923 (2018: RM6,460,563). No collateral is held as security for any past-due or impaired assets. The Group and the Company record impairment allowance for insurance receivables, reinsurance recoverables and reinsurance assets in separate "allowance for impairment losses" account. A reconciliation of the allowance for impairment losses for insurance receivables, reinsurance recoverables and reinsurance assets are as follows:

	Insurance receivables and reinsurance recoverables		Reinsurance Assets		Total	
	Allowance for Impairment losses		Impairment losses		2018	
	2019	2018	2019	2018	2019	2018
	RM	RM	RM	RM	RM	RM
<u>Group/Company</u>						
At 31 December	5,730,106	6,592,655	730,457	1,862,523	6,460,563	8,455,178
Effects of adoption of MFRS 9	4,397,812	-	-	-	4,397,812	-
At 1 January 2019, as restated	10,127,918	6,592,655	730,457	1,862,523	10,858,375	8,455,178
Write back for the financial year	(4,428,328)	(546,846)	(374,124)	(1,132,066)	(4,802,452)	(1,678,912)
Bad debts written-off	-	(315,703)	-	-	-	(315,703)
At 31 December	5,699,590	5,730,106	356,333	730,457	6,055,923	6,460,563

Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Group's and the Company's exposure to liquidity risk arise mainly from its lending commitments, borrowings, trade and other payables.

The Group and the Company actively manage the profile of its deposits with financial institutions, operating cash flows and the availability of funding so as to ensure that all operating needs are met. As part of its overall prudent liquidity management, the Group and the Company maintain sufficient levels of cash or cash convertible investments to meet its working capital requirements.

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33. FINANCIAL RISKS (CONTINUED)

Maturity profiles

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

For claims liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised claims liabilities.

Unearned premiums reserves and the reinsurers' share of the unearned premiums reserves have been excluded from the analysis as there are no contractual obligations with those balances.

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33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2019

Group

Financial investments:

Amortised cost	55,774,229	56,822,751	-	-	-	-	-	-	-	-	-	56,822,751
FVTPL	501,510,211	18,644,200	33,781,225	42,271,150	192,662,493	113,565,973	205,706,764	606,631,805				606,631,805
Reinsurance assets on claim liabilities	492,849,762	219,494,777	177,922,321	59,179,706	36,252,958	-	-	492,849,762				
Insurance receivables and reinsurance recoverable	59,983,340	59,983,340	-	-	-	-	-	59,983,340				
Other receivables												
- staff loans	914,083	177,832	278,208	148,507	279,590	29,946	-	914,083				
- bond collateral deposits												
placements	983,317	994,125	-	-	-	-	-	994,125				
Cash and cash equivalents	182,915,615	158,111,283	-	-	-	-	24,994,045	183,105,328				
Total financial assets	1,294,930,557	514,228,308	211,981,754	101,599,363	229,195,041	113,595,919	230,700,809	1,401,301,194				

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2019

Company[illegible]

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2019								
<u>Group/Company</u>								
Insurance contract liabilities								
- claim liabilities	760,285,743	368,877,055	268,006,942	78,990,551	44,411,195	-	-	760,285,743
Subordinated loans	32,486,891	-	-	-	49,812,526	-	-	49,812,526
Insurance payables	88,118,890	88,118,890	-	-	-	-	-	88,118,890
Other payables								
- cash collateral held for bond business	1,004,020	845,013	159,007	-	-	-	-	1,004,020
Lease liability	7,245,495	4,049,830	3,519,803	168,717	-	-	-	7,738,350
Total financial liabilities	889,141,039	461,890,788	271,685,752	79,159,268	94,223,721	-	-	906,959,529

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	Carrying value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Over 15 years RM	No maturity date RM	Total RM
2018								
<u>Group</u>								
Financial investments:								
LAR	52,312,288	53,427,309	-	-	-	-	-	53,427,309
AFS	442,729,936	35,859,000	12,830,250	98,220,278	219,642,820	79,938,075	134,762,037	581,252,460
FVTPL	31,426,016	-	-	-	-	-	31,426,016	31,426,016
Reinsurance assets on claim liabilities	389,797,568	208,288,553	143,173,661	30,371,005	7,964,349	-	-	389,797,568
Insurance receivables and reinsurance recoverables	63,139,730	63,139,730	-	-	-	-	-	63,139,730
Other receivables								
- staff loans	943,557	209,980	243,081	114,984	288,594	86,918	-	943,557
- bond collateral deposits placements	1,052,436	1,064,215	-	-	-	-	-	1,064,215
Cash and cash equivalents	199,875,565	162,508,242	-	-	-	-	37,547,094	200,055,336
Total financial assets	1,181,277,096	524,497,029	156,246,992	128,706,267	227,895,763	80,024,993	203,735,147	1,321,106,191

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2018

Company[illegible]

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

2018

Group/Company

[illegible]

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

	<u>Current</u> RM	<u>Non-Current</u> RM	<u>Total</u> RM
<u>Group</u>			
<u>2019</u>			
Financial investments:			
Amortised cost	55,774,229	-	55,774,229
FVTPL	223,937,266	277,572,945	501,510,211
Reinsurance assets on claim liabilities	219,494,777	273,354,985	492,849,762
Insurance receivables and reinsurance recoverables	59,983,340	-	59,983,340
Loans	177,832	736,251	914,083
Other receivables			
- bond collateral deposits placements	983,317	-	983,317
Cash and cash equivalents	182,915,615	-	182,915,615
Total financial assets	<u>743,266,376</u>	<u>551,664,181</u>	<u>1,294,930,557</u>
<u>2018</u>			
Financial investments:			
LAR	52,312,288	-	52,312,288
AFS	170,211,253	272,518,683	442,729,936
FVTPL	31,426,016	-	31,426,016
Reinsurance assets on claim liabilities	208,288,553	181,509,015	389,797,568
Insurance receivables and reinsurance recoverables	63,139,730	-	63,139,730
Loans	209,980	733,577	943,557
Other receivables			
- bond collateral deposits placements	1,052,436	-	1,052,436
Cash and cash equivalents	199,875,564	-	199,875,564
Total financial assets	<u>726,515,820</u>	<u>454,761,275</u>	<u>1,181,277,095</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Maturity profiles (continued)

<u>Company</u>	<u>Current</u> <u>RM</u>	<u>Non-</u> <u>Current</u> <u>RM</u>	<u>Total</u> <u>RM</u>
<u>2019</u>			
Financial investments:			
Amortised cost	55,774,229	-	55,774,229
FVTPL	512,812,741	-	512,812,741
Reinsurance assets on claim liabilities	219,494,777	273,354,985	492,849,762
Insurance receivables and reinsurance recoverables	59,983,340	-	59,983,340
Loans	177,832	736,251	914,083
Other receivables			
- bond collateral deposits placements	983,317	-	983,317
Cash and cash equivalents	170,764,379	-	170,764,379
Total financial assets	<u>1,019,990,615</u>	<u>274,091,236</u>	<u>1,294,081,851</u>
<u>2018</u>			
Financial investments:			
LAR	52,312,288	-	52,312,288
AFS	446,268,624	7,195,116	453,463,740
FVTPL	31,426,016	-	31,426,016
Reinsurance assets on claim liabilities	208,288,553	181,509,015	389,797,568
Insurance receivables and reinsurance recoverables	63,139,730	-	63,139,730
Loans	209,980	733,577	943,557
Other receivables			
- bond collateral deposits placements	1,052,436	-	1,052,436
Cash and cash equivalents	188,325,242	-	188,325,242
Total financial assets	<u>991,022,869</u>	<u>189,437,708</u>	<u>1,180,460,577</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market prices (other than interest rates).

The Group's and the Company's investments in equities and REITs are subject to fluctuation in market prices of quoted securities while investments in unit trusts are subject to fluctuation in the net asset value of the unit trust funds. The Group's and the Company's investments in unit trusts are managed by licensed asset management companies. The Group and the Company have given clear investment guidelines and performance benchmarks to the asset management companies under the fund management agreements in order to manage the market risk. The unit trusts held by the Group and the Company are invested with unit trust funds governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Group and the Company monitor the performance of the investments against the relevant performance benchmarks established by the Group and the Company.

The analysis below is performed for reasonably possible price movements in the unit trust funds and trading securities of the Group and the Company. The impact on equity represents the changes in fair value of financial assets.

	2019			2018		
	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM
<u>Group</u>						
<u>Market value</u>						
Available-for-sale securities:						
Unit trust investments	+5%	-	-	+5%	-	6,273,269
Unit trust investments	-5%	-	-	-5%	-	(6,273,269)
FVTPL:						
Equities	+5%	1,506,103	1,144,638	+5%	1,409,951	1,071,563
Equities	-5%	(1,506,103)	(1,144,638)	-5%	(1,409,951)	(1,071,563)
REITs	+5%	167,810	127,536	+5%	161,350	122,626
REITs	-5%	(167,810)	(127,536)	-5%	(161,350)	(122,626)
Unit trust investments	+5%	8,611,425	6,544,683	+5%	-	-
Unit trust investments	-5%	(8,611,425)	(6,544,683)	-5%	-	-
<u>Company</u>						
<u>Market value</u>						
Available-for-sale securities:						
Unit trust investments	+5%	-	-	+5%	-	16,958,208
Unit trust investments	-5%	-	-	-5%	-	(16,958,208)
FVTPL:						
Equities	+5%	1,506,103	1,144,638	+5%	1,409,951	1,071,563
Equities	-5%	(1,506,103)	(1,144,638)	-5%	(1,409,951)	(1,071,563)
REITs	+5%	167,810	127,536	+5%	161,350	122,626
REITs	-5%	(167,810)	(127,536)	-5%	(161,350)	(122,626)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Market price risk (Continued)

Company (Continued)

Market value (Continued)

		2019			2018	
	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM	Changes in variables RM	Impact on profit before tax RM	Impact on equity* RM
Unit trust investments	+5%	23,966,724	18,214,710	+5%	-	-
Unit trust investments	-5%	(23,966,724)	(18,214,710)	-5%	-	-

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

Interest rate risk

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

The Group's and the Company's primary interest rate risk relate to interest-bearing assets. The interest-bearing assets are made up primarily of fixed and call deposits with licensed financial institutions, Malaysian Government Securities and bonds issued by corporations in Malaysia. Floating rate/yield instruments expose the Group and the Company to cash flow interest/profit risk, whereas fixed rate/yield instruments expose the Group and the Company to fair value interest/profit risk.

The Group and the Company manage the interest rate risk of its deposits with licensed financial institutions by maintaining a prudent mix of short and longer term deposits and actively reviewing its portfolio of deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the deposits and fixed income securities of the Group and the Company:

	Impact on profit before tax RM	Impact on equity* RM
<u>Group</u>		
Change in interest rates:		
<u>2019</u>		
+50 basis points	(9,405,377)	(7,148,087)
- 50 basis points	10,101,539	7,677,170
<u>2018</u>		
+50 basis points	(6,749,233)	(5,206,335)
- 50 basis points	7,099,965	5,474,260

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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33. FINANCIAL RISKS (CONTINUED)

Interest rate risk (Continued)

<u>Company</u>	<u>Impact on profit before tax RM</u>	<u>Impact on equity* RM</u>
Change in interest rates:		
<u>2019</u>		
+50 basis points	968,359	735,953
- 50 basis points	(968,359)	(735,953)
<u>2018</u>		
+50 basis points	781,369	516,922
- 50 basis points	(781,369)	(515,554)

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

34. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as At 31 December 2019, as prescribed under the Risk-Based Capital Framework is provided below:

	<u>2019 RM</u>	<u>2018 RM</u>
<u>Eligible Tier 1 Capital</u>		
Share capital (paid-up)	219,875,038	219,875,038
Reserves, including retained earnings	181,279,003	137,831,248
	<u>401,154,041</u>	<u>357,706,286</u>
<u>Tier 2 Capital</u>		
Available-for-sale-reserves	-	3,671,784
Subordinated term debts	32,486,891	30,783,265
	<u>32,486,891</u>	<u>34,455,049</u>
<u>Deductions</u>		
Goodwill & other intangible assets	(41,708,843)	(41,172,631)
Deferred tax assets	(3,011,853)	(6,997,899)
	<u>(44,720,696)</u>	<u>(48,170,530)</u>
Total Capital Available	<u>388,920,236</u>	<u>343,990,805</u>

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THE PACIFIC INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

35. CONTINGENT LIABILITY

In August 2016, Malaysia Competition Commission ("MyCC") had commenced investigation under Section 15(1) of the Competition Act 2010 ("the Act") against the General Insurance Association of Malaysia ("PIAM") and its 22 member companies with regards to an alleged infringement of Section 4(2)(a) of the Act in relation to an agreement to fix parts trade discount and labour rates for 6 vehicle makes. On 22 February 2017, MyCC issued a proposed decision to all 22 member companies, proposing to impose collective penalty of RM213.5 million on the general insurance industry. As an 'industry collective action', the Company together with PIAM, submitted written representation and made oral representation to MyCC on 25 April 2017 and 29 January 2018 respectively to defend the allegation.

Due to the changes of Chairman of MyCC and new members being added to MyCC, the new Chairman decided that there would be a re-hearing of the case. The hearing session which was set for 19 - 21 February 2019 has concluded that as the dates given were not sufficient for all the insurers to submit their arguments, further hearing dates have been set for May and June 2019. No indication was given as to the timeline of the delivery of the decision.

The Proposed Decision is not final as at the date of this report, and the Company's consultation with its legal advisers will take such appropriate actions to defend its position that it has not been in infringement of Section 4(2)(a) of the Act.

Saved as disclosed above, the Company does not have any other contingent assets and liabilities since the last annual balance sheet date.

36. SUBSEQUENT EVENT

In the first quarter of 2020, the rapid spread of the Covid-19 has been declared by World Health Organisation as a pandemic. Globally, increasing measures are being taken to contain it and these have led to a significant volatility in the financial markets and have resulted in an adverse impact on the global business and economic activity.

Disruptions have been observed in the Group's and the Company's business activity and may lead to lower than planned premium target. However, as the situation is rapidly evolving, it is not practical to quantify the potential financial impact of the outbreak to the Group and the Company.

The Group and the Company are closely monitoring the developing situation and the potential impact of Covid-19 on their operations and financial position to ensure vigilant steps and appropriate actions could be taken in a timely manner.

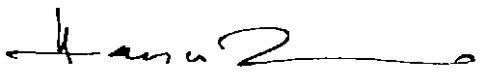
Company No.
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Datuk Abu Hassan bin Kendut and Hashim bin Harun, being two of the Directors of The Pacific Insurance Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 22 to 148 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and the Company as at 31 December 2019 and of the results and the cash flows of the Group and the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 May 2020.


DATUK ABU HASSAN BIN KENDUT
DIRECTOR


HASHIM BIN HARUN
DIRECTOR

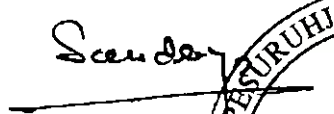
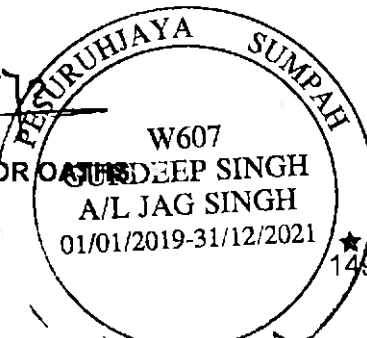
STATUTORY DECLARATION
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Athappan Gobinath Arvind, being the Officer primarily responsible for the financial management of The Pacific Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 22 to 148 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



ATHAPPAN GOBINATH ARVIND

Subscribed and solemnly declared by the abovenamed Athappan Gobinath Arvind at Kuala Lumpur in Wilayah Persekutuan on 20 May 2020, before me


COMMISSIONER FOR OATHS

W607
A/L JAG SINGH
01/01/2019-31/12/2021
149

5B, JALAN RAKYAT
(JALAN TRAVERS)
BRICKFIELDS
50470 KUALA LUMPUR



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD**
(Incorporated in Malaysia)
198201011878 (91603-K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of The Pacific Insurance Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their 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 Group and of the Company, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 22 to 148.

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)**
(Incorporated in Malaysia)
198201011878 (91603-K)

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 Group and of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)**
(Incorporated in Malaysia)
198201011878 (91603-K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for 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 Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (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 Group's and 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 Group's or 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 Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
198201011878 (91603-K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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


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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS


In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 7 to the financial statements.

OTHER MATTERS

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


PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
20 May 2020


JAYARAJAN A/L U. RATHINASAMY
02059/06/2020 J
Chartered Accountant