

Directors' Report & Audited Financial Statements

For The Financial Year Ended 31 December 2018

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**MCIS Insurance Berhad
(Incorporated in Malaysia)**

Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2018.

Principal activity

The Company is principally engaged in the underwriting of life and investment linked insurance. There has been no significant change in the principal activity during the financial year.

Results

	RM'000
Net profit for the year	<u>22,114</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 Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividends

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

	RM'000
In respect of financial year ended 31 December 2017:	
Final single tier dividend of 6.98 sen per share on 100,284,071 ordinary shares paid on 4 July 2018	<u>7,000</u>

Share capital

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

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Directors

The names of the directors of the Company since the end of the previous financial year to the date of this report are:

Mr. Kirupalani a/l Chelliah (Chairman)
Independent, non-executive director

Mr. Murugiah M N Singham
Independent, non-executive director

Dato' Dr. Md Khir bin Abdul Rahman
Independent, non-executive director

Mr. Mohammad Nizar bin Idris
Independent, non-executive director

Datin Sunita Mei-Lin Rajakumar
Independent, non-executive director

Mr. Prasheem Seebran
Managing director/Chief Executive Officer

Tn Hj M.Nasir bin Ramli
Non-independent, non-executive director

Datuk Muhamad Umar Swift (appointed on 17 October 2018, resigned on 31 January 2019)
Non-independent, non-executive director

Mr. William Robertson Dommissie
Non-independent, non-executive director (resigned on 26 May 2018)

Directors' benefits

Neither at the end of the financial year, nor at any time during that period, 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 or debentures of 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 Note 25 and Note 32 to the financial statements), by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

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Directors' benefits (cont'd.)

During the financial year, the total amount of indemnity given to, or insurance effected for the directors or officers of the Company, through its ultimate holding company, Sanlam Limited, are up to ZAR1,350,000,000 (equivalent to RM415,009,000) in aggregate on a group basis. The indemnity premium is borne by Sanlam Limited.

In addition, a directors and officers' liability insurance has been entered into by the Company for the financial year ended 31 December 2018 pursuant to Section 289 of the Companies Act, 2016. The details of the insurance is as follows:

	Amount paid RM'000	Sum insured RM'000
Directors and officers' liability insurance	<u>43</u>	<u>10,000</u>

Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in its related corporations during the financial year were as follows:

	Number of ordinary shares			
	1.1.2018	Acquired	Sold	31.12.2018
<u>Sanlam Limited</u>				
Mr. Prasheem Seebran	3,636	5,328	-	8,964
Number of restricted shares under the Executive Share Incentive Scheme				
	1.1.2018	Granted	Exercised	31.12.2018
<u>Sanlam Limited</u>				
Mr. Prasheem Seebran	41,165	9,039	(5,328)	44,876
<u>Santam Limited</u>				
Mr. Prasheem Seebran	2,137	-	(2,137)	-

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

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Holding companies

The immediate and ultimate holding companies are Sanlam Emerging Markets Proprietary Limited ("SEM") and Sanlam Limited respectively. Both companies are incorporated in South Africa.

Other statutory information

- (a) Before the statement of financial position, income statement and statement of comprehensive income of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful 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 provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) render the values attributed to current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.

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Other statutory information (cont'd.)

- (f) In the opinion of the directors:
- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

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

Significant event

Details of significant event is disclosed in Notes 11 and 32 to the financial statements.

Subsequent event

Details of subsequent event is disclosed in Note 40 to the financial statements.

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Auditors

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

The total amount paid to or receivable by the auditors as remuneration for their services as auditors is disclosed in Note 25 to the financial statements.

There was no indemnity given to, or insurance effected for auditors of the Company during the financial year.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 21 March 2019.



Mr. Kirupalani a/l Chelliah

Petaling Jaya, Malaysia
21 March 2019



Mr. Murugiah M N Singham

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Corporate governance disclosures

Directors' profiles

Mr. Kirupalani a/l Chelliah was appointed as an independent, non-executive director of the Company on 12 May 2011. Subsequently he was appointed as Chairman of the Board on 1 April 2016. He graduated with a B.Econs (Hons) degree from University of Malaya, Kuala Lumpur in 1972. He began his working career in the public service as an insurance regulator at the Ministry of Finance in Malaysia followed by a short stint at Bank Negara Malaysia until his retirement in 1988. He was then subsequently appointed as a member of the senior management team of MNI Insurance Berhad (now known as Etiqa Insurance Berhad) from 1989 to 2001. He then served on the Board of Oriental Capital Assurance Bhd, as an independent, non-executive director from 2002 to 2011. He also served as an international insurance supervision consultant to the Government of Cambodia under a Technical Assistance Programme funded by the Asian Development Bank on an intermittent basis from 2006 to 2012.

Mr. Murugiah M N Singham was appointed as an independent, non-executive director of the Company on 27 September 2012. At present, he is also the Chairman of the Board Audit Committee. He has had a career spanning 38 years with investment banking and insurance institutions as well as the Malaysian capital market regulator. Mr. Murugiah was with the Securities Commission Malaysia as Senior General Manager & Head, Supervision for three years. Prior to that, he was with AmlInvestment Bank for 26 years where he held various positions including as Director, Group Compliance and General Manager, Corporate Finance. During his tenure with the Bank, he was seconded as Chief Executive of AmProperty Trust Management for three years and following that was appointed a director of the company. For nine years from 1973, Mr. Murugiah worked in various capacities including as Financial Controller of MCIS Ltd.

Mr. Murugiah also serves as an independent, non-executive director of The Bank of Nova Scotia Berhad, a position which he has held since 1 May 2013, and is Chairman of its Board Audit Committee.

Mr Murugiah is a Fellow of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants.

Dato' Dr. Md Khir bin Abdul Rahman was appointed as an independent, non-executive director of the Company on 17 July 2013. He is also a member of Board of Directors of several other companies in the public and private sectors. From 2000 to 2004, he was the Chief Executive Officer and director of Telekom Malaysia. Prior to this, he has also served as the General Manager of Malaysia Electronic Payment System ("MEPS").

Dato' Dr. Md Khir started his career with the Malaysian Agricultural Research and Development Institute ("MARDI") in 1972 before joining Bank Negara Malaysia in 1983. He held various positions in the central bank until his departure in 1996 to join the telecommunication sector as the Managing Director of Mejati Technologies Group. He holds a Bachelor of Science Degree in Mathematics from University Malaya, Masters in Agriculture Development and Doctorate in Computing Statistics, both from the State University of Ghent, Belgium. He has depth of experience in information and communication technology, banking and payment systems as well as in the development of e-commerce applications.

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Corporate governance disclosures (cont'd.)

Directors' profiles (cont'd.)

Mr. Mohammad Nizar bin Idris was appointed as an independent, non-executive director of the Company on 23 March 2016. He obtained his Bachelor in Law (Honours) Degree from the University of Singapore in 1967. He was admitted as an Advocate and Solicitor of the High Court of Malaya and attended the Advance Management Programme by Harvard University, Boston in 1994.

He started his career in the judicial and legal service of the government. He was the Senior Federal Counsel responsible for tax and treasury matters. Thereafter, he left the government service to join the private sector. He joined Royal Dutch Shell ("Shell") working in Malaysia, the Netherlands and in the UK. During his last posting in Shell in London, he was the Head of the Legal Division responsible for Shell's investment, joint ventures, mergers and acquisitions worldwide. Before retiring from Shell, he returned to Malaysia to assume the position of Deputy Chairman and Executive Director of the Shell Companies in Malaysia. He was also the Chairman of Shell Chemicals ("TKSB"). After his retirement, he was appointed as a director of board of several companies.

He is also the Chairman of Bechtel Malaysia and CDC Consulting Sdn Bhd, an independent, non-executive director of Eversendai Corporation Bhd. He is a director of FIDE FORUM.

Datin Sunita Mei-Lin Rajakumar was appointed as independent, non-executive director of the Company on 24 March 2016. She is also the chairperson of the Company's Board Risk Management Committee and a member of the Company's Audit Committee. She graduated from the University of Bristol in 1990 with a degree in Law (LLB Hons) and qualified as a Member of the Institute of Chartered Accountants of England and Wales in February 1994.

Her working experience includes four years at Ernst & Young, London, and six years at RHB Investment Bank, Kuala Lumpur, before she established her own firm, Artisan Encipta Ltd. to manage a government-owned foreign technology venture fund from 2002 to 2008. Since then, she has consulted on national competitiveness by improving national innovation ecosystems, as well as the competitiveness of business.

Her other board appointments are as an independent, non-executive director with Bursa listed companies including as Chairperson of Caring Pharmacy Group Berhad and its Audit Committee, independent, non-executive director of Dutch Lady Milk Industries Berhad and Chairperson of its Audit Committee, as well as non-independent, non-executive director of Hai-O Enterprise Berhad and Chairperson of the Audit Committee and Risk Management Committee.

She is also independent, non-executive director of Zurich General Insurance Berhad and Chairperson of its Audit Committee.

She is a director of the Board of Trustees of Yayasan Usman Awang, Yayasan myNadi, Hai-O Foundation and Yayasan Seni Berdaftar which is registered with the Prime Minister's Department, and is the Festival Director of the annual Kuala Lumpur International Arts Festival.

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Corporate governance disclosures (cont'd.)

Directors' profiles (cont'd.)

Mr. Prasheem Seebran was appointed as non-independent, non-executive director of the Company on 11 May 2016. During the financial year, he became the executive director of the Company and on 15 March 2019, he was appointed as the Chief Executive Officer and Managing Director of the Company.

Mr. Seebran, a qualified Actuary and a Fellow of both the South African and Malaysian Actuarial Societies, has 18 years of experience in the insurance and financial services industries. He has managed and developed several high performance teams in the past and has launched several firsts at his previous companies including insurance telematics, internal capital models, innovative products and structured risk solutions. His previous positions include Regional Head for Sanlam in South East Asia and he was responsible for the investments in the region; Head Actuary at the Telesure Group, a large personal lines insurer with operations in South Africa, Australia and the UK; and Head of Actuarial at Guardrisk Insurance Company, one of the largest cell captive insurers in the world. Mr. Seebran's qualifications include a Bachelor of Science Honours degree in Actuarial Science as well as several executive management qualifications including an Advanced Management Programme (AMP) from Insead Business School.

Tn Hj M.Nasir bin Ramli was appointed as non-independent, non-executive director of the Company on 15 March 2018. He was also appointed as a member of the Company's Board Risk Management Committee and Remuneration Committee. He graduated from the Chartered Institute of Marketing (UK) in November 1981 and was elected as an Associate of the Chartered Institute of Marketing (UK).

His working experience is mainly in the publishing industry. He started his career in sales and marketing at Utusan Melayu (M) Berhad, Dewan Bahasa Pustaka and has served for 25 years in various positions at the New Straits Times Press (M) Berhad.

He has been actively involved in the cooperative movement since 1985 and sits in several cooperative boards. He is currently the Deputy Chairman of ANGKASA WP, Secretary of Koperasi MCIS Berhad, a board member of Koperasi NSTP (M) Berhad and Koperasi Pasaraya Malaysia Berhad.

None of the directors in office at the end of the financial year had any shareholding in the Company during the financial year.

The appointment and resignation of directors since the end of the previous financial year are disclosed in the Directors' report.

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Corporate governance disclosures (cont'd.)

Board of Directors

The Board of Directors ("the Board") consists of 5 independent, non-executive directors, 1 executive director and 1 non-independent, non-executive director. The attendance of the Board at the 5 board meetings held during the financial year was as follows:

	Attendance
<u>Chairman:</u>	
Mr. Kirupalani a/l Chelliah (Chairman)	5/5
<u>Directors:</u>	
Mr. Murugiah M N Singham	5/5
Dato' Dr. Md Khir bin Abdul Rahman	5/5
Mr. Mohammad Nizar bin Idris	5/5
Datin Sunita Mei-Lin Rajakumar	5/5
Mr. Prasheem Seebran	5/5
Tn Hj M.Nasir bin Ramli (appointed 15 March 2018)	5/5
Datuk Muhamad Umar Swift (appointed on 17 October 2018, resigned on 31 January 2019)	2/2
Mr. William Robertson Dommissie (resigned on 26 May 2018)	1/1

The Board assumes overall responsibility for leading, governing, guiding and monitoring the performance of the Company, including but not limited to:

- (a) reviewing and adopting strategic plans for the Company.
- (b) overseeing the conduct of the Company's business to determine whether the business is being properly managed.
- (c) identifying principal risks, setting of risk appetites, and ensuring the implementation of appropriate internal controls and mitigation measures.
- (d) succession planning, including ensuring all candidates appointed to senior management positions are of sufficient calibre and programs are in place to provide for the orderly succession of senior management.
- (e) overseeing the development and implementation of shareholder communications policy for the Company.
- (f) reviewing the adequacy and the integrity of the Company's management information and internal control systems.

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Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

Directors' remuneration

The remuneration of each of the directors during the financial year was as follows:

	<----- Non-deferred ----->		
	<----- Cash-based remuneration ----->		
	Fixed RM'000	Variable RM'000	Total RM'000
Mr. Kirupalani a/l Chelliah	150	113	263
Mr. Murugiah M N Singham	102	101	203
Dato' Dr. Md Khir bin Abdul Rahman	102	79	181
Mr. Mohammad Nizar bin Idris	102	109	211
Datin Sunita Mei-Lin Rajakumar	102	81	183
Mr. Prasheem Seebran*	102	78	180
Tn Hj M.Nasir bin Ramli	81	66	147
Datuk Muhamad Umar Swift	21	16	37
Mr. William Robertson Dommissse*	41	8	49
	803	651	1,454

* The remuneration of these directors are paid to SEM.

The Company maintained a directors' and officers' liability insurance during the financial year with premium paid amounted to RM42,834.

There was no deferred remuneration awarded to the directors during the financial year. There was no other type of remuneration awarded to the directors apart from cash-based remuneration as stated above.

The details of the directors' remuneration are disclosed in Note 25(b).

Directors' training

The Board understands the importance of continuous training, and is encouraged to keep abreast with the latest developments, trends and insights and regulatory requirements related to insurance industry.

All directors attended the Financial Institutions Directors' Education ("FIDE") programme organised by the International Centre for Leadership in Finance.

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Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

Directors' training (cont'd.)

Some of the directors also attended a series of dialogue session held by FIDE, namely:

- BNM-FIDE FORUM Board Conversations (Insurance Companies & Takaful Operators)
- BNM-FIDE FORUM Board Conversations (Banks and DFIs)
- Fintech: Disruption to be Embraced? – Demo Day and Dialogue with 10 Fintech Companies
- FIDE FORUM Dinner Talk - The Director as Coach: An exclusive dialogue with Dr Marshall Goldsmith and Launch of FIDE FORUM's DNA of a Board Leader
- FIDE FORUM - IBM THINK Malaysia
- Blockchain in Financial Services Industry by IBM
- 1st PIDM-FIDE FORUM Dialogue
- Win the innovation race: Unlocking the creative power of Asians by Professor Roy Chua
- BNM-FIDE FORUM Dialogue: Managing Cyber Risks in Financial Institutions
- Focus Group (Insurance & Takaful) - Discussion in Preparation for the 5th Annual Dialogue with the Governor
- Navigating the VUCA World by Professor Tan Sri Dato' Dr. Lin See-Yan
- 5th BNM-FIDE FORUM Annual Dialogue

ICLIF

- Understanding Fintech & Its Implications For Banks
- CG Breakfast Series: Non-Financials - Does It Matter?
- FIDE Core Module A & B

Others

- PIDM Dialogue Session with Directors of Life Insurance Companies-DLS Briefing Program

Directors with professional memberships met their Continuing Professional Development ("CPD") hours requirement.

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Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

The BNM's policy document, *Corporate Governance* focuses on clarifying the role of the Board and senior management, enhancing the Board effectiveness through strengthening its composition, sets out broad principles and structures in which the Company should adopt in making good corporate governance an integral part of the Company's business dealings and culture. The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under the guideline.

The Board is supported by the Board Audit Committee ("AC"), the Board Risk Management Committee ("BRMC"), the Nominations Committee ("NC") and the Remuneration Committee ("RC"). The memberships, roles and terms of reference of the committees are as follows:

(i) Audit Committee ("AC")

The AC comprises 3 independent, non-executive directors. The attendance of the members of the committee at the 4 committee meetings held during the financial year was as follows:

	Attendance
<u>Chairman:</u>	
Mr. Murugiah M N Singham	4/4
<u>Members:</u>	
Dato' Dr Md Khir bin Abdul Rahman	4/4
Datin Sunita Mei-Lin Rajakumar	4/4

The AC supports the Board in ensuring that there is a reliable and transparent financial reporting process within the Company. They also oversee the effectiveness of the internal audit function by:

- (a) reviewing and approving the annual audit plan;
- (b) reviewing key audit reports and ensuring that senior management takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws and regulatory requirements, policies and other problems identified by the internal audit and other control functions;
- (c) taking note of significant disagreements between the Chief Internal Auditor and the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings; and
- (d) establishing a mechanism to assess the performance and effectiveness of the internal audit function.

In addition, the AC fosters a quality audit of the Company by exercising oversight over the external auditor in accordance with the expectations set out in the BNM guidelines. The main duties and responsibilities of the AC on the external auditor are:

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Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

(i) Audit Committee ("AC") (cont'd.)

- (a) making recommendations to the board on the appointment, removal and remuneration of the external auditor;
- (b) monitoring and assessing the independence of the external auditor including approval of the provision of non-audit services by the external auditor;
- (c) monitoring and assessing the effectiveness of the external audit, including by meeting with the external auditor without the presence of senior management at least annually;
- (d) maintaining regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to AC on significant matters; and
- (e) ensuring that senior management takes necessary corrective actions in a timely manner to address external audit findings and recommendations.

(ii) Board Risk Management Committee ("BRMC")

The BRMC comprises 2 independent, non-executive directors and 1 non-independent, non-executive director. The attendance of the members of the committee at the 4 committee meetings held during the financial year was as follows:

	Attendance
<u>Chairperson:</u>	
Datin Sunita Mei-Lin Rajakumar	4/4
<u>Members:</u>	
Mr. Mohammad Nizar bin Idris	4/4
Tn Hj M.Nasir bin Ramli (appointed on 15 March 2018)	3/3
Dato' Dr Md Khir bin Abdul Rahman (resigned on 15 March 2018)	1/1

The role of the BRMC is to advise and assist the Board in fulfilling its responsibility with regard to overseeing the design and implementation of Company's risk assurance framework and responsibilities in accordance with BNM guidelines and SEM group policies. The BRMC assists the Board, including but not limited to:

- (a) determining the risk appetite and level of risk tolerance for the Company;
- (b) setting and implementing the Company risk assurance framework and supporting policies;
- (c) setting and implementing compliance related policies;
- (d) evaluating the adequacy and efficiency of the risk management system;

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Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

(ii) Board Risk Management Committee ("BRMC") (cont'd.)

- (e) identifying the build-up and concentration of the various risks to which the Company is exposed;
- (f) establishing an independent risk management function;
- (g) establishing a process for appropriate risk disclosures to stakeholders;
- (h) ensuring that a formal assessment of the risk management processes is undertaken;
and
- (i) overseeing the state of IT governance and information management and security across the Company.

(iii) Nominations Committee ("NC")

The NC comprises 3 independent, non-executive directors and 1 executive director. The attendance of the members of the committee at the 8 committee meetings held during the financial year was as follows:

	Attendance
<u>Chairman:</u>	
Mr. Mohammad Nizar bin Idris	8/8
<u>Members:</u>	
Mr. Murugiah M N Singham	8/8
Mr. Kirupalani a/l Chelliah	8/8
Mr. Prasheem Seebran	8/8

NC is responsible for making recommendations to the Board on all new appointments to the Board and its committees. It undertakes a formal process of reviewing the balance and effectiveness of the Board and its committees to ensure the Board and its committees remain effective and focused. This includes a regular review of the composition of the Board committees and identifying the skills needed and the individuals to provide such skills in a fair and efficient manner. It also includes assisting the Chairman with the annual evaluation of Board and Board Committee performance. It is responsible for identifying appropriate Board candidates and evaluating them against the specific disciplines and areas of expertise required.

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Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

(iii) Nominations Committee ("NC") (cont'd.)

Succession planning is a key focus area within the Company. The NC considers the composition of the Board and its committees on an on-going basis. The NC assist the management in managing the Company's top talent.

NC is responsible in overseeing the appointments and removals, succession planning and performance evaluation of senior management and company secretary of the Company. The NC will ensure the proper execution of the management succession planning framework that seeks to provide a pool of competent candidates to fill key positions in the Company in the medium to long term.

(iv) Remuneration Committee ("RC")

The RC comprises 2 independent, non-executive directors and 1 non-independent, non-executive director. The attendance of the members of the committee at the 3 committee meetings held during the financial year was as follows:

	Attendance
<u>Chairman:</u>	
Dato' Dr Md Khir Abdul Rahman	3/3
<u>Members:</u>	
Mr. Kirupalani a/l Chelliah	3/3
Tn Hj M.Nasir bin Ramli (appointed on 15 March 2018)	2/2
Mr. Mohammad Nizar bin Idris (resigned on 15 March 2018)	1/1

The RC is responsible for developing the remuneration strategy of the Company and presenting it to the Board for approval. Its activities include approving the guidelines and philosophy to be applied in formulating mandates for all bonus and setting remuneration packages of the directors, Chief Executive Officer ("CEO"), senior management and company secretary, relative to industry benchmarks. The RC has the prerogative to make all remuneration decisions it deems appropriate within an approved framework and may propose amendments to any part of the Company's remuneration policy as necessitated by changing circumstances. To fulfil the role described above, the RC undertakes the following:

- (a) develops and recommends to the Board for approval bonus incentive schemes for the Company. It includes the setting of guidelines for annual allocations and a regular review of the appropriateness and structure of the schemes to ensure alignment with the Company strategy and shareholder and other stakeholder interests;

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Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

(iv) Remuneration Committee ("RC") (cont'd.)

- (b) develops and recommends to the Board for approval the remuneration strategy as far as the remuneration of Company's directors, CEO, senior management and company secretary;
- (c) review the management of the employment contracts of Company's directors, CEO and senior management to ensure that their terms are aligned with good practice principles;
- (d) develops and recommends to the Board for approval incentive schemes for the directors, CEO and senior management. It includes the setting of annual targets, monitoring those targets and reviewing the incentive schemes on a regular basis to ensure that there is a clear link between the schemes and performance in support of the Company strategy.

Remuneration policies and practices

Remuneration philosophy

The Company's remuneration philosophy is to attract and retain qualified employees and achieve high performance through its people by paying fair and competitive remuneration packages consistent with the economic capacity of the Company, and commensurate with those of the industry in which the Company operates. The Company remuneration philosophy aims to:

- (i) Pay for performance taking into consideration:
 - (a) The interest of the Company's stakeholders;
 - (b) The performance of the Company as a whole;
 - (c) The performance of the respective business and support divisions; and
 - (d) The performance of the individual staff.
- (ii) Fair and equitable

The salaries paid to our staff are internally equitable, relative to similar jobs in the Company.

(iii) Competitive

Consideration is also given to remain market competitive vis-à-vis our chosen comparator group.

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Corporate governance disclosures (cont'd.)

Remuneration policies and practices (cont'd.)

Remuneration governance

Policies related to remuneration for individual contributors and management employees are subject to the Board's approval. This includes remuneration budgets, revision of salary ranges, executive union collective agreement and determining the overall performance bonus pool.

The individual appointments, performance appraisal and remuneration packages of the senior management and company secretary are also subject to the Board's approval.

Performance metrics

Performance management is used to focus and align the Company, department and individual's performance and behaviour towards the achievement of its short, medium and long term goals and aspirations. The metrics used in performance management are reviewed periodically and seek to provide optimal direct line of sight to longer term aspirations and motivate employees towards the desired outcomes and observed core values.

Employees' performance and remuneration distributions are subject to robust moderation review at the Executive Management Committee to ensure fairness and alignment to Company's performance in terms of financials, growth and risk. The moderation review allows for multiple level input and therefore minimises excesses or biasness in performance and remuneration practices. Particular focus on compliance and risk management is in place and set up to 20% of the total performance requirement for employees.

Key performance metrics are applied as below:

Key performance areas	Revenue generating employees	Support employees	Control employees
Sustainable business growth	✓	-	-
Profitability	✓	-	-
Cost management	✓	✓	✓
Operational efficiency & effectiveness	✓	✓	✓
People development	✓	✓	✓
Compliance/Risk Management	✓	✓	✓
Competencies	✓	✓	✓

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

Corporate governance disclosures (cont'd.)

Remuneration policies and practices (cont'd.)

Remuneration structure

There has been no changes to the remuneration elements or structure during the financial year. The Company does not have deferred remuneration element such as share plan or deferred bonus plan.

Types of remuneration	Fixed	Variable
Basic salary and allowances	✓	-
Cash-based performance bonus	-	✓
Benefits	✓	-

Senior management and other material risk takers

(i) Senior management

Senior management of the Company is the highest level of management who direct and oversee the day-to-day operations of the Company. They typically are heads of the Company's functional divisions and departments. They possess significant influence over their departments in aligning the direction of the departments to the Company.

During the financial year, senior management comprises 13 key personnel who undertook the following roles:

1. Chief Executive Officer
2. Chief Distribution Officer
3. Chief Operating Officer
4. Chief Financial Officer
5. Chief Investment Officer
6. Chief Human Resource Officer
7. Head of Operations
8. Head of Information Solutions
9. Chief Risk Officer
10. Appointed Actuary
11. Chief Internal Auditor
12. Head of Corporate Solutions
13. Senior Manager of Alternative Distribution Channel

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

Corporate governance disclosures (cont'd.)

Remuneration policies and practices (cont'd.)

Senior management and other material risk takers (cont'd.)

(ii) Other material risk taker

Other material risk taker as defined in the BNM guidelines on Corporate Governance are employees who may or may not be a member of the senior management and:

- (a) can materially commit or control significant amounts of the Company's resources or whose actions are likely to have a significant impact on its risk profile; or
- (b) is among the most highly remunerated officers in the Company.

During the financial year, other material risk takers comprises 4 key personnel who undertook the following roles:

1. Senior Manager of Risk Management
2. Senior Manager of Compliance
3. Head of Product & Pricing
4. Chief Digital Officer

The total remuneration and number of senior management and other material risk takers received the remuneration during the financial year are as follows:

	Senior management and other material risk takers			CEO
	Unrestricted RM'000	Deferred RM'000	Number of officers	Unrestricted RM'000
<u>Non-deferred</u>				
Fixed remuneration				
Cash based	7,084	-	17	1,082
Others	177	-	17	68
Variable remuneration				
Cash based	1,485	-	17	305
Others	742	-	13	-
	<u>9,488</u>	<u>-</u>		<u>1,455</u>

There was no deferred remuneration awarded to the senior management or other material risk takers during the financial year.

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

Corporate governance disclosures (cont'd.)

Key internal control and risk management processes

(i) Risk management framework

The Company has in place, self-assessment processes for all business units and support functions to assess and manage the effectiveness and adequacy of their systems and processes of internal controls, and their level of compliance with regulatory requirements. The results of evaluations are reviewed by the senior management and presented to the Board accordingly.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes independent validations of controls by the risk management and internal audit functions, ensure timely corrective actions are taken where necessary. Risk management and internal audit functions report directly to the Board through BRMC and AC respectively and their observations and recommendations are effectively communicated to the senior management and other responsible staff.

System of internal controls in the Company is primarily guided by the approved Governance and Risk Management Framework, Enterprise Risk Management Policy and Plan and Compliance Policy. The Board has also approved the risk appetite statements that defined the Company willingness and ability to take risks toward achieving its strategic objectives on an annual basis. These statements set out the Company's expectations on the level and type of risks that the Company is willing to tolerate in implementing its strategies. The statements take into consideration the risks involved in the implementation of the strategies, daily operations and appropriate mitigating measures.

The Company promotes risk management and compliance culture among staff through regular departmental and divisional risk and compliance meetings and targeted risk awareness programmes such as road shows, workshops and knowledge sharing sessions.

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

Corporate governance disclosures (cont'd.)

Key internal control and risk management processes (cont'd.)

(ii) Internal audit function

The internal audit function undertakes independent reviews or assessments of the Company's operations and its system of internal controls as well as highlights significant risks affecting the Company. The internal audit personnel are independent from the day-to-day activities of the Company and have unrestricted access to all activities conducted by the Company. Internal Audit reports to the AC.

The annual audit plan is developed based on an annual risk assessment of the areas within the audit universe. An impact assessment is performed using three (3) categories of variables, i.e. tactical, operational and stakeholder factors. The audit plan is finalised based on the prioritization of other factors such as internal audit initiatives, control issues, time since last audited and management requests/concerns. The audit scope covers auditable areas across the Company encompassing operations, finance, product development, pricing, investments, back office functions, agency administration, risk management, compliance and information technology. Internal audit performs investigations involving whistleblowing reports, any specific instances or events which are deemed to have violated internal policies and/or regulatory requirements pertaining to the confidentiality and/or financial impropriety, which have material impact on the Company.

Internal audit adopts the guidance outlined in the COSO framework and the Institute of Internal Auditors ("IIA") practice standards as stipulated in the International Professional Practices Framework ("IPPF"). Internal audit reports on the adequacy and effectiveness of risk management and internal control systems instituted within the Company. The key audit findings and management action plans are deliberated at executive management level. Senior and functional line management are tasked to ensure that management action is carried out in accordance with the agreed timelines. Internal audit performs monthly follow up on the status of agreed action plans by the management team and its progress is presented at management committee and AC meetings. Follow up audits are carried out on less than satisfactory audit reviews.

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

**Statement by directors
Pursuant to Section 251(2) of the Companies Act, 2016**

We, Mr. Kirupalani a/l Chelliah and Mr. Murugiah M N Singham, being two of the directors of MCIS Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 28 to 135 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 21 March 2019.


Mr. Kirupalani a/l Chelliah


Mr. Murugiah M N Singham

Petaling Jaya, Malaysia
21 March 2019

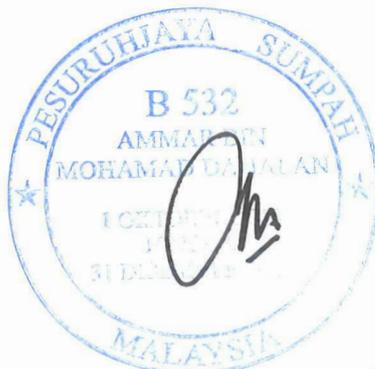
**Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act, 2016**

I, Mr. Hiten Asher, being the officer primarily responsible for the financial management of MCIS Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 28 to 135 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed Mr. Hiten Asher)
at Petaling Jaya in Selangor Darul Ehsan)
on 21 March 2019)


Mr. Hiten Asher

Before me,



No. 43, Kompleks Emporium
Makan Sek 52, Jalan Sultan
46200 Petaling Jaya, Selangor

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**Independent auditors' report to the members of
MCIS Insurance Berhad
(Incorporated in Malaysia)**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of MCIS Insurance Berhad ("the Company"), which comprise the statement of financial position as at 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 28 to 135.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, Corporate Governance disclosures and the Annual Report, but does not include the financial statements of the Company and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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**Independent auditors' report to the members of
MCIS Insurance Berhad (cont'd.)
(Incorporated in Malaysia)**

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

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of our auditors' report, 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

Responsibilities of the directors for the financial statements

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

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

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**Independent auditors' report to the members of
MCIS Insurance Berhad (cont'd.)
(Incorporated in Malaysia)**

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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**Independent auditors' report to the members of
MCIS Insurance Berhad (cont'd.)
(Incorporated in Malaysia)**

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

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

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

Other matters

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



Ernst & Young
AF: 0039
Chartered Accountants



Muhammad Syarizal Bin Abdul Rahim
No. 03157/01/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
21 March 2019

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**MCIS Insurance Berhad
(Incorporated in Malaysia)**

**Statement of financial position
As at 31 December 2018**

	Note	2018 RM'000	2017 RM'000
Assets			
Property and equipment	3	45,730	41,517
Investment properties	4	10,750	11,390
Intangible assets	5	9,447	11,510
Prepaid land lease payments	6	189	201
Investments	7	4,356,979	4,284,554
Reinsurance assets	8	10,111	9,636
Insurance receivables	9	62,657	78,963
Other receivables	10	74,351	59,421
Tax recoverable		532	2,922
Cash and bank balances		39,118	18,628
		<u>4,609,864</u>	<u>4,518,742</u>
Non-current assets held for sale	11	318	105,255
Total assets		<u>4,610,182</u>	<u>4,623,997</u>
Equity			
Share capital	12	125,024	125,024
Retained profits	13	143,259	119,060
Merger reserves	14	40,672	40,672
Available-for-sale reserves		-	9,212
Revaluation reserves		4,421	3,422
		<u>313,376</u>	<u>297,390</u>
Revaluation reserves associated with non-current assets held for sale		-	4,160
Total equity		<u>313,376</u>	<u>301,550</u>
Liabilities			
Insurance contract liabilities	15	4,025,339	4,056,010
Deferred tax liabilities	16	19,543	25,335
Insurance payables	17	134,550	144,383
Other payables	18	117,374	96,719
Total liabilities		<u>4,296,806</u>	<u>4,322,447</u>
Total equity and liabilities		<u>4,610,182</u>	<u>4,623,997</u>

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

MCIS Insurance Berhad
(Incorporated in Malaysia)

Income statement
For the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Gross earned premiums		556,866	572,782
Premiums ceded to reinsurers		<u>(34,470)</u>	<u>(34,179)</u>
Net earned premiums		<u>522,396</u>	<u>538,603</u>
Investment income	19	199,663	195,301
Realised (losses)/gains	20	(4,483)	4,384
Fair value (losses)/gains	21	(24,848)	6,503
Fee and commission income	22	3,617	-
Other operating revenue	23	<u>16,291</u>	<u>1,169</u>
Other revenue		<u>190,240</u>	<u>207,357</u>
Gross benefits and claims paid		(582,905)	(512,735)
Claims ceded to reinsurers		25,462	29,534
Gross change in contract liabilities		46,901	(64,397)
Change in contract liabilities ceded to reinsurers		<u>475</u>	<u>(380)</u>
Net benefits and claims		<u>(510,067)</u>	<u>(547,978)</u>
Fee and commission expenses	24	(81,070)	(84,588)
Other operating expenses	23	(1,228)	(3,400)
Management expenses	25	(82,196)	(80,473)
Taxation of life insurance business	26(a)	<u>(10,627)</u>	<u>(7,147)</u>
Other expenses		<u>(175,121)</u>	<u>(175,608)</u>
Profit before taxation		27,448	22,374
Taxation	26(b)	<u>(5,334)</u>	<u>(5,370)</u>
Net profit for the year		<u>22,114</u>	<u>17,004</u>
Earnings per share (sen)			
Basic and diluted	27	<u>22.1</u>	<u>17.0</u>

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

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**MCIS Insurance Berhad
(Incorporated in Malaysia)**

**Statement of comprehensive income
For the financial year ended 31 December 2018**

	2018	2017
	RM'000	RM'000
Net profit for the year	22,114	17,004
Other comprehensive income:		
Items to be reclassified to the income statement in the subsequent periods:		
Available-for-sale ("AFS") investments reserves:		
Gain on fair value changes of AFS investments	-	5,556
Realised gain transferred to the income statement (Note 20)	-	(2,519)
Impairment loss reclassified to the income statement	-	370
Deferred tax effects on AFS investments reserves (Note 16)	-	(816)
	-	2,591
Items not to be reclassified to the income statement in the subsequent periods:		
Gain on fair value changes of revaluation reserves of non-participating funds (Note 3)	-	891
Deferred tax effects on revaluation reserves of non-participating funds (Note 16)	-	(214)
	-	677
Other comprehensive income for the year, net of taxation	-	3,268
Total comprehensive income for the year	22,114	20,272

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

Statement of changes in equity
For the financial year ended 31 December 2018

Note	Non-distributable				Distributable				Total equity RM'000			
	Share capital RM'000	Share premium RM'000	Merger reserve RM'000	Revaluation reserves of non-participating funds RM'000	Revaluation reserves associated with current assets held for sale RM'000	Available-for-sale reserves of non-participating funds RM'000	Available-for-sale reserves of non-participating shareholders' fund RM'000	Sub-total RM'000		Unallocated surplus of participating funds* RM'000	Retained profits of shareholders' fund RM'000	Sub-total RM'000
At 1 January 2017	100,284	24,740	40,672	6,905	-	(3,238)	9,859	6,621	32,420	87,136	119,556	298,778
Net profit for the year	-	-	-	-	-	-	-	-	9,173	7,831	17,004	17,004
Other comprehensive income	-	-	-	677	-	3,270	(679)	2,591	-	-	-	3,268
Total comprehensive income for the year	-	-	-	677	-	3,270	(679)	2,591	9,173	7,831	17,004	20,272
Dividends paid during the year	-	-	-	-	-	-	-	-	-	(17,500)	(17,500)	(17,500)
Transfer in accordance to Section 618(2) of Companies Act, 2016	24,740	(24,740)	-	-	-	-	-	-	-	-	-	-
Transfer to revaluation reserves associated with non-current assets held for sale	-	-	(4,160)	(4,160)	4,160	-	-	-	-	-	-	-
At 31 December 2017	125,024	-	40,672	3,422	4,160	32	9,180	9,212	41,593	77,467	119,060	301,550
At 1 January 2018 (As previously stated)	125,024	-	40,672	3,422	4,160	32	9,180	9,212	41,593	77,467	119,060	301,550
Adjustments upon initial application of MFRS 9	-	-	-	-	-	(32)	(9,180)	(9,212)	(1,770)	9,180	7,410	(1,802)
Other adjustments	-	-	-	-	-	-	-	-	-	(1,486)	(1,486)	(1,486)
At 1 January 2018 (As restated)	125,024	-	40,672	3,422	4,160	-	-	-	39,823	85,161	124,984	298,262
Net profit for the year	-	-	-	-	-	-	-	-	5,167	16,947	22,114	22,114
Realisation of revaluation reserves	-	-	-	999	(4,160)	-	-	-	3,161	-	3,161	-
Dividends paid during the year	-	-	-	-	-	-	-	-	-	(7,000)	(7,000)	(7,000)
At 31 December 2018	125,024	-	40,672	4,421	-	-	-	-	48,151	95,108	143,259	313,376

* The unallocated surplus of the Non-Par funds generated for the financial year ended 31 December 2018 and 31 December 2017 were RM5,167,000 and RM9,173,000 respectively, net of tax at 24%.

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

MCIS Insurance Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Operating activities			
Cash used in operating activities	29	(53,326)	(79,874)
Income tax paid		<u>(13,723)</u>	<u>(4,778)</u>
Net cash flows used in operating activities		<u>(67,049)</u>	<u>(84,652)</u>
Investing activities			
Net proceeds from disposal of non-current assets held for sale		115,015	-
Placement monies and interest thereof in relation to the proceeds from disposal of general insurance business*		174	(162)
Purchase of property and equipment	3	(8,713)	(5,465)
Purchase of intangibles assets	5	<u>(211)</u>	<u>(3,081)</u>
Net cash flows generated from/(used in) investing activities		<u>106,265</u>	<u>(8,708)</u>
Financing activity			
Dividends paid	28	<u>(7,000)</u>	<u>(17,500)</u>
Net cash flows used in financing activity		<u>(7,000)</u>	<u>(17,500)</u>
Cash and cash equivalents			
Net increase/(decrease) in cash and cash equivalents		32,216	(110,860)
Cash and cash equivalents at beginning of year		<u>132,814</u>	<u>243,674</u>
Cash and cash equivalents at end of year		<u>165,030</u>	<u>132,814</u>
Cash and cash equivalents comprise of:			
Cash and bank balances		39,118	18,628
Less: Cash restricted in use*		<u>(8,262)</u>	<u>(8,436)</u>
		30,856	10,192
Short term deposits with original maturity periods of less than 3 months	7(a)	<u>134,174</u>	<u>122,622</u>
		<u>165,030</u>	<u>132,814</u>

* Cash restricted in use represents placement monies which are encumbered, by virtue of being held to meet any potential indemnity claims in relation to the sale of general insurance business in March 2015, as disclosed in Note 34.

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

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

**Notes to the financial statements
For the financial year ended 31 December 2018**

1. Corporate information

The Company is principally engaged in the underwriting of life and investment linked insurance. There was no significant change in the principal activity 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 Wisma MCIS, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan.

The immediate and ultimate holding companies are Sanlam Emerging Markets Proprietary Limited ("SEM") and Sanlam Limited respectively. Both companies are incorporated in South Africa.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 21 March 2019.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") as issued by the Malaysian Accounting Standards Board ("MASB"), International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the requirements of the Companies Act, 2016 in Malaysia.

At the beginning of the financial year, the Company had fully adopted the new and amended MFRSs and improvement to standards and interpretation as described in Note 2.4 to the financial statements.

The financial statements of the Company have been prepared under the historical cost convention, unless otherwise stated in the accounting policies below.

As at the reporting date, the Company has met the minimum capital adequacy requirements as prescribed under the Risk-Based Capital ("RBC") Framework issued by Bank Negara Malaysia ("BNM").

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

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

2. Significant accounting policies (cont'd.)

2.1 Basis of preparation (cont'd.)

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 Merger reserve

As a result of using merger relief provisions under Section 60(4) of the Companies Act, 1965 (subsequently repealed by Companies Act, 2016), a merger reserve is created in place of a share premium account. The goodwill arising on consolidation and any provision for impairment in value of the investment in subsidiary is written-off immediately against the merger reserve at acquisition date. The resulting difference, being a net merger reserve is carried forward as part of shareholders' equity (see Note 14).

2.3 Summary of significant accounting policies

(a) Property and equipment and depreciation

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 income statement during the financial year in which they are incurred.

Subsequent to initial recognition, property and equipment, except for land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are stated at revalued amounts, which is the fair value at the date of the revaluation less any accumulated depreciation and any accumulated impairment losses. Fair value is determined from market-based evidence by appraisals that are undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity of at least once in every three years with additional valuations in the intervening years where market conditions indicate that the carrying values of the revalued assets are materially different from the fair values. Any increase in the carrying amount arising from the revaluation of land and buildings is credited to an asset revaluation reserve as a revaluation surplus in the insurance contract liabilities of the participating funds or statement of comprehensive income of the non-participating funds, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement in which case the increase is recognised in the income statement to the extent of the decrease previously recognised.

MCIS Insurance Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(a) Property and equipment and depreciation (cont'd.)

A revaluation deficit is first offset against previously recognised revaluation surplus in respect of the same asset in the statement of financial position, and any remaining deficit is thereafter recognised in the income statement.

Freehold land has an unlimited useful life and therefore is not depreciated. Work-in-progress are also not depreciated until the assets are ready for their intended use. Leasehold land is depreciated over the period of the respective leases which ranges from 35 to 110 years.

Depreciation of other property and equipment is computed on a straight-line basis over its estimated useful life at the following annual rates:

Freehold and leasehold buildings	Over the remaining leasehold period or 50 years which ever is lower
Motor vehicles	20%
Furniture, fixtures and fittings	10%
Office equipment	10%
Computer equipment	20%
Office renovation	20%

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 income statement.

(b) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Fair value is reviewed at every reporting date and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying value of the investment properties is materially different from the market value.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(b) Investment properties (cont'd.)

Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

(c) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the period in which the expenditure is incurred.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five to ten years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of ten years.

**MCIS Insurance Berhad
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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Intangible assets (cont'd.)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

The carrying amount of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(d) Non-current assets held for sale

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Property and equipment are not depreciated or amortised once classified as held for sale.

Non-current assets classified as held for sale and any cumulative income or expense recognised in other comprehensive income relating to assets classified as held for sale are presented separately as current items in the statement of financial position.

(e) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company, all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases except that property held under operating leases that would otherwise meet the definition of an investment property, is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (Note 2.3(e)(ii)).

**MCIS Insurance Berhad
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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(e) Leases (cont'd.)

(ii) Finance Leases - The Company as Lessee

Useful lives of all leasehold buildings are shorter than the lease term of the leasehold land on which the buildings are located. As such, all risks and rewards incidental to the ownership of such assets would be deemed to have been substantially transferred to the Company at the end of their useful lives. All leasehold buildings are therefore classified as finance lease in the financial statements.

Buildings held under finance lease are recognised as assets in the statement of financial position of the Company and measured in accordance with MFRS 116: *Property, Plant and Equipment* and MFRS 140: *Investment Properties*.

The depreciation policy for leased assets is in accordance with that for depreciable property and equipment as described in Note 2.3(a).

(iii) Operating Leases - The Company as Lessee

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

In the case of a lease of land and buildings, the minimum lease payments or the up-front payment made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(f) Impairment of non-financial assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(f) Impairment of non-financial assets (cont'd.)

An impairment loss is recognised in the income statement in the period in which it arises. Subsequent increases in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. A reversal of impairment loss is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(g) Financial instruments

Financial assets – Accounting policies applied from 1 January 2018

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (“FVOCI”) – debt securities, FVOCI – equity securities and fair value through profit or loss (“FVTPL”).

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI – debt securities

A debt security is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has designated all its debt securities, which meet the above condition, as FVTPL, as the fair value option was elected.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(g) Financial instruments (cont'd.)

Financial assets – Accounting policies applied from 1 January 2018 (cont'd.)

FVOCI – equity securities

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in FVOCI. The Company's policy is to designate equity instruments as FVOCI when those investments are held for purposes other than held for trading. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including upon disposal. Equity instruments designated at FVOCI are not subject to impairment assessment. The Company does not have any equity instruments designated at FVOCI as at 31 December 2018.

FVTPL

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. Any gains or losses from changes in fair value and interest are recognised in the income statement. On initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All financial assets, except for those measured at FVTPL and equity investments measured at FVOCI, are subject to impairment assessment (see Note 2.3(i)).

Financial assets – Accounting policies applied until 31 December 2017

The Company classifies its financial assets into FVTPL, held-to-maturity, loans and receivables (“LAR”) and available-for-sale (“AFS”).

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(g) Financial instruments (cont'd.)

**Financial assets – Accounting policies applied until 31 December 2017
(cont'd.)**

Financial assets are classified at FVTPL where the Company documented investment strategy is to manage financial assets on a fair value basis, because the related liabilities are also managed on this basis. The AFS and HTM categories are used when the relevant liability (including shareholders' fund) are passively managed and/or carried at amortised cost.

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

Financial assets at FVTPL

FVTPL include financial assets held for trading and those designated at FVTPL at inception. Investments bought with the intention to sell in the near future are classified as held-for-trading. For investments designated at fair value through profit or loss, the following criteria must be met:

- (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- (ii) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These financial assets are initially recorded at fair value. Subsequent to initial recognition, these financial assets are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement.

Investments under unit linked funds are designated as FVTPL at inception as they are managed and evaluated on a fair value basis in accordance with the respective investment strategies and mandates of the funds.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(g) Financial instruments (cont'd.)

**Financial assets – Accounting policies applied until 31 December 2017
(cont'd.)**

HTM

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Company has the positive intention and ability to hold until maturity. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, HTM are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

The Company does not have any financial assets classified as HTM as at 31 December 2017.

LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired, as well as through the amortisation process.

**MCIS Insurance Berhad
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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(g) Financial instruments (cont'd.)

**Financial assets – Accounting policies applied until 31 December 2017
(cont'd.)**

AFS

AFS 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 recorded at fair value. After initial measurement, AFS are remeasured at fair value.

Any gains or losses from changes in fair value of the financial assets are recognised in the available-for-sale reserve in the statement of comprehensive income or insurance contract liabilities, except for impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method which are recognised in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement when the financial asset is derecognised.

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

(h) Fair value measurement

The Company measures financial instruments and non-financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(h) Fair value measurement (cont'd.)

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(h) Fair value measurement (cont'd.)

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

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date.

For investments in unit and property trust funds, fair value is determined by reference to published bid values.

External valuers are involved for valuation of significant assets, such as properties. Involvement of external valuers is decided upon annually by Finance and Property Department of the Company. Selection criteria include market knowledge, experience, reputation, independence and whether professional standards are maintained. A valuation is done on an annual basis.

At each reporting date, Finance and Property Department analyses the movements in the values of assets which are required to be re-measured or re-assessed in accordance with the Company's accounting policies.

The Property Department and the Company's external valuers also compare the changes in the fair value of each property with relevant external sources to determine whether the changes are reasonable.

The valuation results, as performed by the Company's external valuers, are presented to the Board in the year the valuation is performed.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**MCIS Insurance Berhad
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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(i) Impairment of financial assets

Accounting policies applied from 1 January 2018

Financial instruments that are not measured at FVTPL

The Company recognises loss allowances for expected credit losses ("ECL") on loans receivables measured at amortised cost and insurance receivables.

The Company assesses on a forward looking basis the ECL associated with loans receivables measured at amortised cost. For insurance receivables, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses. The Company recognises a loss allowance for ECL at each reporting date. 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; and
- 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.

The Company measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL represent the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

**MCIS Insurance Berhad
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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(i) Impairment of financial assets (cont'd.)

Accounting policies applied until 31 December 2017

Assets carried at amortised cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and 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 each reporting date.

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 and the loss is recorded in the income statement.

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 income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

If there is objective evidence that an impairment loss on a financial asset carried at cost has been incurred, the carrying amount will be written down to the recoverable amount. Such impairment losses are not reversed in subsequent periods.

**MCIS Insurance Berhad
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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(i) Impairment of financial assets (cont'd.)

Accounting policies applied until 31 December 2017 (cont'd.)

Assets classified as AFS

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

In respect of equity investments classified as AFS, a decline of 30% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. If any such quantitative evidence exists for AFS financial assets, the asset is considered for impairment, taking qualitative evidence into account.

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

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

(j) Derecognition of financial assets/liabilities and insurance receivables/payables

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

Financial liabilities and insurance payables are derecognised when the obligation under the liabilities are discharged, cancelled or expired.

MCIS Insurance Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(k) Equity instruments

Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and accounted for in the shareholders' equity as an appropriation of retained profits when they are approved for payment.

Dividends for the year that are approved after the statement of financial position date are dealt with as a non-adjusting event after the reporting date.

(l) Contract classification

The Company issues contracts that transfer insurance risk, or financial risk or both.

- (i) Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Based on this definition, all policy contracts issued by the Company are insurance contracts as at current reporting date.

Insurance contracts are recognised and measured in accordance with the terms and conditions of the respective contracts and are based on guidelines laid down by BNM. Premiums, claims and benefit payments, acquisition and management expenses and valuation of future policy benefit payments or premium reserves as the case may be, are recognised in the income statement.

- (ii) Participating life insurance contracts contain discretionary participating feature ("DPF"). This feature entitles the policyholders to receive non-guaranteed benefits which could vary according to the investment and operating results of the Company. The Company does not recognise the guaranteed component separately from the DPF; hence the whole contract is presented within the insurance contract liability in the financial statements.

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(l) Contract classification (cont'd.)

(iii) The Company is not required to un-bundle any insurance contract as the current accounting policy recognises all insurance premiums, claims and policy benefit payments, expenses and valuation of future benefit payments through the income statement.

(iv) The Company does not separately measure at fair value the policyholder's option to surrender an insurance contract for a fixed amount or for an amount based on fixed amount and an interest rate.

Options and guarantees inherent in some insurance contracts which are closely related to the host contract issued by the Company are not required to be separated and measured at fair value.

(v) The Company does not adopt a policy of deferring acquisition costs for its life insurance contracts.

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

Insurance contracts are further classified as being either with or without DPF. DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- contractually based on the:
 - performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the Company, fund or other entity that issues the contract.

**MCIS Insurance Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.3 Summary of significant accounting policies (cont'd.)****(l) Contract classification (cont'd.)**

Surpluses in the DPF funds can be distributed on an approximate 90/10 basis in accordance with BNM's guidelines Management of Insurance Funds to the policyholders and the shareholders respectively. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within the insurance liabilities.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF, or if the host insurance contract and/or investment contract itself is measured at fair value through profit or loss.

(m) Reinsurance

The Company enters into reinsurance contracts in the normal course of business to diversify the risks and limit its net loss potential. Assets, liabilities, income and expense arising from the reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(m) Reinsurance (cont'd.)

The Company assesses its reinsurance assets for impairment at each reporting period. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in Note 2.3(i).

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

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

(n) Life insurance underwriting results

The surplus transferable from the Life funds to the income statement is based on the surplus determined by an annual actuarial valuation of the liabilities to policyholders, made in accordance with the provisions of the Financial Services Act, 2013, by the Appointed Actuary.

Gross premiums

Gross premiums are recognised as soon as the amount of the premiums can be reliably measured. First year premium is recognised on inception date and subsequent premiums are recognised on due date.

Premium income of the investment linked funds is in respect of the net creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of the contract. Net creation of units is recognised on a receipt basis.

**MCIS Insurance Berhad
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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(n) Life insurance underwriting results (cont'd.)

Gross premiums (cont'd.)

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured.

Reinsurance premiums

Gross reinsurance premiums are recognised as an expense when payable or on the date on which the policy is effective.

Benefits, claims and expenses

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

Benefits and claims, including settlement costs, are accounted for using the case-by-case basis method and for this purpose, the amounts payable under a policy are recognised as follows:

- maturity and other policy benefit payments due on specified dates are treated as claims payable on the due dates;
- death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered; and
- bonus on policies with DPF are recognised upon declaration.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contracts.

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(n) Life insurance underwriting results (cont'd.)

Commission and agency expenses

Gross commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the income statement in the period in which they are incurred.

(o) Insurance receivables and payables

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

If there is objective evidence that an insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.3(i).

Insurance receivables and payable are derecognised when the derecognition criteria for financial assets and liabilities, as described in Note 2.3(j), have been met.

(p) Insurance contract liabilities

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

The valuation of insurance contract liabilities is determined according to the Financial Services Act, 2013, the prevailing RBC Framework and MFRS 4 Insurance Contracts ("MFRS 4"). The liability estimation methods prescribed under the RBC Framework meets the requirements of the Liability Adequacy Test under MFRS 4.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(p) Insurance contract liabilities (cont'd.)

The Company performs liability adequacy tests on its life insurance liabilities to ensure that the carrying amount of provisions is sufficient to cover estimated future cash flows arising from contracts of insurance underwritten. When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount against the carrying value of the liability. Any deficiency is charged to the income statement.

Participating life plans are valued using a prospective actuarial valuation method based on the sum of the present value of future guaranteed benefits, an appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk discount rate. The participating life insurance liability is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities.

Provisions for annuity policies are valued using similar basis as participating life contracts.

The liability of non-participating life plans are valued using a prospective actuarial valuation method based on the sum of the present value of future benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate.

Provisions for investment linked insurance contracts is based on the carrying amount of the net assets of the Investment linked funds at the reporting date and the non-unit liability. The non-unit liability of Investment linked policies are valued by projecting future cash flows to ensure that all future outflows can be met without recourse to additional financing or capital support at any future time during the duration of the policy.

(q) Other revenue recognition

Revenue is recognised when it satisfies a performance obligation by transferring a promised good or service to a customer, which is when the customer obtains control of that good or service. The following specific recognition criteria must also be met before revenue is recognised.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(q) Other revenue recognition (cont'd.)

Rental income

Rental income from property is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

Interest and profit income

Interest/profit income is recognised on an accrual basis using the effective yield method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective yield of the instrument. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest/profit income.

Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

Realised gains and losses on investments

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

Fees and commission income

Fees and commission income relates to reinsurance commission income. The income are recognised as revenue over the period in which the services are rendered, subject to final confirmation of the amounts from reinsurers.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(r) Income tax

Income tax on the income statement for the year comprises 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 or substantively enacted at the reporting date.

Deferred tax is provided for 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 is not a business combination and 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 or substantively enacted at the reporting date.

Deferred tax is recognised as income or an expense and included in the income statement 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.

(s) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(t) Employee benefits

Short-term benefits

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

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the income statement as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF").

Defined benefit plans

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(u) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in foreign currency are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement, except for differences relating to items where gains or losses are recognised directly in equity, in which case, the gain or loss is recognised net of the exchange component in equity.

(v) Financial liabilities

Financial liabilities are recognised when the Company becomes a party to contractual provisions of the instruments and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

(w) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, cash at bank and deposits held at call with financial institutions with original maturities of three months or less.

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2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(x) Goods and Service Tax ("GST")/Sales and Service Tax

GST is a multistage consumption tax on domestic consumption.

For the Company, revenues, expenses and assets are recognised net of the amount of GST except where GST incurred on a purchase of assets or goods and services is not recoverable from the tax authority, in which case GST is recognised as part of the asset or expense item as applicable. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the tax authority is included as part of the receivables and payables in the statement of financial position.

Based on the Federal Government Gazette on Goods and Service Tax (Rate of Tax) (Amendment) Order 2018 ("the Order") issued on 16 May 2018, the GST standard rate was amended from 6% to 0% with effect from 1 June 2018. Effective from 1 September 2018, the Sales Tax Act 2018 and Service Tax Act 2018 together with its respective subsidiary legislations are introduced to replace the GST Act 2014 which was repealed on the same date.

2.4 (i) Changes in accounting policies

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

On 1 January 2018, the Company adopted the following MFRSs, interpretation and amendments effective for annual periods beginning on or after 1 January 2018:

MFRSs, interpretation and amendments effective for annual periods beginning on or after 1 January 2018:	
(i)	Amendments to MFRS 1 <i>First-time Adoption of Malaysian Financial Reporting Standards</i> (Annual Improvements to MFRS Standards 2014-2016 Cycle)
(ii)	Amendments to MFRS 2 <i>Share-based payment: Classification and Measurement of Share-based Payment Transactions</i>
(iii)	Amendments to MFRS 4 <i>Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>
(iv)	Amendments to MFRS 128 <i>Investments in Associates and Joint Ventures</i> (Annual Improvements to MFRS Standards 2014-2016 Cycle)
(v)	Amendments to MFRS 140 <i>Transfers of Investment Property</i>

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2. Significant accounting policies (cont'd.)

2.4 (i) Changes in accounting policies (cont'd.)

MFRSs, interpretation and amendments effective for annual periods beginning on or after 1 January 2018: (cont'd.)

(vi) IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

(vii) MFRS 9 *Financial Instruments*

(viii) MFRS 15 *Revenue from Contracts with Customers*

Items (ii), (iv), (vi) are not applicable to the Company. The initial application of the remaining standards, amendments and interpretation do not have any material impacts to the current and prior period's financial statements upon their first adoption, except as disclosed below:

MFRS 9: *Financial Instruments*

MFRS 9 *Financial Instruments* replaces MFRS 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

(a) Classification and measurement

Under MFRS 9, the Company continues to measure all of its investments in debt and quoted equity securities as well as unit and property trust funds at fair value, which were also measured at fair value under MFRS 139. These investments, which were classified as AFS under MFRS 139, have been classified as FVTPL under MFRS 9. Unquoted equity securities, which were measured at cost under MFRS 139, are measured at FVTPL under MFRS 9.

Loans receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Loans receivables under MFRS 139 (other than deposits with financial institutions) are classified as financial assets measured at amortised cost under MFRS 9. Deposits with financial institutions are now classified as financial assets measured at FVTPL under MFRS 9, so as to align with the group accounting policy of the holding company.

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2. Significant accounting policies (cont'd.)

2.4 (i) Changes in accounting policies (cont'd.)

(b) Impairment

MFRS 9 requires the Company to record expected credit losses on its financial assets at amortised cost either on a 12-month or lifetime basis. The Company applies the simplified approach and record lifetime expected losses on all receivables. The Company has determined that, due to the unsecured nature of its financial assets at amortised cost, the loss allowance increased by RM1,802,000, net of tax.

(c) Hedge accounting

As the Company does not have derivatives financial assets, the application of the hedging accounting requirements of MFRS 9 is not applicable to the Company.

Transition upon the adoption of MFRS 9

The Company applies the exemption of not restating comparative information for prior periods in respect of classification and measurement (including impairment) changes. The differences in the carrying amounts of financial assets resulting from the adoption of MFRS 9 are recognised in retained earnings as at 1 January 2018.

The impact of MFRS 9 adoption as at 1 January 2018 is as follows:

	As reported under MFRS 139 RM'000	Classification and measurement RM'000	ECL impairment RM'000	As reported under MFRS 9 RM'000
Assets				
Investments				
AFS	3,708,055	(3,708,055)	-	-
FVTPL	147,552	3,841,951	-	3,989,503
LAR	428,947	(428,947)	-	-
Amortised cost	-	305,424	-	305,424
Insurance receivables	78,963	-	(2,371)	76,592
Equity				
Retained profits	119,060	9,212	(1,802)	126,470
AFS reserves	9,212	(9,212)	-	-
Liabilities				
Insurance contract liabilities	4,056,010	9,548	-	4,065,558
Deferred tax liability	25,335	825	(569)	25,591

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2. Significant accounting policies (cont'd.)

2.4 (ii) Other adjustments

Relates to interfund investments made by the shareholders' fund in the investment-linked fund which had not been previously eliminated in presenting total equity and insurance contract liabilities of the Company's statement of financial position. The elimination does not have material impact on the amounts recognised in the financial statements.

2.5 Standards issued but not yet effective

The following are standards, amendments to standards and interpretation to standards issued by MASB, but not yet effective, up to the date of this report. The Company intends to adopt these standards, amendments to standards and interpretation to standards, if applicable, when they become effective:

Description	Effective for annual periods beginning on or after
MFRS 16 <i>Leases</i>	1 January 2019
Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015-2017 Cycle</i>	1 January 2019
Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015-2017 Cycle</i>	1 January 2019
Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015-2017 Cycle</i>	1 January 2019
Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015-2017 Cycle</i>	1 January 2019
Amendments to MFRS 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to MFRS 3: <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 and 108: <i>Definition of Material</i>	1 January 2020
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

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2. Significant accounting policies (cont'd.)

2.5 Standards issued but not yet effective (cont'd.)

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

MFRS 16 Leases

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

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

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

MFRS 16 is effective for annual periods beginning on or after 1 January 2019 and the Company will apply the standard from its mandatory adoption date, using modified retrospective approach. The Company chooses to measure the right-of-use asset equals to the lease liability at 1 January 2019 with no restatement of comparative information.

Based on the information currently available, the Company estimates that it will recognise lease liabilities and right-of-use assets of RM20,378,000 as at 1 January 2019. The Company does not expect the adoption of MFRS 16 to impact its ability to comply with the regulatory capital requirements described in Note 33.

The Company's activities as a lessor are not material and the Company does not expect any significant impact on the financial statements.

2. Significant accounting policies (cont'd.)

2.5 Standards issued but not yet effective (cont'd.)

MFRS 17 Insurance Contracts

MFRS 17 was issued by MASB in August 2017. The standard will replace the existing MFRS 4 and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The Company is currently assessing the financial impact of adopting MFRS 17.

2.6 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

(a) Critical judgments made in applying accounting policies

The following are judgments made by management in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(i) Deferred tax assets (Note 16)

Deferred tax assets are recognised for various allowances and provisions to the extent that it is probable that taxable profit will be available against which these allowances and provisions can be utilised. Significant judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits together with future tax planning strategies.

(ii) Income taxes (Note 26)

The Company is subject to income taxes in Malaysia. Significant judgment is required in determining the allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

2. Significant accounting policies (cont'd.)

2.6 Significant accounting judgments, estimates and assumptions (cont'd.)

(a) Critical judgments made in applying accounting policies (cont'd.)

(iii) Property and equipment (Note 3)

Property and equipment requires the review of the residual value and remaining useful life of an item of property and equipment at least at each financial year end.

Management estimates that the residual values and remaining useful lives are appropriate for the current financial year.

(iv) Classification between investment properties and property and equipment (Notes 3 and 4)

The Company has developed certain criteria based on MFRS 140 *Investment Property* in making judgments whether a property qualifies to be classified as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for administrative purpose. If these portions could be sold separately (or leased out separately under finance lease), the Company would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for administrative purposes.

(v) Impairment of receivables (Notes 9 and 10)

Measurement of ECL - applicable from 1 January 2018

The key inputs into the measurement of ECL are the term structures of the following variables:

- probability of default ("PD")
- loss given default ("LGD"); and
- exposure at default ("EAD").

To determine lifetime and 12-month PDs, the Company uses a provision matrix (a simplified approach) which is based on its historical observed default rates over the expected life of the receivables. Additional macro-economic and forward looking information is considered when determining PD, such as the Company's internal assessment of the correlation between the receivables and external factors.

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2. Significant accounting policies (cont'd.)

2.6 Significant accounting judgments, estimates and assumptions (cont'd.)

(a) Critical judgments made in applying accounting policies (cont'd.)

(v) Impairment of receivables (Notes 9 and 10) (cont'd.)

Impairment losses - applicable until 31 December 2017

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company complies with BNM's guideline on Financial Reporting. According to the guideline, objective evidence of impairment is deemed to exist where the financial assets which are individually assessed for impairment are past due for more than 90 days or 3 months. Other factors considered by the Company are probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the Company will recognise the impairment loss in the income statement.

(vi) Impairment of AFS (Note 7) - applicable until 31 December 2017

Significant judgment is required to assess impairment for AFS financial assets. The Company evaluates the duration and extent to which the fair value of an investment is less than cost. In addition, the Company evaluates the financial health and near-term business outlook for the investee, including but not limited to factors such as industry and sector performance, changes in technology and operational and financial cash flow.

(vii) Insurance contract classification (Note 15)

Contracts are classified as insurance contracts where they transfer significant insurance risk from the policyholder to the Company. The Company exercises judgment about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether the Company is required to pay significant additional benefits in excess of amounts payable when the insured event occurs. These additional benefits include claims liability and assessment costs, but exclude the loss of the ability to charge the policyholder for future services.

The assessment covers the whole of the expected term of the contract where such additional benefits could be payable. Some contracts contain options for the policyholder to purchase insurance risk protection at a later date; these insurance risks are deemed not significant.

2. Significant accounting policies (cont'd.)

2.6 Significant accounting judgments, estimates and assumptions (cont'd.)

(a) Critical judgments made in applying accounting policies (cont'd.)

(viii) Non-current assets held for sale (Note 11)

The Board considered certain self-occupied and investment properties as non-current assets held for sale for the following reasons:

- The properties are available for immediate sale and/or transfer in its present condition;
- The actions to complete the sale were initiated during the year and are expected to be completed within one year from the reporting date;
- The sale is highly probable, and it is unlikely that the plan to sell the properties will be withdrawn.

(b) Key sources of estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, 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 life insurance contract liabilities (Note 15)

There are several sources of uncertainty that need to be considered in the estimation of the life insurance contract liabilities that the Company will ultimately be required to pay as claims.

For life insurance contracts, estimates are made for future deaths, disabilities, voluntary terminations, discount rates and expenses.

The Company relies on standard industry and insurance mortality tables which represent historical mortality experience, and makes appropriate adjustments for its respective risk exposures in deriving the mortality and morbidity estimates. These estimates provide the basis in the valuation of the future benefits to be paid to policyholders and ensure adequate provision of reserve which are monitored against current and future premiums. At each reporting date, these estimates are assessed for adequacy and changes will be reflected as adjustments to insurance contract liabilities. Changes to the insurance contract liabilities during the year are reported in the income statement.

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2. Significant accounting policies (cont'd.)

2.6 Significant accounting judgments, estimates and assumptions (cont'd.)

(b) Key sources of estimation uncertainty and assumptions (cont'd.)

(i) Valuation of life insurance contract liabilities (Note 15) (cont'd.)

Table below provides the key underlying assumptions used for valuation of life insurance contract liabilities:

Valuation method	Description
Discount rates	<p><u>Participating and annuity funds:</u> The actual spot yields of Malaysian Government Securities ("MGS") is used to discount the guaranteed benefit cash flows while the best estimate of investment returns is used to discount the total benefit cash flows. The gross investment return is 6.0% (2017: 6.50%) for the participating business and 5.50% (2017: 5.75%) for the annuity business.</p> <p><u>Non-participating and Investment linked funds:</u> The spot yields of MGS at valuation date is used to discount the guaranteed benefit cash flows.</p> <p>Data source: MGS spot yields are obtained from the Bond Pricing Agency Malaysia ("BPAM").</p>
Mortality and Morbidity	Best estimates plus provision for adverse deviation Data source: internal experience studies
Lapse and Surrender	Best estimates plus provision for adverse deviation Data source: internal experience studies
Expenses	Best estimates plus provision for adverse deviation Data source: internal experience studies

(ii) Fair value of financial assets determined using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counter-parties. Discount rates are influenced by risk-free interest rates and credit risk.

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2. Significant accounting policies (cont'd.)

2.6 Significant accounting judgments, estimates and assumptions (cont'd.)

(b) Key sources of estimation uncertainty and assumptions (cont'd.)

(ii) Fair value of financial assets determined using valuation techniques (cont'd.)

The fair value of the unquoted equity securities is estimated by approximating the net assets value of the investee, which was adjusted by the historical profit growth of the investee.

The valuation techniques described above are calibrated annually.

(iii) Intangible assets (Note 5 and 25)

Computer applications software

The Company recognises the costs of significant development of knowledge based software and computer applications as intangible assets with finite useful lives. Such software and applications are unique to the requirements of the insurance business and the Company establishes that these development costs will generate economic benefits beyond one year.

The Company estimates the useful lives of these software costs to be between 5 to 10 years.

The Company expects that amortisation on software under development will only commence after the software and computer applications are available to be used and generate future economic benefits.

(iv) Income taxes (Note 26)

The Company is subject to income tax and other taxes and significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome may not be established until later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice on the tax treatments where appropriate.

Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the period in which the estimate is revised or the final liability is established.

3. Property and equipment (cont'd.)

	At valuation				At cost					
	Properties									
	Leasehold land	Buildings on leasehold land	Buildings on leasehold land 50 years or more	Buildings on leasehold land less than 50 years	Motor vehicles	Furniture, fixtures and fittings	Office and computer equipment	Office renovation	Work-in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017										
Cost/Valuation										
At 1 January 2017	12,230	27,850	6,270	56,740	800	1,073	11,596	26,955	7,176	1,453
Additions	-	-	-	-	-	-	110	1,805	1,098	2,452
Revaluation surplus/ (deficit) of:										
- participating fund (Note 15(ii))	2,607	-	786	282	131	-	-	-	-	-
- non-participating fund	(472)	(137)	539	961	-	-	-	-	-	-
	2,135	(137)	1,325	1,243	131	-	-	-	-	-
Elimination of accumulated depreciation on revaluation	-	(205)	(880)	(208)	(111)	-	-	-	-	(1,404)
Write-offs	-	-	-	-	-	-	(188)	(145)	-	(333)
Transfer to non-current assets held for sale (Note 11)	-	(23,100)	-	(54,600)	-	-	(5,902)	(10,736)	(4,180)	-
Reclassification	-	-	-	-	-	-	-	810	-	(810)
At 31 December 2017	14,365	4,408	6,715	3,175	820	1,073	5,616	18,689	4,094	3,095
										62,050

3. Property and equipment (cont'd.)

	At valuation >						At cost >					
	Buildings		Buildings		Buildings		Furniture, fixtures and fittings		Office and computer equipment		Work-in-progress	
	Freehold land	Leasehold land 50 years or more	Buildings on freehold land	Buildings on leasehold land 50 years or more	Buildings on leasehold land less than 50 years	Buildings on leasehold land	Motor vehicles	and fittings	renovation	Office	Work-in-progress	Total
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accumulated depreciation												
At 1 January 2017	-	893	678	5,317	76	1,073	9,432	22,338	4,840	-	-	44,647
Charge for the year	-	415	225	1,689	39	-	380	1,223	537	-	-	4,508
Elimination of accumulated depreciation on revaluation	-	(205)	(880)	(208)	(111)	-	-	-	-	-	-	(1,404)
Write-offs	-	-	-	-	-	-	(188)	(140)	-	-	-	(328)
Transfer to non-current assets held for sale (Note 11)	-	(1,097)	-	(6,788)	-	-	(5,713)	(10,576)	(2,716)	-	-	(26,890)
At 31 December 2017	-	6	23	10	4	1,073	3,911	12,845	2,661	-	-	20,533
Net carrying amount												
At 31 December 2017	14,365	4,402	6,692	3,165	816	-	1,705	5,844	1,433	3,095	-	41,517

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3. Property and equipment (cont'd.)

Included in the cost of property and equipment of the Company are the cost of fully depreciated assets which are still in use amounting to RM15,385,000 (2017: RM32,980,000).

Properties

The revalued land and buildings consist of office buildings, shop offices, shop houses and an apartment, which are located in various states in Malaysia.

The fair value of the properties was determined by using the cost method, other than fair value of a shop office and an apartment which were determined by using the sales comparison method. Under the cost method, the apportionment value attributable to the land is adopted whilst making due allowances for factors such as location, plot, size, accessibility and other relevant factors in determining the value of the land, while current estimates on construction costs to erect equivalent buildings. Appropriate adjustments are then made for factors of obsolescence and existing physical condition of the building in determining the cost of the building. The comparison method entails comparing and adopting recent sales evidences involving other similar properties in the vicinity, adjusted for differences in location, size and shapes, accessibility, infrastructure available, improvements made on the site and other value considerations.

The properties' fair values are based on valuations performed by Raine & Horne International Zaki + Partners Sdn. Bhd., a registered independent valuer.

The Company has determined that the highest and best use of the properties is their current use.

Reconciliation of Level 3 fair value measurement:

	Apartment RM'000	Shop office/ shop house RM'000	Office building RM'000	Total RM'000
As at 1 January 2017	282	20,958	75,686	96,926
Revaluation surplus	57	3,660	980	4,697
Transfer to non-current assets held for sale	-	-	(69,815)	(69,815)
Depreciation recognised in profit or loss under management expenses	(9)	(300)	(2,059)	(2,368)
As at 31 December 2017	330	24,318	4,792	29,440

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3. Property and equipment (cont'd.)

Properties (cont'd.)

Reconciliation of Level 3 fair value measurement: (cont'd.)

	Apartment RM'000	Shop office/ shop house RM'000	Office building RM'000	Total RM'000
As at 1 January 2018	330	24,318	4,792	29,440
Revaluation deficit	-	(700)	-	(700)
Transfer to non-current assets held for sale	(318)	-	-	(318)
Depreciation recognised in profit or loss under management expenses	(12)	(408)	(83)	(503)
As at 31 December 2018	-	23,210	4,709	27,919

Fair value hierarchy disclosures for the properties have been provided in Note 38.

Description of valuation techniques used and key inputs to valuation of the properties are stated below:

Type of property	Valuation techniques	Key inputs	Weighted average	
Apartment	Comparison method	Price per square foot	Building	RM235
Multi-storey shop office /shop house	Comparison/cost method	Price per square foot	Land Building	RM2,601 RM123
7 ½-storey office building	Cost method	Price per square foot	Land Building	RM380 RM68

Significant increases/(decreases) in unobservable inputs in isolation would result in a significantly higher/(lower) fair value of the properties.

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3. Property and equipment (cont'd.)

Properties (cont'd.)

Reconciliation of Level 3 fair value measurement: (cont'd.)

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2018	2017
	RM'000	RM'000
Cost	9,571	9,871
Accumulated depreciation	(4,829)	(4,774)
Net carrying amount	<u>4,742</u>	<u>5,097</u>

4. Investment properties

	2018	2017
	RM'000	RM'000
At 1 January 2018/2017	11,390	43,975
Transfer to non-current assets held for sale (Note 11)	-	(33,627)
Fair value (losses)/gains (Note 21)	(640)	1,042
At 31 December 2018/2017	<u>10,750</u>	<u>11,390</u>

The fair value of investment properties was determined by using cost method, other than fair value of an agriculture land and a shop office which were determined by using the comparison method. Under the cost method, the apportionment value attributable to the land is adopted and making due allowances to factors of location, plot, size, accessibility and other relevant factor in determining the value of the land, while current estimates on constructional costs to erect equivalent buildings with appropriate adjustments are then made for factors of obsolescence and existing physical condition of the building are adopted in determining the cost of the building. The comparison method entails comparing and adopting recent sales evidences involving other similar properties in the vicinity, adjusted for differences in location, size and shapes, accessibility, infrastructure available, improvements made on the site and other value considerations.

The properties' fair values are based on valuations performed by Raine & Horne International Zaki + Partners Sdn. Bhd., a registered independent valuer.

The Company has determined that the highest and best use of the properties is their current use.

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4. Investment properties (cont'd.)

Reconciliation of Level 3 fair value measurement:

	Agriculture land	Shop office/ shop house	Office building	Total
	RM'000	RM'000	RM'000	RM'000
As at 1 January 2017	1,200	12,108	30,667	43,975
Transfer to non-current assets held for sale (Note 11)	-	(2,960)	(30,667)	(33,627)
Fair value gain recognised in the income statement	-	1,042	-	1,042
As at 31 December 2017	1,200	10,190	-	11,390
As at 1 January 2018	1,200	10,190	-	11,390
Fair value loss recognised in the income statement	-	(640)	-	(640)
As at 31 December 2018	1,200	9,550	-	10,750

Fair value hierarchy disclosures for investment properties have been provided in Note 38.

Description of valuation techniques used and key inputs to valuation on investment properties are stated below:

Type of property	Valuation technique	Key inputs	Weighted average	
Agriculture land	Comparison method	Price per square foot	Land	RM2.03
Multi-storey shop office /shop house	Comparison/ cost method	Price per square foot	Land Building	RM3,313 RM67

Significant increases/(decreases) in unobservable inputs in isolation would result in a significantly higher/(lower) fair value of the properties.

The amount of income and expenses recorded in the income statement in respect of investment properties of the Company are as follows:

	2018	2017
	RM'000	RM'000
Rental income from investment properties	201	606
Direct operating expenses (including repairs and maintenance) generating rental income	(54)	(239)
Net income arising from investment properties	147	367

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4. Investment properties (cont'd.)

There are no restrictions on the realisability of investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements, other than routine building maintenance.

5. Intangible assets

	2018	2017
	RM'000	RM'000
Computer software		
Cost		
At 1 January 2018/2017	27,012	23,931
Additions	211	3,081
Reversal	(301)	-
At 31 December 2018/2017	<u>26,922</u>	<u>27,012</u>
Accumulated amortisation		
At 1 January 2018/2017	15,502	13,697
Charge for the year	1,973	1,805
At 31 December 2018/2017	<u>17,475</u>	<u>15,502</u>
Net carrying amount		
At 31 December 2018/2017	<u>9,447</u>	<u>11,510</u>

6. Prepaid land lease payments

	Leasehold land less than 50 years RM'000
31 December 2018	
Cost/Valuation	
At 1 January/31 December 2018	<u>350</u>
Accumulated amortisation	
At 1 January 2018	149
Charge for the year	12
At 31 December 2018	<u>161</u>
Net carrying amount	
At 31 December 2018	<u>189</u>

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6. Prepaid land lease payments (cont'd.)

**Leasehold land
less than 50 years
RM'000**

31 December 2017

Cost/Valuation

At 1 January/31 December 2017

350

Accumulated amortisation

At 1 January 2017

137

Charge for the year

12

At 31 December 2017

149

Net carrying amount

At 31 December 2017

201

7. Investments

	2018	2017
	RM'000	RM'000
Malaysian Government securities	1,220,418	1,282,593
Government investment issues	240,639	144,608
Malaysian Government guaranteed bonds	627,110	646,114
Unquoted debt securities	1,219,346	1,134,372
Quoted equity securities	434,274	465,019
Quoted exchange traded funds	39,219	33,542
Unquoted equity securities	14,290	2,086
Quoted unit and property trust funds	111,076	119,977
Unquoted unit trust funds	30,221	27,296
Deposits with financial institutions	135,073	123,523
Loans receivables	285,313	305,424
Total	<u>4,356,979</u>	<u>4,284,554</u>

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

	2018	2017
	RM'000	RM'000
FVTPL	4,071,666	147,552
Amortised cost	285,313	-
LAR	-	428,947
AFS	-	3,708,055
	<u>4,356,979</u>	<u>4,284,554</u>

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7. Investments (cont'd.)

	2018	2017
	RM'000	RM'000
(a) FVTPL		
Mandatorily measured:		
Quoted equity securities	434,274	52,387
Quoted exchange traded funds	39,219	33,542
Unquoted equity securities	14,290	-
Quoted unit and property trust funds	111,076	4,618
Unquoted unit trust funds	30,221	27,296
	<u>629,080</u>	<u>117,843</u>
Designated upon initial recognition:		
Malaysian Government securities	1,220,418	8,542
Government investment issues	240,639	3,179
Malaysian Government guaranteed bonds	627,110	-
Unquoted debt securities	1,219,346	17,988
Deposits with financial institutions	135,073	-
	<u>3,442,586</u>	<u>29,709</u>
	<u>4,071,666</u>	<u>147,552</u>

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7. Investments (cont'd.)

	2018 RM'000	2017 RM'000
(b) Amortised cost		
Loans receivables:		
Policy loans	283,284	-
Mortgage loans	5,445	-
Other loans	171	-
	288,900	-
Loss allowances	(3,587)	-
	<u>285,313</u>	<u>-</u>
(c) LAR		
At amortised cost:		
Deposits with financial institutions	-	123,523
Loans receivables:		
Policy loans	-	303,771
Mortgage loans	-	5,833
Other loans	-	565
	-	310,169
Accumulated impairment losses	-	(4,745)
	-	<u>305,424</u>
	-	<u>428,947</u>

The carrying value of the policy loans and other loans are reasonable approximations of fair value due to the insignificant impact of discounting.

The fair values of the mortgage loans have been established by comparing current market interest rates for similar financial instruments to the rates offered when the mortgage loans were first recognised together with appropriate market credit adjustments. As there are no significant differences between these rates, the carrying value of mortgage loans approximates fair value as at 31 December 2018 and 31 December 2017.

Included in deposits with financial institutions of the Company are short term deposits with original maturity periods of less than 3 months amounting to RM134,174,000 (31.12.2017: RM122,622,000), which have been classified as cash and cash equivalents for the purpose of the statement of cash flows.

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7. Investments (cont'd.)

	2018	2017
	RM'000	RM'000
(d) AFS		
At fair value:		
Malaysian Government securities	-	1,274,051
Government investment issues	-	141,429
Malaysian Government guaranteed bonds	-	646,114
Unquoted debt securities	-	1,116,384
Quoted equity securities	-	412,632
Quoted unit and property trust funds	-	115,359
	<hr/>	<hr/>
	-	3,705,969
At cost less impairment:		
Unquoted equity securities net of impairment loss of RM61,000)	-	2,086
	<hr/>	<hr/>
	-	3,708,055
	<hr/>	<hr/>

(e) Reconciliation of Level 3 fair value measurement:

	2018
	RM'000
<u>Unquoted equity securities</u>	
As at 1 January 2018 (As previously stated)	2,086
Adjustments upon initial application of MFRS 9	10,373
As at 1 January 2018 (As restated)	<hr/> 12,459
Fair value gains	1,831
As at 31 December 2018	<hr/> <hr/> 14,290

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7. Investments (cont'd.)

(f) Carrying values of financial instruments

	LAR RM'000	Amortised cost RM'000	AFS RM'000	FVTPL RM'000	Total RM'000
At 1 January 2017	545,814	-	3,468,910	125,817	4,140,541
Purchases	-	-	1,232,066	40,708	1,272,774
Disposals	-	-	(1,031,363)	(26,028)	(1,057,391)
Fair value gains recorded in:					
Other comprehensive income	-	-	3,407	-	3,407
Insurance contract liabilities:					
(Note 15(ii))					
Life funds	-	-	39,267	-	39,267
Investment linked funds	-	-	-	5,461	5,461
Realised gains recorded in the income statement (Note 20)	-	-	2,790	1,594	4,384
Decrease in loans receivables	(806)	-	-	-	(806)
Decrease in deposits with financial institutions	(115,253)	-	-	-	(115,253)
Increase in impairment loss on loans receivable (Note 36(d))	(808)	-	-	-	(808)
Increase in impairment loss on quoted equity securities (Note 23)	-	-	(2,565)	-	(2,565)
Increase in impairment loss on quoted unit and property trust funds (Note 23)	-	-	(10)	-	(10)
Net amortisation of premiums (Note 19)	-	-	(4,447)	-	(4,447)
At 31 December 2017	428,947	-	3,708,055	147,552	4,284,554
At 1 January 2018 (As previously stated)	428,947	-	3,708,055	147,552	4,284,554
Adjustments upon initial application of MFRS 9	(428,947)	305,424	(3,708,055)	3,841,951	10,373
At 1 January 2018 (As restated)	-	305,424	-	3,989,503	4,294,927
Purchases	-	-	-	723,477	723,477
Disposals	-	-	-	(619,785)	(619,785)
Fair value losses (Note 21)	-	-	-	(24,208)	(24,208)
Realised losses (Note 20)	-	-	-	(4,483)	(4,483)
Decrease in loans receivables	-	(21,269)	-	-	(21,269)
Increase in deposits with financial institutions	-	-	-	11,550	11,550
Decrease in impairment loss on loans receivable (Note 36(d))	-	1,158	-	-	1,158
Net amortisation of premiums (Note 19)	-	-	-	(4,388)	(4,388)
At 31 December 2018	-	285,313	-	4,071,666	4,356,979

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7. Investments (cont'd.)

(g) Fair values of financial instruments

The following tables show investments recorded at fair value analysed by the different bases as follows:

	AFS RM'000	FVTPL RM'000	Total RM'000
2018			
Quoted market bid price	-	719,642	719,642
Valuation techniques			
- market observable inputs	-	3,337,734	3,337,734
- unobservable inputs	-	14,290	14,290
	<u>-</u>	<u>4,071,666</u>	<u>4,071,666</u>
2017			
Quoted market bid price	527,991	90,547	618,538
Valuation techniques			
- market observable inputs	<u>3,177,978</u>	<u>57,005</u>	<u>3,234,983</u>
	<u>3,705,969</u>	<u>147,552</u>	<u>3,853,521</u>

Included in the quoted category are financial instruments that are measured in whole or in part by reference to quoted market bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange.

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, instruments with fair values based on broker quotes, investment in unit and property trusts with fair values obtained via fund managers and instruments that are valued using the Company's own models whereby the majority of assumptions are market observable.

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7. Investments (cont'd.)

(h) Range of effective interest rates

The range of effective interest rates for each class of interest-bearing investment and placements with licensed financial institutions are as below:

	2018	2017
	%	%
Malaysian Government securities	3.95 - 4.61	3.44 - 4.58
Government investment issues	3.34 - 4.91	3.35 - 4.45
Malaysian Government guaranteed bonds	4.36 - 4.80	4.44 - 5.21
Unquoted debt securities	4.41 - 5.15	4.47 - 5.18
Deposits with financial institutions	0.12 - 4.15	0.15 - 3.95
Loans receivables	<u>4.00 - 8.00</u>	<u>4.00 - 8.00</u>

(i) Interest-bearing contractual re-pricing or maturity dates

The earlier of the contractual re-pricing or maturity dates for each class of interest-bearing investment and placements with licensed financial institutions are as below:

	Interest-bearing contractual re-pricing or maturity dates (whichever is earlier)			
	1 year or less RM'000	1 year to 5 years RM'000	More than 5 years RM'000	Total RM'000
2018				
Malaysian Government securities	-	14,219	1,206,199	1,220,418
Government investment issues	1,885	12,140	226,614	240,639
Malaysian Government guaranteed bonds	-	-	627,110	627,110
Unquoted debt securities	112,412	379,710	727,224	1,219,346
Deposits with financial institutions	135,073	-	-	135,073
Loans receivables*	779	691	1,930	3,400
	<u>250,149</u>	<u>406,760</u>	<u>2,789,077</u>	<u>3,445,986</u>

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7. Investments (cont'd.)

(i) Interest-bearing contractual re-pricing or maturity dates (cont'd.)

	Interest-bearing contractual re-pricing or maturity dates (whichever is earlier)			Total
	1 year or less	1 year to 5 years	More than 5 years	
2017				
Malaysian Government securities	-	24,619	1,257,974	1,282,593
Government investment issues	-	12,113	132,495	144,608
Malaysian Government guaranteed bonds	-	-	646,114	646,114
Unquoted debt securities	22,496	422,828	689,048	1,134,372
Deposits with financial institutions	123,523	-	-	123,523
Loans receivables*	483	872	2,438	3,793
	<u>146,502</u>	<u>460,432</u>	<u>2,728,069</u>	<u>3,335,003</u>

* The Company's policy loans portfolio of RM281,913,000 (2017: RM301,631,000) (net of impairment loss of RM1,371,000 (2017: RM2,140,000)) is not included in the above loans receivable as there are no specific maturity dates.

8. Reinsurance assets

	2018 RM'000	2017 RM'000
Reinsurance of insurance contracts	<u>10,111</u>	<u>9,636</u>

9. Insurance receivables

	2018 RM'000	2017 RM'000
Due premiums including agents/brokers and reinsurers balances	49,828	58,094
Due from reinsurers and cedants	<u>16,355</u>	<u>22,421</u>
	66,183	80,515
Allowance for impairment	<u>(3,526)</u>	<u>(1,552)</u>
	<u>62,657</u>	<u>78,963</u>

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9. Insurance receivables (cont'd.)

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

10. Other receivables

	2018	2017
	RM'000	RM'000
Financial assets:		
Income due and accrued	59,460	56,864
Receivables arising from disposal of non-current assets held for sale	12,150	-
Other receivables	2,112	1,813
	<u>73,722</u>	<u>58,677</u>
Non-financial assets:		
Prepayments	629	744
	<u>74,351</u>	<u>59,421</u>

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

11. Non-current assets held for sale

	Note	2018	2017
		RM'000	RM'000
At 1 January 2018/2017		105,255	-
Transfer from property and equipment	(i)	318	71,628
Transfer from investment properties		-	33,627
Disposals	(ii)	(105,255)	-
At 31 December 2018/2017		<u>318</u>	<u>105,255</u>

During the financial year, the Company:

- (i) entered into a Sale and Purchase Agreements for a disposal of a property. The disposal has yet to be completed as at the date of this report.
- (ii) completed the disposals of properties held for sale for a total cash consideration of RM127.2 million, recognising a gain thereon of RM14.5 million (net of transaction costs of RM7.4 million). Among the disposals, two properties were disposed off to a related party for a cash consideration of RM123.5 million as disclosed in Note 32.

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12. Share capital

	<----- 2018 ----->		<----- 2017 ----->	
	No. of shares (‘000)	RM’000	No. of shares (‘000)	RM’000
Issued and paid-up:				
Ordinary shares of RM1.00 each				
At 1 January 2018/2017	100,284	125,024	100,284	100,284
Transfer from share premium in accordance with Section 618(2) of the CA 2016	-	-	-	24,740
At 31 December 2018/2017	<u>100,284</u>	<u>125,024</u>	<u>100,284</u>	<u>125,024</u>

Effective from 31 January 2017, the new Companies Act 2016 ("CA 2016" or "the Act") abolished the concept of authorised share capital and par value of share capital. Consequently, the credit balance of the share premium becomes part of the Company's share capital pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount for purposes as set out in Section 618(3) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

13. Retained profits

The non-distributable retained earnings represent the unallocated surplus from the Non Participating funds. In accordance with Section 83 of the Financial Services Act, 2013, the unallocated surplus is only available for distribution to the shareholders upon recommendation by the Appointed Actuary.

Pursuant to the single tier tax system, any dividends distributed by the Company will be exempted from tax in the hands of shareholders. The Company shall not be entitled to deduct tax on dividend paid, credited or distributed to shareholders.

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target capital level.

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14. Merger reserves

In June 2002, the Company acquired the entire equity interest in a subsidiary for a purchase consideration of RM123,349,408 via the issuance of 30,085,221 new ordinary shares of RM1.00 each to the vendors of the subsidiary at an issue price of RM4.10 per ordinary share.

As a result of using merger relief provisions, under Section 60(4) of the Companies Act, 1965 (subsequently repealed by CA 2016), the merger reserve was created in place of a share premium account and this reserve has been utilised to write-off the goodwill arising from the business combination in the Group financial statements and impairment in value of the investment in subsidiary at the effective date of acquisition, in the Company's financial statements.

The merger reserve was arrived at after considering the fair value of the subsidiary acquired, the nominal value of ordinary shares issued as consideration for the acquisition and the write-off of goodwill on consolidation in June 2002 as follows:

	RM'000
Fair value of subsidiary acquired	123,349
Nominal value of shares issued as consideration	<u>(30,085)</u>
Merger reserve on acquisition	93,264
Write-off of goodwill on consolidation	<u>(52,592)</u>
	<u><u>40,672</u></u>

The subsidiary had been struck off and dissolved.

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15. Insurance contract liabilities

The life insurance contract liabilities and its movements are further analysed as follows:

(i) Life insurance contract liabilities

	2018		2017			
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Provision for benefits and claims	116,275	(4)	116,271	111,394	(440)	110,954
Actuarial liabilities - Participating fund	3,134,377	(811)	3,133,566	3,110,580	(1,546)	3,109,034
Actuarial liabilities - Non participating fund	313,048	(9,296)	303,752	302,672	(7,650)	295,022
Participating fund unallocated surplus	3,447,425	(10,107)	3,437,318	3,413,252	(9,196)	3,404,056
Participating fund AFS reserves	273,892	-	273,892	282,701	-	282,701
Participating fund asset revaluation reserves	-	-	-	6,423	-	6,423
Net asset value ("NAV") attributable to unitholders	20,576	-	20,576	83,002	-	83,002
	167,171	-	167,171	159,238	-	159,238
	4,025,339	(10,111)	4,015,228	4,056,010	(9,636)	4,046,374

15. Insurance contract liabilities (cont'd.)

(ii) Movements of life insurance contract liabilities

	Provision for benefits and claims RM'000	Actuarial liabilities RM'000	Participating fund unallocated surplus RM'000	Non participating fund unallocated surplus RM'000	Participating fund reserves RM'000	Participating fund asset revaluation reserves RM'000	NAV attributable to unitholders RM'000	Gross liabilities RM'000	Reinsurance RM'000	Net liabilities RM'000
As at 1 January 2018 (As previously stated)	111,394	3,413,252	282,701	-	6,423	83,002	159,238	4,056,010	(9,636)	4,046,374
Adjustments upon initial application of MFRS 9	-	-	15,971	-	(6,423)	-	-	9,548	-	9,548
Other adjustments	-	-	-	-	-	-	1,954	1,954	-	1,954
As at 1 January 2018 (As restated)	111,394	3,413,252	298,672	-	-	83,002	161,192	4,067,512	(9,636)	4,057,876
Net earned premiums	-	-	336,112	149,330	-	-	36,954	522,396	-	522,396
Other revenue	-	-	166,373	21,999	-	-	(6,474)	181,898	-	181,898
Net benefits and claims	4,881	-	(450,713)	(87,077)	-	-	(24,971)	(557,880)	437	(557,443)
Other expenses	-	-	(93,394)	(67,722)	-	-	(45)	(161,161)	-	(161,161)
Policy movements	-	(12,066)	23,989	(11,923)	-	-	-	-	-	-
Interest rate	-	63,808	(65,751)	1,943	-	-	-	-	-	-
Adjustments due to changes in assumptions:	-	-	-	-	-	-	-	-	-	-
- Model change	-	(19,418)	19,418	-	-	-	-	-	-	-
- Others	-	1,849	(2,186)	1,249	-	-	-	912	(912)	-
Changes in asset revaluation reserves (Note 3)	-	-	67,154	-	-	(67,854)	-	(700)	-	(700)
Taxation on asset revaluation reserves (Note 16)	-	-	-	-	-	5,428	-	5,428	-	5,428
Taxation on taxable investment income (Note 39)	-	-	(10,064)	(1,078)	-	-	515	(10,627)	-	(10,627)
Participating fund surplus transferred to shareholders' fund (Note 39)	-	-	(15,718)	-	-	-	-	(15,718)	-	(15,718)
Reclassification of unallocated surplus of non-participating funds to shareholders' fund (Note 39)	-	-	-	(6,721)	-	-	-	(6,721)	-	(6,721)
As at 31 December 2018	116,275	3,447,425	273,892	-	-	20,576	167,171	4,025,339	(10,111)	4,015,228

15. Insurance contract liabilities (cont'd.)

(ii) Movements of life insurance contract liabilities (cont'd.)

2017	Provision for benefits and claims RM'000	Actuarial liabilities RM'000	Participating fund		Non participating fund surplus RM'000	Participating fund reserves RM'000	Participating fund asset revaluation reserves RM'000	NAV attributable to unitholders RM'000	Gross liabilities RM'000	Reinsurance RM'000	Net liabilities RM'000
			unallocated surplus RM'000	unallocated surplus RM'000							
As at 1 January 2017	102,950	3,266,806	355,163	-	-	(30,405)	79,500	137,935	3,911,949	(10,015)	3,901,934
Net earned premiums	-	-	376,608	125,907	-	-	-	36,088	538,603	-	538,603
Other revenue	-	-	165,563	18,229	-	-	-	10,336	194,128	-	194,128
Net benefits and claims	8,444	-	(387,916)	(81,063)	-	-	-	(24,256)	(484,791)	1,590	(483,201)
Other expenses	-	-	(108,142)	(57,353)	-	-	-	(41)	(165,536)	-	(165,536)
Policy movements	-	44,397	(50,457)	6,060	-	-	-	-	-	-	-
Other movements	-	-	39,333	-	-	-	-	-	39,333	-	39,333
Interest rate	-	(38,879)	41,541	(2,662)	-	-	-	-	-	-	-
Adjustments due to changes in assumptions:	-	-	-	-	-	-	-	-	-	-	-
- Model change	-	161,429	(160,538)	(891)	-	-	-	-	-	-	-
- Others	-	(20,501)	31,900	(10,188)	-	-	-	-	1,211	(1,211)	-
Changes in AFS reserves (Note 7(d))	-	-	-	-	-	-	-	-	-	-	-
Taxation on AFS reserves (Note 16)	-	-	-	-	-	39,267	-	-	39,267	-	39,267
Changes in asset revaluation reserves (Note 3)	-	-	-	-	-	(2,439)	-	-	(2,439)	-	(2,439)
Taxation on asset revaluation reserves (Note 16)	-	-	-	-	-	-	3,806	-	3,806	-	3,806
Taxation on taxable investment income (Note 39)	-	-	-	-	-	-	(304)	-	(304)	-	(304)
Participating fund surplus transferred to non-participating funds	-	-	(5,186)	(1,137)	-	-	-	(824)	(7,147)	-	(7,147)
Reclassification of unallocated surplus of non-participating funds to shareholders' fund (Note 39)	-	-	(15,168)	15,168	-	-	-	-	-	-	-
As at 31 December 2017	111,394	3,413,252	282,701	-	(12,070)	6,423	83,002	159,238	4,056,010	(9,636)	(12,070)
											4,046,374

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16. Deferred taxation

	Note	2018 RM'000	2017 RM'000
At 1 January 2018/2017		25,335	18,028
Adjustments upon initial application of MFRS 9		256	-
Other adjustments		(468)	-
		(212)	-
As at 1 January 2018/2017 (As restated)		25,123	18,028
Recognised in:			
Income statement			
- Taxation of life insurance business	26(a)	(926)	610
- Taxation of the Company	26(b)	774	2,924
Other comprehensive income		-	1,030
Insurance contract liabilities	15(ii)	(5,428)	2,743
At 31 December 2018/2017		19,543	25,335

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

	2018 RM'000	2017 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	20,612	26,554
Deferred tax assets	(1,069)	(1,219)
	19,543	25,335

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16. Deferred taxation (cont'd.)

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

	Accelerated capital allowances RM'000	Assets revaluation reserves RM'000	Fair value of investment assets RM'000	Unallocated surplus RM'000	Total RM'000
Deferred tax liabilities					
As at 1 January					
2017	379	9,092	215	10,239	19,925
Recognised in:					
Income statement	(40)	-	-	2,896	2,856
Other comprehensive income	-	214	816	-	1,030
Insurance contract liabilities	-	304	2,439	-	2,743
As at 31 December 2017	339	9,610	3,470	13,135	26,554
As at 1 January 2018					
(As previously stated)	339	9,610	3,470	13,135	26,554
Adjustments upon initial application of MFRS 9	-	-	825	(569)	256
Other adjustments	-	-	(468)	-	(468)
	-	-	357	(569)	(212)
As at 1 January 2018 (As restated)	339	9,610	3,827	12,566	26,342
Recognised in:					
Income statement	632	(998)	(2,496)	2,560	(302)
Insurance contract liabilities	-	(5,428)	-	-	(5,428)
As at 31 December 2018	971	3,184	1,331	15,126	20,612

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16. Deferred taxation (cont'd.)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows (cont'd.):

	Accretion and amortisation on investment assets RM'000	Fair value of investment assets RM'000	Total RM'000
Deferred tax assets			
At 1 January 2017	(1,897)	-	(1,897)
Recognised in:			
Income statement	678	-	678
At 31 December 2017	<u>(1,219)</u>	-	<u>(1,219)</u>
Recognised in:			
Income statement	150	-	150
At 31 December 2018	<u>(1,069)</u>	-	<u>(1,069)</u>

17. Insurance payables

	2018 RM'000	2017 RM'000
Financial liabilities:		
Due to agents and intermediaries	9,727	5,201
Due to reinsurers and cedants	14,490	29,293
Due to policyholders	91,507	86,395
Payable for agency related expenses	18,826	23,494
	<u>134,550</u>	<u>144,383</u>

The carrying amounts disclosed above approximate fair value at the reporting date. All amounts are payable within one year.

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18. Other payables

	Note	2018 RM'000	2017 RM'000
Financial liabilities:			
Unclaimed monies		25,163	36,683
Other creditors		61,994	36,270
		<u>87,157</u>	<u>72,953</u>
Non-financial liabilities:			
Provision for retirement medical benefits	(i)	6,686	6,495
Accrued expenses		13,383	7,639
Other provisions		10,148	9,632
		<u>30,217</u>	<u>23,766</u>
		<u>117,374</u>	<u>96,719</u>

(i) Provision for retirement medical benefits

This relates to medical benefits provided to certain former employees after retirement.

The movement of the present value of the defined benefit obligation recognised in the statement of financial position is as follows:

	2018 RM'000	2017 RM'000
As at 1 January 2018/2017	6,495	6,799
Provision made during the year	147	153
Medical benefits paid	(236)	(457)
Unwinding of discount rate	353	-
Change in assumptions	(73)	-
As at 31 December 2018/2017	<u>6,686</u>	<u>6,495</u>

Principal actuarial assumptions used at the end of the financial year is as follows:

Mortality	M11/15	M99/03
Discount rate	3.65% - 6.25%	4% - 5.92%
Inflation rate (per annum)	<u>10%</u>	<u>10%</u>

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18. Other payables (cont'd.)

(i) Provision for retirement medical benefits (cont'd.)

The mortality assumption is based on the experience of Malaysian insured lives between year 2011 to 2015 (31.12.2017: year 1999 to 2003).

The discount rate used is the best estimate of investment returns for participating and annuity business. The spot-yields of MGS is used for non-participating and investment-linked funds.

The following tables demonstrates the sensitivity of provision for retirement medical benefits to a reasonable change in discount rate on profit before taxation and equity:

	<----- Increase/(Decrease) ----->		
	Changes in basis points	Impact on profit before taxation RM'000	Impact on equity* RM'000
2018			
Interest rates	+ 100 bps	181	138
Interest rates	- 100 bps	(216)	(164)
2017			
Interest rates	+ 100 bps	226	172
Interest rates	- 100 bps	(280)	(213)

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

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

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19. Investment income

	2018	2017
	RM'000	RM'000
Rental income related to properties	1,281	3,273
AFS:		
Interest income	-	145,722
Dividend income:		
- Quoted equity securities	-	10,651
- Quoted unit and property trust funds	-	6,611
- Unquoted equity securities	-	194
Net amortisation of premiums on investment (Note 7(f))	(4,388)	(4,447)
FVTPL:		
Interest income	153,175	1,295
Dividend income:		
- Quoted equity securities	15,311	1,621
- Quoted exchange traded funds	1,432	995
- Quoted unit and property trust funds	6,940	226
- Unquoted equity securities	194	-
- Unquoted unit trust funds	264	211
Amortised cost/LAR interest income	27,065	33,927
Bank balances interest income	219	181
Other investment income	1,131	243
Gross investment income	202,624	200,703
Less: Investment expenses	(2,961)	(5,402)
	<u>199,663</u>	<u>195,301</u>

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20. Realised (losses)/gains

	2018	2017
	RM'000	RM'000
AFS:		
Realised gains/(losses):		
Quoted equity securities	-	3,938
Unquoted debt securities	-	(1,148)
	<u>-</u>	<u>2,790</u>
FVTPL:		
Realised gains/(losses):		
Quoted equity securities	2,115	1,552
Unquoted debt securities	(6,598)	42
	<u>(4,483)</u>	<u>1,594</u>
	<u>(4,483)</u>	<u>4,384</u>

Total realised gains of AFS financial assets transferred from other comprehensive income in the previous financial year amounted to RM2,519,000.

21. Fair value (losses)/gains

	2018	2017
	RM'000	RM'000
Investment properties	(640)	1,042
Malaysian Government securities	(6,651)	-
Government investment issues	2,602	-
Malaysian Government guaranteed bonds	10,141	-
Quoted equity securities	(26,085)	834
Quoted unit and property trust funds	(7,783)	(256)
Quoted exchange traded funds	(3,540)	2,587
Unquoted equity securities	1,831	-
Unquoted debts securities	8,852	310
Unquoted unit trust funds	(3,575)	1,986
	<u>(24,848)</u>	<u>6,503</u>

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22. Fee and commission income

	2018	2017
	RM'000	RM'000
Reinsurance commission income	<u>3,617</u>	<u>-</u>

23. Net other operating revenue/(expenses)

	2018	2017
	RM'000	RM'000
Other operating revenue:		
Gain on disposal of non-current assets held for sale	14,541	-
Other miscellaneous income	195	425
Write back of impairment loss on premium receivables	397	744
Write back of impairment loss on loan receivables	1,158	-
	<u>16,291</u>	<u>1,169</u>
Other operating expenses:		
AFS financial assets:		
Impairment loss on quoted equity securities	-	(2,565)
Impairment loss on quoted unit and property trust funds	-	(10)
Impairment loss on loans receivables	-	(808)
Loans written-off	(385)	-
Property and equipment written-off	(723)	(5)
Other miscellaneous expenses	(120)	(12)
	<u>(1,228)</u>	<u>(3,400)</u>

24. Fee and commission expenses

	2018	2017
	RM'000	RM'000
Agency commission and agent-related expenses	<u>81,070</u>	<u>84,588</u>

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25. Management expenses

	Note	2018 RM'000	2017 RM'000
Employee benefits expenses	(a)	46,902	42,667
Directors' remuneration	(b)	1,497	1,501
Auditors' remuneration:			
- statutory audits		391	357
- regulatory related services		146	93
- other services		153	157
Office rental		3,044	1,877
Equipment rental		137	160
Depreciation of property and equipment	3	2,759	4,508
Amortisation of intangible assets	5	1,973	1,805
Amortisation of prepaid land lease payments	6	12	12
Entertainment		287	209
Electronic data processing expenses		5,081	4,453
Advertising and promotion		2,483	1,312
Repair and maintenance		1,147	1,413
Agency training		1,005	754
Printing and stationery		1,251	2,381
Electricity and water		873	1,275
Telephone and postages		532	912
Consultancy and legal fees		3,166	3,761
Finance and bank charges		4,211	4,244
Other expenses		5,146	6,622
		<u>82,196</u>	<u>80,473</u>

(a) Employee benefits expenses

	2018 RM'000	2017 RM'000
Wages and salaries	31,544	28,138
Contributions to defined contribution plan, EPF	4,283	3,891
Social security contributions	257	250
Employee Insurance Scheme	29	-
Post-employment benefits	-	153
Other benefits	10,789	10,235
	<u>46,902</u>	<u>42,667</u>

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25. Management expenses (cont'd.)

(b) Directors' remuneration

The details of directors' remuneration for the financial year are as follows:

	2018	2017
	RM'000	RM'000
Allowances and other emoluments	1,454	1,501
Directors and officers' liability insurance	43	-
	<u>1,497</u>	<u>1,501</u>
 <u>Executive directors</u>		
Mr. Prasheem Seebran*	<u>180</u>	<u>167</u>
 <u>Non-executive directors</u>		
Mr. Kirupalani a/l Chelliah	263	277
Mr. Murugiah M N Singham	203	207
Dato' Dr. Md Khir bin Abdul Rahman	181	199
Mr. William Robertson Dommissé*	49	150
Mr. Mohammad Nizar bin Idris	211	225
Datin Sunita Mei-Lin Rajakumar	183	201
Dato' Hj Mustapha @ Mustapa bin Md Nasir	-	75
Tn Hj M.Nasir bin Ramli	147	-
Datuk Muhamad Umar Swift	37	-
	<u>1,274</u>	<u>1,334</u>

* Fees and allowances for the directors are paid to SEM (Note 32(a)).

The number of directors of the Company whose remuneration during the financial year fell within the following bands is analysed below:

	Number of directors	
	2018	2017
Below RM50,000	2	-
RM50,001 - RM100,000	-	1
RM100,001 - RM150,000	1	1
RM150,001 - RM200,000	3	2
RM200,001 - RM250,000	2	3
above RM250,001	1	1
	<u>1</u>	<u>1</u>

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26. Taxation

	Note	2018 RM'000	2017 RM'000
Taxation of life insurance business	(a)	10,627	7,147
Taxation of the Company	(b)	5,334	5,370
		<u>15,961</u>	<u>12,517</u>

(a) Taxation of life insurance business

	2018 RM'000	2017 RM'000
Tax expenses/(income):		
Current tax	11,553	6,537
Deferred tax	(926)	610
	<u>10,627</u>	<u>7,147</u>
Current income tax:		
Malaysian income tax	11,353	11,743
Under/(Over) provision of income tax expense in prior years	200	(5,206)
	<u>11,553</u>	<u>6,537</u>
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 16)	(926)	610
	<u>10,627</u>	<u>7,147</u>

The income tax for the life insurance business is calculated based on the tax rate of 8% (2017: 8%) of the assessable investment income for the financial year.

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26. Taxation (cont'd.)

(b) Taxation of the Company

	2018	2017
	RM'000	RM'000
Tax expenses:		
Current tax	4,560	2,446
Deferred tax	774	2,924
	<u>5,334</u>	<u>5,370</u>
Current income tax:		
Malaysian income tax	4,649	2,556
Over provision of income tax expense in prior years	(89)	(110)
	<u>4,560</u>	<u>2,446</u>
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 16)	774	2,924
	<u>774</u>	<u>2,924</u>
	<u>5,334</u>	<u>5,370</u>

The income tax for the Company is calculated based on the tax rate of 24% (2017: 24%) of the estimated assessable profit for the financial year.

(c) Reconciliation of income tax expense

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

	2018	2017
	RM'000	RM'000
Profit before taxation	<u>27,448</u>	<u>22,374</u>
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	6,588	5,370
Utilisation of Section 110B credit	(1,257)	-
Expenses not deductible for tax purposes	283	281
Income not taxable for tax purposes	(191)	(171)
Over provision of income tax expense in prior years	(89)	(110)
Tax expense for the year	<u>5,334</u>	<u>5,370</u>

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27. Earnings per share

Earnings per share is calculated by dividing profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2018	2017
Profit attributable to ordinary equity holders: (RM'000)	22,114	17,004
Weighted average number of shares in issue ('000)	100,284	100,284
Basic and diluted earnings per share: (sen)	<u>22.1</u>	<u>17.0</u>

There were no dilutive potential ordinary shares as at the reporting date.

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

28. Dividends

	Amount		Net dividend per share	
	2018	2017	2018	2017
	RM'000	RM'000	Sen	Sen
Approved and paid:				
Dividend paid in respect of the financial year ended 31 December 2016:				
Final single tier dividend paid on 3 July 2017	-	17,500	-	17.45
Dividend paid in respect of the financial year ended 31 December 2017:				
Final single tier dividend paid on 4 July 2018	<u>7,000</u>	<u>-</u>	<u>6.98</u>	<u>-</u>
	<u>7,000</u>	<u>17,500</u>	<u>6.98</u>	<u>17.45</u>

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29. Cash flows

	Note	2018 RM'000	2017 RM'000
Profit before taxation		27,448	22,374
Taxation of life insurance business	26(a)	10,627	7,147
Investment income	19	(199,663)	(195,301)
Realised losses/(gains)	20	4,483	(4,384)
Fair value losses/(gains)	21	24,848	(6,503)
Purchases of AFS investments	7(f)	-	(1,232,066)
Purchases of FVTPL financial assets	7(f)	(723,477)	(40,708)
Proceeds from sale of AFS investments	7(f)	-	1,031,363
Proceeds from sale of FVTPL financial assets	7(f)	619,785	26,028
Increase in amortised cost		(288,900)	-
Decrease in LAR		310,171	825
Investment income received		197,067	192,954
Gain on disposal of non-current assets held for sale	23	(14,541)	-
Non-cash items:			
Depreciation of property and equipment	3	2,759	4,508
Amortisation of intangible assets	5	1,973	1,805
Amortisation of prepaid land lease payments	6	12	12
Property and equipment written-off	23	723	5
Net amortisation of investments	19	4,388	4,447
(Write back of)/Impairment loss on:			
- AFS investments	7(f)	-	2,575
- Loans receivables	7(f)	(1,158)	808
Changes in working capital:			
Reinsurance assets		(475)	379
Insurance receivables		14,504	(21,441)
Other receivables		(184)	9,789
Insurance contract liabilities		(47,470)	103,731
Insurance payables		(9,833)	14,791
Other payables		13,587	(3,012)
Cash used in operating activities		(53,326)	(79,874)

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

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30. Operating lease arrangements

(a) The Company as lessee

The Company has entered into various lease agreements for rental of equipment, software and services and office premises.

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

Future minimum rental payments:

	2018	2017
	RM'000	RM'000
Rental of equipment, software and services:		
Payable within one year	108	121
Payable after one year	175	202
	<u>283</u>	<u>323</u>
Rental of office premises:		
Payable within one year	4,404	816
Payable after one year	5,999	1,248
	<u>10,403</u>	<u>2,064</u>

Included in rental of office premises above is future minimum lease payable to a related party of RM8.9 million (31 December 2017: Nil).

(b) The Company as lessor

The Company has entered into non-cancellable operating lease arrangements on its portfolio of properties. The leases have remaining non-cancellable lease terms of between 1 and 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The future minimum lease payments receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	2018	2017
	RM'000	RM'000
Receivable within one year	323	2,060
Receivable after one year	310	165
	<u>633</u>	<u>2,225</u>

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31. Capital commitments

The commitments of the Company as at the reporting date are as follows:

	2018	2017
	RM'000	RM'000
Approved and contracted for:		
Property and equipment	4,797	-
Intangible assets	-	2,291
	<u>4,797</u>	<u>2,291</u>
Approved but not contracted for:		
Property and equipment	7,820	7,629
Intangible assets	12,722	13,258
	<u>20,542</u>	<u>20,887</u>

32. Significant related party disclosures

(a) Related parties

The related parties and their relationship with the Company as at 31 December 2018 are as follows:

Name	Relationship
SEM	Immediate holding company
Koperasi MCIS Berhad	Corporate shareholder
Sanlam Life Insurance Limited ("Sanlam Life")	Holding company of SEM
Medscheme International Limited	Associate of Sanlam Life
Pacific & Orient Insurance Co. Berhad	Associate of SEM

The Directors are of the opinion that the related party transactions were carried out on terms and conditions no more favourable than those available on similar transactions with unrelated parties, unless otherwise stated.

	2018	2017
	RM'000	RM'000
Transactions with related parties:		
(i) Disposal of properties		
Koperasi MCIS Berhad	<u>123,500</u>	<u>-</u>
(ii) Rental income received from:		
Koperasi MCIS Berhad	<u>182</u>	<u>391</u>

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32. Significant related party disclosures (cont'd.)

(a) Related parties (cont'd.)

	2018	2017
	RM'000	RM'000
Transactions with related parties: (cont'd.)		
(iii) Rental expenses payable to:		
Koperasi MCIS Berhad	(2,037)	-
(iv) Directors' allowances to:		
SEM	(229)	(317)
(v) Internal audit review expenses:		
Sanlam Life Insurance Limited	(206)	(423)
(vi) Healthcare claim analysis and intervention expenses:		
Medscheme International Limited	(119)	(162)
(vii) Premium for insurance cover paid to:		
Pacific & Orient Insurance Co. Berhad	(43)	(34)
(viii) Sponsor for corporate social responsibility activities:		
Koperasi MCIS Berhad	(20)	-
(ix) Reimbursable costs to:		
SEM	-	(169)
(x) Market research expenses reimbursement from:		
Sanlam Life Insurance Limited	-	446
Balances with related parties:		
(i) Directors' allowances payable to:		
SEM	-	17
(ii) Reimbursable costs to:		
Sanlam Life Insurance Limited	140	423

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32. Significant related party disclosures (cont'd.)

(a) Related parties (cont'd.)

During the financial year, the Company entered into a tenancy agreement with a related party for office use, for a period of 3 years with an option to extend the agreement for another 3 years from the expiry of the first term.

(b) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. In line with this classification, the key management personnel of the Company includes directors, CEO and the senior management team.

The remuneration of key management personnel during the year was as follows:

	2018	2017
	RM'000	RM'000
Directors' remuneration:		
Directors' allowances and other emoluments	1,454	1,501
	<u>1,454</u>	<u>1,501</u>
CEO's remuneration:		
Salary	1,082	1,040
Bonus	305	149
Benefits-in-kind	68	94
	<u>1,455</u>	<u>1,283</u>
Other key management personnel:		
Wages and salaries	4,980	3,795
Post-employment benefits	-	356
Other short term benefits	1,675	1,104
Benefits-in-kind	88	119
	<u>6,743</u>	<u>5,374</u>

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33. Regulatory capital requirement

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

	2018	2017
	RM'000	RM'000
<u>Tier 1 capital</u>		
Share capital (paid-up)	125,024	125,024
Reserves, including retained earnings	1,001,734	978,399
	<u>1,126,758</u>	<u>1,103,423</u>
<u>Tier 2 capital</u>		
Eligible reserves	25,927	98,640
Deductions	<u>(19,728)</u>	<u>(20,472)</u>
Total capital available as at 31 December	<u>1,132,957</u>	<u>1,181,591</u>

34. Contingent liabilities

On 1 December 2014, Fairfax Financial Holdings Limited through its wholly-owned subsidiary, The Pacific Insurance Berhad ("Pacific Insurance"), entered into a business transfer agreement with the Company and Koperasi MCIS Berhad to acquire the general insurance business of the Company. The transfer of general insurance business was completed on 1 March 2015.

Under the terms of business transfer agreement, in the event that the cumulative claims amounts paid by Pacific Insurance over a 5-year period in relation to loss events that occurred prior to the transfer date (i.e. 1 March 2015) in respect of policies transferred exceeds the net claims liability reserves of the general insurance business transferred to Pacific Insurance ("the Excess"), the placement monies will be used to indemnify Pacific Insurance on the Excess. Should the placement monies of RM8.3 million (2017: RM8.4 million) as disclosed in statement of cash flows (i.e. "cash restricted in use") be insufficient to pay the Excess, the Company shall pay Pacific Insurance the Excess over and above the placement monies amount provided always that the total indemnity for the Excess shall not exceed RM16.3 million. As at 31 December 2018, the cumulative claims amounts in relation to loss events that occurred prior to the transfer date were within the net claims liability reserves transferred, hence no provisions have been considered as necessary.

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35. Insurance risk

Insurance risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and may result in the inability to meet its liabilities.

The Company's life insurance businesses are exposed to a range of life insurance risks from various products. In providing insurance protection, the Company has to manage risks such as mortality (the death of policyholder), morbidity (ill health), longevity (annuity), persistency (lapsation) product design and pricing.

The mortality and morbidity risks are managed through the use of reinsurance to transfer risks in excess of the Company's risk appetite, appropriate actuarial methodologies/techniques for reserving as well as other risk mitigating measures.

Persistency (or lapsation) risk is managed through monitoring of experience. Where possible, the potential financial impact of lapses is reduced by persistency management, product design requirements, experience monitoring and management actions.

Poorly designed or inadequately priced products may lead to both financial loss and reputation risk to the Company. Policies have been developed to support the Company through complete product development processes, financial analysis and pricing.

The table below shows the concentration of life insurance contract liabilities by type of contract as at the reporting date:

Life insurance contract liabilities	Gross RM'000	Reinsurance RM'000	Net RM'000
2018			
Whole life	692,829	(543)	692,286
Endowment	1,975,379	-	1,975,379
Term assurance	156,733	(7,358)	149,375
Medical and Health	5,288	-	5,288
Annuity	566,775	-	566,775
Others	628,335	(2,210)	626,125
	<u>4,025,339</u>	<u>(10,111)</u>	<u>4,015,228</u>

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35. Insurance risk (cont'd.)

Life insurance contract liabilities (cont'd.)

	Gross RM'000	Reinsurance RM'000	Net RM'000
2017			
Whole life	654,713	(327)	654,386
Endowment	2,035,210	(1)	2,035,209
Term assurance	140,557	(5,433)	135,124
Medical and Health	4,610	-	4,610
Annuity	529,643	-	529,643
Others	691,277	(3,875)	687,402
	<u>4,056,010</u>	<u>(9,636)</u>	<u>4,046,374</u>

As all of the business is derived from Malaysia, the entire life insurance contract liabilities are in Malaysia.

Key assumptions

Material judgment is required in the choice of assumptions to determine the value of life insurance liabilities. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The sensitivity analysis below shows the impact of changes in key assumptions on the value of life insurance liabilities. The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on liabilities. The correlation of assumptions will have a significant effect in determining the liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

There are no material change to the methods used to derive assumptions from the previous year.

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35. Insurance risk (cont'd.)

Key assumptions (cont'd.)

The analysis which follows 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 taxation and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reason for the asymmetry of sensitivities.

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before taxation RM'000	Impact on equity* RM'000
		< ----- (Decrease)/Increase ----- >			
2018					
Fund yield (par funds)	+1%	(128,763)	(128,763)	-	-
Risk free yield	+1%	(16,520)	(16,520)	16,520	12,555
Mortality and morbidity	+25%	(4,361)	(4,361)	(14,876)	(11,306)
Lapse and surrenders	+25%	(50,046)	(50,046)	810	616
Expenses	+25%	29,158	29,158	(6,685)	(5,081)
2017					
Fund yield (par funds)	+1%	(135,853)	(135,853)	-	-
Risk free yield	+1%	(16,005)	(16,005)	16,005	12,164
Mortality and morbidity	+25%	7,471	7,471	(16,915)	(12,855)
Lapse and surrenders	+25%	(51,146)	(51,146)	(66)	(50)
Expenses	+25%	28,225	28,225	(6,505)	(4,944)

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

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

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36. Financial risk

Market and credit risk

Market risk is the risk of asset or liability values being adversely affected by movement in the market prices or rates. This includes interest rate risk, currency risk and equity price risk.

The Company manages market risk by setting policies on asset allocation, investment limits and diversification benchmarks. The Company adopts the asset liability matching criteria to minimize the impact of mismatches between the values of assets and liabilities from market movements.

Exposure to fixed income securities provides the Company's largest market risk exposure. The Company monitors its exposure levels through regular stress/sensitivity testing and constant market supervision of the asset prices. The Company has not transacted in any derivatives.

(a) 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.

Floating rate instruments expose the Company to cash flow interest rate risk, whereas fixed rate instrument expose the Company to fair value interest rate risk. The Company's exposure to interest rate risk arises primarily from investment in fixed income securities and deposits with licensed institutions.

The carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk is as disclosed in Note 7(i).

Sensitivity analysis:

The analysis that follows is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before taxation (due to changes in fair value of floating rate financial assets and liabilities) and equity (that reflects adjustments to profit before taxation). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(a) Interest rate risk (cont'd.)

	<----- Increase/(Decrease) ----->		
	Changes in	Impact on	Impact on
	basis points	profit before	equity*
		taxation	RM'000
		RM'000	RM'000
2018			
Interest rates	+ 100 bps	(32,304)	(24,581)
Interest rates	- 100 bps	37,103	28,233
2017			
Interest rates	+ 100 bps	-	(24,021)
Interest rates	- 100 bps	-	27,260

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

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

The impact from change in interest rate to the insurance contract liabilities have been disclosed in Note 35.

(b) Currency risk

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

The Company's primary transactions are carried out in Ringgit Malaysia (RM) with minimal exposure to foreign currency risks.

(c) Equity price risk

Equity price risk is the risk that the fair value of equity assets will be adversely affected by movement in market prices (other than those arising from interest risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(c) Equity price risk (cont'd.)

The Company's exposure to equity price risk arises from its investment in quoted equities traded in the Bursa Malaysia. The Company manages its exposure to equity price risk by setting policies and investment parameters governing asset allocation and investments limits, having regard to such limits stipulated by BNM.

Sensitivity analysis:

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before taxation (due to changes in fair value of financial assets and liabilities whose fair values are recorded in the income statement) and equity (that reflects adjustments to profit after taxation). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	<----- Increase/(Decrease) ----->		
	Change in	Impact on	Impact on
	variables	profit before	equity*
	%	taxation	RM'000
		RM'000	RM'000
2018			
Market indices:			
Market value	+10%	61,479	6,435
Market value	-10%	(61,479)	(6,435)
<hr/>			
2017			
Market indices:			
Market value	+10%	11,784	6,906
Market value	-10%	(11,784)	(6,906)
<hr/>			

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

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

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(d) Credit risk

Credit risk is the risk of a financial loss resulting from the failure of an intermediary or counterparty to settle its financial and contractual obligations to the Company as and when they fall due.

The Company's primary exposure to credit risk arises through its investment in fixed income securities and deposits, obligations of reinsurers through reinsurance contracts and receivables from sales of insurance policies. The Company has in place a credit control policy and investment policy to manage its credit risk.

The Company manages the exposure to individual counterparties pertaining to its investment in fixed income securities, by measuring the exposure against internal limits, taking into consideration the credit ratings issued by the authorized rating agencies.

The Company actively monitors and considers the risk of a fall in value of the fixed income securities from changes in the credit worthiness of the issuer by managing individual exposures as well as the concentration of credit risks in its fixed income portfolio through asset allocation, observing minimum credit rating requirements, maximum limits for corporate debt, maximum duration as well as setting maximum permitted exposures to individual counterparties or group of counterparties.

Cash and deposits are placed with financial institutions licensed under the Financial Services Act, 2013 which are regulated by BNM, guided by the Company's approved exposure limits and minimum credit rating requirements.

Reinsurance arrangements are only placed with providers who meet the Company's counterparty credit standards and satisfy the minimum credit rating requirements of the Company. The Company reviews the credit condition of its reinsurers on an on-going basis and reviews its reinsurance arrangements periodically. The Company cedes business to reinsurers that satisfy the minimum credit rating requirements of the Company.

In the unit-linked business, the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit-linked financial assets.

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(d) Credit risk (cont'd.)

Credit exposure

At the reporting date, the Company's maximum exposure to credit risk is represented by the amount of each class of financial assets recognised in the statement of financial position as shown in the table below:

	2018	2017
	RM'000	RM'000
FVTPL		
Malaysian Government securities	1,220,418	8,542
Government investment issues	240,639	3,179
Malaysian Government guaranteed bonds	627,110	-
Unquoted debt securities	1,219,346	17,988
Deposits with financial institutions	135,073	-
Amortised cost		
Loans receivables	285,313	-
LAR		
Deposits with financial institutions	-	123,523
Loans receivables	-	305,424
AFS		
Malaysian Government securities	-	1,274,051
Government investment issues	-	141,429
Malaysian Government guaranteed bonds	-	646,114
Unquoted debt securities	-	1,116,384
Reinsurance assets	10,111	9,636
Insurance receivables	62,657	78,963
Other receivables	73,722	58,677
Cash and bank balances	39,118	18,628
Total credit risk exposure	3,913,507	3,802,538

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to Rating Agency of Malaysia, Malaysian Rating Corporation Berhad, A.M. Best Company and Standards and Poor's credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(d) Credit risk (cont'd.)

Credit exposure (cont'd.)

Credit exposure by credit rating (cont'd.)

	<---- Neither past-due nor impaired ---->					Total RM'000
	Investment grade (BBB to AAA) RM'000	Non- investment grade (C to BB) RM'000	Not-rated RM'000	Unit linked RM'000	Past-due but not impaired RM'000	
2018						
FVTPL						
Malaysian Government securities	-	-	1,216,327	4,091	-	1,220,418
Government investment issues	-	-	240,439	200	-	240,639
Malaysian Government guaranteed bonds	-	-	627,110	-	-	627,110
Unquoted debt securities	1,191,637	-	-	27,709	-	1,219,346
Deposits with financial institutions	116,738	-	-	18,335	-	135,073
Amortised cost						
Loans receivables	-	-	285,313	-	-	285,313
Reinsurance assets	10,111	-	-	-	-	10,111
Insurance receivables	16,355	-	46,302	-	-	62,657
Other receivables	22,780	-	50,492	450	-	73,722
Cash and bank balances	36,618	-	-	2,500	-	39,118
Total credit risk exposure	1,394,239	-	2,465,983	53,285	-	3,913,507

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(d) Credit risk (cont'd.)

Credit exposure (cont'd.)

Credit exposure by credit rating (cont'd.)

2017	<---- Neither past-due nor impaired ---->					Total RM'000
	Investment grade (BBB to AAA) RM'000	Non- investment grade (C to BB) RM'000	Not-rated RM'000	Unit linked RM'000	Past-due but not impaired RM'000	
FVTPL						
Malaysian Government securities	-	-	-	8,542	-	8,542
Government investment issues	-	-	-	3,179	-	3,179
Unquoted debt securities	-	-	-	17,988	-	17,988
LAR						
Deposits with financial institutions	107,537	-	-	15,986	-	123,523
Loans	-	-	305,424	-	-	305,424
AFS						
Malaysian Government securities	-	-	1,274,051	-	-	1,274,051
Government investment issues	-	-	141,429	-	-	141,429
Malaysian Government guaranteed bonds	-	-	646,114	-	-	646,114
Unquoted debt securities	1,116,384	-	-	-	-	1,116,384
Reinsurance assets	9,636	-	-	-	-	9,636
Insurance receivables	22,421	-	56,542	-	-	78,963
Other receivables	22,479	-	35,723	475	-	58,677
Cash and bank balances	18,311	-	-	317	-	18,628
Total credit risk exposure	1,296,768	-	2,459,283	46,487	-	3,802,538

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(d) Credit risk (cont'd.)

Credit exposure (cont'd.)

It is 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 rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

The Company has not provided the credit risk analysis for the financial assets of the unit linked business where the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholders do not have direct exposure to any credit risk in those assets.

Reconciliation of allowance for impairment

Movement in allowances for impairment for financial assets are as follows:

	Loans receivables RM'000 (Note 7)	Insurance receivables RM'000 (Note 9)	Total RM'000
<u>Incurred credit loss (MFRS 139 basis):</u>			
At 1 January 2017	3,937	2,296	6,233
Allowance made during the year	808	-	808
Amount written back in respect of recoveries	-	(744)	(744)
At 31 December 2017	4,745	1,552	6,297
<u>Life-time expected credit loss (MFRS 9 basis):</u>			
At 1 January 2018 (As previously stated)	4,745	1,552	6,297
Adjustments upon initial application of MFRS 9 (Note 2.4)	-	2,371	2,371
At 1 January 2018 (As restated)	4,745	3,923	8,668
Amount written back in respect of recoveries	(1,158)	(397)	(1,555)
At 31 December 2018	3,587	3,526	7,113

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(e) Cash flow and liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations due to insufficient liquid resources, or would have to incur excessive cost in meeting the obligations. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The Company manages the liquidity risk by monitoring daily cash inflows and outflows and by ensuring a reasonable amount of financial assets are kept in liquid instruments at all times. The Company also practices asset-liability management and ensures that the average investment duration and maturity profiles match the Company's liabilities.

Maturity profiles

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

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

Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

Unit linked liabilities are repayable or transferable on demand and are included in the "up to a year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(e) Cash flow and liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value	Up to a year	1 - 5 years	5-15 years	Over 15 years	No maturity date	Total
	RM'000						
2018							
Financial investments:							
FVTPL	4,071,666	311,624	525,475	2,213,038	2,732,252	629,080	6,411,469
Amortised cost	285,313	857	843	2,317	922	281,913	286,852
	4,356,979	312,481	526,318	2,215,355	2,733,174	910,993	6,698,321
Reinsurance assets	10,111	10,111	-	-	-	-	10,111
Insurance receivables	62,657	62,657	-	-	-	-	62,657
Other receivables	73,722	73,722	-	-	-	-	73,722
Cash and bank balances	39,118	39,118	-	-	-	-	39,118
Total financial and insurance assets	4,542,587	498,089	526,318	2,215,355	2,733,174	910,993	6,883,929
Insurance contract liabilities	4,025,339	535,115	653,795	1,043,268	1,308,543	294,468	3,835,189
Insurance payables	134,550	134,550	-	-	-	-	134,550
Other payables	87,157	87,157	-	-	-	-	87,157
Total financial and insurance liabilities	4,247,046	756,822	653,795	1,043,268	1,308,543	294,468	4,056,896
Total liquidity surplus/(gap)	295,541	(258,733)	(127,477)	1,172,087	1,424,631	616,525	2,827,033

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(e) Cash flow and liquidity risk (cont'd.)

Maturity profiles (cont'd.)

2017

Financial investments:

	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	5-15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
FVTPL	147,552	-	12,834	22,355	12,409	117,843	165,441
LAR	428,947	124,175	1,098	2,401	1,760	301,631	431,065
AFS	3,708,055	37,449	636,706	2,042,898	2,597,227	530,077	5,844,357
	4,284,554	161,624	650,638	2,067,654	2,611,396	949,551	6,440,863
Reinsurance assets	9,636	9,636	-	-	-	-	9,636
Insurance receivables	78,963	78,963	-	-	-	-	78,963
Other receivables	58,677	58,677	-	-	-	-	58,677
Cash and bank balances	18,628	18,628	-	-	-	-	18,628
Total financial and insurance assets	4,450,458	327,528	650,638	2,067,654	2,611,396	949,551	6,606,767
Insurance contract liabilities	4,056,010	518,466	776,009	1,167,756	1,656,209	372,126	4,490,566
Insurance payables	144,383	144,383	-	-	-	-	144,383
Other payables	72,953	72,953	-	-	-	-	72,953
Total financial and insurance liabilities	4,273,346	735,802	776,009	1,167,756	1,656,209	372,126	4,707,902
Total liquidity surplus/(gap)	177,112	(408,274)	(125,371)	899,898	955,187	577,425	1,898,865

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(e) Cash flow and liquidity risk (cont'd.)

Maturity profiles (cont'd.)

The table below summarises the expected utilisation or settlement of assets and liabilities:

2018	Current* RM'000	Non-current RM'000	Unit linked RM'000	Total RM'000
Assets				
Property and equipment	-	45,730	-	45,730
Investment properties	-	10,750	-	10,750
Intangible assets	-	9,447	-	9,447
Prepaid land lease payments	-	189	-	189
Investments:				
FVTPL	227,113	3,671,821	172,732	4,071,666
Amortised cost	779	284,534	-	285,313
Reinsurance assets	10,111	-	-	10,111
Insurance receivables	62,657	-	-	62,657
Other receivables	73,901	-	450	74,351
Tax recoverable	764	-	(232)	532
Cash and bank balances	36,618	-	2,500	39,118
Non-current assets held for sale	318	-	-	318
Total assets	412,261	4,022,471	175,450	4,610,182
Liabilities				
Insurance contract liabilities	749,959	3,108,209	167,171	4,025,339
Deferred tax liabilities	19,543	-	-	19,543
Insurance payables	134,550	-	-	134,550
Other payables	117,374	-	-	117,374
Total liabilities	1,021,426	3,108,209	167,171	4,296,806

* Expected utilisation or settlement within 12 months from the reporting date.

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36. Financial risk (cont'd.)

Market and credit risk (cont'd.)

(e) Cash flow and liquidity risk (cont'd.)

Maturity profiles (cont'd.)

The table below summarises the expected utilisation or settlement of assets and liabilities (cont'd.):

2017	Current* RM'000	Non-current RM'000	Unit linked RM'000	Total RM'000
Assets				
Property and equipment	-	41,517	-	41,517
Investment properties	-	11,390	-	11,390
Intangible assets	-	11,510	-	11,510
Prepaid land lease payments	-	201	-	201
Investments:				
FVTPL	-	-	147,552	147,552
LAR	108,020	304,941	15,986	428,947
AFS	552,573	3,155,482	-	3,708,055
Reinsurance assets	9,636	-	-	9,636
Insurance receivables	78,963	-	-	78,963
Other receivables	58,946	-	475	59,421
Tax recoverable	2,946	-	(24)	2,922
Cash and bank balances	18,311	-	317	18,628
Non-current assets held for sale	105,255	-	-	105,255
Total assets	934,650	3,525,041	164,306	4,623,997
Liabilities				
Insurance contract liabilities	804,035	3,092,737	159,238	4,056,010
Deferred tax liabilities	25,335	-	-	25,335
Insurance payables	144,383	-	-	144,383
Other payables	96,719	-	-	96,719
Total liabilities	1,070,472	3,092,737	159,238	4,322,447

* Expected utilisation or settlement within 12 months from the reporting date.

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37. Operational risks

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

The Company mitigates operational risks by establishing a proper framework for controls and procedures, which includes total risk profiling, documented procedures, proper segregation of duties, access controls, authorization and reconciliation procedures and staff training.

The Risk Management and Compliance Department assesses the effectiveness of the operational compliance and report to the Governance, Risk and Compliance Committee and BRMC.

38. Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets:

		Fair value measurement using			
		Level 1 - Quoted market price in active market	Level 2 - Significant observable inputs	Level 3 - Significant unobservable inputs	Total fair value
Date of valuation		RM'000	RM'000	RM'000	RM'000
2018					
Assets measured at fair value:					
Investment properties (Note 4)	November/ December 2018	-	-	10,750	10,750

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38. Fair value measurement (cont'd.)

	Date of valuation	Fair value measurement using				Total fair value RM'000
		Level 1 - Quoted market price in active market	Level 2 - Significant observable inputs	Level 3 - Significant unobservable inputs		
		RM'000	RM'000	RM'000	RM'000	
2018 (cont'd.)						
Assets measured at fair value: (cont'd.)						
FVTPL (Note 7(a)):						
Malaysian Government securities	31 December 2018	-	1,220,418	-		1,220,418
Government investment issues	31 December 2018	-	240,639	-		240,639
Malaysian Government guaranteed bonds	31 December 2018	-	627,110	-		627,110
Unquoted debt securities	31 December 2018	-	1,219,346	-		1,219,346
Quoted equity securities	31 December 2018	434,274	-	-		434,274
Quoted exchange traded funds	31 December 2018	39,219	-	-		39,219
Unquoted equity securities (Note 7(e))	31 December 2018	-	-	14,290		14,290
Quoted unit and property trust funds	31 December 2018	111,076	-	-		111,076
Unquoted unit trust funds	31 December 2018	-	30,221	-		30,221
Deposits with financial institutions	31 December 2018	-	135,073	-		135,073
		584,569	3,472,807	14,290		4,071,666
Revalued property and equipment (Note 3)	October/ November 2017	-	-	27,919		27,919
		584,569	3,472,807	52,959		4,110,335

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38. Fair value measurement (cont'd.)

		Fair value measurement using			
		Level 2 - Valuation			
	Date of valuation	Level 1 - Quoted market price	Techniques - Market observable inputs	Level 3 - Significant unobservable inputs	Total fair value
		RM'000	RM'000	RM'000	RM'000
2017					
Assets measured at fair value:					
Investment properties (Note 4)	October/ November 2017	-	-	11,390	11,390
AFS (Note 7(d)):					
Malaysian Government securities	31 December 2017	-	1,274,051	-	1,274,051
Government investment issues	31 December 2017	-	141,429	-	141,429
Malaysian Government guaranteed bonds	31 December 2017	-	646,114	-	646,114
Unquoted debt securities	31 December 2017	-	1,116,384	-	1,116,384
Quoted equity securities	31 December 2017	412,632	-	-	412,632
Quoted unit and property trust funds	31 December 2017	115,359	-	-	115,359
		527,991	3,177,978	-	3,705,969

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38. Fair value measurement (cont'd.)

	Date of valuation	Fair value measurement using			Total fair value RM'000
		Level 1 - Quoted market price	Level 2 - Valuation Techniques - Market observable inputs	Level 3 - Significant unobservable inputs	
		RM'000	RM'000	RM'000	
2017					
(cont'd.)					
Assets measured at fair value: (cont'd.)					
FVTPL (Note 7(a)):					
Malaysian Government securities	31 December 2017	-	8,542	-	8,542
Government investment issues	31 December 2017	-	3,179	-	3,179
Unquoted debt securities	31 December 2017	-	17,988	-	17,988
Quoted equity securities	31 December 2017	52,387	-	-	52,387
Quoted exchange traded funds	31 December 2017	33,542	-	-	33,542
Quoted unit and property trust funds	31 December 2017	4,618	-	-	4,618
Unquoted unit trust funds	31 December 2017	-	27,296	-	27,296
		90,547	57,005	-	147,552
Revalued property and equipment (Note 3)	October/November 2017	-	-	29,440	29,440
		618,538	3,234,983	40,830	3,894,351

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38. Fair value measurement (cont'd.)

The Company categorises its fair value measurements in accordance to the fair value hierarchy which is based on the priority of inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets, a lower priority to valuation techniques based on observable inputs and the lowest priority to valuation techniques based on unobservable inputs. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide reliable pricing information on an on-going basis.

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

Level 1 - Quoted prices in active markets

Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets that the Company has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 - Valuation technique supported by observable inputs

Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liabilities, either directly or indirectly. These include quoted prices for similar financial assets and financial liabilities in active markets, quoted prices for identical or similar financial assets and financial liabilities in inactive markets, inputs that are observable that are no prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data.

Level 3 - Valuation technique supported by unobservable inputs

Fair value measurements using significant non market observable inputs. These include valuations for financial assets and financial liabilities that are derived using data, some or all of which is not market observable, including assumptions about risks.

There has been no transfers of financial assets between Level 1 and Level 2 during the financial year ended 31 December 2018 and 2017.

Reconciliation from opening to closing balances of Level 3 fair value hierarchy is provided in Note 3,4 and 7.

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39. Insurance funds

The Company's activities are organised by funds and segregated into the Shareholders' and Life funds in accordance with the Financial Services Act, 2013. The statements of financial position, income statements and condensed statements of cash flows by funds are presented as follows:

Statements of financial position by funds
As at 31 December 2018

	Shareholders' funds		Life funds		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Property and equipment	21	11	45,709	41,506	45,730	41,517
Investment properties	-	-	10,750	11,390	10,750	11,390
Intangible assets	-	-	9,447	11,510	9,447	11,510
Prepaid land lease payments	-	-	189	201	189	201
Investments*	242,794	245,923	4,122,271	4,047,100	4,356,979	4,284,554
Reinsurance assets	-	-	10,111	9,636	10,111	9,636
Insurance receivables	-	-	62,657	78,963	62,657	78,963
Other receivables*	85,436	66,410	72,509	57,513	74,351	59,421
Tax recoverable	(2,856)	(478)	3,388	3,400	532	2,922
Cash and bank balances	8,354	8,448	30,764	10,180	39,118	18,628
Non-current assets held for sale	-	-	318	105,255	318	105,255
Total assets	333,749	320,314	4,368,113	4,376,654	4,610,182	4,623,997
Total equity*	315,090	302,071	-	-	313,376	301,550
Liabilities						
Insurance contract liabilities*	-	-	4,031,170	4,063,794	4,025,339	4,056,010
Deferred tax liabilities*	18,343	18,229	1,741	7,270	19,543	25,335
Insurance payables	-	-	134,550	144,383	134,550	144,383
Other payables*	316	14	200,652	161,207	117,374	96,719
Total liabilities	18,659	18,243	4,368,113	4,376,654	4,296,806	4,322,447
Total equity and liabilities	333,749	320,314	4,368,113	4,376,654	4,610,182	4,623,997

* Included herein are inter-fund transactions and balances which are eliminated in presenting the Company's total results.

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39. Insurance funds (cont'd.)

Income statements by funds

For the financial year ended 31 December 2018

	Shareholders' funds		Life funds		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	-	-	556,866	572,782	556,866	572,782
Premiums ceded to reinsurers	-	-	(34,470)	(34,179)	(34,470)	(34,179)
Net earned premiums	-	-	522,396	538,603	522,396	538,603
Investment income	10,943	10,757	188,720	184,544	199,663	195,301
Realised (losses)/gains	417	2,272	(4,900)	2,112	(4,483)	4,384
Fair value (losses)/gains*	(3,604)	-	(21,627)	6,503	(24,848)	6,503
Fee and commission income	-	-	3,617	-	3,617	-
Other operating revenue	203	200	16,088	969	16,291	1,169
Other revenue	7,959	13,229	181,898	194,128	190,240	207,357
Gross benefits and claims paid	-	-	(582,905)	(512,735)	(582,905)	(512,735)
Claims ceded to reinsurers	-	-	25,462	29,534	25,462	29,534
Gross change in contract liabilities	-	-	46,901	(64,397)	46,901	(64,397)
Change in contract liabilities ceded to reinsurers	-	-	475	(380)	475	(380)
Net benefits and claims	-	-	(510,067)	(547,978)	(510,067)	(547,978)
Fee and commission expenses	(1,000)	-	(80,070)	(84,588)	(81,070)	(84,588)
Other operating expenses	(325)	(164)	(903)	(3,236)	(1,228)	(3,400)
Management expenses	(2,008)	(2,761)	(80,188)	(77,712)	(82,196)	(80,473)
Taxation of life insurance business	-	-	(10,627)	(7,147)	(10,627)	(7,147)
Other expenses	(3,333)	(2,925)	(171,788)	(172,683)	(175,121)	(175,608)
Profit from operations	4,626	10,304	22,439	12,070	27,448	22,374
Transferred from Life funds:						
- Participating fund	15,718	-	(15,718)	-	-	-
Reclassification of unallocated surplus of non-participating funds to shareholders' fund	6,721	12,070	(6,721)	(12,070)	-	-
Profit before taxation	27,065	22,374	-	-	27,448	22,374
Taxation*	(5,242)	(5,370)	-	-	(5,334)	(5,370)
Net profit for the year	21,823	17,004	-	-	22,114	17,004

* Included herein are inter-fund transactions which are eliminated in presenting the Company's total results.

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39. Insurance funds (cont'd.)

Condensed statements of cash flows by funds
For the financial year ended 31 December 2018

	Shareholders' funds		Life funds		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net cash flows from:						
Operating activities	11,288	(8,921)	(78,337)	(75,731)	(67,049)	(84,652)
Investing activities	174	(162)	106,091	(8,546)	106,265	(8,708)
Financing activity	(7,000)	(17,500)	-	-	(7,000)	(17,500)
Net increase/(decrease) in cash and cash equivalents	4,462	(26,583)	27,754	(84,277)	32,216	(110,860)
At beginning of year	23,196	49,779	109,618	193,895	132,814	243,674
At end of year	27,658	23,196	137,372	109,618	165,030	132,814
Cash and cash equivalents comprise of:						
Cash and bank balances	8,354	8,448	30,764	10,180	39,118	18,628
Less: Cash restricted in use	(8,262)	(8,436)	-	-	(8,262)	(8,436)
	92	12	30,764	10,180	30,856	10,192
Short term deposits with maturity periods of less than 3 months	27,566	23,184	106,608	99,438	134,174	122,622
	27,658	23,196	137,372	109,618	165,030	132,814

40. Subsequent event

Subsequent to the financial year ended 31 December 2018, the Company has entered into Sale and Purchase Agreements for disposal of land and property. The disposals have yet to be completed as at the date of this report.