MCIS LIFE

member of Sanlam group

MCIS INSURANCE BERHAD

Registration No: 199701019821 (435318-U)

Annual Report 2019

Directors' Report & Audited Financial Statements

For The Financial Year Ended 31 December 2019

CONTENTS

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 2019.

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	24,239

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 2018:	
Final single tier dividend of 16.85 sen per share on 100,284,071 ordinary shares paid on 4 July 2019	16,898

Share capital

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

MCIS Insurance Berhad
(Incorporated in Malaysia)

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 and Chief Executive Officer

Mr. Casparus Jacobus Hendrik Kromhout (appointed on 21 October 2019)
Non-independent, non-executive director

Mr. Arumugam Saminathan (appointed on 1 January 2020)
Non-independent, non-executive director

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

Tn Hj M.Nasir bin Ramli (resigned on 23 August 2019)
Non-independent, non-executive director

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 27 and Note 34 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.

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 ZAR2,200,000,000 (equivalent to RM633,302,000) 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 2019 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	36	10,000

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			
	1.1.2019	Acquired	Sold	31.12.2019
Sanlam Limited				
Mr. Prasheem Seebran	8,964	11,708	-	20,672

	Number of restricted shares under the Executive Share Incentive Scheme			
	1.1.2019	Granted	Exercised	31.12.2019
Sanlam Limited				
Mr. Prasheem Seebran	44,876	11,478	(11,708)	44,646

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.

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.

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 events

Details of significant events are disclosed in Notes 12 to the financial statements.

Subsequent events

Details of subsequent events are disclosed in Note 42 to the financial statements.

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MCIS Insurance Berhad
(Incorporated in Malaysia)

Auditors

The auditors, Ernst & Young PLT, 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 27 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 24 March 2020.

Mr. Kirupalani a/l Chelliah

Mr. Murugiah M N Singham

Petaling Jaya, Malaysia
24 March 2020

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. 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 AmInvestment 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 Bank Negara Malaysia 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.

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 Seri Sunita Mei-Lin Rajakumar was appointed as an 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.

Datin Sunita is a professional independent director and a strong advocate of the importance of governance in general and risk management in particular. She recently founded the Malaysian Chapter of the World Economic Forum's Climate Governance Initiative, the first in Asia and second in the world, has been actively involved with the 30% Club which promotes gender diversity on boards, and was appointed to the Global Advisory Board of Nottingham University's School of Business.

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.

Corporate governance disclosures (cont'd.)

Directors' profiles (cont'd.)

Her other board appointments are as an independent, non-executive Chairperson of Bursa-listed Caring Pharmacy Group Berhad and its Audit Committee; independent, non-executive director of Bursa-listed Dutch Lady Milk Industries Berhad (member of Royal Friesland Campina group) and Chairperson of its Audit Committee; as well as independent, non-executive director of Zurich General Insurance Berhad (member of Zurich Insurance Group) 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.

Mr. Prasheem Seebran was appointed as non-independent, non-executive director of the Company on 11 May 2016. On 15 March 2019, he became the executive director of the Company following his appointment as the Chief Executive Officer ("CEO") 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.

Mr. Casparus Jacobus Hendrik Kromhout was appointed as non-independent, non-executive director of the Company on 21 October 2019. He was also appointed as a member of the Company's Board Risk Management Committee and Remuneration Committee.

He is currently the Managing Director and CEO of Shriram Life Insurance in Hyderabad, India, a position which he has held since December 2015. Having begun his career in South Africa in 1991, he worked as an Industrial Engineer with Iscor Mining (later Kumba), where he focused on mining and logistics optimization projects and economic feasibility studies for new mine development. He joined the Life Insurance industry with the opportunity to be part of the large strategic programme to reengineer some of Sanlam’s business processes and policy administration systems. He worked as a Business Consultant and Project Manager with both Sanlam and Old Mutual, delivering multiple strategic projects. He later focused on project portfolio value management in Sanlam, which includes value tree work, concept development, business case governance and benefit realisation.

Corporate governance disclosures (cont'd.)

Directors' profiles (cont'd.)

Early 2010 Sanlam requested Mr Kromhout to take the COO assignment with Shriram Life Insurance, where he has been supporting and building the operational capabilities of this young company. Shriram Life's key focus is to reach out to the very tough lower middle and mass market segment in rural India, where the loss of a breadwinner can have disastrous financial impacts on the family.

Mr Arumugam Saminathan was appointed as non-independent, non-executive director of the Company on 1 January 2020. He graduated with a Diploma in Business Administration from Wales University, UK in 1988. He also has a Certificate in Finance from COADY Institute St Francis University, Canada and a Diploma in Social Studies Rural Leadership from Xavier University, Philippines. He later obtained his Master of Business Administration from Southern Pacific University, USA in 2005.

He started his career in Pernas Charter Sdn Bhd where he was for 20 years before moving on to Worker Cooperative Credit Society as its General Manager in charge of overall operation. He later moved to The Formtex Medical Sdn Bhd where he spent 10 years before joining Kiara Resources Sdn Bhd in 2007 as its Environmental Health and Safety Manager until 2015.

He has been actively involved in the cooperative movement since 1970 and sits in several cooperative boards. He is currently the Chairman of Koperasi MCIS Berhad and Koperasi Kredit Pekerja-Pekerja Malaysia Berhad and a Director Koperasi Konsumer Berhad. He is also a Director in The Pacific Insurance Berhad.

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

Board of Directors

The Board of Directors ("the Board") consists of 5 independent, non-executive directors, 1 executive director and 2 non-independent, non-executive director. The attendance of the Board at the 6 board meetings held during the financial year was as follows:

	Attendance
<u>Chairman:</u>	
Mr. Kirupalani a/l Chelliah (Chairman)	6/6
<u>Directors:</u>	
Mr. Murugiah M N Singham	6/6
Dato' Dr. Md Khir bin Abdul Rahman	6/6
Mr. Mohammad Nizar bin Idris	6/6
Datin Sunita Mei-Lin Rajakumar	5/6
Mr. Prasheem Seebran	6/6
Mr. Casparus Jacobus Hendrik Kromhout (appointed on 21 October 2019)	1/1

Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

Tn Hj M.Nasir bin Ramli (resigned on 23 August 2019)	4/4
Datuk Muhamad Umar Swift (resigned on 31 January 2019)	1/1
Mr. Arumugam Saminathan (appointed on 1 January 2020)	0/0

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.

Directors' remuneration

The remuneration of each of the director 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	117	267
Mr. Murugiah M N Singham	102	97	199
Dato' Dr. Md Khir bin Abdul Rahman	102	83	185
Mr. Mohammad Nizar bin Idris	102	96	198
Datin Sunita Mei-Lin Rajakumar	102	75	177
Mr. Prasheem Seebran*	17	12	29
Tn Hj M.Nasir bin Ramli	66	58	124
Mr. Casparus Jacobus Hendrik Kromhout	20	12	32
Datuk Muhamad Umar Swift	9	8	17
	670	558	1,228

* The remuneration of this director is paid to SEM. This excludes remuneration paid to him in his capacity as CEO.

Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

Directors' remuneration (cont'd.)

The Company maintained a directors’ and officers’ liability insurance during the financial year with premium paid amounting to RM36,000.

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

The details of the directors' remuneration are disclosed in Note 27(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.

Seven of the eight directors attended the Financial Institutions Directors' Education ("FIDE") programme organised by the International Centre for Leadership in Finance. The eighth director, who was appointed to the Board during the year, will attend the programme in the financial year 2020.

Some of the directors attended the programme as listed below:

- Workshop: Building an Effective Board – Board Selection
- Focus Group Discussion – in preparation for the 6th BNM-FIDE FORUM Annual Dialogue
- Reading the Signs: The Next Financial Crisis and Potential Impact on Asia
- FIDE FORUM Dinner Talk – Digital Assets: Global Trends, Legal Requirements and Opportunities for Financial Institutions
- Dialogue with BNM Deputy Governor on the draft Risk Management in Technology Policy
- Rethinking Strategy
- BNM – FIDE FORUM Masterclass on Cybersecurity: Unseen Threats
- 2nd PIDM – FIDE FORUM Annual Dialogue with the CEO of PIDM
- Artificial Intelligence and Its Role in FIs
- FIDE FORUM –ISRA Programme – Value Based Intermediation: Directors Role
- BNM – FIDE FORUM Dialogue on Innovation and Fintech in the Financial Services Industry

Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

Directors' training (cont'd.)

International Centre for Leadership in Finance ("ICLIF")

- BNM – FIDE FORUM Dialogue: Key Aspects of Fintech and Regulation
- Leadership in a Disruptive World
- Leadership in a Disruptive World: The Changing Role of Boards
- CG Watch: How Does Malaysia Rank?
- Anti-Money Laundering/Counter Financing of Terrorism - Insurance & Takaful Sector

Others

- International Social Well-Being Conference (ISWC 2019)
- Insurance Analytics & AI Innovation Asia Pacific 2019
- Pacific Insurance Conference: Challenge Everything: Asia’s Journey to Success
- MFRS 17: Training by KPMG
- MFRS 17: Understanding Its Impact and Consequences
- Induction Programme for New Directors

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

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:

Corporate governance disclosures (cont'd.)

Board of Directors (cont'd.)

(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
Chairman:	
Mr. Murugiah M N Singham	4/4
Members:	
Dato' Dr Md Khir bin Abdul Rahman	4/4
Datin Sunita Mei-Lin Rajakumar	3/4

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) reviewing the independence and reporting relationships of internal audit department as well as the adequacy and relevance of the scope, functions, competency and resources and the necessary authority to carry out its work; 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:

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
Chairperson:	
Datin Sunita Mei-Lin Rajakumar	3/4
Members:	
Mr. Mohammad Nizar bin Idris	4/4
Mr. Casparus Jacobus Hendrik Kromhout (appointed on 21 October 2019)	1/1
Tn Hj M.Nasir bin Ramli (resigned on 23 August 2019)	3/3

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;

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 5 committee meetings held during the financial year was as follows:

	Attendance
Chairman:	
Mr. Mohammad Nizar bin Idris	5/5
Members:	
Mr. Murugiah M N Singham	5/5
Mr. Kirupalani a/l Chelliah	5/5
Mr. Prasheem Seebran	5/5

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.

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
Chairman:	
Dato' Dr Md Khir Abdul Rahman	3/3
Members:	
Mr. Kirupalani a/l Chelliah	3/3
Tn Hj M.Nasir bin Ramli (resigned on 23 August 2019)	3/3
Mr. Casparus Jacobus Hendrik Kromhout (appointed on 21 October 2019)	0/0

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, 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;

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.

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, collective agreements with executive union and national union of commercial workers as well as 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	✓	✓	✓

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. In year 2020, the Company introduces a long-term variable pay plan ("LTV") aimed at achievement of its long-term goals and aspirations. The LTV deferred reward payment differentiated by levels of accountability is subject to achievement of company annual target embedded value and the performance of members of senior management and other material risk takers.

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

Senior management and other material risk takers

(i) <u>Senior management</u>

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 14 key personnel who undertook the following roles:

1. Chief Executive Officer
2. Chief Distribution & Marketing 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. Head of Alternative Distribution Channel
14. Head of Innovation & Analytics

* Senior management at control function

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 2 key personnel who undertook the following roles:

1. Senior Manager of Risk Management
2. Senior Manager of Compliance

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
Non-deferred				
Fixed remuneration				
Cash based	7,220	-	16	1,146
Others	136	-	16	47
Variable remuneration				
Cash based	1,356	-	13	-
Others	850	-	16	1
	9,562	-		1,194

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

Corporate governance disclosures (cont'd.)

Key internal control and risk management processes

(i) Governance and risk management framework

The Company has established a governance and risk management framework ("the framework") to serve as an overarching document that guides the Company's governance and risk management policies and procedures. The framework outlines the roles and responsibilities of the oversight functions within the Company in relation to governance and risk management matters. The framework also provides standard and common risk management philosophies and methodologies across all risk types and risk environments within the Company.

The Company adopts the "three-lines-of-defence" model in managing the risks. It provides a formal, transparent and effective risk governance structure to promote active involvement from the Board, senior management and all employees in the risk management process across the Company.

The first line of defence rests upon the business units and support functions who are responsible to ensure that effective and appropriate processes are in place at all times in accordance to the framework. The amount of risk taken at each level of the organisation must be within the Company's risk appetite.

The second line of defence comprised of oversight functions namely Risk Management and Compliance that report directly to BRMC, who are responsible for driving the overall risk management framework of the Company. The third line of defence is assumed by the internal audit department that is responsible for providing independent assurance over the effectiveness of key internal controls and makes recommendations to the Board based on the audit findings.

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

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

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. 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 practice standards as stipulated in the International Professional Practices Framework. 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.

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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 29 to 128 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 2019 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 24 March 2020.

Mr. Kirupalani a/l Chelliah

Mr. Murugiah M N Singham

Petaling Jaya, Malaysia
24 March 2020

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

I, Mr. Prasheem Seebran, 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 29 to 128 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. Prasheem Seebran)
at Petaling Jaya in Selangor Darul Ehsan)
on ~~24 March 2020~~ 20 MAY 2020)

Mr. Prasheem Seebran

Before me,

PESURUHJAYA SUMPAH
B459
Nama GUNALAN
1.1.2019 - 31.12.2021
MALAYSIA

NO: 13, (TINGKAT 1) JALAN 52/10
PJ NEW TOWN
46200 PETALING JAYA, SELANGOR.

EY
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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, which comprise the statement of financial position as at 31 December 2019 of the Company, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 29 to 128.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, 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 audit 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 Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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

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.

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

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information 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 control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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

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

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

Kuala Lumpur, Malaysia
24 March 2020

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MCIS Insurance Berhad
(Incorporated in Malaysia)

Statement of financial position
As at 31 December 2019

	Note	2019 RM'000	2018 RM'000
Assets			
Property and equipment	3	40,382	45,730
Investment properties	4	7,050	10,750
Right-of-use assets	5	17,286	-
Intangible assets	6	8,271	9,447
Prepaid land lease payments	7	-	189
Investments	8	4,495,698	4,356,979
Reinsurance assets	9	17,266	10,111
Insurance receivables	10	37,293	62,657
Other receivables	11	40,007	74,351
Tax recoverable		1,809	532
Cash and bank balances		32,526	39,118
		4,697,588	4,609,864
Non-current assets held for sale	12	9,281	318
Total assets		4,706,869	4,610,182
Equity			
Share capital	13	125,024	125,024
Retained profits	14	150,600	143,259
Merger reserves	15	40,672	40,672
Revaluation reserves		687	4,421
		316,983	313,376
Revaluation reserves associated with non-current assets held for sale		3,391	-
Total equity		320,374	313,376
Liabilities			
Insurance contract liabilities	16	4,070,587	4,025,339
Deferred tax liabilities	17	33,633	19,543
Lease liabilities	18	17,506	-
Insurance payables	19	154,576	134,550
Other payables	20	110,193	117,374
Total liabilities		4,386,495	4,296,806
Total equity and liabilities		4,706,869	4,610,182

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

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MCIS Insurance Berhad
(Incorporated in Malaysia)

Income statement
For the financial year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Gross earned premiums		588,963	556,866
Premiums ceded to reinsurers		(43,873)	(34,470)
Net earned premiums		545,090	522,396
Investment income	21	175,449	199,663
Realised gains/(losses)	22	26,379	(4,483)
Fair value gains/(losses)	23	205,319	(24,848)
Fee and commission income	24	703	3,617
Other operating revenue	25	1,652	16,291
Other revenue		409,502	190,240
Gross benefits and claims paid		(686,894)	(582,905)
Claims ceded to reinsurers		32,300	25,462
Gross change in contract liabilities		(46,440)	46,901
Change in contract liabilities ceded to reinsurers		7,155	475
Net benefits and claims		(693,879)	(510,067)
Fee and commission expenses	26	(91,834)	(81,070)
Other operating expenses	25	(706)	(1,228)
Management expenses	27	(108,089)	(82,196)
Interest expense on lease liabilities		(963)	-
Taxation of life insurance business	28(a)	(28,127)	(10,627)
Other expenses		(229,719)	(175,121)
Profit before taxation		30,994	27,448
Taxation	28(b)	(6,755)	(5,334)
Net profit for the year		24,239	22,114
Earnings per share (sen)			
Basic and diluted	29	24.2	22.1

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

MCIS Insurance Berhad
(Incorporated in Malaysia)

Statement of comprehensive income
For the financial year ended 31 December 2019

	2019 RM'000	2018 RM'000
Net profit for the year	24,239	22,114
Other comprehensive loss:		
Items not to be reclassified to the income statement in the subsequent periods:		
Loss on fair value changes of revaluation reserves of non-participating funds:		
- property and equipment (Note 3)	(83)	-
- right-of-use assets (Note 5)	(367)	-
	(450)	-
Deferred tax effects on revaluation reserve of non-participating funds (Note 17)	107	-
	(343)	-
Other comprehensive loss for the year, net of taxation	(343)	-
Total comprehensive income for the year	23,896	22,114

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

MCIS Insurance Berhad
(Incorporated in Malaysia)

Statement of changes in equity
For the financial year ended 31 December 2019

		Non-distributable					Distributable		
						Retained profits			
	Note	Share capital RM'000	Merger reserve RM'000	Revaluation reserves of non-participating funds RM'000	Revaluation reserves associated with non-current assets held for sale RM'000	Unallocated surplus of non-participating funds* RM'000	Retained profits of shareholders' fund RM'000	Sub-total RM'000	Total equity RM'000
At 1 January 2018		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	30	-	-	-	-	-	(7,000)	(7,000)	(7,000)
At 31 December 2018		125,024	40,672	4,421	-	48,151	95,108	143,259	313,376
At 1 January 2019		125,024	40,672	4,421	-	48,151	95,108	143,259	313,376
Net profit for the year		-	-	-	-	3,256	20,983	24,239	24,239
Other comprehensive loss		-	-	(343)	-	-	-	-	(343)
Total comprehensive income for the year		-	-	(343)	-	3,256	20,983	24,239	23,896
Dividends paid during the year	30	-	-	-	-	-	(16,898)	(16,898)	(16,898)
Transfer to revaluation reserve associated with non-current assets held for sale		-	-	(3,391)	3,391	-	-	-	-
At 31 December 2019		125,024	40,672	687	3,391	51,407	99,193	150,600	320,374

* The unallocated surplus of the Non-Par funds generated for the financial year ended 31 December 2019 and 31 December 2018 were RM3,256,000 and RM5,167,000 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 2019

	Note	2019 RM'000	2018 RM'000
Operating activities			
Cash generated from/(used in) operating activities	31	497,350	(53,326)
Interest paid		(963)	-
Income tax paid		(21,731)	(13,723)
Net cash flows generated from/(used in) operating activities		474,656	(67,049)
Investing activities			
Net proceeds from disposal of properties		3,089	-
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*		1	174
Purchase of property and equipment	3	(10,694)	(8,713)
Purchase of intangibles assets		(39)	(211)
Net cash flows (used in)/generated from investing activities		(7,643)	106,265
Financing activities			
Dividends paid	30	(16,898)	(7,000)
Payment of principal portion of lease liabilities		(3,449)	-
Net cash flows used in financing activities		(20,347)	(7,000)
Cash and cash equivalents			
Net increase in cash and cash equivalents		446,666	32,216
Cash and cash equivalents at beginning of year		165,030	132,814
Cash and cash equivalents at end of year		611,696	165,030
Cash and cash equivalents comprise of:			
Cash and bank balances		32,526	39,118
Less: Cash restricted in use*		(8,261)	(8,262)
		24,265	30,856
Short term deposits with original maturity periods of less than 3 months	8(a)	587,431	134,174
		611,696	165,030

* 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 36.

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

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 24 March 2020.

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 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").

2. Significant accounting policies (cont'd.)

2.1 Basis of preparation (cont'd.)

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.

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 15).

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.

2. Significant accounting policies (cont'd.)

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

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

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.

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.

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%

2. Significant accounting policies (cont'd.)

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

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

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.

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.

2. Significant accounting policies (cont'd.)

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

(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.

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.

2. Significant accounting policies (cont'd.)

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

(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 - Accounting policies applied from 1 January 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) The Company as lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

The Company recognises right-of-use assets at the lease commencement date. Right-of-use assets are measured at cost, less any accumulated amortisation and impairment losses, and adjusted for any re-measurement of lease liabilities, except for those leasehold lands, which are measured in accordance with MFRS 116 *Property, Plant and Equipment* .

2. Significant accounting policies (cont'd.)

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

(e) Leases - Accounting policies applied from 1 January 2019 (cont'd.)

(i) The Company as lessee (cont'd.)

(a) Right-of-use assets (cont'd.)

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets.

The right-of-use assets are also subject to impairment as described in Note 2.3(f).

(b) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase or extension option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

2. Significant accounting policies (cont'd.)

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

(e) Leases - Accounting policies applied from 1 January 2019 (cont'd.)

(i) The Company as lessee (cont'd.)

(c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., these leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Company also applies the lease of low-value assets recognition exemption to leases of equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

(ii) The Company as lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sublease as an operating lease.

Rental income arising is accounted for as an straight-line basis over the lease term.

2. Significant accounting policies (cont'd.)

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

(e) Leases - Accounting policies applied until 31 December 2018

(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)).

(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.

2. Significant accounting policies (cont'd.)

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

(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.

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

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 or 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.

The Company has designated its loan receivables which meet the above condition as instruments at amortised cost.

2. Significant accounting policies (cont'd.)

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

(g) Financial instruments (cont'd.)

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.

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 2019.

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.

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

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)).

2. Significant accounting policies (cont'd.)

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

(h) Fair value measurement

The Company measures financial instruments and non-financial assets such as investment properties and right-of-use assets, 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.

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.

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.

2. Significant accounting policies (cont'd.)

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

(i) Impairment of financial assets

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.

(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.

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

(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.

2. Significant accounting policies (cont'd.)

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

(l) Contract classification (cont'd.)

(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.

(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

2. Significant accounting policies (cont'd.)

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

(l) Contract classification (cont'd.)

(v) (cont'd.)

- 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.

Surpluses in the DPF funds can be distributed on an approximate 90/10 basis in accordance with BNM's guidelines on 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.

2. Significant accounting policies (cont'd.)

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

(m) Reinsurance (cont'd.)

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.

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 as 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

Surplus transfer

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.

2. Significant accounting policies (cont'd.)

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

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

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.

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

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.

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.

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 income

Interest 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 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.

(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.

2. Significant accounting policies (cont'd.)

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

(r) Income tax (cont'd.)

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.

(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.

2. Significant accounting policies (cont'd.)

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

(t) Employee benefits (cont'd.)

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.

(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.

2. Significant accounting policies (cont'd.)

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

(u) Foreign currencies (cont'd.)

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 plus 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.

2. Significant accounting policies (cont'd.)

2.4 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 2019, the Company adopted the following MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2019:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019:
(i) MFRS 16 *Leases*
(ii) MFRS 119 *Employee Benefits*
(iii) Amendments to MFRS 3 *Annual Improvements to MFRS Standards 2015-2017 Cycle*
(iv) Amendments to MFRS 11 *Annual Improvements to MFRS Standards 2015-2017 Cycle*
(v) Amendments to MFRS 112 *Annual Improvements to MFRS Standards 2015-2017 Cycle*
(vi) Amendments to MFRS 123 *Annual Improvements to MFRS Standards 2015-2017 Cycle*
(vii) Amendments to MFRS 9 - *Prepayment Features with Negative Compensation*
(viii IC Interpretation 23 *Uncertainty over Income Tax Treatments*

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

MFRS 16: Leases

MFRS 16 supersedes MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases-Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessee to recognise most leases on the balance sheet.

2. Significant accounting policies (cont'd.)

2.4 Changes in accounting policies (cont'd.)

MFRS 16: Leases (cont'd.)

The Company adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying MFRS 117 at the date of initial application.

The Company has lease contracts for leasehold lands and properties. Before the adoption of MFRS 16, the Company classified each of its leases (as lessee) at the inception date as either finance leases or operating leases.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 does not have an impact for leases where the Company is the lessor.

<u>Transition upon the adoption of MFRS 16</u>

At 1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. The weighted-average rate applied is 5%. Right-of-use assets are measured at an amount equal to the lease liabilities.

For leases that were classified as finance lease under MFRS 117, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 are determined to be the same as the carrying amounts of the leased assets and lease liabilities under MFRS 117 immediately before that date.

The impact of MFRS 16 adoption as at 1 January 2019 is as follows:

	As reported under MFRS 117 RM'000	MFRS 16 Adjustments RM'000	As reported under MFRS 16 RM'000
Assets			
Property and equipment	45,730	(4,337)	41,393
Right-of-use assets	-	24,898	24,898
Prepaid land lease payments	189	(189)	-
Liabilities			
Lease liabilities	-	20,372	20,372

2. Significant accounting policies (cont'd.)

2.4 Changes in accounting policies (cont'd.)

MFRS 16: Leases (cont'd.)

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

	RM'000
Operating lease commitments at 31 December 2018 as disclosed in the financial statements	10,686
Discounted using the incremental borrowing rate at 1 January 2019	10,067
Recognition exemption for lease of short-term and low-value assets	(283)
Extension options reasonably certain to be exercised	10,588
Lease liabilities recognised at 1 January 2019	20,372

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 interpretations to standards, if applicable, when they become effective:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 101 and 108: *Definition of Material*	1 January 2020
Amendments to MFRS 3 *Definition of a Business*	1 January 2020
Amendments to MFRS 7, MFRS 9, MFRS 139: *Interest Rate Benchmark Reform*	1 January 2020
MFRS 17 *Insurance Contracts*	1 January 2021

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:

2. Significant accounting policies (cont'd.)

3 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.

MFRS 17 is effective for annual periods beginning on or after 1 January 2021. In March 2020, International Accounting Standards Board ("IASB") has approved to defer the adoption of IFRS 17 until the financial period beginning on or after 1 January 2023. The Company plans to adopt the new standard on the required effective date and a Project Steering Committee has been formed to oversee the implementation of MFRS 17. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with the Company's financial statements' presentation and disclosures.

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 17)

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.

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.)

(ii) Income taxes (Note 28)

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.

(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.

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 10 and 11)

Measurement of ECL

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.

(vi) Insurance contract classification (Note 16)

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.)

(vii) Non-current assets held for sale (Note 12) (cont'd.)

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; and
- The sale is highly probable, and it is unlikely that the plan to sell the properties will be withdrawn.

(viii) Right-of-use assets (Note 5) and Lease liabilities (Note 18)

Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its liability to exercise or not to exercise the option to renew or to terminate.

The Company included the renewal period as part of the lease term for leases of property with shorter non-cancellable period (i.e., three years). The Company typically exercises its option to renew for these leases because the rented properties are generally branches of the Company and it is highly likely that the Company continues to rent the premises to serve the policyholders and agents. The renewal periods for leases of rented properties with longer non-cancellable periods (i.e., above 3 years) are not included as part of the lease term as these are not reasonably certain to be exercised.

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) Right-of-use assets (Note 5) and Lease liabilities (Note 18) (cont'd.)

Determining the lease term of contracts with renewal and termination options (cont'd.)

Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease. Therefore, the Company applies judgement and assumptions in determining the incremental borrowing rate ("IBR") of the respective leases. The Company determines the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

(ix) Intangible assets (Note 6 and 27)

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.

(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 16)

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.

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 16) (cont'd.)

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.

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

Valuation method	Description
Discount rates	Participating and annuity funds: 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 6.00% (2018: 6.00%) for the participating business and 5.50% (2018: 5.50%) for the annuity business. Non-participating and Investment linked funds: The spot yields of MGS at valuation date is used to discount the guaranteed benefit cash flows. Data source: MGS spot yields are obtained from the Bond Pricing Agency Malaysia ("BPAM").
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

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

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.

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.

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3. Property and equipment

2019	Freehold land RM'000	Leasehold land 50 years or more RM'000	Buildings on freehold land RM'000	Buildings on leasehold land 50 years or more RM'000	Buildings on leasehold land less than 50 years RM'000	Motor vehicles RM'000	Furniture, fixtures and fittings RM'000	Office and computer equipment RM'000	Office renovation RM'000	Work-in progress RM'000	Total RM'000
	<----- At valuation				----->	<----- At cost				----->	
	<----- Properties				----->						
Cost/Valuation											
At 1 January 2019 (As previously stated)	13,665	4,408	6,715	2,845	820	1,073	3,923	19,816	4,310	10,102	67,677
Adjustment upon application of MFRS 16	-	(4,408)	-	-	-	-	-	-	-	-	(4,408)
At 1 January 2019 (As restated)	13,665	-	6,715	2,845	820	1,073	3,923	19,816	4,310	10,102	63,269
Additions	-	-	-	-	-	-	167	2,130	1,014	7,383	10,694
Disposal	(597)	-	(684)	-	-	-	-	-	-	-	(1,281)
Revaluation (deficit)/ surplus of:											
- participating fund (Note 16)	(1,430)	-	25	-	-	-	-	-	-	-	(1,405)
- non-participating fund	(88)	-	28	(23)	-	-	-	-	-	-	(83)
Elimination of accumulated depreciation on revaluation	-	-	(484)	(132)	-	-	-	-	-	-	(616)
Write-offs	-	-	-	-	-	-	-	(43)	-	-	(43)
Transfer to non-current assets held for sale (Note 12)	(1,200)	-	(1,300)	(1,760)	-	-	(604)	(515)	(868)	-	(6,247)
Reclassification											
- property and equipment	-	-	-	-	-	-	2,789	770	4,042	(7,601)	-
- intangible asset (Note 6)	-	-	-	-	-	-	-	-	-	(973)	(973)
At 31 December 2019	10,350	-	4,300	930	820	1,073	6,275	22,158	8,498	8,911	63,315

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MCIS Insurance Berhad
(Incorporated in Malaysia)

3. Property and equipment (cont'd.)

	At valuation					At cost					
	Properties										
2019	**Freehold land RM'000**	**Leasehold land 50 years or more RM'000**	**Buildings on freehold land RM'000**	**Buildings on leasehold land 50 years or more RM'000**	**Buildings on leasehold land less than 50 years RM'000**	**Motor vehicles RM'000**	**Furniture, fixtures and fittings RM'000**	**Office and computer equipment RM'000**	**Office renovation RM'000**	**Work-in progress RM'000**	**Total RM'000**
Accumulated depreciation											
At 1 January 2019 (As previously stated)	-	71	299	114	50	1,073	3,196	14,128	3,016	-	21,947
Adjustment upon application of MFRS 16	-	(71)	-	-	-	-	-	-	-	-	(71)
At 1 January 2019 (As restated)	-	-	299	114	50	1,073	3,196	14,128	3,016	-	21,876
Charge for the year	-	-	255	99	46	-	340	1,679	1,056	-	3,475
Disposal	-	-	(40)	-	-	-	-	-	-	-	(40)
Elimination of accumulated depreciation on revaluation	-	-	(484)	(132)	-	-	-	-	-	-	(616)
Write-offs	-	-	-	-	-	-	-	(26)	-	-	(26)
Transfer to non-current assets held for sale (Note 12)	-	-	(30)	-	-	-	(556)	(394)	(756)	-	(1,736)
At 31 December 2019	-	-	-	81	96	1,073	2,980	15,387	3,316	-	22,933
Net carrying amount											
At 31 December 2019	10,350	-	4,300	849	724	-	3,295	6,771	5,182	8,911	40,382

3. Property and equipment (cont'd.)

2018	Freehold land RM'000	Leasehold land 50 years or more RM'000	Buildings on freehold land RM'000	Buildings on leasehold land 50 years or more RM'000	Buildings on leasehold land less than 50 years RM'000	Motor vehicles RM'000	Furniture, fixtures and fittings RM'000	Office and computer equipment RM'000	Office renovation RM'000	Work-in progress RM'000	Total RM'000
	<---- At valuation				---->	<---- At cost				---->	
	<---- Properties				---->						
Cost/Valuation											
At 1 January 2018	14,365	4,408	6,715	3,175	820	1,073	5,616	18,689	4,094	3,095	62,050
Additions	-	-	-	-	-	-	51	1,439	216	7,007	8,713
Revaluation deficit of participating fund (Note 16)	(700)	-	-	-	-	-	-	-	-	-	(700)
Write-offs	-	-	-	-	-	-	(1,744)	(312)	-	-	(2,056)
Transfer to non-current assets held for sale (Note 12)	-		-	(330)	-	-	-	-	-	-	(330)
At 31 December 2018	13,665	4,408	6,715	2,845	820	1,073	3,923	19,816	4,310	10,102	67,677
Accumulated depreciation											
At 1 January 2018	-	6	23	10	4	1,073	3,911	12,845	2,661	-	20,533
Charge for the year	-	65	276	116	46	-	320	1,581	355	-	2,759
Write-offs	-	-	-	-	-	-	(1,035)	(298)	-	-	(1,333)
Transfer to non-current assets held for sale (Note 12)	-	-	-	(12)	-	-	-	-	-	-	(12)
At 31 December 2018	-	71	299	114	50	1,073	3,196	14,128	3,016	-	21,947
Net carrying amount											
At 31 December 2018	13,665	4,337	6,416	2,731	770	-	727	5,688	1,294	10,102	45,730

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 RM17,143,000 (2018: RM15,385,000).

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 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

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 2019 (As previously stated)	-	23,210	4,709	27,919
Adjustment upon application of MFRS 16	-	(4,337)	-	(4,337)
As at 1 January 2019 (As restated)	-	18,873	4,709	23,582
Disposal	-	(1,241)	-	(1,241)
Revaluation deficit	-	(962)	(526)	(1,488)
Transfer to non-current assets held for sale	-	(4,230)	-	(4,230)
Depreciation recognised in profit or loss under management expenses	-	(317)	(83)	(400)
As at 31 December 2019	-	12,123	4,100	16,223

Fair value hierarchy disclosures for the properties have been provided in Note 40.

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

Type of property	Valuation techniques	Key inputs	Weighted average	
Multi-storey shop office /shop house	Comparison/ cost method	Price per square foot	Land Building	RM4,148 RM110
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.

3. Property and equipment (cont'd.)

Properties (cont'd.)

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

	2019 RM'000	2018 RM'000
Cost	8,616	9,571
Accumulated depreciation	(4,422)	(4,829)
Net carrying amount	4,194	4,742

4. Investment properties

	2019 RM'000	2018 RM'000
At 1 January	10,750	11,390
Disposal	(2,160)	-
Transfer to non-current assets held for sale (Note 12)	(560)	-
Fair value losses (Note 23)	(980)	(640)
At 31 December	7,050	10,750

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.

4. Investment properties (cont'd.)

Reconciliation of Level 3 fair value measurement:

	Agriculture land RM'000	Shop office/ shop house RM'000	Total RM'000
As at 1 January 2018	1,200	10,190	11,390
Fair value losses	-	(640)	(640)
As at 31 December 2018/1 January 2019	1,200	9,550	10,750
Disposal	(1,200)	(960)	(2,160)
Transfer to non-current assets held for sale (Note 12)	-	(560)	(560)
Fair value losses	-	(980)	(980)
As at 31 December 2019	-	7,050	7,050

Fair value hierarchy disclosures for investment properties have been provided in Note 40.

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	
Multi-storey shop office /shop house	Comparison/ cost method	Price per square foot	Land Building	RM4,014 RM70

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:

	2019 RM'000	2018 RM'000
Rental income from investment properties	209	201
Direct operating expenses (including repairs and maintenance) generating rental income	(73)	(54)
Net income arising from investment properties	136	147

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. Right-of-use assets

The Company as lessee

The Company has entered into various lease agreements for office premises and lands. Leases of office premises have lease terms between 1 and 3 years, while lands have lease terms between 34 and 99 years. The Company also leases certain equipment, software and services with lease term of 12 months or less or with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Reconciliation of Level 3 fair value measurement:

	Land	Office premises	Total
	RM'000	RM'000	RM'000
As at 1 January 2019			
(As previously stated)	-	-	-
Adjustment upon application of MFRS 16	4,526	20,372	24,898
As at 1 January 2019 (As restated)	4,526	20,372	24,898
Additions	-	169	169
Effect of modification to lease terms	-	414	414
Transfer to non-current assets held for sale			
(Note 12)	(3,910)	-	(3,910)
Amortisation (Note 27)	(72)	(3,846)	(3,918)
Revaluation deficit	(367)	-	(367)
As at 31 December 2019	177	17,109	17,286

Fair value hierarchy disclosures for right-of-use assets have been provided in Note 40.

5. Right-of-use assets (cont'd.)

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

Description of valuation techniques used and key inputs to valuation on right-of-use assets are stated below:

Type of property	Valuation technique	Key inputs	Weighted average	
Land	Cost method	Price per square foot	Land	RM140

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

The amount of expenses recorded in the income statement of the Company are as follows:

	2019 RM'000
Management expense:	
Amortisation of right-of-use assets	3,918
Expense relating to short-term leases	457
Expense relating to leases of low-value assets	207
Interest expense on lease liabilities	963
	5,545

Cash outflows for leases as a lessee

	2019 RM'000
Included in net cash from operating activities:	
Payment relating to short-term leases	457
Payment relating to leases of low-value assets	207
Interest paid in relation to lease liabilities	963
Included in net cash from financing activities:	
Payment of principal portion of lease liabilities	3,449
Total cash outflows for leases	5,076

5. Right-of-use assets (cont'd.)

The Company as lessee (cont'd.)

Extension and termination options

The Company has several lease contracts that include extension and termination options. These options are negotiated by the Company to provide operational flexibility in managing the properties portfolio and align with the Company's business needs. The Company exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

As of 31 December 2019, the Company has included all potential future cash flows of exercising the extension options in the lease liability.

The Company determines that the termination options are likely not to be exercised.

6. Intangible assets

	2019 RM'000	2018 RM'000
Computer software		
Cost		
At 1 January 2019/2018	26,922	27,012
Additions	39	211
Reversal	-	(301)
Reclassification from property and equipment (Note 3)	973	-
At 31 December 2019/2018	27,934	26,922
Accumulated amortisation		
At 1 January 2019/2018	17,475	15,502
Charge for the year	2,188	1,973
At 31 December 2019/2018	19,663	17,475
Net carrying amount		
At 31 December 2019/2018	8,271	9,447

7. Prepaid land lease payments

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

8. Investments

	2019 RM'000	2018 RM'000
Malaysian Government securities	958,297	1,220,418
Government investment issues	190,850	240,639
Malaysian Government guaranteed bonds	532,894	627,110
Unquoted debt securities	1,428,685	1,219,346
Quoted equity securities	357,827	434,274
Quoted exchange traded funds	46,633	39,219
Quoted unit and property trust funds	76,420	111,076
Unquoted equity securities	15,890	14,290
Unquoted unit trust funds	41,707	30,221
Deposits with financial institutions	588,330	135,073
Loans receivables	258,165	285,313
Total	4,495,698	4,356,979

8. Investments (cont'd.)

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

	2019 RM'000	2018 RM'000
FVTPL	4,237,533	4,071,666
Amortised cost	258,165	285,313
	4,495,698	4,356,979

(a) FVTPL

	2019 RM'000	2018 RM'000
Mandatorily measured:		
Quoted equity securities	357,827	434,274
Quoted exchange traded funds	46,633	39,219
Quoted unit and property trust funds	76,420	111,076
Unquoted equity securities	15,890	14,290
Unquoted unit trust funds	41,707	30,221
	538,477	629,080
Designated upon initial recognition:		
Malaysian Government securities	958,297	1,220,418
Government investment issues	190,850	240,639
Malaysian Government guaranteed bonds	532,894	627,110
Unquoted debt securities	1,428,685	1,219,346
Deposits with financial institutions	588,330	135,073
	3,699,056	3,442,586
	4,237,533	4,071,666

Included in deposits with financial institutions of the Company are short term deposits with original maturity periods of less than 3 months amounting to RM587,431,000 (31.12.2018: RM134,174,000), which have been classified as cash and cash equivalents for the purpose of the statement of cash flows.

8. Investments (cont'd.)

	2019 RM'000	2018 RM'000
(b) Amortised cost		
Loans receivables:		
Policy loans	256,472	283,284
Mortgage loans	3,423	5,445
Other loans	145	171
	260,040	288,900
Loss allowances (Note 38(d))	(1,875)	(3,587)
	258,165	285,313

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 2019 and 31 December 2018.

(c) Reconciliation of Level 3 fair value measurement:

	2019 RM'000	2018 RM'000
Unquoted equity securities		
As at 1 January 2019/2018	14,290	12,459
Fair value gains	1,600	1,831
As at 31 December 2019/2018	15,890	14,290

8. Investments (cont'd.)

(d) Carrying values of financial instruments

	Amortised cost RM'000	FVTPL RM'000	Total RM'000
At 1 January 2018	305,424	3,989,503	4,294,927
Purchases	-	723,477	723,477
Disposals	-	(619,785)	(619,785)
Fair value losses	-	(24,208)	(24,208)
Realised gains (Note 22)	-	(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 25)	1,158	-	1,158
Net amortisation of premiums (Note 21)	-	(4,388)	(4,388)
At 31 December 2018/1 January 2019	285,313	4,071,666	4,356,979
Purchases	-	875,123	875,123
Disposals	-	(1,389,620)	(1,389,620)
Fair value gains	-	206,299	206,299
Realised gains (Note 22)	-	26,379	26,379
Decrease in loans receivables	(27,182)	-	(27,182)
Increase in deposits with financial institutions	-	453,257	453,257
Decrease in impairment loss on loans receivable (Note 25)	34	-	34
Net amortisation of premiums (Note 21)	-	(5,571)	(5,571)
At 31 December 2019	258,165	4,237,533	4,495,698

8. Investments (cont'd.)

(e) Fair values of financial instruments

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

	2019 RM'000	2018 RM'000
FVTPL		
Quoted market bid price	480,880	584,569
Valuation techniques:		
- market observable inputs	3,740,763	3,472,807
- unobservable inputs	15,890	14,290
	4,237,533	4,071,666

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.

(f) 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:

	2019 %	2018 %
Malaysian Government securities	3.13 - 4.09	3.95 - 4.61
Government investment issues	3.50 - 4.02	3.34 - 4.91
Malaysian Government guaranteed bonds	3.60 - 4.17	4.36 - 4.80
Unquoted debt securities	3.79 - 4.64	4.41 - 5.15
Deposits with financial institutions	0.12 - 4.00	0.12 - 4.15
Loans receivables	4.00 - 8.00	4.00 - 8.00

8. Investments (cont'd.)

(g) 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
2019				
Malaysian Government securities	-	24,650	933,647	958,297
Government investment issues	3,047	9,279	178,524	190,850
Malaysian Government guaranteed bonds	-	20,461	512,433	532,894
Unquoted debt securities	134,528	353,320	940,837	1,428,685
Deposits with financial institutions	588,330	-	-	588,330
Loans receivables*	1,571	240	1,146	2,957
	727,476	407,950	2,566,587	3,702,013
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
	250,149	406,760	2,789,077	3,445,986

* The Company's policy loans portfolio of RM255,208,000 (2018: RM281,913,000) (net of impairment loss of RM1,264,000 (2018: RM1,371,000)) is not included in the above loans receivable as there are no specific maturity dates.

9. Reinsurance assets

	2019 RM'000	2018 RM'000
Reinsurance of insurance contracts	17,266	10,111

10. Insurance receivables

	2019 RM'000	2018 RM'000
Due premiums including agents/brokers and coinsurers balances	32,349	49,828
Due from reinsurers and cedants	8,795	16,355
	41,144	66,183
Allowance for impairment (Note 38(d))	(3,851)	(3,526)
	37,293	62,657

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

11. Other receivables

	2019 RM'000	2018 RM'000
Financial assets:		
Income due and accrued	35,919	59,460
Receivables arising from disposal of non-current assets held for sale	-	12,150
Other receivables	2,088	2,112
	38,007	73,722
Non-financial assets:		
Prepayments	2,000	629
	40,007	74,351

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

12. Non-current assets held for sale

	Note	2019 RM'000	2018 RM'000
At 1 January 2019/2018		318	105,255
Transfer from property and equipment	3	4,511	318
Transfer from investment properties	4	560	-
Transfer from right-of-use assets	5	3,910	-
Revaluation reserve	16	(18)	-
Disposals		-	(105,255)
At 31 December 2019/2018		9,281	318

During the financial year, the Company entered into Sale and Purchase Agreements for disposal of properties and a land. Except for a property as disclosed in Note 42, the disposals of the remaining properties and land have yet to be completed as at the date of these financial statements.

13. Share capital

	2019		2018	
Issued and paid-up:	**No. of shares ('000)**	**RM'000**	**No. of shares ('000)**	**RM'000**
Ordinary shares				
At beginning and end of year	100,284	125,024	100,284	125,024

14. 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.

15. 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 Companies Act, 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	(30,085)
Merger reserve on acquisition	93,264
Write-off of goodwill on consolidation	(52,592)
	40,672

The subsidiary had been struck off and dissolved in year 2014.

MCIS Insurance Berhad
(Incorporated in Malaysia)

16. Insurance contract liabilities

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

	2019			2018		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Provision for benefits and claims	110,415	(6,111)	104,304	116,275	(4)	116,271
Actuarial liabilities - Participating fund	3,038,384	(704)	3,037,680	3,134,377	(811)	3,133,566
Actuarial liabilities - Non participating fund	336,293	(10,451)	325,842	313,048	(9,296)	303,752
	3,374,677	(11,155)	3,363,522	3,447,425	(10,107)	3,437,318
Participating fund unallocated surplus	371,856	-	371,856	273,892	-	273,892
Participating fund asset revaluation reserves	17,907	-	17,907	20,576	-	20,576
Net asset value ("NAV") attributable to unitholders	195,732	-	195,732	167,171	-	167,171
	4,070,587	(17,266)	4,053,321	4,025,339	(10,111)	4,015,228

16. Insurance contract liabilities (cont'd.)

Movements of life insurance contract liabilities

2019	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 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 2019	116,275	3,447,425	273,892	-	20,576	167,171	4,025,339	(10,111)	4,015,228
Net earned premiums	-	-	312,554	190,063	-	45,473	548,090	-	548,090
Other revenue	-	-	340,643	35,428	-	13,432	389,503	-	389,503
Net benefits and claims	11,813	-	(500,741)	(115,691)	-	(29,193)	(633,812)	(6,109)	(639,921)
Other expenses	-	-	(110,714)	(80,878)	-	(47)	(191,639)	-	(191,639)
Policy movements	-	(102,342)	108,100	(5,758)	-	-	-	-	-
Other movements	(17,673)	-	-	-	-	-	(17,673)	-	(17,673)
Interest rate	-	18,718	-	(18,718)	-	-	-	-	-
Adjustments due to changes in assumption	-	10,876	(12,214)	2,384	-	-	1,046	(1,046)	-
Changes in asset revaluation reserves									
- property and equipment (Note 3)	-	-	1,477	-	(2,882)	-	(1,405)	-	(1,405)
- non-current assets held for sale (Note 12)	-	-	-	-	(18)	-	(18)	-	(18)
Taxation on asset revaluation reserves (Note 17)	-	-	-	-	231	-	231	-	231
Taxation on taxable investment income (Note 41)	-	-	(24,425)	(2,598)	-	(1,104)	(28,127)	-	(28,127)
Participating fund surplus transferred to shareholders' fund (Note 41)	-	-	(16,716)	-	-	-	(16,716)	-	(16,716)
Reclassification of unallocated surplus of non-participating funds to shareholders' fund (Note 41)	-	-	-	(4,232)	-	-	(4,232)	-	(4,232)
As at 31 December 2019	110,415	3,374,677	371,856	-	17,907	195,732	4,070,587	(17,266)	4,053,321

16. Insurance contract liabilities (cont'd.)

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

2018	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 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	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 17)	-	-	-	-	5,428	-	5,428	-	5,428
Taxation on taxable investment income (Note 41)	-	-	(10,064)	(1,078)	-	515	(10,627)	-	(10,627)
Participating fund surplus transferred to shareholders' fund (Note 41)	-	-	(15,718)	-	-	-	(15,718)	-	(15,718)
Reclassification of unallocated surplus of non-participating funds to shareholders' fund (Note 41)	-	-	-	(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

17. Deferred tax liabilities

	Note	2019 RM'000	2018 RM'000
At 1 January 2019/2018		19,543	25,123
Recognised in:			
Income statement			
- Taxation of life insurance business	28(a)	12,818	(926)
- Taxation of the Company	28(b)	1,610	774
Other comprehensive income		(107)	-
Insurance contract liabilities	16	(231)	(5,428)
At 31 December 2019/2018		33,633	19,543

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.

	2019 RM'000	2018 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	34,905	20,612
Deferred tax assets	(1,272)	(1,069)
	33,633	19,543

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 2018	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 2018/1 January 2019	971	3,184	1,331	15,126	20,612
Recognised in:					
Income statement	(384)	-	14,038	977	14,631
Other comprehensive income	-	(107)	-	-	(107)
Insurance contract liabilities	-	(231)	-	-	(231)
As at 31 December 2019	587	2,846	15,369	16,103	34,905

17. Deferred tax liabilities (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	Total RM'000
Deferred tax assets		
At 1 January 2018	(1,219)	(1,219)
Recognised in:		
Income statement	150	150
At 31 December 2018/1 January 2019	(1,069)	(1,069)
Recognised in:		
Income statement	(203)	(203)
At 31 December 2019	(1,272)	(1,272)

18. Lease liabilities

	2019 RM'000
As at 1 January 2019 (As reported under MFRS 16)	20,372
Additions	169
Effect of modification to lease terms	414
Interest expense on lease liabilities	963
Lease payment	(4,412)
As at 31 December 2019	17,506

19. Insurance payables

	2019 RM'000	2018 RM'000
Financial liabilities:		
Due to agents and intermediaries	23,499	9,727
Due to reinsurers and cedants	9,104	14,490
Due to policyholders	101,943	91,507
Payable for agency related expenses	20,030	18,826
	154,576	134,550

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

20. Other payables

	Note	2019 RM'000	2018 RM'000
Financial liabilities:			
Unclaimed monies		12,881	25,163
Other creditors		66,793	61,994
		79,674	87,157
Non-financial liabilities:			
Provision for retirement medical benefits	(i)	7,786	6,686
Accrued expenses		11,854	13,383
Other provisions		10,879	10,148
		30,519	30,217
		110,193	117,374

(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:

	2019 RM'000	2018 RM'000
As at 1 January 2019/2018	6,686	6,495
(Reversal)/Provision made during the year	(107)	147
Medical benefits paid	(256)	(236)
Unwinding of discount rate	400	353
Change in assumptions	1,063	(73)
As at 31 December 2019/2018	7,786	6,686

20. Other payables (cont'd.)

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

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

	2019	2018
Mortality	M11/15	M11/15
Discount rate	3.75% - 6.00%	3.65% - 6.25%
Inflation rate (per annum)	10%	10%

The mortality assumption is based on the experience of Malaysian insured lives between year 2011 to 2015 (31.12.2018: year 2011 to 2015).

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
2019			
Interest rates	+ 100 bps	229	174
Interest rates	- 100 bps	(273)	(207)
2018			
Interest rates	+ 100 bps	181	138
Interest rates	- 100 bps	(216)	(164)

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

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

21. Investment income

	2019 RM'000	2018 RM'000
Rental income related to properties	455	1,281
Net amortisation of premiums on investment (Note 8(d))	(5,571)	(4,388)
FVTPL:		
Interest income	157,209	157,004
Dividend income:		
- Quoted equity securities	13,834	15,311
- Quoted exchange traded funds	1,667	1,432
- Quoted unit and property trust funds	8,270	6,940
- Unquoted equity securities	908	194
- Unquoted unit trust funds	289	264
Amortised cost	(701)	23,236
Bank balances interest income	278	219
Other investment income	391	1,131
Gross investment income	177,029	202,624
Less: Investment expenses	(1,580)	(2,961)
	175,449	199,663

22. Realised gains/(losses)

	2019 RM'000	2018 RM'000
FVTPL:		
Quoted equity securities	14,019	2,115
Unquoted debt securities	15,657	(6,598)
Quoted unit and property trust funds	(3,297)	-
	26,379	(4,483)

23. Fair value gains/(losses)

	2019 RM'000	2018 RM'000
Financial instruments:		
Malaysian Government securities	95,712	(6,651)
Government investment issues	21,735	2,602
Malaysian Government guaranteed bonds	47,882	10,141
Quoted equity securities	(16,002)	(26,085)
Quoted unit and property trust funds	(6,585)	(7,783)
Quoted exchange traded funds	1,155	(3,540)
Unquoted equity securities	1,601	1,831
Unquoted debts securities	53,315	8,852
Unquoted unit trust funds	7,486	(3,575)
	206,299	(24,208)
Investment properties (Note 4)	(980)	(640)
	205,319	(24,848)

24. Fee and commission income

	2019 RM'000	2018 RM'000
Reinsurance commission income	703	3,617

25. Net other operating revenue/(expenses)

	2019 RM'000	2018 RM'000
Other operating revenue:		
Write back of impairment loss on loan receivables	34	1,158
Other miscellaneous income	1,618	195
Gain on disposal of non-current assets held for sale	-	14,541
Write back of impairment loss on premium receivables	-	397
	1,652	16,291

25. Net other operating revenue/(expenses) (cont'd.)

	RM'000	RM'000
Other operating expenses:		
Loss on disposal of properties	(312)	-
Impairment loss on premium receivables	(325)	-
Other miscellaneous expenses	(52)	(120)
Property and equipment written-off	(17)	(723)
Loans written-off	-	(385)
	(706)	(1,228)

26. Fee and commission expenses

	2019 RM'000	2018 RM'000
Agency commission and agent-related expenses	91,834	81,070

27. Management expenses

	Note	2019 RM'000	2018 RM'000
Employee benefits expenses	(a)	54,879	46,902
Directors' remuneration	(b)	1,264	1,497
Auditors' remuneration:			
- statutory audits		405	391
- regulatory related services		96	146
- audit-related services		500	-
- other services		123	153
Office rental		121	3,044
Equipment rental		135	137
Depreciation of property and equipment	3	3,475	2,759
Amortisation of intangible assets	6	2,188	1,973
Amortisation of prepaid land lease payments	7	-	12
Amortisation of right-of-use assets	5	3,918	-
Entertainment		384	287
Electronic data processing expenses		6,118	5,081
Advertising and promotion		10,221	2,483
Repair and maintenance		1,040	1,147
Agency training		2,913	1,005
Printing and stationery		1,539	1,251
Electricity and water		784	873
Telephone and postages		457	532
Consultancy and legal fees		3,482	3,166
Finance and bank charges		3,666	4,211
Other expenses		10,381	5,146
		108,089	82,196

27. Management expenses (cont'd.)

(a) Employee benefits expenses

	2019 RM'000	2018 RM'000
Wages and salaries	34,057	31,544
Contributions to defined contribution plan, EPF	4,759	4,283
Social security contributions	259	257
Employee Insurance Scheme	52	29
Other benefits	15,752	10,789
	54,879	46,902

(b) Directors' remuneration

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

	2019 RM'000	2018 RM'000
Allowances and other emoluments	1,228	1,454
Directors and officers' liability insurance	36	43
	1,264	1,497
Executive director		
Mr. Prasheem Seebran*	29	180
Non-executive directors		
Mr. Kirupalani a/l Chelliah	267	263
Mr. Murugiah M N Singham	199	203
Dato' Dr Md Khir bin Abdul Rahman	185	181
Mr. Mohammad Nizar bin Idris	198	211
Datin Sunita Mei-Lin Rajakumar	177	183
Tn Hj M.Nasir bin Ramli	124	147
Mr. Casparus Jacobus Hendrik Kromhout	32	-
Datuk Muhamad Umar Swift	17	37
Mr. William Robertson Dommisse*	-	49
	1,199	1,274

* Fees and allowances for the directors are paid to SEM (Note 34(a)). This excludes remuneration paid in the capacity as CEO.

27. Management expenses (cont'd.)

(b) Directors' remuneration (cont'd.)

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

	Number of directors	
	2019	2018
Below RM50,000	3	2
RM50,001 - RM100,000	-	-
RM100,001 - RM150,000	1	1
RM150,001 - RM200,000	4	3
RM200,001 - RM250,000	-	2
above RM250,001	1	1

28. Taxation

	Note	2019 RM'000	2018 RM'000
Taxation of life insurance business	(a)	28,127	10,627
Taxation of the Company	(b)	6,755	5,334
		34,882	15,961

(a) Taxation of life insurance business

	2019 RM'000	2018 RM'000
Tax expenses/(income):		
Current tax	15,309	11,553
Deferred tax	12,818	(926)
	28,127	10,627
Current income tax:		
Malaysian income tax	13,087	11,353
Under provision of income tax expense in prior years	2,222	200
	15,309	11,553
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 17)	12,818	(926)
	28,127	10,627

The income tax for the life insurance business is calculated based on the tax rate of 8% (2018: 8%) of the assessable investment income for the financial year.

28. Taxation (cont'd.)

(b) Taxation of the Company

	2019 RM'000	2018 RM'000
Tax expenses:		
Current tax	5,145	4,560
Deferred tax	1,610	774
	6,755	5,334
Current income tax:		
Malaysian income tax	5,145	4,649
Over provision of income tax expense in prior years	-	(89)
	5,145	4,560
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 17)	1,610	774
	6,755	5,334

The income tax for the Company is calculated based on the tax rate of 24% (2018: 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:

	2019 RM'000	2018 RM'000
Profit before taxation	30,994	27,448
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	7,439	6,588
Utilisation of Section 110B credit	(1,254)	(1,257)
Expenses not deductible for tax purposes	699	283
Income not taxable for tax purposes	(129)	(191)
Over provision of income tax expense in prior years	-	(89)
Tax expense for the year	6,755	5,334

29. 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.

	2019	2018
Profit attributable to ordinary equity holders: (RM'000)	24,239	22,114
Weighted average number of shares in issue ('000)	100,284	100,284
Basic and diluted earnings per share: (sen)	24.2	22.1

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.

30. Dividends

	Amount		Net dividend per share	
	2019 RM'000	2018 RM'000	2019 Sen	2018 Sen
Approved and paid:				
Dividend paid in respect of the financial year ended 31 December 2017:				
Final single tier dividend paid on 4 July 2018	-	7,000	-	6.98
Dividend paid in respect of the financial year ended 31 December 2018:				
Final single tier dividend paid on 4 July 2019	16,898	-	16.85	-
	16,898	7,000	16.85	6.98

31. Cash flows

	Note	2019 RM'000	2018 RM'000
Profit before taxation		30,994	27,448
Taxation of life insurance business	28(a)	28,127	10,627
Investment income	21	(175,449)	(199,663)
Realised (gains)/losses	22	(26,379)	4,483
Fair value (gains)/losses	23	(205,319)	24,848
Purchases of FVTPL financial instruments	8(d)	(875,123)	(723,477)
Proceeds from sale of FVTPL financial instruments	8(d)	1,389,620	619,785
Decrease in amortised cost		27,182	21,271
Interest expense on lease liabilities		963	-
Investment income received		198,990	197,067
Gain on disposal of non-current assets held for sale	25	-	(14,541)
Loss on disposal of properties	25	312	-
Non-cash items:			
Depreciation of property and equipment	27	3,475	2,759
Amortisation of right-of-use assets	27	3,918	-
Amortisation of intangible assets	27	2,188	1,973
Amortisation of prepaid land lease payments	27	-	12
Property and equipment written-off	25	17	723
Net amortisation of investments	21	5,571	4,388
Write back of impairment loss on loan receivable		(34)	(1,158)
Changes in working capital:			
Reinsurance assets		(7,155)	(475)
Insurance receivables		25,364	14,504
Other receivables		10,803	(184)
Insurance contract liabilities		46,440	(47,470)
Insurance payables		20,026	(9,833)
Other payables		(7,181)	13,587
Cash generated from/(used in) operating activities		497,350	(53,326)

The Company classifies the cash flows from the acquisition and disposal of financial instruments 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.

32. Operating lease arrangements

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:

	2019 RM'000	2018 RM'000
Receivable within one year	408	323
Receivable after one year	385	310
	793	633

33. Capital commitments

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

	2019 RM'000	2018 RM'000
Approved and contracted for:		
Property and equipment	53	4,797
Intangible assets	6,049	2,922
	6,102	7,719
Approved but not contracted for:		
Property and equipment	19,496	7,820
Intangible assets	9,972	11,222
	29,468	19,042

34. Significant related party disclosures

(a) Related parties

The related parties and their relationship with the Company as at 31 December 2019 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
SEM South East Asia Sdn Bhd	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.

	2019 RM'000	2018 RM'000
Transactions with related parties:		
(i) Rental and utility expenses payable to:		
Koperasi MCIS Berhad	(3,952)	(2,037)
(ii) Internal audit review expenses:		
Sanlam Life Insurance Limited	(238)	(206)
(iii) Recovery from/(Reimbursable cost payable to):		
SEM South East Asia Sdn Bhd	14	-
Koperasi MCIS Berhad	152	-
Sanlam Life Insurance Limited	(4)	-
	162	-
(iv) Premium for insurance cover paid to:		
Pacific & Orient Insurance Co. Berhad	(36)	(43)
(v) Sponsor for corporate social responsibility activities:		
Koperasi MCIS Berhad	(30)	(20)
(vi) Directors' allowances to:		
SEM	(29)	(229)

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

(a) Related parties (cont'd.)

	2019 RM'000	2018 RM'000
Transactions with related parties: (cont'd.)		
(vii) Disposal of properties		
Koperasi MCIS Berhad	-	123,500
(viii) Rental income received from:		
Koperasi MCIS Berhad	-	182
(ix) Healthcare claim analysis and intervention expenses:		
Medscheme International Limited	-	(119)
Balances with related parties:		
(i) Reimbursable costs to:		
Sanlam Life Insurance Limited	238	140

In the previous 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:

	2019 RM'000	2018 RM'000
Directors' remuneration:		
Directors' allowances and other emoluments	1,228	1,454
	1,228	1,454

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

(b) Key management personnel (cont'd.)

	2019 RM'000	2018 RM'000
CEO's remuneration:		
Salary and allowances	1,146	1,082
Bonus	-	305
Other benefits	48	68
	1,194	1,455
Other key management personnel:		
Wages and salaries	5,390	4,980
Other short term benefits	1,948	1,675
Benefits-in-kind	60	88
	7,398	6,743

35. Regulatory capital requirement

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

	2019 RM'000	2018 RM'000
Tier 1 capital		
Share capital (paid-up)	125,024	125,024
Reserves, including retained earnings	1,006,119	1,001,734
	1,131,143	1,126,758
Tier 2 capital		
Eligible reserves	22,843	25,927
Deductions	(17,734)	(19,728)
Total capital available as at 31 December	1,136,252	1,132,957

36. 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 (2018: RM8.3 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 2019, 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.

The indemnity has ended at 28 February 2020 (5-years from 1 March 2015). As a result, the Company has been discharged from the liability beginning 1 March 2020.

37. 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.

37. Insurance risk (cont'd.)

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
2019			
Whole life	708,386	(798)	707,588
Endowment	1,873,980	-	1,873,980
Term assurance	157,369	(8,323)	149,046
Medical and Health	5,099	-	5,099
Annuity	573,780	-	573,780
Others	751,973	(8,145)	743,828
	4,070,587	(17,266)	4,053,321
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
	4,025,339	(10,111)	4,015,228

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.

37. Insurance risk (cont'd.)

Key assumptions (cont'd.)

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

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				-------------------------- >
2019					
Fund yield (par funds)	+1%	(124,272)	(124,272)	-	-
Risk free yield	+1%	(20,248)	(20,248)	20,248	15,388
Mortality and morbidity	+25%	(129,227)	(129,227)	(15,172)	(11,531)
Lapse and surrenders	+25%	(48,000)	(48,000)	4,691	3,565
Expenses	+25%	27,288	27,288	(7,192)	(5,466)
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)

* 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.

38. 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 minimise 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 8(g).

<u>Sensitivity analysis:</u>

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.

38. Financial risk (cont'd.)

Market and credit risk (cont'd.)

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

	<--------------- Increase/(Decrease) -----------		>
	Changes in basis points	Impact on profit before taxation RM'000	Impact on equity* RM'000
2019			
Interest rates	+ 100 bps	(31,045)	(23,631)
Interest rates	- 100 bps	35,666	27,151
2018			
Interest rates	+ 100 bps	(32,304)	(24,581)
Interest rates	- 100 bps	37,103	28,233

* 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 37.

(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.

38. 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 as well as specific assessment for equity investments falling below 30% of its average historical cost or a prolonged decline in value for 12 consecutive months.

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 variables %	**Impact on profit before taxation RM'000**	**Impact on equity* RM'000**
2019			
Market indices:			
Market value	+10%	52,259	2,687
Market value	-10%	(52,259)	(2,687)
2018			
Market indices:			
Market value	+10%	61,479	6,435
Market value	-10%	(61,479)	(6,435)

* 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.

38. 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.

38. 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 and insurance assets recognised in the statement of financial position as shown in the table below:

	2019 RM'000	2018 RM'000
FVTPL		
Malaysian Government securities	958,297	1,220,418
Government investment issues	190,850	240,639
Malaysian Government guaranteed bonds	532,894	627,110
Unquoted debt securities	1,428,685	1,219,346
Deposits with financial institutions	588,330	135,073
Amortised cost		
Loans receivables	258,165	285,313
Reinsurance assets	17,266	10,111
Insurance receivables	37,293	62,657
Other receivables	38,007	73,722
Cash and bank balances	32,526	39,118
Total credit risk exposure	4,082,313	3,913,507

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.

MCIS Insurance Berhad
(Incorporated in Malaysia)

38. 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.)

2019	<---- Neither past-due nor impaired ----> 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	Total RM'000
FVTPL						
Malaysian Government securities	-	-	958,187	110	-	958,297
Government investment issues	-	-	190,627	223	-	190,850
Malaysian Government guaranteed bonds	-	-	532,894	-	-	532,894
Unquoted debt securities	1,395,972	-	-	32,713	-	1,428,685
Deposits with financial institutions	561,069	-	-	27,261	-	588,330
Amortised cost						
Loans receivables	-	-	258,165	-	-	258,165
Reinsurance assets	17,266	-	-	-	-	17,266
Insurance receivables	8,795	-	28,498	-	-	37,293
Other receivables	24,482	-	13,088	437	-	38,007
Cash and bank balances	31,374	-	-	1,152	-	32,526
Total credit risk exposure	2,038,958	-	1,981,459	61,896	-	4,082,313

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38. 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 ---->					
2018	**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**	**Total RM'000**
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

38. 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 8)	Insurance receivables RM'000 (Note 10)	Total RM'000
Life-time expected credit loss			
At 1 January 2018	4,745	3,923	8,668
Written back for the year	(1,158)	(397)	(1,555)
At 31 December 2018/1 January 2019	3,587	3,526	7,113
(Write back)/charge for the year in respect of:			
- recoveries	(34)	325	291
- decrease in loans receivables	(1,678)	-	(1,678)
At 31 December 2019	1,875	3,851	5,726

38. 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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38. Financial risk (cont'd.)

Market and credit risk (cont'd.)

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

Maturity profiles (cont'd.)

2019	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
Financial investments:							
FVTPL	4,237,533	777,992	499,593	2,039,396	2,261,522	538,477	6,116,980
Amortised cost	258,165	1,716	274	1,461	287	255,208	258,946
	4,495,698	779,708	499,867	2,040,857	2,261,809	793,685	6,375,926
Reinsurance assets	17,266	17,266	-	-	-	-	17,266
Insurance receivables	37,293	37,293	-	-	-	-	37,293
Other receivables	38,007	38,007	-	-	-	-	38,007
Cash and bank balances	32,526	32,526	-	-	-	-	32,526
Total financial and insurance assets	4,620,790	904,800	499,867	2,040,857	2,261,809	793,685	6,501,018
Insurance contract liabilities	4,070,587	762,521	830,056	2,068,756	3,862,635	389,763	7,913,731
Lease liabilities	17,506	4,473	15,024	43	-	-	19,540
Insurance payables	154,576	154,576	-	-	-	-	154,576
Other payables	79,674	79,674	-	-	-	-	79,674
Total financial and insurance liabilities	4,322,343	1,001,244	845,080	2,068,799	3,862,635	389,763	8,167,521
Total liquidity surplus/(gap)	298,447	(96,444)	(345,213)	(27,942)	(1,600,826)	403,922	(1,666,503)

38. Financial risk (cont'd.)

Market and credit risk (cont'd.)

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

Maturity profiles (cont'd.)

	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
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	727,545	902,072	2,108,745	3,980,142	294,468	8,012,972
Insurance payables	134,550	134,550	-	-	-	-	134,550
Other payables	87,157	87,157	-	-	-	-	87,157
Total financial and insurance liabilities	4,247,046	949,252	902,072	2,108,745	3,980,142	294,468	8,234,679
Total liquidity surplus/(gap)	295,541	(451,163)	(375,754)	106,610	(1,246,968)	616,525	(1,350,750)

38. 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:

2019	Current* RM'000	Non-current RM'000	Unit linked RM'000	Total RM'000
Assets				
Property and equipment	-	40,382	-	40,382
Investment properties	-	7,050	-	7,050
Right-of-use assets	-	17,286	-	17,286
Intangible assets	-	8,271	-	8,271
Investments:				
FVTPL	697,373	3,341,367	198,793	4,237,533
Amortised cost	1,571	256,594	-	258,165
Reinsurance assets	17,266	-	-	17,266
Insurance receivables	37,293	-	-	37,293
Other receivables	39,570	-	437	40,007
Tax recoverable	1,809	-	-	1,809
Cash and bank balances	31,374	-	1,152	32,526
Non-current assets held for sale	9,281	-	-	9,281
Total assets	835,537	3,670,950	200,382	4,706,869
Liabilities				
Insurance contract liabilities	829,671	3,045,184	195,732	4,070,587
Deferred tax liabilities	33,633	-	-	33,633
Lease liabilities	3,682	13,824		17,506
Insurance payables	154,576	-	-	154,576
Other payables	110,193	-	-	110,193
Total liabilities	1,131,755	3,059,008	195,732	4,386,495

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

38. 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.):

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.

39. 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.

40. Fair value measurement

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

		Fair value measurement using			
	Date of valuation	Level 1 - Quoted market price in active market	Level 2 - Significant observable inputs	Level 3 - Significant unobservable inputs	Total fair value
		RM'000	RM'000	RM'000	RM'000
2019					
Assets measured at fair value:					
Investment properties (Note 4)	July/ December 2019	-	-	7,050	7,050

40. Fair value measurement (cont'd.)

		Fair value measurement using			
2019 (cont'd.)	**Date of valuation**	**Level 1 - Quoted market price in active market RM'000**	**Level 2 - Significant observable inputs RM'000**	**Level 3 - Significant unobservable inputs RM'000**	**Total fair value RM'000**
Assets measured at fair value: (cont'd.)					
FVTPL (Note 8(a)):					
Malaysian Government securities	31 December 2019	-	958,297	-	958,297
Government investment issues	31 December 2019	-	190,850	-	190,850
Malaysian Government guaranteed bonds	31 December 2019	-	532,894	-	532,894
Unquoted debt securities	31 December 2019	-	1,428,685	-	1,428,685
Quoted equity securities	31 December 2019	357,827	-	-	357,827
Quoted exchange traded funds	31 December 2019	46,633	-	-	46,633
Unquoted equity securities (Note 8(c))	31 December 2019	-	-	15,890	15,890
Quoted unit and property trust funds	31 December 2019	76,420	-	-	76,420
Unquoted unit trust funds	31 December 2019	-	41,707	-	41,707
Deposits with financial institutions	31 December 2019	-	588,330	-	588,330
		480,880	3,740,763	15,890	4,237,533
Assets measured at revalued amounts:					
- Property and equipment (Note 3)	December 2019	-	-	16,223	16,223
- Right-of-use assets (Note 5)	December 2019	-	-	177	177
		480,880	3,740,763	39,340	4,260,983

40. Fair value measurement (cont'd.)

	Date of valuation	Fair value measurement using: Level 1 - Quoted market price	Level 2 - Valuation Techniques - Market observable inputs	Level 3 - Significant unobservable inputs	Total fair value
		RM'000	RM'000	RM'000	RM'000
2018					
Assets measured at fair value:					
Investment properties (Note 4)	October/ November 2018	-	-	10,750	10,750
FVTPL (Note 8(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 8(c))	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 2018	-	-	27,919	27,919
		584,569	3,472,807	52,959	4,110,335

40. 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 2019 and 2018.

Reconciliation from opening to closing balances of Level 3 fair value hierarchy is provided in Note 3,4,5,8.

41. 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 2019

	Shareholders' funds		Life funds		Total	
	2019	2018	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Property and equipment	35	21	40,347	45,709	40,382	45,730
Investment properties	-	-	7,050	10,750	7,050	10,750
Right-of-use assets	-	-	17,286	-	17,286	-
Intangible assets	-	-	8,271	9,447	8,271	9,447
Prepaid land lease payments	-	-	-	189	-	189
Investments*	247,519	242,794	4,256,833	4,122,271	4,495,698	4,356,979
Reinsurance assets	-	-	17,266	10,111	17,266	10,111
Insurance receivables	-	-	37,293	62,657	37,293	62,657
Other receivables*	89,712	85,436	38,247	72,509	40,007	74,351
Tax recoverable*	(3,382)	(2,856)	4,992	3,388	1,809	532
Cash and bank balances	8,431	8,354	24,095	30,764	32,526	39,118
Non-current assets held for sale	-	-	9,281	318	9,281	318
Total assets	342,315	333,749	4,460,961	4,368,113	4,706,869	4,610,182
Total equity*	322,520	315,090	-	-	320,374	313,376
Liabilities						
Insurance contract liabilities*	-	-	4,076,418	4,031,170	4,070,587	4,025,339
Deferred tax liabilities*	19,783	18,343	14,328	1,741	33,633	19,543
Lease liabilities	-	-	17,506	-	17,506	-
Insurance payables	-	-	154,576	134,550	154,576	134,550
Other payables*	12	316	198,133	200,652	110,193	117,374
Total liabilities	19,795	18,659	4,460,961	4,368,113	4,386,495	4,296,806
Total equity and liabilities	342,315	333,749	4,460,961	4,368,113	4,706,869	4,610,182

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

41. Insurance funds (cont'd.)

Income statements by funds
For the financial year ended 31 December 2019

	Shareholders' funds		Life funds		Total	
	2019	2018	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums*	-	-	591,963	556,866	588,963	556,866
Premiums ceded to reinsurers	-	-	(43,873)	(34,470)	(43,873)	(34,470)
Net earned premiums	-	-	548,090	522,396	545,090	522,396
Investment income	11,037	10,943	164,412	188,720	175,449	199,663
Realised (losses)/gains*	7,214	417	19,995	(4,900)	26,379	(4,483)
Fair value (losses)/gains*	2,316	(3,604)	202,741	(21,627)	205,319	(24,848)
Fee and commission income	-	-	703	3,617	703	3,617
Other operating revenue	-	203	1,652	16,088	1,652	16,291
Other revenue	20,567	7,959	389,503	181,898	409,502	190,240
Gross benefits and claims paid*	-	-	(689,894)	(582,905)	(686,894)	(582,905)
Claims ceded to reinsurers	-	-	32,300	25,462	32,300	25,462
Gross change in contract liabilities	-	-	(46,440)	46,901	(46,440)	46,901
Change in contract liabilities ceded to reinsurers	-	-	7,155	475	7,155	475
Net benefits and claims	-	-	(696,879)	(510,067)	(693,879)	(510,067)
Fee and commission expenses	(2,323)	(1,000)	(89,511)	(80,070)	(91,834)	(81,070)
Other operating expenses	(53)	(325)	(653)	(903)	(706)	(1,228)
Management expenses	(7,577)	(2,008)	(100,512)	(80,188)	(108,089)	(82,196)
Interest expense	-	-	(963)	-	(963)	-
Taxation of life insurance business	-	-	(28,127)	(10,627)	(28,127)	(10,627)
Other expenses	(9,953)	(3,333)	(219,766)	(171,788)	(229,719)	(175,121)
Profit from operations	10,614	4,626	20,948	22,439	30,994	27,448
Transferred from Life funds:						
- Participating fund	16,716	15,718	(16,716)	(15,718)	-	-
Reclassification of unallocated surplus of non-participating funds to shareholders' fund	4,232	6,721	(4,232)	(6,721)	-	-
Profit before taxation	31,562	27,065	-	-	30,994	27,448
Taxation*	(6,893)	(5,242)	-	-	(6,755)	(5,334)
Net profit for the year	24,669	21,823	-	-	24,239	22,114

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

41. Insurance funds (cont'd.)

Condensed statements of cash flows by funds
For the financial year ended 31 December 2019

	Shareholders' funds		Life funds		Total	
	2019	2018	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net cash flows from:						
Operating activities	51,611	11,288	423,045	(78,337)	474,656	(67,049)
Investing activities	1	174	(7,644)	106,091	(7,643)	106,265
Financing activities	(16,898)	(7,000)	(3,449)	-	(20,347)	(7,000)
Net increase in cash and cash equivalents	34,714	4,462	411,952	27,754	446,666	32,216
At beginning of year	27,658	23,196	137,372	109,618	165,030	132,814
At end of year	62,372	27,658	549,324	137,372	611,696	165,030
Cash and cash equivalents comprise of:						
Cash and bank balances	8,431	8,354	24,095	30,764	32,526	39,118
Less: Cash restricted in use	(8,261)	(8,262)	-	-	(8,261)	(8,262)
	170	92	24,095	30,764	24,265	30,856
Short term deposits with maturity periods of less than 3 months	62,202	27,566	525,229	106,608	587,431	134,174
	62,372	27,658	549,324	137,372	611,696	165,030

42. Subsequent events

(i) Subsequent to the financial year ended 31 December 2019, the Company completed the disposal of a property for cash consideration of RM560,000. The profit or loss arising from the disposal will be accounted for in the financial year ended 31 December 2020.

(ii) The global widespread of the COVID-19 pandemic since beginning of 2020 is a fluid and challenging situation creating uncertainties for all industries. The Company has performed a preliminary assessment of the overall impact of the situation on the Company’s business and noted that there are no material impact to the financial results for the year ended 31 December 2019. The management believes that the Company has sufficient capital to withstand the impact of COVID-19 on the business.

At this juncture, the management is monitoring the situation closely.

The management will also continue to assess the impact of the pandemic as well as the movement control order on the Company’s operations and financial results for the next financial year from the date of this report.

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