PACIFIC & ORIENT INSURANCE CO. BERHAD

Registration No. 197201000959 (12557-W)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
30 September 2019

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 September 2019.

PRINCIPAL ACTIVITY

The Company is principally engaged in the underwriting of all classes of general insurance business.

There have been no significant changes in the nature of this principal activity during the financial year.

RESULTS

	RM'000
Net profit for the year	15,230

DIVIDENDS

The amount of dividends paid or declared by the Company since 30 September 2018 were as follows:

	RM'000
In respect of the financial year ended 30 September 2018	
Final single tier dividend of 45.00 sen per share, declared on 18 February 2019 and paid on 21 February 2019	45,000

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

Before the income statement, statement of comprehensive income and statement of financial position 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 specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for insurers issued by Bank Negara Malaysia ("BNM").

BAD AND DOUBTFUL DEBTS

Before the income statement, statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps 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 all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

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

CURRENT ASSETS

Before the income statement, statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

(a) 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

(b) any contingent liability of the Company which has arisen since the end of the financial year.

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

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

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

The Directors in office since the date of the last report are:

Pn. Norazian binti Ahmad Tajuddin
Mr. Chan Thye Seng
Dato' Dr. Zaha Rina binti Zahari
Mr. Prasheem Seebran
Dr. Loh Leong Hua (Appointed on 1 July 2019)
Mr. Michael Yee Kim Shing (Resigned on 4 February 2019)
Madam Sum Leng Kuang (Resigned on 1 August 2019)

In accordance with Article 80 of the Company's Constitution, Mr. Prasheem Seebran retires from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 84C of the Company's Constitution, Dr. Loh Leong Hua retires from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement subsisted to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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 or the fixed salary as a full-time employee of the Company as shown in Notes 30, 31 and 38 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

INDEMNITY AND INSURANCE FOR DIRECTORS, OFFICERS AND AUDITORS

The Directors and officers of the Company are covered by Directors and Officers liability insurance for any liability incurred in the discharge of their duties, provided that they have not acted fraudulently or dishonestly or derived any personal profit or advantage. The insurance premium paid during the financial year amounted to RM31,824.

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

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of Directors in office at the end of the financial year in shares of the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares			
	At 1 October 2018	Acquired	Disposed	At 30 September 2019
Pacific & Orient Berhad (Holding Company)				
Mr. Chan Thye Seng				
- Direct interest	39,250,538	-	-	39,250,538
- Indirect interest	127,219,650	-	-	127,219,650
Dato' Dr. Zaha Rina binti Zahari				
- Direct interest	1,000,066	-	-	1,000,066

Mr. Chan Thye Seng, by virtue of his interest in the holding company, is deemed to have an interest in the shares of all the subsidiary companies within the Pacific & Orient Berhad Group to the extent the holding company has an interest.

Other than as stated above, none of the Directors who were in office at the end of the financial year had any interest in the shares of the Company or its related corporations during the financial year.

PACIFIC & ORIENT BERHAD EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

On 17 June 2019, Pacific & Orient Berhad implemented an Employee Share Option Scheme ("ESOS") to eligible employees and Executive Directors of Pacific & Orient Berhad and its subsidiaries ("the Group").

The ESOS shall be in force for a period of five years until 16 June 2024. During the year ended 30 September 2019, a total of 20,822,000 options were granted to eligible employees and Executive Directors of the Group at an exercise of RM0.89. Included in the total options granted during the year, 10,308,000 options were granted to eligible employees of the Company. Of the 10,308,000 options, 11,000 options were exercised by an eligible employee of the Company. The options outstanding as at 30 September 2019 to eligible employees of the Company is 10,269,000.

Further details on the ESOS are disclosed in Note 15 to the financial statements.

AUDITORS' REMUNERATION

Total amounts paid or receivable by the auditors as remunerations for their statutory audit services is disclosed in Note 30 to the financial statements.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of the Company ("Board") acknowledges the importance of adopting good corporate governance practices in discharging its duties and responsibilities to safeguard the Company's assets and to enhance shareholders' value and financial performance of the Company.

Towards this, the Board and management have considered Bank Negara Malaysia's policy document on Corporate Governance [ref. BNM/RH/PD 029-9], which was issued on 3 August 2016 and reviewed the state of the Company's corporate governance structures and procedures. The Board and management are of the opinion that the Company has generally complied with all the prescriptive requirements of the policy document.

BOARD LEADERSHIP AND EFFECTIVENESS

1. BOARD RESPONSIBILITIES

1.1 Board Roles and Responsibilities

The Board assumes responsibility for effective stewardship and control of the Company and discharges this responsibility through compliance with the Financial Services Act 2013, Bank Negara Malaysia's policy document on Corporate Governance [ref. BNM/RH/PD 029-9] and other policy documents and directives, in addition to adopting other best practices on corporate governance.

The roles and responsibilities of the Board, as clearly set out in a Board Charter, and which have been carried out by the Board during the financial year, are as follows:

(i) Reviewing and adopting the strategic plan, business plan and other initiatives for the Company;

The Board has reviewed and adopted the Strategic Plan 2018/2019, which laid down the Company's strategic intent, as well as strategies for its motor and non-motor businesses, the initiatives and budget for the financial year, and the short range and long range plans for the Company's information systems.

(ii) Overseeing the conduct of the Company's business to evaluate whether the business is being properly managed and sustained;

The Board had also conducted a mid-year review of the Strategic Plan 2018/2019 to evaluate the progress of the Company in meeting the strategic plan, ascertain the need to reallocate resources to better achieve the goals or to take corrective actions to keep the Company on track, as well as updating the plan for the remainder year, where necessary.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.1 Board Roles and Responsibilities (Cont'd.)

The roles and responsibilities of the Board, as clearly set out in a Board Charter, and which have been carried out by the Board during the financial year, are as follows: (Cont'd.)

(iii) Identifying principal risks, approving the risk appetite, and ensuring implementation of appropriate systems to manage these risks;

The Company has established a Risk Management Framework, which covers, among others, accountability, roles and responsibilities for risk management, the risk management process, as well as the Company's risk appetite. The Board oversees implementation of the Risk Management Framework and ensures that appropriate systems and controls are developed to manage principal risks identified.

(iv) Succession planning, including appointing, training, fixing the remuneration of, and where appropriate, replacing key senior management of the Company;

The Board views succession planning as important in contributing to the long-term success of the Company. Good succession planning ensures continuous supply of suitable people who are ready to take over when Directors, senior management and other key employees leave the Company in a range of situations; continuity in delivering strategic plans by aligning the Company's human resources and business planning; and demonstrates the Company's commitment to developing careers for employees which will enable the Company to recruit, retain and promote high-performing staff. In this respect, among others, the Company has adopted a Succession Planning Policy, ensured that all key positions were identified, competencies were well-defined and job descriptions were developed that explains the general duties and responsibilities of the positions so that vacancies could be effectively and promptly refilled. The staff are evaluated on an annual basis, which included referencing to the job descriptions and any performance goals set. Staff who have shown good potential are identified and provided with sufficient training and empowerment so that their performance could be assessed and their potential enhanced. The identified staff are also suitably compensated for the roles as part of retention of key staff.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.1 Board Roles and Responsibilities (Cont'd.)

The roles and responsibilities of the Board, as clearly set out in a Board Charter, and which have been carried out by the Board during the financial year, are as follows: (Cont'd.)

(v) Promoting, together with senior management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;

The Board is committed to promoting an ethical culture to enhance the standard of corporate governance of the Company. Towards this aim, the Board has adopted a Directors' Code of Ethics, which outlines the standards of ethical behaviour which Directors should possess in discharging their duties and responsibilities. In addition, the Company has adopted the Guidelines on the Code of Conduct for the General Insurance Industry for guidance of its employees. In addition, expectations of employee conduct to maintain high moral and ethical standards are included in the Employee Handbook and embedded in the policies, procedures and practices of the Company.

(vi) Establishing a whistleblowing policy that sets out avenue for legitimate concerns to be objectively investigated and addressed;

The Company has formalised a Whistleblowing Policy to encourage employees and external parties to report any malpractice or misconduct which they become aware of and to provide protection to employees or external parties who report allegations of such malpractice or misconduct.

(vii) Promoting sustainability through appropriate environmental, social and governance considerations in the Company's business strategies;

The Board acknowledges the importance of business sustainability, and takes into consideration the appropriate environmental, social and governance aspects when conducting business operations. Efforts undertaken to raise internal awareness to reduce the consumption of electricity and water, recycle paper waste and printing double-sided, wherever possible, to reduce paper wastage, donations to the poor and the needy, waiver of all loadings on private car insurance purchased by disabled persons and waiver of all riders and loadings for motorcycle insurance purchased by such persons are some of the initiatives undertaken by the Company.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.1 Board Roles and Responsibilities (Cont'd.)

The roles and responsibilities of the Board, as clearly set out in a Board Charter, and which have been carried out by the Board during the financial year, are as follows: (Cont'd.)

(viii) Developing and implementing an investor relations programme or communications policy for the Company;

As there are only two shareholders presently, the Board was of the opinion that a shareholders communication policy is not necessary at this point in time. The Board will evaluate the need for such a policy should the number of shareholders increase significantly in the future. The Company communicates with shareholders mainly through the Company's annual reports, quarterly management report and accounts, annual general meetings and extraordinary general meetings that may be convened, and other corporate publications on the Company's website at http://www.poi2u.com with the objective of ensuring fair, timely, effective, transparent, accurate and open communication with the shareholders of the Company.

(ix) Reviewing the adequacy and integrity of the Company's governance framework, internal control and risk management framework, including systems for compliance with applicable laws, regulations, rules, directives and guidelines;

The Board has established four Board Committees to assist the Board in performing its duties and discharging its responsibilities more efficiently and effectively. They are the Nominating Committee, Remuneration Committee, Audit Committee and Risk Management Committee. The Board Committees operate on Terms of Reference approved by the Board and have the authority to examine pertinent issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters lies with the entire Board.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.1 Board Roles and Responsibilities (Cont'd.)

The roles and responsibilities of the Board, as clearly set out in a Board Charter, and which have been carried out by the Board during the financial year, are as follows: (Cont'd.)

(x) Ensure that there is reliable and transparent financial reporting process within the institution;

The Board, assisted by the Audit Committee, has reviewed the unaudited quarterly management report and accounts of the Company prior to submission of the management report and accounts to the holding company for purposes of preparation of the consolidated financial statements. Additionally, the Audit Committee and the Board has reviewed the unaudited interim financial statements for the six months ended 31 March 2019 and the audited financial statements of the Company for the financial year ended 30 September 2019 for purposes of filing with the relevant authorities.

(xi) Promote timely and effective communication between the Company and Bank Negara Malaysia on matters affecting or that may affect the safety and soundness of the Company;

The Board takes cognisance of the need to report to Bank Negara Malaysia on matters which affect or may affect the safety and soundness of the Company. In this respect, the Company has adopted a Communication Policy to ensure effective communication between the Company and internal and external parties, including regulators. However, to-date, the Company has not encountered such matters which necessitate reporting to Bank Negara Malaysia.

(xii) Oversee and approve recovery and resolution as well as business continuity plans for the Company to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress; and

The Company has developed a Business Continuity Management plan, which consisted of a Business Continuity Plan and a Disaster Recovery Plan. The plan is used to coordinate the response of all business units within the Company during a disaster and to ensure critical business functions are reinstated as soon as possible following an emergency, while full restoration of all services is planned and implemented on a concurrent basis.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.1 Board Roles and Responsibilities (Cont'd.)

The roles and responsibilities of the Board, as clearly set out in a Board Charter, and which have been carried out by the Board during the financial year, are as follows: (Cont'd.)

(xiii) Discharge and perform duties and responsibilities pertaining to anti-money laundering and counter-terrorism financing as provided in guidelines, circulars or directives issued by the relevant regulators.

The Board is committed to prevent the Company's operations from being abused for money laundering or other financial crimes, including the financing of terrorism. The Company has thus adopted a Corporate Statement on Anti-Money Laundering and Combating the Financing of Terrorism Policy, which has been communicated to all staff and agencies. The Company is also in the midst of implementing sanctions screening on existing, potential or new customers against the Domestic List issued by the Minister of Home Affairs and United Nations Security Council Resolutions List and. Funds of such customers with positive name matches will be frozen, their transactions will be blocked or business will be rejected.

The Board has delegated to the Chief Executive Officer and the Management Committee certain matters in the day-to-day operations of the Company, which include running the Company in line with the Board's direction, recommending strategies and policies to the Board supported by background information, keeping the Board educated and informed and seeking the Board's counsel on significant matters. The delegated authority comprises specific authorities delegated to the Chief Executive Officer and those authorities which the Chief Executive Officer is permitted to delegate to his direct reports. From time to time, the Board may establish limits on Management's authority depending on the nature and size of proposed transactions. These limits permit some flexibility but otherwise must not be exceeded without Board approval.

While the Board has delegated day-to-day responsibility for the management of the Company to the Chief Executive Officer and the Management Committee, certain matters are formally reserved for the Board's collective decision. The purpose of this is to ensure that the Board and Management are clearly aware of where the limits of responsibility lie and that due consideration is given to issues at the appropriate level.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.1 Board Roles and Responsibilities (Cont'd.)

The presence of the three Independent Directors on the Board provides the necessary checks and balances in the effective functioning of the Board. The Independent Directors do not participate in the day-to-day operations of the Company. They are all independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. Their expertise and independence allow them to provide unbiased and independent view, advice and judgment to take into account the interest, not only of the Company but also of shareholders, employees, agencies, insureds and communities in which the Company conducts business. The Independent Directors are also actively involved in the Board Committees of the Company.

1.2 Separation of Chairman and Chief Executive Officer Positions

The roles of the Chairman and Chief Executive Officer are distinct and separate, each has a clearly accepted division of responsibilities to ensure a balance of power and authority.

The Chairman is primarily responsible for the orderly conduct and working of the Board. In this respect, the Chairman provides overall leadership in the process of reviewing and deciding upon strategic matters that influences the manner in which the Company's business is conducted, such as strategic planning and policy formulation, and enhancing Board effectiveness by leading activities and meetings of the Board such that the Board exercises appropriate oversight of Management and adopts appropriate practices in corporate governance and chairing of meetings of the Board. The Chairman also provides liaison between the Board and Management and acts as an advisor to and sounding board for the Chief Executive Officer and the Management Committee. Last but not least, the Chairman ensures that timely and relevant information and other resources, including adequate and regular updates from the Chief Executive Officer on all issues important to the welfare and future of the Company, are available to the Board to adequately support its work.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.2 Separation of Chairman and Chief Executive Officer Positions (Cont'd.)

The Board has delegated day-to-day responsibility for the management of the Company to the Chief Executive Officer and the Management Committee. The Chief Executive Officer recommends strategies and policies to the Board supported by background information, implements the policies and strategies adopted by the Board, runs the Company in line with the Board's direction, oversees the overall business performance and ensures that matters that have been delegated to Management are efficiently executed. The Chief Executive Officer also establishes and achieves performance targets, implements corporate governance, risk management and internal controls and ensures compliance with legal requirements, keeps the Board educated and informed as well as seeks the Board's counsel on significant matters affecting the industry and the Company in general towards achieving long term goals of the Company.

1.3 Company Secretaries

The Board is supported by two qualified, experienced and competent Company Secretaries. Both of the Company Secretaries are associate members of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) with more than 15 years working experience in company secretarial services between them. Thus, both the personnel have the appropriate qualifications and experience to hold the positions.

The Company Secretaries advise the Board on any updates relating to statutory and regulatory requirements pertaining to the duties and responsibilities of Directors and corporate governance matters and liaise with external parties and regulatory bodies on compliance matters. Additionally, the Company Secretaries organise and attend all Board and Board Committee meetings and ensure meetings are properly convened and that accurate and proper records of the proceedings and resolutions passed are taken and maintained at the registered office of the Company.

1.4 Board Meetings

Board meetings for each financial year are scheduled in advance prior to the end of the current financial year and circulated to Directors and Senior Management before the beginning of each financial year. The Board holds regular meetings of no less than 6 times annually. The scheduled Board meetings are held to receive, deliberate and decide on matters reserved for its decision, including the Company's performance, the strategic plan of the Company, the Company's quarterly financial results and annual financial statements, the Company's unaudited interim financial statements, appointment of the Company's appointed actuary and strategic issues that affect the Company's business operation.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.4 Board Meetings (Cont'd.)

Additional meetings are convened as and when necessary to consider urgent matters that require the Board's expeditious review and consideration.

The Board met 6 times during the financial year ended 30 September 2019. The details of attendance by each of the Director of the meetings are as follows:

Name of Board member	Designation	Number of meetings attended
Puan Norazian binti Ahmad Tajuddin	Chairman, Independent Director	6/6
Mr. Chan Thye Seng	Executive Director	6/6
Dato' Dr. Zaha Rina binti Zahari	Independent Director	6/6
Mr. Prasheem Seebran	Non-Independent Non-Executive Director	6/6
Dr. Loh Leong Hua (Appointed on 1 July 2019)	Independent Director	1/1
Madam Sum Leng Kuang (Resigned on 1 August 2019)	Independent Director	5/5
Mr. Michael Yee Kim Shing (Resigned on 4 February 2019)	Non-Independent Non-Executive Director	2/2

All the Directors had complied with the 75% minimum attendance requirement.

The proceedings of all meetings, including all issues raised, deliberations, decisions and conclusions made at the Board of Directors' and Board Committees' meetings were recorded in the minutes of the Board of Directors' and Board Committees' meetings respectively.

1.5 Supply of Information

The Board has unrestricted access to timely and accurate information. The Board members are provided with the relevant agenda and Board papers containing management and financial information in advance at least 5 business days prior to each Board meeting for their perusal and consideration and to enable them to obtain further clarification and information on the matters to be deliberated, in order to facilitate informed decision making. A Director who has a direct or deemed interest in the subject matter presented at the Board meeting shall declare his interest and step out of the room when the subject matter is being deliberated to ensure the fairness of the deliberated matter at hand.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.5 Supply of Information (Cont'd.)

The Board is also informed of the decision and significant issues deliberated by the Board Committees via the reporting of the Chairman of the respective Board Committees. In between Board meetings, the Board is also informed or updated on important issues and/or major developments of matters discussed in the Board meetings by the management and/or the Company Secretaries.

Furthermore, the Board is regularly kept updated and apprised of any regulations and policy documents as well as amendments thereto issued by regulators, particularly the effects of such new or amended regulations and policy documents on Directors specifically, and the Company generally.

All Directors have access to Senior Management personnel in the Company and may invite any employees to be in attendance at Board meetings to assist in its deliberations, if and when relevant. The Directors may seek independent professional advice at the Company's expense in furtherance of their duties, should the need ever arise.

1.6 Board Charter

The Company has revised and updated the Board Charter to facilitate the effective discharge of the Board's and Director's duties. The Board Charter covers the following key areas, among others, the roles of the Chairman and Chief Executive Officer; Board composition; Board appointment; size of the Board; time period of office; Directors' remuneration; induction of new Director; Directors' training; Board responsibilities; Board Committees and their terms of references; Board meetings; and schedule of matters reserved for collective decision of the Board.

Matters reserved for the Board's decision comprise the following:

(i) Acquisitions and disposals of assets exceeding RM250,000;

(ii) Related party transactions of a material nature;

(iii) Various guidelines formalised for the core functions of the Company namely underwriting, claims, investment and reinsurance;

(iv) Corporate policies on investment, underwriting, reinsurance, claims management and risk management;

(v) New outsourcing arrangement or significant modifications to an existing outsourcing arrangement;

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.6 Board Charter (Cont'd.)

Matters reserved for the Board’s decision comprise the following: (Cont'd.)

(vi) Delegation to management;

(vii) Setting of management limits;

(viii) Strategy setting, implementation and supervisory;

(ix) Board meetings and agenda setting;

(x) Board processes in meetings;

(xi) Monitoring of financial performance;

(xii) Monitoring of effectiveness of internal control system;

(xiii) Succession planning, self-evaluation and appointments;

(xiv) Remuneration review;

(xv) Stress test report; and

(xvi) Declaration of dividend.

1.7 Code of Ethics

The Board has adopted a Directors’ Code of Ethics (“Code”) which outlines the standards of ethical behaviour which the Directors should possess in discharging their duties and responsibilities. The Code was formulated based on four principles, i.e. compliance with legal and regulatory requirements, observance of the Board Charter, no conflict of interest, and duty to act in the best interest of the Company at all times. The Code’s aim is to enhance the standard of corporate governance and behaviour by establishing a standard of ethical behaviour for Directors as well as upholding the spirit of responsibility and social responsibility in line with legislation, regulations and guidelines.

The Company has also adopted the Guidelines on the Code of Conduct for the General Insurance Industry for guidance of its employees. In addition, expectations of employee conduct to maintain high moral and ethical standards are included in the Employee Handbook and embedded in the policies, procedures and practices of the Company.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.8 Conflict of Interest Situations

The Board is alert to the possibility of potential conflict of interest situations involving the Directors and the Company and has adopted a Conflict of Interest Policy for the Company. The Board affirms its commitment to ensuring that such situations of conflict are avoided. The Directors’ Code of Ethics requires Board members to notify the Company Secretaries of any change in the shareholding in the Company and its related corporations, whether direct or indirect, as well as directorships or interests in any other corporations. In addition, members of the Board who has a material interest, either directly or indirectly, in matters being considered by, or likely to be considered by the Board is required to declare that interest. Where a material related party transaction or contract is concerned, such Director shall also abstain from deliberation and voting on the matter and leave the meeting room when the decision on the contract or transaction is being deliberated and approved, in accordance with requirements of the Financial Services Act 2013.

1.9 Whistleblowing Policy

A formal Whistleblowing Policy has been established to assist in ensuring that the Company’s business and operations are conducted in an ethical, moral and legal manner. The Whistleblowing Policy is designed to encourage employees or external parties to disclose any malpractice or misconduct which they become aware of and to provide protection to employees or external parties who report allegations of such malpractice or misconduct.

Any whistleblowing employee is protected against adverse employment actions (discharge, demotion, suspension, harassment, or other forms of discrimination) for raising allegations of malpractice or misconduct. Employees who participate or assist in an investigation will also be protected. Every effort will be made to protect the anonymity of the whistleblower.

An employee who reasonably believes that inappropriate practices or conduct are occurring should raise the issue with his or her Head of Department or to a Designated Executive who is either the Chief Operating Officer or the Chief Audit Executive. The Designated Executive would be responsible to initiate the enquiry. If the employee believes that there are inappropriate practices or conduct involving the Chief Executive Officer, he or she should report such matter to the Board directly. The Chief Executive Officer will report to the Board all incidences of whistleblowing reported to the Designated Executive.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

1. BOARD RESPONSIBILITIES (CONT'D.)

1.9 Whistleblowing Policy (Cont'd.)

Once a claim of malpractice or misconduct is made, the Designated Executive will respond to the whistleblower within 10 working days, setting out the intended investigation plan. Upon completion of investigation, the Designated Executive will inform the whistleblower of the results of the investigation as well as any corrective steps that are being taken.

If allegations made by the whistleblower turn out to be false, an investigation would be carried out thoroughly to explore the validity of the accusation. Both the accused and the whistleblower must co-operate with the investigation regardless of what may occur.

The Company did not receive any allegations or complaints from whistleblowers during the financial year under review.

1.10 Regulatory Compliance Framework

The Company has implemented a proactive, integrated regulatory compliance monitoring and control process, which lays the foundation for a stronger compliance environment. This provides assurance to the Company that its products and services offered are in a manner consistent with regulatory requirements and the Company’s corporate responsibilities. The Regulatory Compliance Framework sets out the ground rules for the compliance and monitoring process. It further provides the Compliance Department with a mechanism to assist the Department in its role of compliance oversight.

2. BOARD COMPOSITION

2.1 Board Composition and Size

The Board currently comprises five Directors, made up of three Independent Directors, one Executive Director and one Non-Independent Non-Executive Director. Independent Directors form more than half of the Board, thus fulfilling the majority of Independent Directors requirement of Bank Negara Malaysia’s policy document on Corporate Governance [ref. BNM/RH/PD 029-9]. All Independent Directors on the Board have met the independence criteria prescribed by Bank Negara Malaysia.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.1 Board Composition and Size (Cont'd.)

All Directors have fulfilled the minimum criteria of 'fit and proper person' as prescribed under the Financial Services Act 2013 and Bank Negara Malaysia's policy document on Fit and Proper Criteria [ref. BNM/RH/GL 018-5]. Further, all Directors have complied with the Company's policy on maximum number of external professional commitments, which restricts each Director from being on the board of not more than twelve companies.

2.2 Board Diversity

All Board appointments are made on merit, first and foremost, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective. Nevertheless, the Company recognises the benefits of having a diverse Board, which will make good use of the differences in skills, industry experience, age, cultural background, gender and other distinctions among the Directors. These differences will be considered in determining Board balance and composition.

In this respect, the Board is focused on ensuring that its composition reflects gender diversity without compromising quality. Accordingly, the Board, when making appointments, will consider gender balance as well as the skills and experience needed to expand the perspective and capability of the Board as a whole. Women Directors currently form 40% of the Board.

The Board had conducted an assessment of its composition during the financial year and was satisfied that the Board composition in terms of size, the balance between Independent, Non-Independent Non-Executive and Executive Directors and mix of skills was adequate. Taken as a whole, the Board represents many years' experience in legal, accounting, insurance, actuarial, banking, treasury, fund management, business administration and risk management and support services, and is therefore suited to the oversight of the Company.

The same applies for appointments to Senior Management and the Company's workforce. The Company recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the Company into the future. The Company is committed to leveraging the diverse backgrounds in terms of gender, ethnicity, age, experiences and perspectives of our workforce to provide good customer service to an equally diverse customer base. The Company's commitment to recognising the importance of diversity extends to all areas of our business including recruitment, skills enhancement, appointment to roles, retention of employees, succession planning and training and development.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.3 Nominating Committee

The Nominating Committee was set up by the Board on 30 January 2002 to establish a documented, formal and transparent procedure for the appointment of Directors, Chief Executive Officer and other Key Responsible Persons and to assess the effectiveness of Directors, the Board as a whole and the various committees of the Board, the Chief Executive Officer and other Key Responsible Persons.

As at 30 September 2019, the Nominating Committee comprised 5 Directors, with half of them being Independent Directors.

The principal duties and functions of the Nominating Committee include the following:

(i) To assist the Board in an annual review of the overall composition of the Board in terms of appropriate size and required mix of skills, the balance between Executive, Non-Executive and Independent Directors, mix of expertise and experience, and other core competencies required;

(ii) To assess and recommend to the Board the nominees for directorships, the Directors to fill Board Committees as well as nominees for the Board Chairman and Chief Executive Officer;

(iii) To establish a mechanism for formal assessment of the effectiveness of the Board as a whole, the contribution of each Director to the effectiveness of the Board, as well as the contribution of the various Board Committees and the performance of the Chief Executive Officer. These assessments are to be carried out on an annual basis;

(iv) To review annually the independence of the Independent Directors;

(v) To make recommendation to the Board on removal of a Director/Chief Executive Officer if he or she is ineffective, errant or negligent in discharging his or her responsibilities;

(vi) To identify and recommend suitable programmes to ensure all Directors receive continuous training or enhancement of knowledge particularly pertaining to regulatory developments from time to time; and

(vii) To oversee the appointment, management succession planning and performance evaluation of other Key Responsible Persons, and recommend to the Board the removal of Key Responsible Persons if they are ineffective, errant and negligent in discharging their responsibilities.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.3 Nominating Committee (Cont'd.)

The Nominating Committee held 4 meetings during the financial year. The details of attendance by each of the members at the meetings are as follows:

Name of Committee member	**Number of meetings attended**
Dr. Loh Leong Hua (Appointed member on 1 August 2019, and Chairman on 28 August 2019)	1/1
Puan Norazian binti Ahmad Tajuddin	4/4
Mr. Chan Thye Seng	4/4
Dato' Dr. Zaha Rina binti Zahari	4/4
Mr. Prasheem Seebran	4/4
Madam Sum Leng Kuang (Resigned on 1 August 2019)	3/3
Mr. Michael Yee Kim Shing (Resigned on 4 February 2019)	2/2

During the financial year, the Nominating Committee had carried out the following activities:

(i) Reviewed the revised Terms of Reference of Nominating Committee prior to recommendation to the Board for its adoption;

(ii) Reviewed the revised Procedures for Appointment of New Directors, Chief Executive Officer and other Key Responsible Persons; Reappointment of Directors and Chief Executive Officer; Assessment of the Effectiveness of Individual Directors, the Board as a whole, the Board Committees, the Chief Executive Officer and other Key Responsible Persons; and Mechanism for Assessment of the Fitness and Propriety of Key Responsible Persons prior to recommendation to the Board for its adoption;

(iii) Assessed the performance of the Board as a whole, the Board Committees, and the individual Directors; the fitness and propriety of the individual Directors; as well as the independence of the Independent Directors;

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.3 Nominating Committee (Cont'd.)

During the financial year, the Nominating Committee had carried out the following activities: (Cont'd.)

(iv) Reviewed and recommended to the Board the appointment of proposed Independent Director;

(v) Assessed the eligibility, including the fitness and propriety, of expatriates to be reappointed as Manager – Specialist Business, and Head of Pricing & Product Development, prior to submission of applications to Bank Negara Malaysia for approval; and

(vi) Reviewed and recommended the appointment of the Appointed Actuary of the Company, subject to Bank Negara Malaysia's approval.

The Nominating Committee had not assessed the performance of the Chief Executive Officer during the financial year as he had reported for duty only on 30 August 2018.

2.4 Appointments to the Board

The Nominating Committee is responsible for identifying, assessing and recommending to the Board, suitable nominees for appointment to the Board and Board Committees. Nominees are normally sourced through recommendations by existing Board members. Nevertheless, the Nominating Committee is open to utilizing independent sources to identify suitable qualified candidates where suitable nominees could not be sourced through the normal channel.

In making recommendations for nominees for Directorships, the Nominating Committee is guided by a comprehensive Procedures for Appointment of New Directors, Chief Executive Officer and Other Key Responsible Persons, which was recently revised and updated. The Nominating Committee will consider the candidate's character, skills and competence, knowledge, expertise and experience, professionalism, integrity, time commitment, possible representation of interest groups, as well as the candidate's directorship in other companies, having regard to the size of the Board, with a view of determining the impact of the number upon its effectiveness, and the required mix of skill and diversity required for an effective Board.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.4 Appointments to the Board (Cont'd.)

Further, in the case of candidates for the position of Independent Directors, the candidates' independence as well as ability to discharge such responsibilities/functions as expected from Independent Directors will be evaluated.

The final decision on the appointment of a candidate recommended by the Nominating Committee rests with the whole Board before the application is submitted to Bank Negara Malaysia for approval. Bank Negara Malaysia's approval will be for a specified term of appointment.

On appointment of new Directors, the Management would facilitate the Directors' induction by providing the Directors with relevant information about the Company.

2.5 Assessment of Effectiveness of Individual Directors, the Board as a Whole, and the Board Committees

The Nominating Committee has reviewed and updated the procedures for assessment of effectiveness of individual Directors, the Board as a whole, the Board Committees, the Chief Executive Officer and other Key Responsible Persons during the financial year.

Assessment of the effectiveness of individual Directors, the Board as a whole and Board Committees are conducted on a peer review basis, facilitated by the use of assessment forms. In the case of individual Directors, each individual Director is assessed on the person's contribution to interaction, quality of input at meetings, the person's understanding of a Director's role and whether he or she has fulfilled his or her specific roles. As for Board assessment, the criteria considered include Board structure, Board meetings, Board's roles and responsibilities, and planning and objectives. When assessing Board Committees, each Committee is assessed as to whether it has carried out its responsibilities under its terms of reference, the skills and competencies of the committee members, meeting conduct and administration and Board communication.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.5 Assessment of Effectiveness of Individual Directors, the Board as a Whole, and the Board Committees (Cont'd.)

In respect of the assessment conducted during the financial year, the Board was satisfied that the Board, Board Committees and the individual Directors have discharged their duties and responsibilities effectively.

In addition to the assessment of performance, the Nominating Committee also performs fit and proper assessments of the Directors, Chief Executive Officer and other Key Responsible Persons, which include Senior Managers and Heads of Department, prior to initial appointment and annually thereafter. The fit and proper assessment covers the person’s probity; personal integrity and reputation; competence and capability; and financial integrity. Any Director, Chief Executive Officer or other Key Responsible Person who fails to meet the fit and proper requirements shall cease to hold office and act in such capacity.

2.6 Re-appointment and Re-election

The re-appointment of a Director upon expiry of his or her current term of office as approved by Bank Negara Malaysia, is also subject to the prior approval of Bank Negara Malaysia. The Nominating Committee is responsible for assessing the performance of Directors whose term of office as approved by Bank Negara Malaysia is due to expire, and submitting their recommendation to the Board for decision. In the case of Independent Directors, the Nominating Committee also assesses the independence of the Independent Directors prior to their re-appointment as Independent Directors.

Further, in accordance with the Constitution of the Company, at least 1/3 of the Directors shall retire from office by rotation at each Annual General Meeting but shall be eligible for re-election at the Annual General Meeting. A retiring Director is eligible for re-election at the Annual General Meeting.

At the 47th Annual General Meeting of the Company held on 18 February 2019, shareholders’ approval were obtained to re-elect Dato’ Dr. Zaha Rina binti Zahari and Madam Sum Leng Kuang, who had retired as Directors of the Company pursuant to Article 74 of the Constitution of the Company.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.6 Re-appointment and Re-election (Cont'd.)

The Directors who will be seeking re-election at this forthcoming Annual General Meeting are Mr. Prasheem Seebran and Dr. Loh Leong Hua.

The Board Charter stipulates that the tenure limits for Independent Directors shall generally not exceed nine years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the Company. The three Independent Directors currently on the Board have not exceeded the nine-year limit.

2.7 Fostering Commitment

The Directors have been informed of the expectations of time commitment during their appointments to the Board. This takes the form of the number of Board and Board Committee meetings scheduled to be held in a financial year. All the Directors are aware of their responsibilities and are required to devote sufficient time to discharge their duties and responsibilities, which included attendance at meetings of the Board and Board Committees, preparatory work ahead of such meetings, keeping abreast of relevant business developments and legislations, contribution to the strategic development of the business, providing counsel and guidance to the Management team and meeting with professional advisers and external auditors, where necessary. The Directors' commitment is evidenced by their attendance at all Board and Board Committee meetings. The Board is thus satisfied with the level of time commitment by each of the Directors towards fulfilling their roles on the Board and Board Committees.

2.8 Directors' Training

The Company recognises the importance of continuous professional development and training for its Directors. The Directors are mindful of the need for continuous training to keep abreast of new developments and are encouraged to attend forums and seminars facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors. The Board identifies the training needs of the Board as a whole while the individual Directors are given a free hand to identify their own training needs, taking into consideration their memberships on the boards of other companies as well.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.8 Directors' Training (Cont'd.)

All new Non-Executive Directors are required to attend an orientation programme to familiarise themselves with the insurance industry and the Company in order to ensure that the Directors are equipped with necessary skills to discharge their duties and responsibilities.

All the Directors of the Company have attended the high level Finance Institutions Directors' Education ("FIDE") programme developed by Bank Negara Malaysia and Perbadanan Insurans Deposit Malaysia ("PIDM") in collaboration with the International Centre for Leadership in Finance. During the financial year ended 30 September 2019, the Directors had also attended training covering a broad range of areas, such as statutory regulations, corporate governance, risk management, financial reporting standards, financial planning, information technology and safety management.

The details of training attended by each individual Director are as follows:

Name of Director	Training Course
Puan Norazian binti Ahmad Tajuddin	• Identifying Your Next Board Talent • Fintech: Disruption to be Embraced? • Revisiting the Misconception of Board Remuneration • Reading the Signs: The Next Financial Crisis and Potential Impact on Asia • Dinner Talk – Digital Assets: Global Trends Legal Requirements and Opportunities for Financial Institutions • BNM-FIDE FORUM Dialogue with the Deputy Governor on the draft Risk Management in Technology Policy • Understanding Liquidity Risk Management in Banking Programme • BNM: My Fintech Week 2019 – Shifting Tide, Future of Finance

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.8 Directors' Training (Cont'd.)

The details of training attended by each individual Director are as follows: (Cont'd.)

Name of Director	Training Course
Puan Norazian binti Ahmad Tajuddin	• 2nd PIDM-FIDE FORUM Annual Dialogue with the CEO of PIDM • Business Challenges and Regulatory Expectations • Digital Upskilling for Boards • BNM – FIDE Dialogue: Key Aspects of Fintech and Regulation • BNM – Regional Conference on Climate Change (Climate Change Risks and Opportunities: Respond, Not React)
Mr. Chan Thye Seng	• MFRS 9 – Financial Instruments & MFRS 17 – Insurance Contracts
Dato' Dr. Zaha Rina binti Zahari	• MFRS 9 – Financial Instruments & MFRS 17 – Insurance Contracts • Fiscal Discipline in Driving Sustainable Growth – Budget 2019 • Prevention of Insider Trading • Digital Economy and Capital Market Series: Financial Technology (Fintech), Artificial Intelligence (AI), Big Data and Internet of Things (IOTs) • Financial Master Class – Current Issues and Trends that affect our Capital Market, Economic, Daily Financial Practice and Investment Decision • Invest Malaysia 2019: The Capital Market Forum • Tropical Basic Offshore Safety Induction and Emergency (BOSIET) • Basic Hydrogen Sulphide (H2S) Training) • Anti Bribery Management Systems ISO37001:2016
Mr. Prasheem Seebran	• IFRS 17 • Digital Transformation [Conference] Hong Kong Insurance Trends in Emerging Markets
Dr. Loh Leong Hua	• MFRS 17 – Insurance Contracts • Revisiting the Misconception of Board Remuneration • Digital Assets: Global Trends Legal Requirements and Opportunities for Financial Institutions • BNM-FIDE FORUM Dialogue with the Deputy Governor on the draft Risk Management in Technology Policy

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

2. BOARD COMPOSITION (CONT'D.)

2.8 Directors' Training (Cont'd.)

The details of training attended by each individual Director are as follows: (Cont'd.)

Name of Director	Training Course
Dr. Loh Leong Hua (Cont'd.)	• 2nd Distinguished Board Leadership Series: Rethinking Strategy • BNM: My Fintech Week 2019 – Shifting Tide, Future of Finance • BNM-FIDE FORUM Masterclass on Cybersecurity: Unseen Threats • Resolving Conflict in the Boardroom • Say on Pay: What do Board Need to Know? – Powertalk Series #5 • BNM – Regional Conference on Climate Change (Climate Change Risks and Opportunities: Respond, Not React)

In addition, the Directors continuously receive briefings and updates on the Company's business and operations, risk management activities, corporate governance, finance, developments in the business environment, new regulations and statutory requirements which included Bank Negara Malaysia and Perbadanan Insurans Deposit Malaysia policy documents and circulars, as well as Persatuan Insurans Am Malaysia circulars. The Board will continue to evaluate and determine the training needs of the Board members as a whole to enhance their skills and knowledge.

3. REMUNERATION

3.1 Remuneration Committee

The Remuneration Committee was established by the Board on 3 October 2001 to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officer and other Key Responsible Persons and ensuring their compensation is competitive and consistent with the Company's culture, objectives and strategy.

As at 30 September 2019, the Remuneration Committee comprises 4 Directors with a majority of members being Independent Directors.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

3. REMUNERATION (CONT'D.)

3.1 Remuneration Committee (Cont'd.)

The principle duties and functions of the Remuneration Committee are as follows:

(i) To determine and recommend for approval of the Board, the framework or policy relating to the remuneration of Directors, Chief Executive Officer and any other person deemed necessary. The framework/policy is consistent with Bank Negara Malaysia's policy document on Corporate Governance [ref. BNM/RH/PD 029-9];

(ii) To recommend to the Board the remuneration packages of the Chief Executive Officer and any other person deemed necessary. The remuneration packages for the Chief Executive Officer and any other person deemed necessary are structured such that they link rewards to corporate and individual performances to encourage high performance standards; and

(iii) To review and recommend to the Board the remuneration of the Non-Executive Directors within the limits set by the shareholders. A Non-Executive Director shall abstain from discussions relating to his or her remuneration. The remuneration of a Non-Executive Director should reflect the level of responsibilities undertaken and contributions to the effectiveness of the Board.

The Remuneration Committee held 1 meeting during the financial year. Attendance of the members at the meeting are as follows:

Name of Committee member	**Number of meetings attended**
Dr. Loh Leong Hua (Appointed member on 1 August 2019, and Chairman on 28 August 2019)	0/0
Puan Norazian binti Ahmad Tajuddin	1/1
Dato' Dr. Zaha Rina binti Zahari	1/1
Mr. Prasheem Seebran	1/1
Madam Sum Leng Kuang (Resigned as Director on 1 August 2019)	1/1
Mr. Michael Yee Kim Shing (Resigned as Director on 4 February 2019)	1/1

The Remuneration Committee had reviewed the revised Terms of Reference of the Remuneration Committee during the meeting prior to recommendation to the Board for adoption. The Remuneration Committee had not reviewed the remuneration of the Chief Executive Officer during the financial year as he had reported for duty only on 30 August 2018.

BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D.)

3. REMUNERATION (CONT'D.)

3.2 Remuneration Policy

A Remuneration Policy has been established to govern the remuneration of the Executive Director, Non-Executive Directors, Chief Executive Officer, Key Responsible Persons (which comprise the Chief Operating Officer, Heads of Departments and Branch Managers) and employees in control functions (which comprise Internal Audit, Risk Management and Compliance functions).

The remuneration of the Executive Director is structured to link reward to corporate and individual performance to encourage high performance standards without creating incentives for irresponsible behaviour and insider excesses. The remuneration is decided by the full Board on the recommendation of the Remuneration Committee based on a performance evaluation by the Nominating Committee. The employment conditions and benefits attributable to the Group and the relevant and competitive employment market are taken into account when determining a fair and equitable reward.

The remuneration of the Non-Executive Directors shall be a fixed sum and reflects the level of responsibilities undertaken and contribution to the effective functioning of the Board and Board Committees. The remuneration is deliberated upon by the full Board before recommendation is made to the shareholders who shall decide by resolution in general meeting. Directors do not participate in decisions regarding their own remuneration packages.

The remuneration payable to Key Responsible Persons is linked to the achievement of the individual’s areas of responsibility, project success and performance targets while engendering responsible risk behaviours.

The remuneration payable to employees in control functions are principally based on the Company’s overall performance as well as achievement of their overall control objectives without compromising their independence. The remuneration is set at sufficient levels to ensure that competent and experienced professionals can be attracted and retained.

EFFECTIVE AUDIT AND RISK MANAGEMENT

4. AUDIT COMMITTEE

4.1 Audit Committee

The Audit Committee was established by the Board on 22 May 1995 to review the Company's processes for producing financial data, its internal control, the independence of the Company's External Auditors and maintain an open line of communication and consultation between the Board, the Internal Auditors, the External Auditors and Management.

As at 30 September 2019, the Audit Committee comprises 4 Directors, all of whom are Non-Executive Directors, with a majority being Independent Directors.

The principal duties and functions of the Audit Committee are as follows:

(i) To review and recommend for the Board’s approval, the Internal Audit Charter which defines the independence, purpose, authority, scope and responsibility of the Internal Audit function in the Company;

(ii) To review the following and report to the Board:;

(a) Co-ordination with the External Auditors, including matters pertaining to their audit plan, fees, auditors’ reports, management letters and liaison with Internal Audit function;

(b) The suitability for nomination, appointment and re-appointment of the External Auditors, including assessment of the various relationships between the External Auditors and the Company or any other entity that may impair or appear to impair the External Auditors’ objectivity, performance and independence;

(c) The internal audit plan of work programme, including the appropriateness of the risk management methodology employed to determine the frequency and scope of audit;

EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D.)

4. AUDIT COMMITTEE (CONT'D.)

4.1 Audit Committee (Cont'd.)

The principal duties and functions of the Audit Committee are as follows: (Cont'd.)

(ii) To review the following and report to the Board:; (Cont'd.)

(d) Independence and reporting relationships of the Internal Audit function as well as the adequacy and relevance of the scope, functions, competency and resources and the necessary authority to carry out its work;

(e) The quarterly and annual results of the Company prior to presentation for approval to the Board of Directors. The Audit Committee also reviews the disclosure in the Directors' Report on the manner standards specified in Bank Negara Malaysia's policy document on Corporate Governance [ref. BNM/RH/PD 029-9] are complied with and the extent guidance stated therein are adopted; and

(f) The propriety of any related party transaction and conflict of interest situation that may arise within the Company, including any transaction, procedure or course of conduct that may raise questions of management integrity.

(iii) To prepare the Report of the Audit Committee for submission to Bank Negara Malaysia, not later than 31 January of each year covering the composition of the Committee, number of meetings held and attendance thereon, as well as the activities undertaken by the Audit Committee and Internal Audit function during the year; and

(iv) To perform any other work required or empowered by statutory legislation or guidelines issued by the relevant government or regulatory authorities.

EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D.)

4. AUDIT COMMITTEE (CONT'D.)

4.1 Audit Committee (Cont'd.)

The principal duties and functions of the Audit Committee are as follows: (Cont'd.)

The Audit Committee held 4 meetings during the financial year. Attendance of the members at the meetings are as follows:

Name of Committee member	Number of meetings attended
Dato' Dr. Zaha Rina binti Zahari (Chairman)	4/4
Puan Norazian binti Ahmad Tajuddin	4/4
Mr. Prasheem Seebran	4/4
Dr. Loh Leong Hua (Appointed member on 1 August 2019)	1/1
Mr. Michael Yee Kim Shing (Resigned as Director on 4 February 2019)	1/1
Madam Sum Leng Kuang (Resigned as Director on 1 August 2019)	3/3

During the financial year, the Audit Committee had reviewed 21 internal audit and corporate governance reports as well as the unaudited quarterly and half yearly financial results and the results of the annual audit, including the External Auditor's audit report and management letter.

4.2 Relationship with External Auditors

The Audit Committee's terms of reference formalises the relationship with the External Auditors. It is the policy of the Audit Committee to meet with the External Auditors at least twice a year, the first during presentation of their Audit Plan, and the second when the External Auditors present their report on the Company's financial statements for the financial year as well as other information in the Company's annual report, and their Report to the Audit Committee. The Audit Committee also meets twice with the External Auditors without the presence of the Management whenever deemed necessary. In the financial year ended 30 September 2019, the Audit Committee had met with the External Auditors twice without the presence of Management, the first meeting to discuss any matters which the External Auditors noted in the course of preparation of their 2019 Audit Plan which they wish to discuss with the Audit Committee, and the second to discuss matters relating to their remit and any issues arising from the audit.

EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D.)

4. AUDIT COMMITTEE (CONT'D.)

4.2 Relationship with External Auditors (Cont'd.)

The Audit Committee has assessed and reviewed the suitability and independence of the External Auditors and recommended their re-appointment for the financial year ending 30 September 2020. The Audit Committee's assessment had included a review of the curriculum vitae of the engagement partner and the concurring partner as well as completed its own assessment, which covered the following considerations – minimum qualifying criteria for External Auditors, the scope of audit and auditors' performance, their independence and objectivity, audit fees, the resources (manpower, tools and collective knowledge of professionals globally) of the External Auditors to carry out their audit during the financial year, their insurance audit experience, as well as the nature, scope and fee of non-audit services to ensure that such services are permissible and that the fees are fair and realistic having regard to the nature, scope and complexity of the non-audit services undertaken so as to preserve the External Auditors' independence. The Audit Committee had also received feedback from Management on the professional working relationship with the External Auditors. The Audit Committee had obtained written assurance from the External Auditors confirming that in relation to their audit of the financial statements of the Company for the financial year, the External Auditors were not aware of any relationships or matters that may reasonably be brought to bear on their independence.

The External Auditors' independence was further enhanced by the By-laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants, International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants, and the Companies Act, 2016 in Malaysia. Based on the written assurance from the External Auditors and the Audit Committee's own assessment performed, the Audit Committee was satisfied with the suitability and independence of the External Auditors. The Audit Committee's assessment was concurred by the Board of Directors. Shareholders' approval will be sought for the re-appointment of the External Auditors in the forthcoming annual general meeting before an application for approval is sought from Bank Negara Malaysia.

4. AUDIT COMMITTEE (CONT'D.)

4.3 Financial Reporting

In presenting the annual financial statements, quarterly reports and unaudited interim financial statements to shareholders, relevant authorities and other stakeholders, the Board is committed to provide a balanced, fair and comprehensive assessment of the Company's position and prospects and that the financial statements comply with regulatory reporting requirements. The Audit Committee assists the Board in reviewing all the information disclosed to ensure its adequacy, accuracy and integrity, focusing particularly on changes in or implementation of major accounting policy changes, significant and unusual events, corrected material misstatements related to the year-end accounts, and compliance with accounting standards and other legal requirements, prior to recommendation to the Board for approval. The ultimate objective of such review is to ensure that the External Auditors express an unqualified opinion on the financial statements of the Company.

The Directors are of the opinion that the Company uses appropriate accounting policies that are consistently applied and supported by reasonable as well as prudent judgments and estimates, and that the financial statements have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016, and which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the results and cash flows of the Company for the financial year.

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

5.1 Risk Management Committee

The Risk Management Committee was established by the Board on 17 June 2003 to oversee the Senior Management's activities in managing the key risk areas of the Company and ensuring that the risk management process is in place and functioning effectively.

As at 30 September 2019, the Risk Management Committee comprises 4 Directors, with a majority of the members being Independent Directors.

EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D.)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

5.1 Risk Management Committee (Cont'd.)

The principle duties and functions of the Risk Management Committee are as follows:

(i) To review and recommend risk management strategies, policies and risk tolerance limits for the Board’s approval;

(ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which the framework is operating effectively;

(iii) To ensure adequate infrastructure, resources and systems are in place for an effective risk management, i.e. ensuring that the staff responsible for implementing risk management perform those duties independently of the Company’s risk taking activities; and

(iv) To review the management’s periodic reports on risk exposure, risk portfolio composition and risk management activities.

The Risk Management Committee held 5 meetings during the financial year. Attendance of the members at the meetings are as follows:

Name of Committee member	**Number of meetings attended**
Dato’ Dr. Zaha Rina binti Zahari (Chairman)	5/5
Puan Norazian binti Ahmad Tajuddin	5/5
Mr. Prasheem Seebran	5/5
Dr. Loh Leong Hua (Appointed member on 1 August 2019)	1/1
Madam Sum Leng Kuang (Resigned as Director on 1 August 2019)	4/4
Mr. Michael Yee Kim Shing (Resigned as Director on 4 February 2019)	1/1

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D.)

5.1 Risk Management Committee (Cont'd.)

During the financial year, the Risk Management Committee had conducted a review of the strategic risks of the Company, all known operational risks identified by the individual business units, key outsourcing risks of the Company, as well as project risks pertaining to internet insurance.

The Risk Management Committee had also reviewed risk dashboards prepared by the Risk Management Department quarterly, which provide a high level overview of the quantitative and qualitative indicators of the risks already identified. The risk dashboards provide an early warning system to management, the Risk Management Committee and the Board of Directors of any risks that may be increasing in the horizon to allow management sufficient time to institute the necessary risk treatment plans to reduce the risk, where possible.

5.2 Risk Management Framework

The Board regards risk management as an integral part of the Company's business operations and has accordingly established a formal Risk Management Framework to assist in the identification, evaluation, management and reporting of significant risks that may affect the achievement of its business objectives throughout the financial year under review and up to the date of this report.

The Risk Management Committee meets regularly to oversee the development of risk management policies and procedures, monitor and evaluate the numerous risks that may arise from the business activities. A Risk Management Department has also been established to assist the Risk Management Committee to discharge its duties.

The formulated Risk Management Framework, covers, among others, risk management principles and philosophy/policy; accountability, roles and responsibilities for risk management; risk management structure and cycle; and risk management process.

The Risk Management Committee receives regular reports from the Risk Management Department, which in turn receives regular information on risks from the respective risk owners.

EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D.)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D.)

5.3 Internal Control Framework

The Board maintains a sound system of internal control, covering not only financial controls but also operational and compliance controls. The system of internal controls is designed to provide reasonable assurance of effectiveness and efficiency of operations and programs, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, regulations, policies, procedures and contracts. Nevertheless, the system of internal control, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

Management has established an Internal Control Framework, which main features are control environment, risk assessment, control activities, information and communication, and monitoring activities. Control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. Risk assessment is the process of setting objectives, identifying and evaluating risks that can threaten the objectives. Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. Information and communication is the process of obtaining or generating and using relevant and quality information from both internal and external sources to support the functioning of internal control. Monitoring activities are the ongoing evaluations, separate evaluations, or a combination of the two, which are used to ascertain whether internal controls are present and functioning.

The Company uses the three lines of defense model to review and assess the Internal Control Framework. The first line of defense comprises business units, who are responsible for ensuring that a risk and control environment is established as part of day-to-day operations. The second line of defense comprises the Risk Management and Compliance Departments, which provide oversight over business processes and risks on an ongoing basis. The Internal Audit function is the third line of defense, providing independent assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives. Such assurance is provided regularly upon completion of governance and internal control assignments undertaken by Internal Audit.

EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D.)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D.)

5.4 Internal Audit Function

The internal audit function of the Company has been outsourced to the Group Internal Audit Department of the holding company, Pacific & Orient Berhad, which is independent of the activities it audits and is performed with impartiality, proficiency and due professional care. It undertakes regular reviews of the adequacy and effectiveness of the Company's system of internal controls and risk management process, as well as appropriateness and effectiveness of the corporate governance practices based on Audit Planning Memorandums approved by the Audit Committee. The Group Internal Audit Department reports directly to the Audit Committee. The activities of this Department provides the Board with much of the assurance it requires regarding the adequacy and integrity of the risk management and internal control systems and corporate governance practices.

5.5 Compliance

A Compliance Department, staffed with 3 personnel, was established by the Company on 25 April 2016. Its main responsibilities include providing regulatory and compliance advice to the Company and its business units on an ongoing basis, assisting management in the development of policies, procedures and guidelines to facilitate compliance with applicable laws and regulations, proactively reviewing business activities to identify potential regulatory, compliance and reputational risks and designing ways to minimise such risks and promoting a culture of compliance in the Company.

During the financial year, the Compliance Department had carried out the following activities, among others:

(i) Prepared the Compliance Plan for approval of the Board;

(ii) Issued 6 Compliance Assessment Reports to management, covering compliance of business units against regulatory requirements and the Company's policies and procedures; and status of the Company's compliance with Bank Negara Malaysia's policy documents on Phased Liberalisation of Motor and Fire Tariffs and Employee Screening;

EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D.)

5. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D.)

5.5 Compliance (Cont'd.)

(iii) Prepared the Compliance Quarterly Report for tabling to the Board, covering matters relating to compliance assessment, compliance training; non-compliances, regulatory issues and fraud cases noted; and other compliance activities carried out by Compliance Department during the quarter;

(iv) Obtained quarterly self-assessment declaration from Heads of Departments as part of effort to instil greater staff awareness on, and compliance with, anti-money laundering and personal data protection regulations; and

(v) Summarised policy documents and exposure drafts issued by Bank Negara Malaysia and circulars issued by Persatuan Insurans Am Malaysia for information of the Board, and performing gap analysis, where necessary, to assess extent of the Company's compliance and the actions and timeline required to close the gaps.

INTEGRITY IN CORPORATE REPORTING

6. ACCOUNTABILITY AND AUDIT

6.1 Directors' Responsibility Statement

The Directors are required by the Companies Act, 2016 to prepare financial statements for each year which have been made out in accordance with the Malaysian Financial Reporting Standards and give a true and fair view of the financial position of the Company as at 30 September 2019 and of the results and cash flows of the Company for the year then ended.

The Directors have the responsibility for ensuring that the Company keeps accounting records that disclose with reasonable accuracy their financial position and which enable them to ensure that the financial statements comply with the Companies Act, 2016, the Financial Services Act 2013 and the policy documents or circulars issued by Bank Negara Malaysia.

The Directors have the overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INTEGRITY IN CORPORATE REPORTING (CONT'D.)

6. ACCOUNTABILITY AND AUDIT (CONT'D.)

6.2 Management Accountability

The Company has in place a documented and updated organisation structure with clear reporting lines and job description for management and executive employees. In allocating job duties and responsibilities to staff, the Company takes into consideration appropriate segregation of duties and that potentially conflicting responsibilities are not assigned to the same staff. In addition, there are also well documented policies and procedures in the operating manuals for all major functions within the Company.

6.3 Corporate Independence

At least 2 Directors, with at least 1 Director each nominated by the respective shareholders, shall constitute a quorum at Board meetings of the Company. The presence of representatives from the 2 shareholders of almost equivalent shareholdings ensures that some degree of corporate independence is maintained. Moreover, certain matters have been reserved for shareholders' approval. These include financial strategies, change in nature of business, as well as any change in authorised or issued share capital of the Company.

6.4 Scope and Performance of the Risk Management and Internal Control System

To assist the Board in its risk management and internal control responsibilities, the Board also receives periodic reports from the Chief Executive Officer on the scope and performance of the risk management and internal control system. The periodic reports from the Chief Executive Officer are prepared based on an assessment process derived from a system of direct and indirect assessment of the risk management and internal control system implemented. For the current year under review, the Chief Executive Officer has intimated that the Company's risk management and internal control system was adequate and generally effective in addressing the identified risks of the Company. Although minor lapses were noted, these did not have a significant impact on the Company.

Such reporting is intended to aid the Board in discharging its responsibilities for the risk management and internal control system of the Company and serves to provide additional comfort in addition to the Internal and External Auditors' and regulatory examiner's reports received regularly.

INTEGRITY IN CORPORATE REPORTING (CONT'D.)

6. ACCOUNTABILITY AND AUDIT (CONT'D.)

6.5 Promoting Sustainability and Diversity

The Company is committed to operate in a sustainable manner and seek to contribute positively to the well-being of stakeholders. The Board strongly believes that sustainable development means combining long-term economic value creation with a holistic approach to environmental stewardship, social responsibility and corporate governance ("ESG"). Efforts undertaken to recycle paper waste and printing double-sided wherever possible to reduce paper wastage, donations to the poor and the needy, waiver of all loadings on private car insurance purchased by disabled persons and waiver of all riders and loadings for motorcycle insurance purchased by such persons are some of the initiatives undertaken by the Company.

The same applies for appointments to Senior Management and the Company's workforce. The Company recognises the value of a diverse and skilled workforce and is committed to create and maintain an inclusive and collaborative workplace culture that will provide sustainability for the Company into the future. The Company is committed in leveraging the diverse backgrounds in terms of gender, ethnicity, age, experiences and perspectives of our workforce to provide good customer service to an equally diverse customer base. The Company's commitment to recognise the importance of diversity extends to all areas of our business including recruitment, skills enhancement, appointment to roles, retention of employees, succession planning and training and development.

HOLDING AND ULTIMATE HOLDING COMPANY

The Directors regard Pacific & Orient Berhad, a company incorporated in Malaysia, as the holding and ultimate holding company.

AUDITORS

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

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

NORAZIAN BINTI AHMAD TAJUDDIN

CHAN THYE SENG

Kuala Lumpur

Registration No. 197201000959 (12557-W)

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, NORAZIAN BINTI AHMAD TAJUDDIN and CHAN THYE SENG, being two of the Directors of PACIFIC & ORIENT INSURANCE CO. BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 49 to 166, are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 September 2019 and of the results and cash flows of the Company for the year then ended.

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

NORAZIAN BINTI AHMAD TAJUDDIN

CHAN THYE SENG

STATUTORY DECLARATION

I, NOOR MUZIR BIN MOHAMED KASSIM, being the Officer primarily responsible for the financial management of PACIFIC & ORIENT INSURANCE CO. BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 49 to 166 are, to the best of my knowledge and belief, 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 NOOR MUZIR BIN)
MOHAMED KASSIM at Kuala Lumpur in)
Wilayah Persekutuan on 13 December 2019) NOOR MUZIR BIN MOHAMED KASSIM

PESURUHJAYA SUMPAH
W 465
KAPT (B) JASNI BIN YUSOFF
1 JAN 2019 - 31 DIS 2021
MALAYSIA

Before me,

Commissioner for Oaths

Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut,
50350 Kuala Lumpur.
Tel: 019-6680745

EY
Building a better working world

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Chartered Accountants
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Registration No. 197201000959 (12557-W)

Independent auditors' report to the members of Pacific & Orient Insurance Co. Berhad (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pacific & Orient Insurance Co. Berhad (the Company),which comprise the statement of financial position as at 30 September 2019, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 49 to 166.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 September 2019, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards (MFRSs), International Financial Reporting Standards (IFRSs) 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.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Malaysia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon. Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

Building a better working world

Registration No. 197201000959 (12557-W)

Independent auditors' report to the members of
Pacific & Orient Insurance Co. Berhad (Cont'd.)
(Incorporated in Malaysia)

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

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

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

Responsibilities of management for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards (MFRSs), International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2016 in Malaysia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, managementis 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The management is responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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.

Registration No. 197201000959 (12557-W)

Independent auditors' report to the members of
Pacific & Orient Insurance Co. Berhad (Cont'd.)
(Incorporated in Malaysia)

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

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

- Identify and assess the risks of material misstatement of the financial statements, 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 management's 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.

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

We communicate with management 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.

Registration No. 197201000959 (12557-W)

Independent auditors' report to the members of
Pacific & Orient Insurance Co. Berhad (Cont'd.)
(Incorporated in Malaysia)

Report on other legal and regulatory requirements

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

Ernst & Young
AF: 0039
Chartered Accountants

Brandon Bruce Sta Maria
No. 02937/09/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
13 December 2019

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019

	Note	2019 RM'000	2018 RM'000
ASSETS			
Property, plant and equipment	5	19,962	20,745
Investment properties	6	1,220	1,220
Prepaid land lease payments	7	290	294
Intangible assets	8	1,357	1,290
Investments	9	538,543	558,019
Reinsurance assets	10	161,941	171,803
Insurance receivables	11	24,792	25,180
Other receivables	12	66,337	69,754
Cash and cash equivalents	13	18,617	38,300
TOTAL ASSETS		833,059	886,605
EQUITY AND LIABILITIES			
Share capital	14	100,000	100,000
Revaluation reserve		12,378	12,378
Share option reserve	15	551	-
Fair value through other comprehensive income ("FVOCI") reserve		1,941	-
Available-for-sale ("AFS") reserve		-	4,046
Retained profits	16	105,920	134,857
TOTAL EQUITY		220,790	251,281
Insurance contract liabilities	17	515,060	534,128
Deferred tax liabilities	18	3,078	3,649
Insurance payables	19	14,693	14,771
Hire purchase creditors	20	435	271
Tax payable		912	3,764
Borrowings	21	69,328	69,111
Other payables	22	8,763	9,630
TOTAL LIABILITIES		612,269	635,324
TOTAL LIABILITIES AND EQUITY		833,059	886,605

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	Non-Distributable					Distributable	
		Share capital	Revaluation reserve	Share options reserve	AFS reserve	FVOCI reserve	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2018 (As previously stated)		100,000	12,378	-	4,046	-	134,857	251,281
Effects of adopting MFRS 9	3	-	-	-	(4,046)	3,602	833	389
1 October 2018 (As restated)		100,000	12,378	-	-	3,602	135,690	251,670
Net profit for the year		-	-	-	-	-	15,230	15,230
Other comprehensive loss for the year, net of tax		-	-	-	-	(1,661)	-	(1,661)
Total comprehensive income for the year		-	-	-	-	(1,661)	15,230	13,569
Dividends	34	-	-	-	-	-	(45,000)	(45,000)
Share options vested under ESOS	15	-	-	551	-	-	-	551
At 30 September 2019		100,000	12,378	551	-	1,941	105,920	220,790

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2018 (Cont'd.)

		Non-Distributable			Distributable	
	Note	Share capital	Revaluation reserve	AFS reserve	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2017		100,000	12,378	7,385	143,739	263,502
Net profit for the year		-	-	-	27,618	27,618
Other comprehensive loss for the year		-	-	(3,339)	-	(3,339)
Total comprehensive income for the year		-	-	(3,339)	27,618	24,279
Dividends	34	-	-	-	(36,500)	(36,500)
At 30 September 2018		100,000	12,378	4,046	134,857	251,281

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	2019 RM'000	2018 RM'000
Operating revenue	23	309,436	302,373
Gross earned premiums	24(a)	282,027	275,592
Premiums ceded to reinsurers	24(b)	(107,639)	(106,848)
Net earned premiums		174,388	168,744
Investment income	25	27,409	26,781
Realised gains	26	688	634
Commission income		32,230	27,184
Fair value losses	27	(1,821)	(440)
Other operating expenses	28	(139)	(390)
Other revenue		58,367	53,769
Gross claims paid	29	(163,745)	(198,744)
Claims ceded to reinsurers	29	52,151	68,574
Gross decrease in insurance contract liabilities	29	17,994	76,682
Change in insurance contract liabilities ceded to reinsurers	29	(4,393)	(28,050)
Net claims incurred		(97,993)	(81,538)
Commission expense		(33,149)	(32,384)
Management expenses	30	(74,757)	(64,637)
Finance costs	36	(5,558)	(5,549)
Other expenses		(113,464)	(102,570)
Profit before taxation		21,298	38,405
Taxation	32	(6,068)	(10,787)
Net profit for the year		15,230	27,618
Basic and diluted earnings per share (sen)	33	15.23	27.62

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	2019 RM'000	2018 RM'000
Net profit for the year		15,230	27,618
Other comprehensive income:			
Items that may be reclassified to income statement in subsequent periods:			
Fair value changes in investments through other comprehensive income ("FVOCI")			
- Gross gain/(loss) on fair value changes:			
i. Corporate debt/securities		42	-
ii. Quoted securities		(2,227)	-
Fair value changes on available-for-sale ("AFS") financial assets			
- Gross loss on fair value changes		-	(3,615)
- Transferred to income statement upon disposal		-	(778)
		(2,185)	(4,393)
- Deferred tax	18	524	1,054
Net loss		(1,661)	(3,339)
Other comprehensive loss for the year, net of tax	35	(1,661)	(3,339)
Total comprehensive income for the year		13,569	24,279

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	2019 RM'000	2018 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		21,298	38,405
Adjustments for:			
Depreciation of property, plant and equipment	5	1,246	1,269
Amortisation:			
- prepaid land lease payments	7	4	4
- intangible assets	8	444	351
Transaction costs of borrowings		217	201
Loss on disposal of property, plant and equipment		-	162
Gain on disposal of investments		(701)	(778)
Loss on fair value of investments held as at fair value through profit or loss	9	1,821	440
Write off of property, plant and equipment	5	1	8
Allowance for unutilised leave	26	121	-
Dividend income		(4,321)	(3,614)
Interest income		(13,361)	(13,957)
Profit income from Islamic fixed deposits		(5,705)	(6,553)
Allowance for impairment of:			
- insurance receivables	30	56	591
Write back in allowance for impairment of:	30		
- insurance receivables		-	(76)
- other receivables		-	(438)
Interest expense		5,338	5,345
Employees share option expense	15	551	-
Operating profit before working capital changes		7,009	21,360
Changes in working capital:			
Purchase of investments		(229,730)	(203,014)
Disposal of investments		118,093	186,464
Decrease in deposits and placements with financial institutions		127,808	103,983
Decrease/(increase) in insurance receivables		721	(4,787)
Decrease in other receivables		1,118	1,532
Decrease in reinsurance assets		9,862	28,613
Decrease in insurance contract liabilities		(19,068)	(76,989)
(Decrease)/increase in insurance payables		(78)	4,267
Decrease in other payables		(6,308)	(7,338)
Net cash generated from operations		9,427	54,091

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2019 (CONT'D.)

	Note	2019 RM'000	2018 RM'000
Net tax paid		(8,966)	(8,201)
Dividends received		4,321	3,614
Interest received		14,570	16,815
Profit received from Islamic fixed deposits		6,795	6,553
Interest paid		(18)	(25)
Net cash generated from operating activities		26,129	72,847
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		-	91
Purchase of property, plant and equipment		(120)	(52)
Purchase of intangible assets		(511)	(290)
Net cash used in investing activities		(631)	(251)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(45,000)	(36,500)
Decrease in hire purchase creditors	(a)	(181)	(382)
Net cash used in financing activities		(45,181)	(36,882)
Net (decrease)/increase in cash and cash equivalents		(19,683)	35,714
Cash and cash equivalents at beginning of year		38,300	2,586
Cash and cash equivalents at end of year	13	18,617	38,300

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2019 (CONT'D.)

Reconciliation of liabilities arising from financing activities

	Note	Hire purchase creditors (Note 20) RM'000	Borrowings (Note 21) RM'000	Total RM'000
As at 1 October 2018		271	69,111	69,382
Changes in Financing Cash Flows:				
Drawdown of hire purchase		345	-	345
Repayment of hire purchase	(a)	(181)	-	(181)
		164	-	164
Addition:				
Transaction costs		-	217	217
As at 30 September 2019		435	69,328	69,763

	Note	Hire purchase creditors (Note 20) RM'000	Borrowings (Note 21) RM'000	Total RM'000
As at 1 October 2017		653	68,910	69,563
Changes in Financing Cash Flows:				
Repayment of hire purchase	(a)	(382)	-	(382)
		(382)	-	(382)
Addition:				
Transaction costs		-	201	201
As at 30 September 2018		271	69,111	69,382

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 SEPTEMBER 2019

1. CORPORATE INFORMATION

The Company is principally engaged in the underwriting of all classes of general insurance business.

There have been no significant changes in the nature of this principal activity during the financial year.

The Company is a public company, incorporated and domiciled in Malaysia. The registered office of the company is located at 11th Floor, Wisma Bumi Raya, No. 10, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding company is Pacific & Orient Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements of the Company were authorised for issue on 13 December 2019 pursuant to a resolution by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs"), the requirements of the Companies Act, 2016 in Malaysia, Financial Services Act 2013 and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The financial statements of the Company have been prepared under the historical basis unless disclosed otherwise in the significant accounting policies.

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 liability simultaneously. Income and expenses 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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the assumption that the transaction to sell 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 fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The 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 for which different 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 into one of the three different levels of 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

The Company analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs in the latest valuation by agreeing the information to the relevant valuation reports and other related documents.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Property, Plant and Equipment and Depreciation

All items of property, plant 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 period in which they are incurred.

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

Freehold land and buildings and leasehold buildings are stated at revalued amounts, which are the fair values at the date of the revaluation less subsequent accumulated depreciation (except for freehold land which has an unlimited useful life and therefore is not depreciated) and any subsequent accumulated impairment losses. The Board determines the policies and procedures for both recurring and non-recurring fair value measurement. External valuers are involved for valuation of such assets. Involvement of external valuers is decided by the Board and selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies inputs applied in the latest valuation and verified by agreeing the information in the valuation computation to contracts and other relevant documents which also includes comparison with other relevant external sources to determine if any change is reasonable. Full revaluations are performed once in every five years or earlier if the carrying values of the revalued properties are materially different from their market values.

Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same property previously recognised in income statement, in which case the increase is recognised in income statement to the extent of the decrease previously recognised.

A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same property and the balance is thereafter recognised in income statement. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount of the property. Upon disposal or retirement of a property, any revaluation reserve relating to the particular property is transferred directly to retained profits.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over its estimated useful life.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Property, Plant and Equipment and Depreciation (Cont'd.)

The principal annual rates of depreciation are:

Buildings	2%
Computer equipment	10%
Motor vehicles	20%
Office equipment	10%
Furniture, fixtures and fittings	10%

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

An item of property, plant 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 and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

(d) 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. The Board determines the policies and procedures for recurring and non-recurring fair value measurement. External valuers are involved for valuation of investment properties. Involvement of external valuers is decided by the Board and selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies inputs applied in the latest valuation and verified by agreeing the information in the valuation computation to contracts and other relevant documents which also includes comparison with other relevant external sources to determine if any change is reasonable. Full revaluations are performed once in every three years or earlier if the carrying values of the revalued properties are materially different from their market values.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(d) Investment Properties (Cont'd.)

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rental or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either they have been disposed of 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.

(e) 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. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives 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 with a finite useful life are reviewed at least at each reporting date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

The useful lives of computer software and licences are considered to be finite because computer software and licences are susceptible to technological obsolescence.

The acquired computer software and licences are amortised using the straight line method over their estimated useful lives not exceeding 10 years. Impairment is assessed whenever there is indication of impairment and the amortisation period and method are also reviewed at least at each reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are categorised and measured using accounting policies as mentioned below:

(i) Financial assets

Financial Assets – Accounting policies applied from 1 October 2018

Initial recognition and initial measurement

Financial assets of the Company are classified in the following measurement categories - Amortised Cost, Fair Value Through Other Comprehensive Income (“FVOCI”) or Fair Value Through Profit or Loss (“FVTPL”).

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Company’s business model for managing them. With the exception of trade and insurance receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or which the Company has applied practical expedient are measured at the transaction price determined under MFRS 15 “Revenue from Contracts with Customers”.

In order for a financial asset to be classified and measured at amortised cost or fair value, it needs to give rise to cash flows that are ‘solely payments of principal and interest' ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how they manages their financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

Financial instruments are categorised and measured using accounting policies as mentioned below: (Cont'd.)

(i) Financial assets (Cont'd.)

Financial Assets – Accounting policies applied from 1 October 2018 (Cont'd.)

Initial recognition and initial measurement (Cont'd)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commit to purchase or sell the asset.

Subsequent measurement

(1) Financial assets at Amortised Cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

Financial instruments are categorised and measured using accounting policies as mentioned below: (Cont'd.)

(i) Financial assets (Cont'd.)

Financial Assets – Accounting policies applied from 1 October 2018 (Cont'd.)

Subsequent measurement (Cont'd.)

(2) Financial assets at Fair Value Through Other Comprehensive Income ("FVOCI") (debt instruments)

The Company measure debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in the FVOCI reserve.

Upon derecognition, the cumulative fair value change recognised in the FVOCI reserve is recycled to the income statement.

(3) Financial assets at Fair Value through Other Comprehensive Income ("FVOCI") (equity instruments)

The Company may elect to designate an equity instrument as FVOCI. Such designation is determined on an instrument by instrument basis. It is also the Company's policy to elect to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

Financial instruments are categorised and measured using accounting policies as mentioned below: (Cont'd.)

(i) Financial assets (Cont'd.)

Financial Assets – Accounting policies applied from 1 October 2018 (Cont'd.)

Subsequent measurement (Cont'd.)

(3) Financial assets at Fair Value through Other Comprehensive Income ("FVOCI") (equity instruments) (Cont'd.)

When such election is used, fair value gains or losses are recognised in the FVOCI reserve and are not subsequently recycled to the income statement including upon derecognition.

Dividends from financial assets at FVOCI are recognised in the income statement when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in FVOCI reserve.

Upon derecognition of an equity instrument designated as FVOCI, the cumulative gain or loss previously recognised in the FVOCI reserve is transferred to retained earnings.

(4) Financial assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets at FVTPL may comprise equity instruments as well as debt instruments.

These assets include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

The Company may, upon initial recognition, irrevocably designate a financial asset as measured at FVTPL that otherwise meets the criteria for amortised cost or FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

Financial instruments are categorised and measured using accounting policies as mentioned below: (Cont'd.)

(i) Financial assets (Cont'd.)

Financial Assets – Accounting policies applied from 1 October 2018 (Cont'd.)

Subsequent measurement (Cont'd.)

(4) Financial assets at Fair Value Through Profit or Loss ("FVTPL") (Cont'd.)

Changes in fair value of financial assets at FVTPL, dividend income and interest income are recognised in the income statement.

Gains or losses of financial assets at FVTPL are recognised in the income statement upon their derecognition.

Reclassification of Financial Assets

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

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

Financial Assets – Accounting policies applied prior to 1 October 2018

Classification and Measurement

(1) Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd.)

Financial Assets – Accounting policies applied prior to 1 October 2018 (Cont'd.)

Classification and Measurement (Cont'd.)

(1) Financial Assets at Fair Value Through Profit or Loss ("FVTPL") (Cont'd.)

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statement. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in the income statement as part of other losses or other income.

(2) Held-to-Maturity ("HTM") Investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has positive intention and ability to hold until maturity.

HTM investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial recognition, HTM investments are measured at amortised cost, using the effective interest method less impairment loss. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

(3) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially measured at cost plus transaction costs and subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd.)

Financial Assets – Accounting policies applied prior to 1 October 2018 (Cont'd.)

Classification and Measurement (Cont'd.)

(4) Available-for-Sale ("AFS") Financial Assets

AFS financial assets are non-derivative financial assets not classified in any of the above categories.

AFS financial assets are initially measured at fair value plus transaction costs and are subsequently measured at their fair values.

Fair value gains or losses of AFS financial assets are recognised in AFS reserve in the statement of changes in equity, except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in the income statement accordingly. The cumulative gain or loss previously recognised in equity is reclassified into the income statement when the AFS financial asset is derecognised.

Investments in equity instruments that are classified as AFS financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

(ii) Financial liabilities

Financial liabilities are classified as either (a) financial liabilities at fair value through profit or loss or (b) other financial liabilities.

(a) Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses on derivatives recognised in income statement. Net gains or losses on derivatives include exchange differences.

The Company has not designated any financial liabilities as at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

Financial Assets – Accounting policies applied prior to 1 October 2018 (Cont'd.)

Classification and Measurement (Cont'd.)

(ii) Financial liabilities (Cont'd.)

(b) Other financial liabilities

The Company's financial liabilities comprise insurance payables, other payables and borrowings.

Insurance payables, other payables and borrowings are recognised initially at their respective fair value net of directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised and through the amortisation process.

(iii) Regular way purchase or sale of financial assets

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

All the financial assets of the Company are recognised using trade date, the date that the Company commits to purchase or sell the asset except for debt instruments which are recognised using settlement date, the date the Company receives or delivers the asset.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial Instruments (Cont'd.)

Financial Assets – Accounting policies applied prior to 1 October 2018 (Cont'd.)

Classification and Measurement (Cont'd.)

(iv) Derecognition (Cont'd.)

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

(g) Impairment

(i) Financial assets

Accounting policies applied from 1 October 2018

The Company recognises allowance for impairment for expected credit loss (“ECL”) on financial assets measured at amortised cost and debt instruments measured at FVOCI.

Overview of ECL

For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Both 12-month ECL and lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

Financial assets other than insurance receivables

The Company has adopted a simplified approach when measuring the ECL for its financial assets other than insurance receivables.

Calculation of ECL – simplified approach

For trade and other receivables measured at amortised cost, the Company applies a simplified approach in calculating ECL. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date.

The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking information specific to the debtors and the economic environment. Forward looking information may include the consumer price index, base lending rate, unemployment rate, consumption growth rate and the stock exchange index.

For individual impairment assessment, the amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Company and all the cash flows that the Company expects to receive.

Insurance Receivables

For insurance receivables, the general approach is used where the ECL is assessed using an approach which classifies the financial assets into 3 stages which reflects the change in credit quality of the financial assets since initial recognition:

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

Insurance Receivables (Cont'd.)

- Stage 1: 12-month ECL - not credit impaired
  For financial assets which have not had a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the ECL associated with the probability of default events occurring within next 12 months will be recognised.

- Stage 2: Lifetime ECL - not credit impaired
  For financial assets which have had a significant increase in credit risk since initial recognition but that are not credit-impaired, a lifetime ECL will be recognised.

- Stage 3: Lifetime ECL - credit impaired
  For financial assets that are assessed as credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit-impaired, a lifetime ECL will be recognised.

Significant increase in credit risk

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures of its insurance receivables since initial recognition to determine whether the exposure is subject to 12-month ECL or lifetime ECL.

This is performed by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. When determining whether the risk of default has increased significantly since initial recognition, the Group and the Company consider both quantitative and qualitative information and assessments based on the Group's and the Company’s historical experience and credit risk assessments, including forward-looking information.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

Measurement of ECL – general approach

The Company uses a Loss Provision Ratio ("LPR") in the determination of the ECL of its insurance receivables. LPR is a ratio computed to estimate the percentage of outstanding insurance receivables that requires provisioning. In essence, LPR acts as a proxy for loss rate where the ratio is applied to the total outstanding insurance receivables in order to obtain the ECL.

The LPR is derived from internally developed statistical models and adjusted to reflect forward- looking information.

The components for computing the LPR include:

(i) amount of outstanding insurance receivables or debts as at reporting date for stages 1 and 2;

(ii) present value of insurance receivables or debts received or settled during the period under review using the effective interest rate;

(iii) forward looking macro-economic information which comprise economic indicators and industry statistics such as the consumer price index, base lending rate, unemployment rate, consumption growth rate, and the stock exchange composite index; and

(iv) full allowance for impairment is recognised for insurance receivables that have been classified as stage 3.

Write off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

Definition of default and credit-impaired financial assets

At each reporting period, the Company assesses whether financial assets are impaired. Qualitative and quantitative information are used to determine if a financial asset is credit impaired. The general presumption under MFRS 9 “Financial Instruments” is that a financial asset is in default when contractual payments are more than 90 days past due. However, in certain cases, the Company may rebut such presumption where there are reasonable and supportable information available to demonstrate that a more forward looking than past due information is more appropriate to assess the changes in credit risk.

In general, indicators that a financial asset is credit-impaired include the following observable data:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past-due event;

- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for a security because of financial difficulties.

Accounting policies applied prior to 1 October 2018

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence that a financial asset is impaired includes observable data about loss events such as significant financial difficulty of the issuer or obligor; significant adverse changes in the business environment in which the issuer or obligor operates; and the disappearance of an active market for that financial asset because of financial difficulties, which indicate that there is a measurable decrease in the estimated future cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

Accounting policies applied prior to 1 October 2018 (Cont'd.)

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

The Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which the impairment loss is or continues to be recognised are not included in the collective assessment of impairment. The impairment assessment is performed at each reporting date.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(i) Financial assets (Cont'd.)

Accounting policies applied prior to 1 October 2018 (Cont'd.)

(b) AFS Financial Assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, is transferred to the income statement.

Impairment loss in respect of an equity instrument classified as AFS financial asset is not reversed through the income statement in subsequent periods. Impairment loss on debt instruments classified as AFS financial asset is reversed through the income statement if the increase in the fair value of the debt instrument can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

(ii) Non - financial assets

The carrying amounts of non-financial assets, other than investment properties and deferred tax 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.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGU are allocated to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment (Cont'd.)

(ii) Non - financial assets (Cont'd.)

An impairment loss is recognised in the income statement in the period in which it arises.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(h) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and at banks, and deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

The statement of cash flow is prepared using the indirect method.

(i) Insurance Payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(j) Borrowings

Borrowings (including subordinated notes) are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. Any difference between initial recognised amount and redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Product Classification

The Company issues contracts that transfer insurance risk.

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

Once a contract has been classified as an insurance contract, it remains 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.

When insurance contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

(l) Reinsurance

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Reinsurance (Cont'd.)

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

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

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

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

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

(m) Insurance Receivables

Insurance receivables are amounts receivable under the contractual terms of an insurance contract. On initial recognition, insurance receivables are measured at fair value based on the consideration given. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method.

Insurance receivables are assessed at each reporting date for objective evidence of impairment. If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the insurance receivable's original effective interest rate. The impairment loss is recognised in the income statement. The basis for recognition of such impairment loss is as described in Note 2(g)(i).

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Commission Expenses and Commission Income

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

(o) Equity Instruments

Ordinary shares are recorded at nominal value and are classified as equity. Dividends on ordinary shares are recognised in equity in the periods in which they are declared.

Costs incurred which are directly attributable to the issuance of shares are accounted for as deduction from equity.

(p) General Insurance Underwriting Results

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

(i) Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

(ii) Insurance contract liabilities

Insurance contract liabilities comprise premium liabilities and claims liabilities.

Premium liabilities

Premium liabilities represent the future obligation on insurance contracts, as represented by premiums received for unexpired risks.

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall level of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) General Insurance Underwriting Results (Cont'd.)

(ii) Insurance contract liabilities (Cont'd.)

Premium liabilities (Cont'd.)

- UPR

UPR represents the portion of premium income not yet earned at reporting date. UPR is computed on the following bases:

- 25% method for marine cargo, aviation cargo and transit

- 1/24th method for fire, engineering, and marine hull with a deduction of 15%, bonds and motor with a deduction of 10%, medical with a deduction of 10% - 15% and all other classes of business with a deduction of 25% or actual commission incurred, whichever is lower

- 1/8th method for overseas inward treaty business with a deduction of 20% for acquisition costs

- Non-annual policies with a duration of cover extending beyond one year is time apportioned over the period of the risks.

- URR

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) General Insurance Underwriting Results (Cont'd.)

(ii) Insurance contract liabilities (Cont'd.)

Claims liabilities

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

(q) Liability Adequacy Test

At each reporting date, the Company reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Company, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Company compares all contractual cash flows against the carrying value of insurance contract liabilities. Any deficiency is recognised in the income statement.

The estimation of claim and premium liabilities performed at reporting date is part of the liability adequacy tests performed by the Company. Based on this, all insurance contract liabilities as at the reporting date are deemed to be adequate.

(r) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when 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, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(s) Other Revenue Recognition

Other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company, and the revenue can be reliably measured. The following specific criteria must be met before revenue is recognised:

(i) Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid;

(ii) Interest income from money market instruments and deposits and placements with financial institutions are recognised using the effective interest rate method;

(iii) Dividend income is recognised when the right to receive payment is established; and

(iv) Income from Islamic corporate bond is recognised using the effective interest method.

(t) Foreign Currencies

(i) Functional and presentation currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company’s functional currency.

(ii) Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated using the exchange rates prevailing at the dates of transactions. Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in the income statement for the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(u) Income Tax

Income tax on the income statement for the year comprises current and deferred tax. Current tax is the expected amount of income tax payable in respect of the taxable profit for the year and is measured using the tax rate as enacted at the reporting date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses, unused capital allowances 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, unused capital allowances and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in the income statement as income or expense, 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.

(v) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Leases (Cont'd.)

(i) Classification (Cont'd.)

All leases that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases, with the following exceptions:

- A property held under an operating lease 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; and

- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance leases - the Company as lessee

Assets acquired by way of hire purchase agreements are stated at an amount equal to the lower of their fair values and the present value of the minimum payments at the inception of the agreements, less accumulated depreciation and impairment losses.

The corresponding liability is included in the statement of financial position as hire purchase creditors. In calculating the present value of the minimum payments, the discount factor used is the interest rate implicit in the agreements, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are charged to income statement.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are recognised in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(c).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Leases (Cont'd.)

(iii) Operating leases - the Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments 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.

(w) Employee Benefits

(i) Short term benefits

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

Allowance for unutilised leave such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, the Company makes contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(w) Employee Benefits (Cont'd.)

(iii) Employee Share Option Scheme ("ESOS")

The Employee Share Option Scheme is an equity-settled, share-based compensation plan for eligible employees of the Company whereby the Company receives services from eligible employees in consideration for equity instruments (options) of the holding company, Pacific & Orient Berhad. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement of the Company over the vesting periods of the grant with a corresponding increase to share options reserve within equity.

At each reporting date, the Company revises the estimates of the number of share options that are expected to vest based on historical experience and statistical analysis. The Company recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to share options reserve in equity.

(x) Contingent Liabilities and Contingent Assets

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Company.

Contingent liabilities and assets are not recognised in the statement of financial position of the Company.

(y) Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and 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 liability simultaneously.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs

(a) The significant accounting policies adopted in preparing these financial statements are consistent with those adopted in the audited financial statements for the year ended 30 September 2018 except for the adoption of the following MFRSs, Amendments to MFRSs and Interpretation issued by the Malaysian Accounting Standards Board ("MASB").

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 15	Clarifications to MFRS 15 Revenue from Contracts with Customers
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contract
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRSs 2014 - 2016 Cycle)
Amendments to MFRS 128	Investments in Associates and Joint Ventures (Annual Improvements to MFRSs 2014 - 2016 Cycle)
Amendments to MFRS 140	Transfer of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

Other than for the implications as disclosed below, the adoption of the above MFRSs and Amendments to MFRSs and Interpretation did not have any significant impact on the financial statements of the Company.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(a) The significant accounting policies adopted in preparing these financial statements are consistent with those adopted in the audited financial statements for the year ended 30 September 2018 except for the adoption of the following MFRSs, Amendments to MFRSs and Interpretation issued by the Malaysian Accounting Standards Board ("MASB"). (Cont'd.)

(i) Adoption of MFRS 15 - Revenue from Contracts with Customers

MFRS 15 "Revenue from Contracts with Customers" replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and their related interpretations. MFRS 15 provides a principle-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The adoption of MFRS 15 did not have any material impact on the financial statements of the Company.

(ii) Adoption of MFRS 9 - Financial Instruments

The Company adopted MFRS 9 on 1 October 2018. As permitted by MFRS 9, comparative information has not been restated and all effects have been adjusted against equity as at 1 October 2018. Accordingly the comparative financial statements for the year ended 30 September 2018 are not comparable.

MFRS 9 replaces the guidance in MFRS 139 – Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and on hedge accounting.

The key changes to the Company's accounting policies resulting from the adoption of MFRS 9 are summarised below:

(a) Classification and measurement

MFRS 9 eliminates the existing MFRS 139 categories of financial assets classified under (i) Held-To-Maturity (“HTM”), (ii) Loans and Receivables (“L&R”) and (iii) Available-For-Sales (“AFS”) financial assets.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(a) The significant accounting policies adopted in preparing these financial statements are consistent with those adopted in the audited financial statements for the year ended 30 September 2018 except for the adoption of the following MFRSs, Amendments to MFRSs and Interpretation issued by the Malaysian Accounting Standards Board ("MASB"). (Cont'd.)

(ii) Adoption of MFRS 9 - Financial Instruments (Cont'd.)

(a) Classification and measurement (Cont'd.)

MFRS 9 contains the following three principal classification and measurement categories for financial assets:

- Amortised Cost
- Fair Value Through Other Comprehensive Income (“FVOCI”)
- Fair Value Through Profit or Loss (“FVTPL”)

Financial assets which are held with the objective of collecting contractual cash flows that are solely payments of principal and interest are classified and measured at amortised cost.

Financial assets which are held with the objective of both collecting contractual cash flows that are solely payments of principal and interest and selling of the said financial assets are classified and measured at FVOCI.

Equity instruments that are not held for trading may irrevocably be elected at inception to be classified and measured at FVOCI.

Financial assets that are held for trading or are not measured at FVOCI or amortised cost are classified and measured at FVTPL.

The Company's financial liabilities continue to be measured at amortised cost.

(b) Impairment

MFRS 9 requires impairment assessments to be based on an expected credit loss ("ECL") model, replacing the incurred loss model under MFRS 139 on its financial assets. The ECL model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The ECL model is applied to financial assets measured at amortised cost or debt instruments at FVOCI. Financial assets that are classified as FVTPL and equity instruments that are classified as FVOCI are not subject to impairment.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(a) The significant accounting policies adopted in preparing these financial statements are consistent with those adopted in the audited financial statements for the year ended 30 September 2018 except for the adoption of the following MFRSs, Amendments to MFRSs and Interpretation issued by the Malaysian Accounting Standards Board ("MASB"). (Cont'd.)

(ii) Adoption of MFRS 9 - Financial Instruments (Cont'd.)

(c) Hedge accounting

The Company do not have hedge instrument, thus the hedge accounting requirements under MFRS 9 are not relevant to the Company.

Effect of initial adoption of MFRS 9

The following are the changes in the classification of the Company's financial assets:

- Unit trusts

  Prior to 1 October 2018, unit trusts were classified as AFS financial assets. Upon adoption of MFRS 9, the Company has reclassified and measured these financial assets at FVTPL.

- Quoted shares

  Prior to 1 October 2018, quoted shares which are held for trading purposes were classified as financial assets at FVTPL. These financial assets will continue to be classified and measured at FVTPL under MFRS 9.

- Long-term quoted investments

  Prior to 1 October 2018, quoted investments which are not held for trading purposes were classified and measured as AFS financial assets under MFRS 139. Upon the adoption of MFRS 9, the Company has elected to designate these investments that are not held for trading to be measured at FVOCI.

- Loans and receivables

  Loans and receivables are classified as financial assets at amortised cost using the effective interest method less impairment losses. Prior to 1 October 2018, the impairment of loans and receivables was based on the incurred impairment loss model. Upon the adoption of MFRS 9, the ECL model is applied to determine impairment on financial assets at amortised cost.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(ii) Adoption of MFRS 9 - Financial Instruments (Cont'd.)

Effect of initial adoption of MFRS 9 (Cont'd.)

The Company applied MFRS 9 by adjusting the opening balance of equity as at 1 October 2018, of which the impacts are as follows:

		Restatements upon adoption of MFRS 9		
	30 September 2018	Classification & measurement	Expected credit losses	1 October 2018
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Property, plant and equipment	20,745	-	-	20,745
Investment properties	1,220	-	-	1,220
Prepaid land lease payments	294	-	-	294
Intangible assets	1,290	-	-	1,290
Investments *	558,019	-	-	558,019
Reinsurance assets	171,803	-	-	171,803
Insurance receivables	25,180	-	389	25,569
Other receivables	69,754	-	-	69,754
Cash and cash equivalents	38,300	-	-	38,300
Total assets	886,605	-	389	886,994
EQUITY				
Share capital	100,000	-	-	100,000
Revaluation reserve	12,378	-	-	12,378
Share option reserve	-	-	-	-
Fair value through other comprehensive income ("FVOCI") reserve	-	3,602	-	3,602
Available-for-sale ("AFS") reserve	4,046	(4,046)	-	-
Retained profits	134,857	444	389	135,690
Total equity	251,281	-	389	251,670
Insurance contract liabilities	534,128	-	-	534,128
Deferred tax liabilities	3,649	-	-	3,649
Insurance payables	14,771	-	-	14,771
Hire purchase creditors	271	-	-	271
Tax payable	3,764	-	-	3,764
Borrowings	69,111	-	-	69,111
Other payables	9,630	-	-	9,630
Total liabilities	635,324	-	-	635,324
TOTAL LIABILITIES AND EQUITY	886,605	-	389	886,994

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(ii) Adoption of MFRS 9 - Financial Instruments (Cont'd.)

Effect of initial adoption of MFRS 9 (Cont'd.)

* Note:

	30 September 2018	Classification & measurement	Expected credit losses	1 October 2018
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Investments				
Financial assets at FVTPL	2,180	88,812	-	90,992
Financial assets at FVOCI	-	14,211	-	14,211
Financial assets at AC	-	452,816	-	452,816
AFS investments	103,023	(103,023)	-	-
Loan and receivables ("L&R")	452,816	(452,816)	-	-
Total	558,019	-	-	558,019

The effects of adopting MFRS 9 on the income statement for the financial year ended 30 September 2019 is as follows:

Description of Change	RM'000
Increase in allowance for impairment of insurance receivables	(56)
Decrease in gain in fair value of investments at FVTPL	(1,821)
Decrease in profit before tax	(1,877)
Taxation	437
Decrease in profit after tax	(1,440)

(b) MFRSs, Amendments to MFRSs and Interpretations yet to be effective

The Company has not adopted the following MFRSs, Amendments to MFRSs and Interpretation which have been issued but are not yet effective. The Company intends to adopt these new pronouncements, if applicable, when they become effective.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(b) MFRSs, Amendments to MFRSs and Interpretations yet to be effective (Cont'd)

Effective for financial periods beginning on or after 1 January 2019

MFRS 16	Leases
IC Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures
Amendments to MFRS 3	Business Combinations (Annual Improvements to MFRSs 2015 – 2017 Cycle)
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 11	Joint Arrangements (Annual Improvements to MFRSs 2015 – 2017 Cycle)
Amendments to MFRS 112	Income Taxes (Annual Improvements to MFRSs 2015 – 2017 Cycle)
Amendments to MFRS 119	Employee Benefits - Plan Amendment, Curtailment or Settlement
Amendments to MFRS 123	Borrowing Costs (Annual Improvements to MFRSs 2015 – 2017 Cycle)

Effective for financial periods beginning on or after 1 January 2020

Amendments to MFRS 2	Share-Based Payment
Amendment to MFRS 3	Business Combinations
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources
Amendment to MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 101	Presentation of Financial Statements
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to MFRS 134	Interim Financial Reporting
Amendment to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendment to MFRS 138	Intangible Assets
Amendments to MFRS 9, MFRS 139 and MFRS 7	Interest Rate Benchmark Reform

Amendment to IC Interpretation 12 Service Concession Arrangements

Amendment to IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective (Cont'd.)

Effective for financial periods beginning on or after 1 January 2020 (Cont'd)

Amendment to IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

Amendment to IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Amendments to IC Interpretation 132 Intangible Assets - Web Site Costs

Effective for financial periods beginning on or after 1 January 2021

MFRS 17	Insurance Contracts

Effective date to be announced by Malaysian Accounting Standard Board

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

The adoption of the above MFRSs, Amendments to MFRSs and Interpretation stated above are not expected to result in significant financial impact to the Company, except as disclosed below:

- MFRS 16: Leases

  MFRS 16 replaces the existing standard on leases, MFRS 117.

  MFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under MFRS 16, lessees are required to recognise all leases in their balance sheets in the form of an asset (for the right of use) and a lease liability (for the payment obligation). Exception is granted for leases which are for a term of 12 months or less or where the underlying lease assets are of low value. For such leases, lessees may elect to expense off the lease payments on a straight line basis over the lease term or using another systematic method.

  MFRS 16 has substantially retained the lessor accounting model in MFRS 117. A lessor still has to classify leases as either finance or operating leases, depending on whether substantially all of the risks and rewards incidental to ownership of the underlying asset have been transferred to the lessee.

  The Company is currently in the process of finalising the financial impact of adopting MFRS 16.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONT'D.)

(b) MFRSs, Amendments to MFRSs and IC Interpretations yet to be effective (Cont'd.)

Effective date to be announced by Malaysian Accounting Standard Board (Cont'd)

- MFRS 17: Insurance Contracts

MFRS 17 replaces the existing MFRS 4: Insurance Contracts and introduces a single principle-based standard for recognition, measurement, presentation and disclosure of all insurance contracts. MFRS 17 is introduced to address the inconsistency in MFRS 4 which allowed insurers to use different accounting policies to measure insurance contracts in different countries.

MFRS 17 requires entities to recognise and measure a group of insurance contracts at (i) a risk-adjusted present value of future cash flows that incorporates information that is consistent with observable market information plus (ii) an amount representing the unearned profit in the insurance contracts.

MFRS 17 also requires entities to change the financial statements presentations of insurance service results whereby the insurance revenue is presented separately from insurance finance income or expenses.

MFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies MFRS 9 and MFRS 15 on or before the date it first applies MFRS 17.

The Company plans to adopt MFRS 17 on the required effective date and expects that MFRS 17 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 disclosure.

The company has completed the gap assessments phase of its MFRS 17 project and is expected to commence implementation activities in the upcoming financial year.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

(a) Critical Judgment Made in Applying Accounting Policies

The following is the judgment 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.

- Classification between Investment Properties and Property, Plant and Equipment

  The Company has developed certain criteria based on MFRS 140 in making judgment whether a property qualifies as an investment property. Investment property is a property held to earn rental or for capital appreciation or both.

  Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a 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 use in the production or supply of goods or services or for administrative purposes. Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

- Fair value measurements

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

  The Board determines the policies and procedures for both recurring fair value measurement. External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by the Board and selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

(b) Key Sources of Estimation Uncertainty

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) Depreciation and amortisation

Depreciation and amortisation are based on management's estimates of the future estimated average useful lives and residual values of property, plant and equipment and intangible assets. Estimates may change due to technological developments, expected level of usage, competition, market conditions and other factors, and could impact the estimated average useful lives and the residual values of these assets. This may result in future changes in the estimated useful lives and in the depreciation or amortisation expenses.

(ii) Employees' share option scheme ("ESOS")

Estimating fair value for ESOS requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share options, volatility and dividend yield and making assumptions about them.

Judgment is also required in estimating the number of share options expected to vest as this involves a high degree of subjectivity.

(iii) Impairment of non-financial assets

Non-financial assets are tested for impairment when indications of potential impairment exist. Indicators of impairment which could trigger an impairment review include evidence of obsolescence or physical damage, significant fall in market values, significant under performance relative to historical or projected future operating results, significant changes in the use of assets or the strategy of the business, significant adverse industry or economic changes.

Recoverable amounts of assets are based on management's estimates and assumptions of the net realisable value, cash flows arising from the future operating performance and revenue generating capacity of the assets and CGUs and future market conditions. Changes in circumstances may lead to revision in estimates and assumptions. This may result in changes to the recoverable amounts of assets and impairment losses.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd.)

(b) Key Sources of Estimation Uncertainty (Cont'd.)

(iv) Impairment of Financial Assets

Measurement of ECL

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

MFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, gross domestic product, unemployment rates, house price index, wholesale and retail index, passenger car sales, and lending rates. Incorporating forward looking information increases the level of judgment as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

(a) Determining criteria for significant increase in credit risk;

(b) Choosing appropriate models and assumptions for the measurement of ECL;

(c) Establishing the number and relative weightings of forward-looking scenarios for each type of financial and insurance assets, and the associated ECL; and

(d) Establishing groups of similar financial assets for the purposes of measuring ECL.

(v) Uncertainty in accounting estimates in the general insurance business

The principal uncertainty in the general insurance business arises from technical provisions for premium and claims liabilities.

Premium liabilities comprise the higher of UPR or URR while claims liabilities comprise outstanding claims case estimates and Incurred But Not Reported ("IBNR") claims.

UPR is determined based on estimates of the portion of premium income not yet earned at each reporting date whilst URR is determined based on estimates of expected future payments arising from future events insured under policies in force at each reporting date, including expected future premium refunds.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D.)

(b) Key Sources of Estimation Uncertainty (Cont'd.)

(v) Uncertainty in accounting estimates in the general insurance business (Cont'd)

Generally, claims liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretation, legislative changes, and claims handling procedures.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium and claims liabilities may vary from the initial estimates.

The estimates of premium and claims liabilities are therefore sensitive to various factors and uncertainties.

(vi) Deferred tax assets

Deferred tax assets are recognized for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the benefits can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(vii) Fair value measurement of financial instruments

When the fair values of financial assets recorded in the statements of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using relevant reports and related documents. A degree of judgment is required in establishing their fair values which include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. PROPERTY, PLANT AND EQUIPMENT

	Valuation			Cost				
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019								
Valuation/Cost:								
At 1 October 2018	2,465	921	16,705	5,790	1,832	1,680	3,759	33,152
Additions	-	-	-	-	421	15	29	465
Write-offs	-	-	-	-	-	(4)	(40)	(44)
At 30 September 2019	2,465	921	16,705	5,790	2,253	1,691	3,748	33,573
Accumulated depreciation:								
At 1 October 2018	-	31	929	5,761	820	1,503	3,363	12,407
Charge for the year	-	31	929	4	156	43	83	1,246
Write-offs	-	-	-	-	-	(3)	(39)	(42)
At 30 September 2019	-	62	1,858	5,765	976	1,543	3,407	13,611
Net carrying value:								
At 30 September 2019	2,465	859	14,847	25	1,277	148	341	19,962

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Valuation			Cost				
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018								
Valuation/Cost:								
At 1 October 2017	2,465	921	16,705	5,833	2,188	1,678	3,742	33,532
Additions	-	-	-	1	-	27	24	52
Disposals	-	-	-	-	(356)	(2)	-	(358)
Write-offs	-	-	-	(44)	-	(23)	(7)	(74)
At 30 September 2018	2,465	921	16,705	5,790	1,832	1,680	3,759	33,152
Accumulated depreciation:								
At 1 October 2017	-	-	-	5,800	754	1,472	3,284	11,310
Charge for the year	-	31	929	4	172	47	86	1,269
Disposals	-	-	-	-	(106)	-	-	(106)
Write-offs	-	-	-	(43)	-	(16)	(7)	(66)
At 30 September 2018	-	31	929	5,761	820	1,503	3,363	12,407
Net carrying value:								
At 30 September 2018	2,465	890	15,776	29	1,012	177	396	20,745

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(a) The freehold land and buildings and leasehold buildings were revalued as at 30 September 2017 based on valuation carried out by independent valuers, Messrs. Rahim & Co. on an open market value basis using the comparison method.

A desktop valuation on freehold land and buildings and leasehold buildings of the Company was conducted by Messrs. Rahim & Co. in the current financial year ended 30 September 2019 and no adjustment to the financial statements is made as their carrying values are not materially different from their market values.

The fair value of the freehold land and buildings and leasehold buildings are categorised within Level 3 of the fair value hierarchy.

There is no change to the valuation technique and fair value hierarchy in current financial year.

(b) The net carrying values of the freehold land and buildings and leasehold buildings of the Company had the cost model been applied, compared to the revaluation model as at 30 September 2019 are as follows:

		Net Carrying Value 2019		Net Carrying Value 2018	
	Note	Under Revaluation Model RM'000	Under Cost Model RM'000	Under Revaluation Model RM'000	Under Cost Model RM'000
Freehold land		2,465	380	2,465	380
Freehold buildings		859	230	890	238
Leasehold buildings		14,847	5,669	15,776	5,988
	43	18,171	6,279	19,131	6,606

(c) The net book value of motor vehicles held under hire purchase arrangements are RM1,032,407 (2018: RM736,000).

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(d) During the year, the Company acquired property, plant and equipment by:

	2019 RM'000	2018 RM'000
Cash	120	52
Hire purchase	345	-
	465	52

6. INVESTMENT PROPERTIES

	Note	2019 RM'000	2018 RM'000
At beginning/end of the year		1,220	1,220
Analysed as:			
Freehold buildings		655	655
Leasehold buildings		565	565
	43	1,220	1,220

Investment properties were revalued as at 30 September 2017 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

A desktop valuation on investment properties of the Company was conducted by Messrs. Rahim & Co. in the current financial year ended 30 September 2019 and no adjustment to the financial statements is made as their carrying values are not materially different from their market values.

The Company has assessed that the existing use of its investment properties to be the most appropriate, and at its highest and best use.

7. PREPAID LAND LEASE PAYMENTS

	Note	2019 RM'000	2018 RM'000
Long term leasehold land:			
At 1 October 2018/2017		294	298
Amortisation	30	(4)	(4)
At 30 September		290	294

8. INTANGIBLE ASSETS

	Note	2019 RM'000	2018 RM'000
Computer software and licences:			
Cost			
At 1 October 2018/2017		4,039	3,749
Additions		511	290
At 30 September		4,550	4,039
Accumulated amortisation			
At 1 October 2018/2017		2,749	2,398
Amortisation	30	444	351
At 30 September		3,193	2,749
Net book value		1,357	1,290

9. INVESTMENTS

	Note	2019 RM'000	2018 RM'000
(a) Fair value through profit or loss ("FVTPL") financial assets:			
At fair value:			
Quoted shares		18,555	2,180
Unit trusts		162,954	-
	43	181,509	2,180

9. INVESTMENTS (CONT'D.)

	Note	2019 RM'000	2018 RM'000
(b) Fair value through other comprehensive income ("FVOCI") financial assets:			
At fair value:			
Quoted shares		11,984	-
Corporate debt securities		20,042	-
	43	32,026	-
(c) Available-for-sale ("AFS") financial assets:			
At fair value:			
Quoted shares		-	14,211
Unit trusts		-	88,812
	43	-	103,023
(d) Financial assets at amortised cost:			
Deposits and placements with licensed financial institutions: *			
Commercial banks		301,647	266,463
Investment banks		23,361	186,353
Total financial assets at amortised cost		325,008	452,816
Total investments		538,543	558,019

* The carrying value of the fixed and call deposits with licensed banks approximates fair value due to the relatively short term maturities.

9. INVESTMENTS (CONT'D.)

(e) Carrying value of investments

	Note	FVTPL RM'000	FVOCI RM'000	AFS RM'000	L&R RM'000	Total RM'000
2019						
At 1 October 2018		2,180	-	103,023	452,816	558,019
Effects of adopting MFRS 9		88,812	14,211	(103,023)	-	-
Additions		209,730	20,000	-	-	229,730
Placements		-	-	-	173,728	173,728
Disposals		(117,392)	-	-	-	(117,392)
Maturities		-	-	-	(301,536)	(301,536)
Fair value loss recorded in other comprehensive income		-	(2,185)	-	-	(2,185)
Fair value loss recorded in income statement	27	(1,821)	-	-	-	(1,821)
At 30 September 2019		181,509	32,026	-	325,008	538,543
2018						
At 1 October 2017		2,620	-	90,088	556,799	649,507
Additions		-	-	203,014	-	203,014
Placements		-	-	-	151,053	151,053
Disposals		-	-	(185,686)	-	(185,686)
Maturities		-	-	-	(255,036)	(255,036)
Fair value loss recorded in other comprehensive income		-	-	(4,393)	-	(4,393)
Fair value loss recorded in income statement	27	(440)	-	-	-	(440)
At 30 September 2018		2,180	-	103,023	452,816	558,019

Included in deposits and placements of the Company is an amount of RM104,953 (2018: RM101,583) representing placements of deposits received from insureds as collateral for bond guarantees granted to third parties.

10. REINSURANCE ASSETS

	Note	2019 RM'000	2018 RM'000
Reinsurance of insurance contracts:			
Claims liabilities	17.1	130,564	134,956
Premium liabilities	17.2	31,377	36,847
		161,941	171,803

11. INSURANCE RECEIVABLES

	Note	2019 RM'000	2018 RM'000
Outstanding premiums including agents', brokers' and co-insurers' balance	11.1	4,193	5,203
Due from reinsurers and ceding companies	11.2	21,841	21,552
		26,034	26,755
Allowance for impairment	41 (a)	(1,242)	(1,575)
		24,792	25,180

The Company's insurance receivables that have been offset against insurance payables are as follows:

	Gross carrying amount RM'000	Gross amount offset RM'000	Net amount presented RM'000
11.1 Outstanding premiums including agents', brokers' and co-insurers' balance			
2019			
Premiums	6,232	-	6,232
Commission payables	-	(2,678)	(2,678)
Claims recoveries	639	-	639
	6,871	(2,678)	4,193
2018			
Premiums	7,801	-	7,801
Commission payables	-	(3,237)	(3,237)
Claims recoveries	639	-	639
	8,440	(3,237)	5,203

11. INSURANCE RECEIVABLES (Cont'd.)

11.2 Due from reinsurers and ceding companies

	Gross carrying amount	Gross amount offset	Net amount presented
	RM'000	RM'000	RM'000
2019			
Premiums ceded	589	-	589
Commission receivables	15,014	-	15,014
Claims recoveries	6,238	-	6,238
	21,841	-	21,841
2018			
Premiums ceded	1,465	-	1,465
Commission receivables	7,873	-	7,873
Claims recoveries	12,214	-	12,214
	21,552	-	21,552

12. OTHER RECEIVABLES

	Note	2019 RM'000	2018 RM'000
Due from fellow subsidiary company	(a)	639	497
Accrued income		4,405	6,637
Share of assets held by Malaysian Motor Insurance Pool ("MMIP")	(b)	53,890	56,598
Deposits and prepayments		1,424	1,458
Tax recoverable	(c)	1,999	1,999
Amount due from Royal Malaysian Customs Department ("RMCD"):			
- Goods and services tax ("GST") recoverable		513	1,106
- Sales and Service Tax ("SST")	(d)	2,864	-
Sales proceeds receivable from disposal of investments		-	940
Others		603	519
		66,337	69,754

12. OTHER RECEIVABLES (Cont'd.)

(a) The amount due from fellow subsidiary company is unsecured, interest free and repayable in accordance with applicable terms.

(b) As a participating member of MMIP, the company shares a proportion of the Pool's net assets/liabilities. At each reporting date, the Company accounts for its share of the assets, liabilities and performance of the Pool. The net assets held under MMIP represents the Company's share of the Pool's net assets, before insurance contract liabilities.

(c) This represents the excess tax paid to Inland Revenue Board of Malaysia of which RM1,631,832 was refunded on 11 October 2019. The balance is expected to be recovered in due course.

(d) The Company on 31 October 2018 paid service tax on unexpired premiums for the period June 2018 to August 2018 of RM3,280,532 based on the Sales and Service Tax ("SST") Transitional Rules para 25-28, issued on 24 August 2018. The Kementerian Kewangan Malaysia on 15 November 2018 issued a letter to Persatuan Insurans Am Malaysia ("PIAM") informing that exemptions were given for insurance policies sold to individuals which resulted in an overpayment of RM2,864,173 reflected as recoverable at 30 September 2018. The Company is still in the process of recovering this amount from the RMCD.

The Company’s normal trade credit term is up to 60 days. Other credit terms are assessed and approved on a case by case basis.

13. CASH AND CASH EQUIVALENTS

	2019 RM'000	2018 RM'000
Deposits and placements with licensed commercial bank (with original maturity period of less than three months)	16,155	35,140
Cash and bank balances	2,462	3,160
	18,617	38,300

14. SHARE CAPITAL

	Number of shares		Amount	
	2019 '000	2018 '000	2019 RM'000	2018 RM'000
Issued and fully paid ordinary shares	100,000	100,000	100,000	100,000

15. SHARE OPTION RESERVE

The share option reserve arises on the grant of share options to employees under the employees' share option scheme ("ESOS").

Under Pacific & Orient Berhad's ESOS, restrictive share options were granted to eligible employees of the Company at the specific price. These options will be exercised each year over the period of 5 years from the grant date. The total value of the options recognised in year 2019 was RM550,272.

The share options of the Company granted under the ESOS that are still outstanding for the financial year ended 30 September 2019 is as follows:

			Number of Options					
Grant Date	Expiry Date	Exercise Price	Options Granted	Expired	Retracted*	Exercised	Outstanding as at 30 September 2019	Exercisable as at 30 September 2019
13 September 2019	16 June 2024	RM0.89	10,308,000	-	28,000	11,000	10,269,000	6,364,083

* Due to resignation

As at 30 September 2019, the number of options vested are 6,403,083 shares and the outstanding options are 6,364,083 shares.

16. RETAINED PROFITS

The Company is able to distribute dividends to its shareholders under the single tier system.

Pursuant to Section 51(1) of the Financial Services Act 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend.

Pursuant to the 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 below its internal target capital level.

As at 30 September 2019 and 2018, the Company has a Capital Adequacy Ratio in excess of the minimum requirement as stipulated in the RBC Framework.

17. INSURANCE CONTRACT LIABILITIES

	2019 Gross RM'000	2019 Reinsurance RM'000 (Note 10)	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000 (Note 10)	2018 Net RM'000
General insurance	515,060	(161,941)	353,119	534,128	(171,803)	362,325

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

	Note	2019 Gross RM'000	2019 Reinsurance RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000
Provisions for claims reported		248,928	(88,379)	160,549	255,486	(85,249)	170,237
Provision for Incurred But Not Reported ("IBNR")		117,188	(31,990)	85,198	127,628	(37,978)	89,650
Provision of Risk Margin for Adverse Deviation ("PRAD")		29,348	(10,195)	19,153	30,344	(11,729)	18,615
Claims Liabilities	17.1	395,464	(130,564)	264,900	413,458	(134,956)	278,502
Premium Liabilities	17.2	119,596	(31,377)	88,219	120,670	(36,847)	83,823
		515,060	(161,941)	353,119	534,128	(171,803)	362,325

17. INSURANCE CONTRACT LIABILITIES (CONT'D.)

17.1 Claims Liabilities

	Note	2019 Gross RM'000	2019 Reinsurance RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000
At 1 October 2018/2017		413,458	(134,956)	278,502	490,140	(163,006)	327,134
Claims incurred in the current accident year (direct and facultative)		158,856	(45,100)	113,756	153,689	(49,590)	104,099
Adjustment to claims incurred in prior accident year (direct and facultative)		(13,199)	(4,192)	(17,391)	(24,207)	3,534	(20,673)
Claims incurred during the year (treaty inwards claims)		50	-	50	(1,168)	987	(181)
Movement in Provision of Risk Margin for Adverse Deviation ("PRAD") claims liabilities at 75% confidence level		(996)	1,533	537	(5,943)	2,757	(3,186)
Movement in claims handling expenses		1,040	-	1,040	(309)	1,788	1,479
Claims paid during the year	29	(163,745)	52,151	(111,594)	(198,744)	68,574	(130,170)
At 30 September		395,464	(130,564)	264,900	413,458	(134,956)	278,502

17. INSURANCE CONTRACT LIABILITIES (CONT'D.)

17.2 Premium Liabilities

	Note	2019 Gross RM'000	2019 Reinsurance RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000
At 1 October 2018/2017		120,670	(36,847)	83,823	120,977	(37,410)	83,567
Premiums written during the year	24	280,953	(102,169)	178,784	275,285	(106,285)	169,000
Premiums earned during the year	24	(282,027)	107,639	(174,388)	(275,592)	106,848	(168,744)
At 30 September		119,596	(31,377)	88,219	120,670	(36,847)	83,823

18. DEFERRED TAX LIABILITIES

	Note	2019 RM'000	2018 RM'000
At 1 October 2018/2017		(3,649)	(4,704)
Transfer from/(to) income statement	32	47	1
- Deferred tax assets		(2)	(36)
- Deferred tax liabilities		49	37
Transfer from FVOCI reserve		524	-
- Deferred tax assets		-	-
- Deferred tax liabilities		524	-
Transfer from AFS reserve		-	1,054
- Deferred tax assets		-	-
- Deferred tax liabilities		-	1,054
At 30 September		(3,078)	(3,649)

Reflected after offsetting in the statement of financial position as follows:

	Note	2019 RM'000	2018 RM'000
Deferred tax assets	18.1	1,913	1,915
Deferred tax liabilities	18.2	(4,991)	(5,564)
Net deferred tax liabilities		(3,078)	(3,649)

18. DEFERRED TAX (LIABILITIES)/ASSETS (CONT'D.)

18.1 Deferred tax assets

The components and movements of deferred tax assets during the current and previous financial years prior to offsetting are as follows:

	Revaluation deficit	Premium liabilities	Changes in fair value of FVOCI financial assets	Accumulated impairment loss	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2019					
At 1 October 2018 (as previously stated)	30	2	-	1,883	1,915
Effects of adopting MFRS 9	-	-	1,883	(1,883)	-
At 1 October 2018 (as restated)	30	2	1,883	-	1,915
Recognised in comprehensive income/ income statement	-	(2)	-	-	(2)
At 30 September 2019	30	-	1,883	-	1,913
2018					
At 1 October 2017	30	-	-	1,921	1,951
Recognised in comprehensive income/ income statement	-	2	-	(38)	(36)
At 30 September 2018	30	2	-	1,883	1,915

18. DEFERRED TAX (LIABILITIES)/ASSETS (CONT'D.)

18.2 Deferred tax liabilities

The components and movements of deferred tax liabilities during the current and previous financial years prior to offsetting are as follows:

	Premium liabilities	Changes in fair value of FVOCI financial assets	Changes in fair value of AFS financial assets	Revaluation surplus	Accelerated capital allowances	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019						
At 1 October 2018 (as previously stated)	-	-	(1,278)	(3,890)	(396)	(5,564)
Effects of adopting MFRS 9		(1,278)	1,278	-	-	-
At 1 October 2018 (as restated)	-	(1,278)	-	(3,890)	(396)	(5,564)
Recognised in comprehensive income/ income statement	-	-	-	-	49	49
Recognised in the FVOCI reserve	-	524	-	-	-	524
At 30 September 2019	-	(754)	-	(3,890)	(347)	(4,991)
2018						
At 1 October 2017	(18)	-	(2,332)	(3,890)	(415)	(6,655)
Recognised in the income statement	18	-	-	-	19	37
Recognised in comprehensive income	-	-	1,054	-	-	1,054
At 30 September 2018	-	-	(1,278)	(3,890)	(396)	(5,564)

19. INSURANCE PAYABLES

	Note	2019 RM'000	2018 RM'000
Due to reinsurers and ceding companies	19.1	12,585	11,821
Due to agents, brokers, co-insurers and insureds	19.2	2,108	2,950
		14,693	14,771

The Company's insurance payables that have been offset against insurance receivables are as follows:

	Gross carrying amount RM'000	Gross amount offset RM'000	Net amount presented RM'000
19.1 Due to reinsurers and ceding companies			
2019			
Premiums ceded	22,860	-	22,860
Commission receivables	-	(2,874)	(2,874)
Claims recoveries	-	(7,401)	(7,401)
	22,860	(10,275)	12,585
2018			
Premiums ceded	20,878	-	20,878
Commission receivables	-	(2,760)	(2,760)
Claims recoveries	-	(6,297)	(6,297)
	20,878	(9,057)	11,821
19.2 Due to agents, brokers, co-insurers and insureds			
2019			
Premiums	3,304	-	3,304
Commission recoverables	-	(1,196)	(1,196)
	3,304	(1,196)	2,108
2018			
Premiums	4,444	-	4,444
Commission recoverables	-	(1,494)	(1,494)
	4,444	(1,494)	2,950

20. HIRE PURCHASE CREDITORS

	2019 RM'000	2018 RM'000
Future minimum payments:		
Not later than 1 year	189	150
Later than 1 year and not later than 2 years	117	104
Later than 2 years and not later than 5 years	161	32
Total future minimum payments	467	286
Less: Future finance charges	(32)	(15)
Present value of hire purchase liabilities	435	271
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	173	140
Later than 1 year and not later than 2 years	108	100
Later than 2 years and not later than 5 years	154	31
	435	271

The hire purchase arrangements at the reporting date bore interest between 3.44% and 4.85% (2018: 2.87% and 4.49%) per annum.

21. BORROWINGS

	Effective interest rate per annum	Maturity	2019 RM'000	2018 RM'000
Unsecured				
Subordinated Notes	7.74%	2022	69,328	69,111
Amount due within 2 to 5 years			69,328	69,111

During the financial year ended 30 September 2012, the Company established a Subordinated Notes (“Sub Notes”) Programme with an aggregate nominal value of RM150,000,000 issuable in tranches.

The first tranche of Sub Notes was issued on 27 June 2012 with a nominal value of RM70,000,000 at a discounted subscription price of RM99.05. The Sub Notes were issued for a tenure of 10 years on a 10 non-callable 5 basis, with a fixed coupon rate of 7.60% per annum.

Of the RM70,000,000 Sub Notes, RM35,000,000 were subscribed by the holding company whilst the remaining RM35,000,000 were subscribed by a third party.

22. OTHER PAYABLES

	2019 RM'000	2018 RM'000
Due to holding company*	44	45
Accruals	1,727	3,154
Collateral deposits	101	97
Refund premiums	10	13
Sales and services tax payable	2,351	1,435
Allowance for unutilised leave	760	639
Stamp duty payable	660	690
Unclaimed monies	12	19
Accrual of directors' fees	368	392
Sundry creditors	1,330	847
Underwriting fees payable	-	700
Interest payable on Subordinated Notes**	1,399	1,399
Others	1	200
	8,763	9,630

* The amount due to holding company is unsecured, interest free and repayable in accordance with applicable terms.

Carrying value of amount due to holding company approximates fair value as the amount is repayable in accordance with applicable terms.

** Interest payable on Subordinated Notes represents interest accrued for three months, which is repayable in accordance with the terms of the Subordinated Notes.

The normal trade credit terms granted to the Company is up to 90 days.

23. OPERATING REVENUE

	Note	2019 RM'000	2018 RM'000
Insurance fund			
Gross earned premiums	24(a)	282,027	275,592
Investment income	25	27,409	26,781
		309,436	302,373

24. NET EARNED PREMIUMS

		Note	2019 RM'000	2018 RM'000
(a)	Gross premiums	17.2	280,953	275,285
	Change in premium liabilities		1,074	307
	Gross earned premiums		282,027	275,592
(b)	Gross premiums ceded to reinsurers	17.2	(102,169)	(106,285)
	Change in premium liabilities		(5,470)	(563)
	Premiums ceded to reinsurers		(107,639)	(106,848)
	Net earned premiums		174,388	168,744

25. INVESTMENT INCOME

	Note	2019 RM'000	2018 RM'000
Dividend income:			
- shares quoted in Malaysia		642	228
- unit trusts		3,679	3,386
Interest income:			
- deposits and placements with financial institutions		13,361	13,957
Income from Islamic fixed deposits		5,705	6,553
Rental of properties:			
- third parties		25	25
- fellow subsidiary company	38	30	30
- holding company	38	262	261
Investment income from:			
- MMIP		3,663	2,276
- Malaysian Reinsurance Berhad ("MRB")		42	65
	23	27,409	26,781

26. REALISED GAINS

	2019 RM'000	2018 RM'000
Realised gains/(losses):		
- Property, plant and equipment	-	(162)
- FVTPL financial assets:		
Quoted in Malaysia	723	-
Unit trusts	(22)	-
- AFS financial assets:		
Quoted in Malaysia	-	551
Unit trusts	-	227
- Realised foreign exchange (loss)/gain	(13)	18
	688	634

27. FAIR VALUE LOSSES

	Note	2019 RM'000	2018 RM'000
Fair value losses:			
Loss on fair value of investments held as at fair value through profit or loss ("FVTPL")	9	(1,821)	(440)
		(1,821)	(440)

28. OTHER OPERATING EXPENSES

	2019 RM'000	2018 RM'000
Other operating (expenses)/income:		
Sundry income	395	221
Property, plant and equipment written off	(2)	(8)
Sales and Services Tax charged on unexpired premium	-	(366)
Other expenses	(532)	(237)
	(139)	(390)

29. NET CLAIMS INCURRED

	Note	2019 RM'000	2018 RM'000
Gross claims paid	17.1	(163,745)	(198,744)
Claims ceded to reinsurers	17.1	52,151	68,574
Gross decrease in insurance contract liabilities		17,994	76,682
Change in insurance contract liabilities ceded to reinsurers		(4,393)	(28,050)
		(97,993)	(81,538)

30. MANAGEMENT EXPENSES

	Note	2019 RM'000	2018 RM'000
Chief executive officer's remuneration	31	739	1,468
Staff salaries and bonus		19,396	18,393
Allowance for unutilised leave		121	-
Pension costs - defined contribution plan		2,377	2,340
Other staff benefits		2,233	2,525
Employees share option expense	15	551	-
Depreciation of property, plant and equipment	5	1,246	1,269
Amortisation:			
- prepaid land lease payments	7	4	4
- intangible assets	8	444	351
Auditors' remuneration			
- Statutory audit		270	210
- Other regulatory related services		41	61
Directors' remuneration	31	368	392
Allowance for impairment of:			
- insurance receivables	41 (a)	56	591
Write back in allowance for impairment of:			
- insurance receivables	41 (a)	-	(76)
- other receivables		-	(438)
Rental of properties:			
- third parties		534	553
- fellow subsidiary company	38	214	210
Management fees to holding company	38	1,232	1,191

30. MANAGEMENT EXPENSES (CONT'D.)

	Note	2019 RM'000	2018 RM'000
Call centre service charges to:			
- third parties		96	46
- fellow subsidiary company	38	539	538
Rental of equipment:			
- third parties		50	52
- fellow subsidiary company	38	5,525	4,642
Printing and information system expenses:			
- third parties		5,453	5,592
- fellow subsidiary company	38	10,446	9,080
Business development		12,584	5,488
Bank charges		17	19
Credit card charges		2,567	2,779
Office administration and utilities		1,719	1,721
MMIP expenses		559	633
Professional fees		2,023	1,878
Motor vehicle expenses		626	602
Travelling and transport expenses		185	187
Road Transport Department access fees		311	315
Goods and services tax expense		8	93
General Insurance		135	129
Subscription Fees		269	231
Levy		421	421
Motor Assist & Towing services		782	730
Other expenses		616	417
		74,757	64,637

31. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

	Note	2019 RM'000	2018 RM'000
(a) Chief Executive Officer			
Salary		660	626
Bonus		-	212
Pension costs - defined contribution plan		79	103
Benefits-in-kind		37	27
Allowance		-	27
Gratuity		-	500
		776	1,495
Total Chief Executive Officer's remuneration excluding benefits-in-kind	30	739	1,468

31. DIRECTORS’ AND CHIEF EXECUTIVE OFFICER'S REMUNERATION (CONT'D.)

	Note	2019 RM'000	2018 RM'000
(b) Executive Director			
Allowance		50	40
(c) Non-Executive Directors			
Fees		318	352
Benefits-in-kind		7	5
		325	357
		375	397
Total Directors' remuneration excluding benefits-in-kind	30	368	392

The total remuneration received by the Individual, Executive and Non-Executive Directors during the year was as follows:

	Allowance RM'000	Fees RM'000	Benefits-in-Kind RM'000	Total RM'000
2019				
Pn. Norazian binti Ahmad Tajuddin	-	80	1	81
Mr. Chan Thye Seng	50	-	-	50
Mr. Prasheem Seebran	-	70	4	74
Dato’ Dr. Zaha Rina binti Zahari	-	70	2	72
Dr. Loh Leong Hua (Appointed on 1 July 2019)	-	16	-	16
Mdm. Sum Leng Kuang (Resigned on 1 August 2019)	-	58	-	58
Mr. Michael Yee Kim Shing (Resigned on 4 February 2019)	-	24	-	24
	50	318	7	375

31. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION (CONT'D.)

(c) Non-Executive Directors (Cont'd.)

	Fees	Benefits-in-Kind	Total
	RM'000	RM'000	RM'000
2018			
Pn. Norazian binti Ahmad Tajuddin	62	1	63
Mr. Chan Thye Seng	40	-	40
Mr. Prasheem Seebran	60	-	60
Dato' Dr. Zaha Rina binti Zahari	60	2	62
Mdm. Sum Leng Kuang	60	-	60
Mr. Michael Yee Kim Shing	60	2	62
En. Mohammad Nizar bin Idris (Resigned on 20 June 2018)	50	-	50
	392	5	397

(d) The number of Executive and Non-Executive Directors whose total remuneration received during the year falls within the following bands is:

	2019	2018
Executive Director:		
RM40,000 - RM50,000	1	1
Non-Executive Directors:		
Below RM40,000	2	1
RM40,001 - RM50,000	-	1
RM50,001 - RM60,000	1	2
RM60,001 - RM70,000	-	3
RM70,001 - RM80,000	3	-

32. INCOME TAX EXPENSE

	Note	2019 RM'000	2018 RM'000
Current income tax:			
Malaysian			
- Current		6,764	10,649
- (Over)/Under provision in prior years		(649)	139
		6,115	10,788
Deferred tax:			
Relating to timing differences			
- Current		93	(1)
- Over provision in prior years		(140)	-
Transferred from deferred taxation *	18	(47)	(1)
		6,068	10,787
* Amount transferred (from)/to deferred taxation			
- Deferred tax assets		(2)	(36)
- Deferred tax liabilities		49	37
		47	1

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

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

	2019 RM'000	2018 RM'000
Profit before taxation	21,298	38,405
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	5,112	9,217
(Over)/Under provision of income tax in prior years	(649)	139
Over provision of deferred tax in prior years	(140)	-
Income not subject to tax	(1,017)	(866)
Expenses not deductible for tax purposes	2,762	2,297
Tax expense for the year	6,068	10,787

33. BASIC AND DILUTED EARNINGS PER SHARE (SEN)

Basic and diluted earnings per share of the Company is calculated by dividing the net profit of RM15,230,000 (2018: RM27,618,000) for the financial year by 100,000,000 ordinary shares.

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

34. DIVIDENDS

The amount of dividends paid or declared by the Company on ordinary shares are as follows:

	Sen per share (net of tax)	Total amount	Date of payment
		RM'000	
2019			
Final single tier dividend of 45.00 sen per share, declared on 19 February 2019.	45.00	45,000	21 February 2019
		45,000	
2018			
Final single tier dividend of 36.50 sen per share, declared on 20 February 2018.	36.50	36,500	28 February 2018
		36,500	

35. OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX

	Note	2019 RM'000	2018 RM'000
Transfer from FVOCI			
Fair value through other comprehensive income ("FVOCI") reserve			
- Gross loss on fair value changes		(2,185)	-
- Transferred to income statement upon disposal		-	-
		(2,185)	-
- Deferred tax	18	524	-
		(1,661)	-
Items that may be reclassified to income statement in subsequent periods:			
Fair value changes on available-for-sale ("AFS") financial assets			
- Gross loss on fair value changes		-	(3,615)
- Transferred to income statement upon disposal		-	(778)
		-	(4,393)
- Deferred tax	18	-	1,054
		-	(3,339)
Other comprehensive loss for the year, net of tax		(1,661)	(3,339)

36. FINANCE COSTS

	Note	2019 RM'000	2018 RM'000
Hire purchase interest		18	25
Interest expense on borrowings:			
- holding company	38	2,660	2,660
- third party		2,660	2,660
Transaction costs of borrowings		217	201
Others		3	3
		5,558	5,549

37. COMMITMENTS AND CONTINGENCIES

	2019 RM'000	2018 RM'000
(i) Non-cancellable operating lease commitments		
Future minimum lease payments are as follows:		
Not later than 1 year	3,867	3,084
Later than 1 year and not later than 5 years	5,203	1,791
	9,070	4,875

These represent operating lease commitments for computer and office equipment of the Company.

(ii) Contingent Liabilities

On 10 August 2016, the Malaysia Competition Commission ("MyCC") through its powers granted under the Competition Act 2010 ("Act") commenced investigations into an alleged infringement by the Persatuan Insurans Am Malaysia ("PIAM") and its 22 members including the Company under the Section 4(2)(a) of the Act.

The alleged infringement is in relation to an agreement reached, pursuant to a requirement of Bank Negara Malaysia, between PIAM and the Federation of Automobile Workshop Owners' Association of Malaysia ("FAWOAM") on trade discount rates for parts of certain vehicle makes and labour hour rates for workshops under the PIAM Approved Repairers Scheme.

On 22 February 2017, MyCC issued its Proposed Decision on the alleged infringement which includes proposed financial penalties amounting to a total of RM213,454,814 on all the 22 members. The proposed financial penalty on the Company is RM2,108,452.

This Proposed Decision is subject to both written and oral representations from various parties including PIAM and the respective insurers. On 25 April 2017, the Company had via its legal counsel submitted its written representation to MyCC. The first session of the oral representations to MyCC took place on 16 and 17 October 2017. The subsequent sessions of the oral representations to MyCC took place on 12 and 14 December 2017, 29 and 30 January 2018, 19, 20 and 21 February 2019. BNM and FAWOAM were invited at the hearing of the oral representations on 21 February 2019. The oral representation from all relevant insurers, as represented by counsels, was concluded on 18 June 2019.

37. COMMITMENTS AND CONTINGENCIES (CONT'D.)

(ii) Contingent Liabilities (Cont'd.)

On 6 August 2019, MyCC has made a statement that they are likely to reach its decision on the proposed financial penalties against PIAM and 22 of its members in 2020.

In the event MyCC intends to enforce the Proposed Decision, it is likely that the insurers will appeal the matter to the Courts.

38. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The significant transactions of the Company with its related parties are as follows:

	Note	2019 RM'000	2018 RM'000
(Income)/expense:			
Holding company:			
Rental income	25	(262)	(261)
Management fees	30	1,232	1,191
Interest expenses on Subordinated Notes	36	2,660	2,660
Other income		(14)	(14)
Fellow subsidiaries of Pacific & Orient Berhad Group:			
Rental income	25	(30)	(30)
Office rental	30	214	210
Call centre service charges	30	539	538
Printing and information system expenses	30	10,446	9,080
Repair and maintenance		293	309
Rental of equipment	30	5,525	4,642
Purchase of computer software		168	258
Printing and stationery		162	126
Substantial shareholder of Sanlam Emerging Markets (Pty) Ltd:			
Pricing and product services		228	-
Specialised liability services fee		45	225
Actuarial fee		-	240
		273	465

38. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The significant transactions of the Company with its related parties are as follows: (Cont'd.)

Information regarding outstanding balances arising from related party transactions as at 30 September 2019 are disclosed in Notes 12, 21 and 22.

The Directors are of the opinion that the related party transactions above have been entered into in the normal course of business on terms and conditions which are not materially different from that obtainable in transactions with unrelated parties.

(b) Key Management Personnel Compensation:

The key management personnel is defined as the Chief Executive Officer and the Executive Director.

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

	Note	2019 RM'000	2018 RM'000
Short-term employee benefits:			
Salary		660	626
Bonus		-	212
Benefits-in-kind		37	27
Allowance		50	67
Gratuity		-	500
Post-employment benefits:			
Pension cost-defined contribution plan		79	103
	31	826	1,535

39. RISK MANAGEMENT FRAMEWORK

(a) Risk Management Framework

The Board of Directors, with the assistance of the Management, had implemented a risk management framework within the Company in June 2004. The primary goal of the framework are to provide a consistent approach to risks and to support the overall business objectives of the Company. The Framework was drawn up in line with the Joint Australian/New Zealand Standard AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines and was last updated in September 2014.

The Board is supported in its role by a Risk Management Committee ("RMC"), which was set up with clear terms of reference from the Board. The RMC is assisted by a Risk Management Department ("RMD").

The responsibilities of the various parties for risk management within the Company are summarised below:

- Board of Directors

  The Board of Directors retains the overall risk management responsibility and provides the risk oversight function, which includes:

  (i) Determining the Company's business strategies;

  (ii) Approving the Company's overall risk strategy;

  (iii) Approving the Company's risk philosophy/policy and concurring with the Company's risk appetite, and ensuring that they are consistent with the Company's strategic direction and business objectives;

  (iv) Knowing the extent to which management has established effective Enterprise Risk Management ("ERM") of the organization, including approving and periodic review of the Company's risk management framework as well as ensuring adequate resources and knowledge of management and staff involved in the risk management process;

  (v) Reviewing the Company's portfolio of risk and considering it against the Company's risk appetite; and

  (vi) Being apprised of the most significant risks and whether management is responding appropriately.

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

- Risk Management Committee ("RMC")

The primary function of the RMC with regards to risk management is in providing oversight over the design and implementation of the governance, risk management and compliance management frameworks.

This includes oversight over the philosophy, strategy, framework, policies and plan for governance, compliance and risk management to ensure systematic, disciplined approaches are developed and implemented.

The RMC is a Board committee, which comprises exclusively of non-executive directors. The Board entrusts the RMC with the overall responsibility for overseeing the risk management activities of POI. The RMC has a broad mandate to ensure effective implementation of the objectives outlined in the risk management framework and compliance with them throughout POI, which includes the following:

(i) Overseeing effective communication and implementation of the POI's risk appetite;

(ii) Reviewing and affirming the risk appetite regularly to ensure that it continues to be relevant and reflects changes in the Board’s expectations;

(iii) Providing critical challenge to senior management on the appropriateness of the risk strategy, policies and tolerances;

(iv) Evaluating whether the risk management framework (including identifying, measuring, monitoring and controlling risks) supports effective implementation of the risk strategy;

(v) Promoting a culture of risk awareness and risk management within POI;

(vi) Ensuring that management has the requisite skills, experience and competencies in risk management that are appropriate to the nature, scale and complexity of POI’s business;

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

- Risk Management Committee ("RMC") (Cont'd.)

  (vii) Ensuring adequate infrastructure, resources and systems are in place for effective risk management;

  (viii) Overseeing the design and development of POI’s risk management framework, in particular, challenging the credibility and robustness of development processes and ensure that there are no material gaps or weaknesses; and

  (ix) Periodically reporting higher risk exposures to the Board.

  The full responsibilities and detailed administrative duties of the RMC are set out in the Board approved Risk Management Committee’s Term of Reference.

- Enterprise Risk Management ("ERM") Department ("RMD")

  The role of the ERM function is to facilitate and coordinate risk and compliance activities for POI as mandated by the POI Board.

  The main role is to objectively and independently monitor that key risks for POI are identified, understood and appropriately managed within the overall POI strategy and risk appetite, and if not, to follow the agreed upon process for escalation.

  The RMC delegates to the RMD, the responsibility for ensuring effective implementation and maintenance of the framework and that all staff adhere to its mandates.

  The RMD acts as the central contact and guide for ERM issues within the Company. The RMD coordinates ERM routinely among the various business units. In support of its function, the RMD seeks the advice of other business units, such as operations, IT, finance, etc., as and when necessary.

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

- Enterprise Risk Management ("ERM") Department ("RMD") (Cont'd.)

The roles and responsibilities of the RMD include:

(i) Implementing risk management policy/philosophy within the Company;

(ii) Establishing a common risk management language that includes common measures around likelihood and impact, and common risk categories;

(iii) Challenging risk owners regarding all aspects of risk arising from the Company's activities;

(iv) Monitoring progress of risk mitigation plans;

(v) Developing and maintaining documentation of the ERM process, which includes the Risk Management Framework, the Risk Registers and risk profiles for POI;

(vi) Communicating ERM information within the Company to create risk awareness amongst the staff and arranging with the Human Resource Department to promote ERM throughout the entity, where necessary; and

(vii) Preparing quarterly reports to the RMC.

The Head of RMD reports to and has direct and unimpeded access to the Board and/or RMC to safeguard the RMD's independence. Nevertheless, the Head of RMD also has reporting obligations to the CEO to ensure that the CEO is kept informed of and engaged in risk matters.

- Management

Management is directly responsible for all activities of the Company, including ERM. This includes:

(i) Establishing clear guidance regarding the business and risk strategy, including risk limits, for individual business units;

(ii) Contributing towards promoting a sound risk culture through a clear focus on risk in the activities of the Company and timely and proportionate responses to inappropriate risk- taking behaviour;

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

- Management (Cont'd.)

  (iii) Promoting a culture of risk awareness and risk management within the Company;

  (iv) Establishing a management structure that promotes accountability and the effective oversight of delegated authority and responsibilities for risk-taking decisions; and

  (v) Implementing appropriate systems for managing financial and non-financial risks to which the Company is exposed.

  The line accountability for risk management is fully aligned with POI's management structure. Accordingly, approvals, responsibilities and accountabilities applicable to the identification, evaluation, monitoring and reporting of POI's risks are attributed to the RMD.

- Risk Owners

  Risk owners normally comprise heads of business units. They perform the operational risk assessment, management, monitoring and reporting risk exposures in their areas/activities within their control.

- Staff

  Staff should be cognisant of operational risks, undertaking tasks in a careful and conscientious manner that reflects – but not limited to - POI policies. They are to report any new or escalating risks identified to the Risk Owners.

- Internal Audit Department ("IAD")

  The IAD provides independent assurance on the adequacy and effectiveness of the risk management process established by the Company and recommending improvements thereto. This includes evaluating the reliability of reporting and the Company's compliance with laws and regulations. The IAD reports directly to the Audit Committee on its findings.

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

- Compliance Department

  The Compliance Department acts as the second line of defense, providing independent oversight of primary and consequential risks. This includes setting risk limits and protecting against non-compliance with applicable laws and regulations. The Compliance Department, amongst others, ensures controls to manage compliance risk are adequate and operating as intended. It also assess and monitors compliance risk faced by the Company.

- Finance Department

  Finance plays an important role in helping the company with internal controls and risk management. In addition to drafting financial statement or assisting with financial strategy, finance must be prepared to deal with the uncertainties that Company can face. The provision of regular risk based capital reports are one of the most important ways in which finance assist with assessing risk.

The Company’s Risk Management Framework requires that all of its businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Company. The Framework is based on the concept of ‘three lines of defence’ i.e. day-to-day risk management by the risk owners, risk oversight by the RMD and RMC and independent assurance by the Audit Committee, supported by the Internal Audit function.

Regular reports on key risks identified and the management of such risks are presented regularly to the RMC for its review and endorsement. Periodically, the RMC also reviews the adequacy and continued relevance of the Risk Management Framework, particularly in relation to mechanisms for principal risks identification, assessment, treatment, monitoring and review and communication.

Twice a year, the Chief Executive Officer ("CEO") presents reports to the Board of Directors on the scope and performance of the risk management and internal control system, to assist the Board in its risk management and internal control responsibilities. For the current year under review, the CEO has intimated that the Company's risk management and internal control system was adequate and generally effective in addressing the identified risks of the Company. Although minor lapses were noted, these did not have a significant impact on the Company.

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(b) Capital Management

The Company is subject to the capital adequacy requirements of the Risk Based Capital ("RBC") Framework as implemented by Bank Negara Malaysia to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The RBC capital adequacy requirements involves the Company maintaining an adequate level of capital based on the risk exposures of the Company. This externally imposed capital requirement has been complied with by the Company to date.

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders;

- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;

- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;

- To align the profile of assets and liabilities taking account of risks inherent in the business;

- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders; and

- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The Company's capital management policy for its insurance business is to hold sufficient capital to cover the statutory requirements based on the RBC Framework, including any additional amounts required by the regulator.

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(b) Capital Management (Cont'd.)

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company’s approach to manage capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders’ funds and borrowings. The Company also utilises, where efficient to do so, sources of capital such as reinsurance and securitisation in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis, and assessed against both the forecast available capital and the expected internal rate of return including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Board is provided with regular updates on the Company’s capital adequacy position. At the end of the current and previous financial years the Company has complied with the capital requirements under the RBC Framework.

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

The ICAAP is a process that is created to identify, assess, monitor, manage and report the short and long terms risks an insurance undertaking faces or may face and determine the own funds necessary to ensure that the undertaking’s solvency needs are met at all times.

It includes the Capital Management Plan which is a detailed plan that outlines measures that management will take in the event that the Individual Target Capital Level ("ITCL") is breached. These measures include:

- Management's effort in reducing risk by continually enhancing the internal processes of the company;

- The disposal of equity and high capital charge investments;

- The use of proportional reinsurance that has been pre-arranged by the company;

- The use of the subordinated debt programme which will increase Tier 2 capital; and

- Injection of shareholder funds.

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(c) Internal Capital Adequacy Assessment Process ("ICAAP") (Cont'd.)

The ICAAP has undergone independent review by an external consultancy. The review focused on many of the favourable aspects of the company's ICAAP and has outlined (in conjunction with management) a few recommendations that will enhance the process even further.

(d) Governance and Regulatory Framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or national disasters.

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

(e) Asset Liability Management ("ALM") Framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk.

The Company manages these positions within an ALM Framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principle technique of the Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

39. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(e) Asset Liability Management ("ALM") Framework (Cont'd.)

The Company’s ALM is:

- Integrated with the management of the financial risks associated with the Company’s other financial assets and liabilities not directly associated with insurance and investment liabilities; and

- Forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

40. INSURANCE RISK

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities.

Insurance contracts transfer risk to the Company by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events.

The Company underwrites various general insurance contracts which are mostly on an annual coverage and annual premium basis with the exception of short term policies such as Marine Cargo which covers the duration in which the cargo is being transported.

The Company also underwrites some non-annual policies with coverage period more than one year such as Contractor's All Risks and Engineering, Bonds and Workmen Compensation.

The majority of the insurance business written by the Company is Motor and Personal Accident insurance. Other insurance business includes Fire, Contractor's All Risks and Engineering, Workmen Compensation, Professional Indemnity and other miscellaneous classes of insurance.

The principal insurance risks faced by the Company include risks of actual claims and benefit payments differing from expectation, risks arising from natural disasters, risks arising from the fluctuations in timing, frequency and severity of claims, as well as the adequacy of premiums and reserves. For longer tail claims that take some years to settle, there is also inflation risk.

40. INSURANCE RISK (CONT'D.)

The Company’s objectives of managing insurance risks are to enhance the long-term financial performance of the business to achieve sustainable growth in profitability, strong asset quality and to continually optimise shareholders’ value. The Company seeks to write those risks that it understands and that provide a reasonable opportunity to earn an acceptable profit.

The Company has the following policies and processes to manage its insurance risks:

- An underwriting policy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility to ensure underwriting profitability. Acceptance of risk is guided by a set of underwriting guidelines with set limits on underwriting capacity, and authority to individuals based on their specific expertise;

- A claim management and control system to pay claims and control claim wastage or fraud;

- Claim review policies to assess all new and ongoing claims and possible fraudulent claims are investigated to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities; and

- The Company purchases reinsurance as part of its risks mitigation programme. The objectives for purchasing reinsurance are to control exposure to insurance losses, reduce volatility and optimise the Company’s capital efficiency. Reinsurance is ceded on proportional and non-proportional basis. The Company’s placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

40. INSURANCE RISK (CONT'D.)

The table below sets out the concentration of the Company's business by type of insurance products, using gross and net earned premiums:

	2019			2018		
	Gross earned premiums	Reinsurance	Net earned premiums	Gross earned premiums	Reinsurance	Net earned premiums
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
General insurance business						
Motor	212,333	(53,709)	158,624	207,127	(53,051)	154,076
Personal Accident	10,285	(828)	9,457	10,721	(796)	9,925
Fire	1,645	(870)	775	1,576	(562)	1,014
Miscellaneous	57,764	(52,232)	5,532	56,168	(52,439)	3,729
	282,027	(107,639)	174,388	275,592	(106,848)	168,744

The table below sets out the concentration of the Company's insurance contract liabilities by type of insurance products:

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Premium liabilities						
Motor	105,764	(21,922)	83,842	106,059	(27,026)	79,033
Personal Accident	1,017	(137)	880	1,164	(114)	1,050
Fire	288	(125)	163	267	(156)	111
Miscellaneous	12,527	(9,193)	3,334	13,180	(9,551)	3,629
	119,596	(31,377)	88,219	120,670	(36,847)	83,823

40. INSURANCE RISK (CONT'D.)

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Claims liabilities						
Motor	326,274	(73,135)	253,139	341,391	(74,634)	266,757
Personal Accident	4,184	(167)	4,017	3,753	(139)	3,614
Fire	969	(834)	135	353	(166)	187
Miscellaneous	64,037	(56,428)	7,609	67,961	(60,017)	7,944
	395,464	(130,564)	264,900	413,458	(134,956)	278,502

Key Assumptions

The principal assumptions underlying the estimation of liabilities is that the Company’s future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, discounting factors, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates.

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

Sensitivity

The independent actuarial firm engaged by the Company re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its insurance contracts.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on Gross and Net liabilities, Profit before Tax and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

40. INSURANCE RISK (CONT'D.)

Sensitivity (Cont'd.)

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		← Increase/(Decrease) →			
2019					
Average claim cost	+ 1%	3,637	2,331	(2,331)	(1,771)
Average number of claims	+ 1%	3,637	2,331	(2,331)	(1,771)
Average claim settlement period	decreased by 6 months	2,324	1,779	(1,779)	(1,352)
2018					
Average claim cost	+ 1%	3,876	2,448	(2,448)	(1,860)
Average number of claims	+ 1%	3,876	2,448	(2,448)	(1,860)
Average claim settlement period	decreased by 6 months	3,390	2,595	(2,595)	(1,972)

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

Claims development table

The following tables show the Company's estimated cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date.

While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The management of the Company believes that the estimate of total claims outstanding as of 30 September 2019 is adequate. However, the possibility of inadequacy of such balance should not be ruled out as the actual experience is likely to differ from the projected results to different degrees, depending on the level of uncertainty. This is primarily due to the nature of the reserving process and the elements of uncertainty inherent in the exercise.

40. INSURANCE RISK (CONT'D.)

Claims development table (Cont'd.)

Gross general insurance contract liabilities for 2019:

Accident year	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		253,244	241,788	235,691	223,370	199,691	188,653	188,323	
One year later		256,276	280,037	208,308	177,210	146,915	146,399	-	
Two years later		294,416	262,636	202,198	173,470	142,800	-	-	
Three years later		286,821	259,945	197,726	164,646	-	-	-	
Four years later		289,060	259,186	194,570	-	-	-	-	
Five years later		289,843	262,912	-	-	-	-	-	
Six years later		292,684	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		292,684	262,912	194,570	164,646	142,800	146,399	188,323	
At end of accident year		(52,326)	(47,235)	(36,239)	(32,100)	(29,859)	(29,587)	(32,319)	
One year later		(136,129)	(121,759)	(91,019)	(75,007)	(71,540)	(73,453)	-	
Two years later		(197,270)	(176,978)	(134,824)	(119,145)	(100,568)	-	-	
Three years later		(242,006)	(206,667)	(164,628)	(138,007)	-	-	-	
Four years later		(258,596)	(230,058)	(176,689)	-	-	-	-	
Five years later		(274,198)	(238,147)	-	-	-	-	-	
Six years later		(279,097)	-	-	-	-	-	-	
Cumulative payments to date		(279,097)	(238,147)	(176,689)	(138,007)	(100,568)	(73,453)	(32,319)	
Gross general insurance outstanding liability (direct and facultative)	15,184	13,587	24,765	17,881	26,639	42,232	72,946	156,004	369,238
Gross general insurance outstanding liability (treaty inward)									394
Best estimate of claims liabilities									369,632
Claims handling expenses									5,746
PRAD at 75% confidence level									30,194
Effects of discounting									(10,108)
Gross general insurance contract liabilities per statement of financial position									395,464

40. INSURANCE RISK (CONT'D.)

Claims development table (Cont'd.)

Net general insurance contract liabilities for 2019:

Accident year	Before 2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At end of accident year		168,742	174,718	178,631	172,639	148,606	101,587	142,820	
One year later		174,031	207,249	152,783	120,864	99,684	96,360	-	
Two years later		196,815	183,247	148,032	116,799	95,813	-	-	
Three years later		185,345	185,003	143,827	112,338	-	-	-	
Four years later		187,613	183,740	141,592	-	-	-	-	
Five years later		188,173	186,354	-	-	-	-	-	
Six years later		188,278	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		188,278	186,354	141,592	112,338	95,813	96,360	142,820	
At end of accident year		(36,504)	(36,192)	(28,124)	(25,086)	(22,481)	(21,731)	(24,720)	
One year later		(94,298)	(89,377)	(69,408)	(56,418)	(50,029)	(50,218)	-	
Two years later		(135,787)	(129,214)	(101,677)	(84,099)	(70,628)	-	-	
Three years later		(160,090)	(152,181)	(121,227)	(96,493)	-	-	-	
Four years later		(169,940)	(165,800)	(129,265)	-	-	-	-	
Five years later		(178,552)	(170,932)	-	-	-	-	-	
Six years later		(180,773)	-	-	-	-	-	-	
Cumulative payments to date		(180,773)	(170,932)	(129,265)	(96,493)	(70,628)	(50,218)	(24,720)	
Net general insurance outstanding liability (direct and facultative)	6,218	7,505	15,422	12,327	15,845	25,185	46,142	118,100	246,744
Net general insurance outstanding liability (treaty inward)									394
Best estimate of claims liabilities									247,138
Claims handling expenses									5,746
PRAD at 75% confidence level									19,799
Effects of discounting									(7,783)
Net general insurance contract liabilities per statement of financial position									264,900

40. INSURANCE RISK (CONT'D.)

Claims development table (Cont'd.)

Gross general insurance contract liabilities for 2018:

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year		258,790	253,244	241,788	235,691	223,370	199,691	188,653	
One year later		262,480	256,276	280,037	208,308	177,210	146,915	-	
Two years later		282,396	294,416	262,636	202,198	173,470	-	-	
Three years later		308,747	286,821	259,945	197,726	-	-	-	
Four years later		295,232	289,060	259,186	-	-	-	-	
Five years later		287,852	289,843	-	-	-	-	-	
Six years later		286,672	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		286,672	289,843	259,186	197,726	173,470	146,915	188,653	
At end of accident year		(59,518)	(52,326)	(47,235)	(36,239)	(32,100)	(29,859)	(29,587)	
One year later		(142,024)	(136,129)	(121,759)	(91,019)	(75,007)	(71,540)	-	
Two years later		(209,829)	(197,270)	(176,978)	(134,824)	(119,145)	-	-	
Three years later		(249,427)	(242,006)	(206,667)	(164,628)	-	-	-	
Four years later		(269,004)	(258,596)	(230,058)	-	-	-	-	
Five years later		(271,361)	(274,198)	-	-	-	-	-	
Six years later		(281,859)	-	-	-	-	-	-	
Cumulative payments to date		(281,859)	(274,198)	(230,058)	(164,628)	(119,145)	(71,540)	(29,587)	
Gross general insurance outstanding liability (direct and facultative)	17,211	4,813	15,645	29,128	33,098	54,325	75,375	159,066	388,661
Gross general insurance outstanding liability (treaty inward)									393
Best estimate of claims liabilities									389,054
Claims handling expenses									4,706
PRAD at 75% confidence level									31,290
Effects of discounting									(11,592)
Gross general insurance contract liabilities per statement of financial position									413,458

40. INSURANCE RISK (CONT'D.)

Claims development table (Cont'd.)

Net general insurance contract liabilities for 2018:

Accident year	Before 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At end of accident year		168,193	168,742	174,718	178,631	172,639	148,606	101,587	
One year later		178,771	174,031	207,249	152,783	120,864	99,684	-	
Two years later		186,995	196,815	183,247	148,032	116,799	-	-	
Three years later		205,905	185,345	185,003	143,827	-	-	-	
Four years later		191,100	187,613	183,740	-	-	-	-	
Five years later		190,942	188,173	-	-	-	-	-	
Six years later		188,359	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		188,359	188,173	183,740	143,827	116,799	99,684	101,587	
At end of accident year		(42,761)	(36,504)	(36,192)	(28,124)	(25,086)	(22,481)	(21,731)	
One year later		(99,449)	(94,298)	(89,377)	(69,408)	(56,418)	(50,029)	-	
Two years later		(143,610)	(135,787)	(129,214)	(101,677)	(84,099)	-	-	
Three years later		(169,660)	(160,090)	(152,181)	(121,227)	-	-	-	
Four years later		(180,600)	(169,940)	(165,800)	-	-	-	-	
Five years later		(180,317)	(178,552)	-	-	-	-	-	
Six years later		(188,607)	-	-	-	-	-	-	
Cumulative payments to date		(188,607)	(178,552)	(165,800)	(121,227)	(84,099)	(50,029)	(21,731)	
Net general insurance outstanding liability (direct and facultative)	33,105	(248)	9,621	17,940	22,600	32,700	49,655	79,856	245,229
Net general insurance outstanding liability (treaty inward)									390
Best estimate of claims liabilities									245,619
Claims handling expenses									4,706
PRAD at 75% confidence level									19,313
Effects of discounting									8,864
Net general insurance contract liabilities per statement of financial position									278,502

41. FINANCIAL RISKS

The Company is exposed to a variety of financial risks arising from its operations. The key financial risks are credit risk, liquidity risk, and market risk.

The Company's overall financial risk management objective is to ensure that the Company creates value for its shareholders whilst minimising potential exposure to adverse effects on its financial performance and positions.

The policies and processes taken by the Company to manage these risks are set out below:

(a) Credit risk

Credit risk is the risk of financial loss that may arise from the failure of intermediary or counterparties in meeting their financial and contractual obligations to the Company as and when they fall due.

The Company's primary exposure to credit risk arises through its investments in debt instruments, receivables arising from sales of insurance policies and obligations of reinsurers through reinsurance contracts.

The Company has the following policies and processes to manage and mitigate its credit risks:

- Financial loss from an investment in debt instrument may arise from a change in the value of the investment due to a rating downgrade or default. Before acquiring a debt instrument from an issuer, an evaluation of the issuer's credit risk is undertaken by the Company. Ratings assigned by external rating agencies are also used in the evaluation to ensure optimal credit quality of the individual debt instrument concerned. The Company also has an Investment Policy which sets out the limits on which the Company may invest in each counterparty so as to ensure that there is no concentration of credit risk;

41. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (Cont'd.)

- Insurance receivables which arise mainly from premiums collected on behalf of the Company by appointed agents, brokers and other intermediaries are monitored on a daily basis to ensure adherence to the Company's Credit Policy. Internal guidelines are also established to evaluate the Company's intermediaries before their appointment as well as setting credit terms/limits to the appointees concerned; and

- Receivables from reinsurance contracts are monitored on a monthly basis to ensure compliance with payment terms. The Company also monitors the credit quality and financial conditions of its reinsurers on an ongoing basis to reduce the risk exposure. When selecting its reinsurers, the Company considers their relative financial security which is assessed based on public rating information, annual reports and other financial data.

Credit exposure

The table below shows the maximum exposure to credit risk for the financial and insurance assets components of the statement of financial position.

	2019	2018
	RM'000	RM'000
Reinsurance assets	161,941	171,803
Insurance receivables	24,792	25,180
Deposits and placements with financial institutions	325,008	452,816
Other receivables	60,961	66,649
Cash and cash equivalents	18,617	38,300
	591,319	754,748

The above financial and insurance assets are not secured by any collaterals or credit enhancements.

41. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (Cont'd.)

Credit exposure by credit quality

The table below provides information regarding the credit risk exposure of the Company by classifying financial and insurance assets according to the Company's credit ratings of counterparties. AAA is the highest possible rating.

	AAA	AA	A	B	BB	Not Rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019							
Reinsurance assets	-	47	151,047	6	3,059	7,782	161,941
Insurance receivables	-	-	20,952	62	-	3,778	24,792
Other receivables	2,212	1,897	223	-	-	56,628	60,960
Deposits and placements with financial institutions	137,629	179,505	7,874	-	-	-	325,008
Cash and cash equivalents	11,503	86	6,986	-	-	42	18,617
	151,344	181,535	187,082	68	3,059	68,230	591,318
2018							
Reinsurance assets	2,821	462	158,702	31	-	9,787	171,803
Insurance receivables	262	10	20,129	-	-	4,779	25,180
Other receivables	3,213	1,715	1,310	-	-	60,411	66,649
Deposits and placements with financial institutions	205,491	96,112	106,459	-	-	44,754	452,816
Cash and cash equivalents	37,755	508	-	-	-	37	38,300
	249,542	98,807	286,600	31	-	119,768	754,748

41. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (Cont'd.)

Other financial assets - Reconciliation of allowance account

Expected credit loss

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

(a) ECL by staging

	Months in arrear							
	Group 1				Group 2			
	0 to 1 month RM'000	2 to 3 months RM'000	More than 3 months RM'000	Total RM'000	0 to 6 months RM'000	7 to 12 months RM'000	More than 12 months RM'000	Total RM'000
30 September 2019								
ECL rate	0.27%	0.20%	100.00%		0.71%	8.09%	100.00%	
Carrying amount *	2,972	48	11	3,031	19,194	176	1,072	20,442
Allowance for ECL	8	-	11	19	137	14	1,072	1,223
1 October 2018								
ECL rate	0.27%	0.43%	100.00%		0.73%	2.22%	100.00%	
Carrying amount *	3,215	31	-	3,246	16,669	1,500	1,024	19,193
Allowance for ECL	8	-	-	8	121	33	1,024	1,178

Group 1 comprises of insurance receivables from agents, banks, corporate clients and direct customers, whereas Group 2 comprises of reinsurance receivables from reinsurers and ceding companies, amount due from brokers and co-insurers.

41. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (Cont'd.)

Other financial assets - Reconciliation of allowance account (Cont'd)

Expected credit loss (Cont'd)

Set out below is the information about the credit risk exposure on the Company's insurance receivables using a provision matrix: (Cont'd)

(b) ECL by aging

	Months in arrear						
	Not due RM'000	1 to 6 months RM'000	7 to 12 months RM'000	13 to 18 months RM'000	19 to 24 months RM'000	More than 24 months RM'000	Total RM'000
30 September 2019							
Carrying amount *	-	22,225	176	1,072	-	-	23,473
Allowance for ECL	-	156	14	1,072	-	-	1,242
1 October 2018							
Carrying amount *	-	19,915	1,500	1,024	-	-	22,439
Allowance for ECL	-	129	33	1,024	-	-	1,186

* The carrying amount consists of individual insurance receivables with gross outstanding amounts, as well as outstanding receivable balances that were netted off with credit balances.

41. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (Cont'd.)

Other financial assets - Reconciliation of allowance account (Cont'd)

Expected credit loss (Cont'd)

The following table shows the movement in gross insurance receivables and the loss allowances recognised for credit impaired receivables.

2019

	Not credit impaired	Credit impaired	Total
	RM'000	RM'000	RM'000
Gross carrying amounts			
As at 1 October 2018	21,415	1,024	22,439
Increase	975	59	1,034
As at 30 September 2019	22,390	1,083	23,473
Allowance for ECL			
As at 30 September 2018, as previously stated	551	1,024	1,575
Impact of adopting MFRS 9	(389)	-	(389)
As at 1 October 2018, as stated	162	1,024	1,186
Reversal, net	(3)	59	56
As at 30 September 2019	159	1,083	1,242

2018

	Note	Individually impaired	Collectively impaired	Total
		RM'000	RM'000	RM'000
At 1 October 2017		872	188	1,060
Allowance for impairment loss	30	227	364	591
Write back of impairment loss	30	(76)	-	(76)
At 30 September 2018		1,023	552	1,575

Insurance receivables that are individually impaired at the reporting date relate to debtors that are in significant financial difficulties or have defaulted on payments. These insurance receivables are not secured by any collaterals or credit enhancements.

41. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. 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’s policy is to maintain adequate liquidity to meet its liquidity needs under normal and stressed conditions.

The following policies and procedures are in place to mitigate the Company’s exposure to liquidity risk:

- A Company-wide liquidity risk management policy setting out the assessment and determination of what constitutes liquidity risk for the Company is established. Compliance with the policy is monitored and exposures and breaches are reported to the Company’s Risk Management Committee;

- Guidelines on asset allocations, portfolio limit structures and maturity profiles of assets are implemented in order to ensure sufficient funding is available to meet insurance, investment contract and other payment obligations. As part of its liquidity management, the Company maintains sufficient level of cash and cash equivalents to meet expected and to a lesser extent unexpected outflows;

- Contingency funding plans are established to mitigate funding requirements arising from emergency and other unforeseen cash calls. Such funding plans include the arrangement of credit line with banks and funding from the holding company; and

- The Company has entered into treaty reinsurance contracts that contain a “cash call” clause which permits the Company to make cash call on claims and receive immediate payments for large losses without waiting for usual periodic payment procedures to occur.

41. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk (Cont'd.)

Maturity analysis

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

For insurance contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as these are not contractual obligations.

	Carrying value RM'000	Up to a year* RM'000	1 - 2 years RM'000	2 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	Total RM'000
2019							
Insurance contract liabilities	395,464	163,824	105,556	112,376	23,711	105	405,572
Insurance payables	14,693	14,693	-	-	-	-	14,693
Hire purchase creditors	435	188	117	161	-	-	466
Borrowings	69,328	5,349	79,241	-	-	-	84,590
Other payables	8,763	8,763	-	-	-	-	8,763
Total liabilities	488,683	192,817	184,914	112,537	23,711	105	514,084
2018							
Insurance contract liabilities	413,458	155,193	113,541	120,944	34,344	1,028	425,050
Insurance payables	14,771	14,771	-	-	-	-	14,771
Hire purchase creditors	271	150	104	32	-	-	286
Borrowings	69,111	5,320	10,662	73,928	-	-	89,910
Other payables	9,630	9,630	-	-	-	-	9,630
Total liabilities	507,241	185,064	124,307	194,904	34,344	1,028	539,647

* Expected settlement is within 12 months from the reporting date.

41. FINANCIAL RISKS (CONT'D.)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of exposures: foreign exchange rates (currency risk), market interest rates (interest rate/profit yield risk) and market prices (price risk).

The key features of the Company’s market risk management practices and policies are as follows:

- A Company wide market-risk policy setting out the evaluation and determination of what constitutes market risk for the Company is established; and

- Policies and limits have been established to manage market risk. Market risk is managed through portfolio diversification and changes in asset allocation. The Company’s policies on asset allocation, portfolio limit structure and diversification benchmark have been set in line with the Company’s risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

(i) Currency risk

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

As the Company’s business is conducted primarily in Malaysia, the Company’s functional and presentation currency is Malaysian Ringgit. The Company’s main foreign exchange risk arises from its reinsurance activities and overseas claims settlements which are normally settled and realised within 12 months and accordingly the impact arising from sensitivity in changes in foreign exchange rates is not expected to be significant.

41. FINANCIAL RISKS (CONT'D.)

(c) Market risk (Cont'd.)

(i) Currency risk (Cont'd.)

(ii) Interest rate/profit yield risk

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

The Company is exposed to interest rate risk primarily through its investments in fixed income securities and deposits placements. Interest rate risk is managed by the Company on an ongoing basis.

The Company has no significant concentration of interest rate/profit yield risk.

The impact on profit before tax at +/- 25 basis points change in the interest rate, with all other variables held consistent, is insignificant to the Company given that it has minimal floating rate financial instruments.

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), regardless whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting similar financial instruments traded in the market.

The Company's exposure to price risk arises mainly from its investments in quoted shares and unit trusts whose values will fluctuate as a result of changes in market prices.

The Company manages its price risk by ensuring that its investments in quoted shares and unit trusts are within the limits set out in the Company's Investment Policy. The Company does not have any major concentration of price risk related to such investments.

41. FINANCIAL RISKS (CONT'D.)

(c) Market risk (Cont'd.)

(iii) Price risk (Cont'd.)

The analysis below is performed for reasonably possible movements in equity price with all other variables held constant, showing the impact on profit before tax (due to changes in fair value through profit or loss financial assets) and equity (due to changes in fair value of FVOCI; 2018: AFS financial assets).

		2019		2018	
	Changes in variables	Impact on profit before tax RM'000	Impact on equity* RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		← Increase/(Decrease) →			
Market price	+ 10%	18,151	2,434	218	7,830
Market price	- 10%	(18,151)	(2,434)	(218)	(7,830)

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

(d) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but mitigates them by establishing a control framework and by monitoring and responding to potential risks. Controls include segregation of duties, access controls, authorisation, reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit. Business risk, such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

42. REGULATORY CAPITAL REQUIREMENTS

The Company's capital management policy is to optimise the efficient and effective use of resources to maximise the return on equity and provide an appropriate level of capital to protect policyholders and meet regulatory requirements.

The Company is required to comply with the regulatory capital requirement prescribed in the RBC Framework which is imposed by the Minister of Finance as a licensing condition for insurers. Under the RBC Framework guidelines issued by BNM, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. The Company has a capital adequacy ratio in excess of the minimum requirement.

The capital structure of the Company as at 30 September 2019, as prescribed under the RBC Framework is provided below:

	2019	2018
	RM'000	RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000	100,000
Retained profits	105,920	134,857
	205,920	234,857
Tier 2 Capital		
Capital instruments which qualify as Tier 2 Capital	27,731	41,467
Revaluation reserve	12,378	12,378
FVOCI reserve	1,941	-
AFS reserve	-	4,046
	42,050	57,891
Amounts deducted from Capital	(1,357)	(1,290)
Total Capital Available	246,613	291,458

43. FAIR VALUE

(a) The financial instruments carried at fair value are categorised into the following levels of the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2019				
FVTPL financial assets				
Quoted shares	18,555	-	-	18,555
Unit trusts	162,954	-	-	162,954
	181,509	-	-	181,509
FVOCI financial assets				
Quoted shares	11,984	-	-	11,984
Corporate debt securities	-	20,042	-	20,042
	11,984	20,042	-	32,026
2018				
AFS financial assets				
Quoted shares	14,211	-	-	14,211
Unit trusts	88,812	-	-	88,812
	103,023	-	-	103,023
FVTPL financial assets				
Quoted shares	2,180	-	-	2,180
	2,180	-	-	2,180

(b) The carrying amounts of other financial assets approximated their fair values due to their relatively short-term nature and therefore no additional disclosure is provided.

(c) The carrying amounts of financial liabilities of the general business and shareholder's fund at the reporting date approximated their fair values due to their short-term nature and immaterial impact of discounting except for hire purchase creditors, as set out below:

	Carrying amount		Fair value	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial liabilities				
Hire purchase creditors	435	271	465	323

43. FAIR VALUE (CONT'D.)

(d) Determination of fair value

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and bank balances, deposits and placements with financial institutions, insurance receivables/payables, and other receivables/payables:

- The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments; and

- The carrying value of amount due from/to holding and fellow subsidiary companies approximate their fair values as the amounts are recoverable/repayable on demand.

(ii) Financial assets

- Quoted shares

The fair values of quoted shares are determined by reference to the stock exchange quoted market closing prices at the close of the business at the reporting date.

- Unit trusts

The fair value of quoted units in the unit trust funds are determined by reference to market quotations by the manager of the unit trust funds.

- Corporate debt securities

Unquoted corporate debt/securities are valued using fair value prices quoted by a bond pricing agency.

(iii) Hire purchase creditors

The fair value of hire purchase creditors is estimated by discounting the expected future cash flows using the current interest rates for liabilities with similar risk profiles.

The carrying amounts of hire purchase creditors approximate their fair values, as disclosed above.

43. FAIR VALUE (CONT'D.)

(d) Determination of fair value (Cont'd.)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments: (Cont'd.)

(iv) Subordinated Notes

The fair value of Subordinated Notes is determined based on the present value of the estimated future cash flows at the end of the tenure of the Subordinated Notes.

The carrying amount of Subordinated Notes approximates its fair value, due to the insignificant impact of discounting.

(e) Fair value of non-financial assets

	Note	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2019					
Property, plant and equipment					
Freehold land		-	-	2,465	2,465
Freehold buildings		-	-	859	859
Leasehold buildings		-	-	14,847	14,847
	5	-	-	18,171	18,171
Investment properties					
Freehold buildings		-	-	655	655
Leasehold buildings		-	-	565	565
	6	-	-	1,220	1,220
2018					
Property, plant and equipment					
Freehold land		-	-	2,465	2,465
Freehold buildings		-	-	890	890
Leasehold buildings		-	-	15,776	15,776
	5	-	-	19,131	19,131
Investment properties					
Freehold buildings		-	-	655	655
Leasehold buildings		-	-	565	565
	6	-	-	1,220	1,220

43. FAIR VALUE (CONT'D.)

(e) Fair value of non-financial assets (Cont'd.)

The fair value of the property, plant and equipment and investment properties of the Company are categorised as Level 3. The investment properties have been revalued based on valuations performed by an accredited independent valuer. The valuations are based on comparison method. In arriving at the fair value of the assets, the valuer had taken into account the sales of similar properties and related market data, and established a value estimate by processes involving comparisons. In general, the properties being valued is compared with sales of similar properties that have been transacted in the open market. Listing and offering may also be considered. Valuation under this method may be significantly affected by the timing and the characteristics (such as location, accessibility, design, size and location) of the property transaction used for comparison.

The movement from opening balances to closing balances during the respective financial years are provided in Notes 5 and 6.