

Registration No.

197001000564 (9827A)

**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND STATUTORY FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

2007A0/py

Registration No.

197001000564 (9827A)

**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND STATUTORY FINANCIAL STATEMENTS**

31 DECEMBER 2019

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**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**CORPORATE INFORMATION**

**DOMICILE** : Malaysia

**LEGAL FORM AND PLACE OF INCORPORATION** : Public company limited by way of shares incorporated in Malaysia under the Companies Act 2016

**REGISTERED OFFICE** : Wisma Chubb  
38 Jalan Sultan Ismail  
50250 Kuala Lumpur

**PRINCIPAL PLACE OF BUSINESS** : Wisma Chubb  
38 Jalan Sultan Ismail  
50250 Kuala Lumpur

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**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

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

**PRINCIPAL ACTIVITY**

The principal activity of the Company is the underwriting of general insurance business.

There has been no significant change in the nature of this activity during the financial year.

**RESULTS**

|                               | RM'000        |
|-------------------------------|---------------|
| Profit for the financial year | <u>87,720</u> |

**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.

**DIVIDENDS**

The Company paid an interim single tier dividend of RM1.41 per ordinary share totalling RM141,000,000 in respect of the financial year ended 31 December 2019 on 3 December 2019. The dividend has been approved by Bank Negara Malaysia and accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ended 31 December 2019.

**SHARE CAPITAL**

There was no issuance of new ordinary shares during the financial year.

**CORPORATE GOVERNANCE**

The Board of Directors ("the Board") is satisfied that the Company has substantially complied with the prescriptive applications in BNM/RH/PD\_029-9: Corporate Governance.

**CHUBB INSURANCE MALAYSIA BERHAD**  
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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

Board Responsibilities

The Board has the overall responsibility for promoting the sustainable growth and financial soundness of the Company, and for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes a consideration of the long-term implications of the Board's decisions on the Company and its customers, officers and the general public. In fulfilling this role, the Board must:

- (a) approve the Risk Appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company's risk profile;
- (b) oversee the selection, performance, remuneration and succession plans of the Chief Executive Officer, Control Function heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Company;
- (c) oversee the implementation of the Company's governance framework and Internal Control Framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Company's operations;
- (d) promote, together with Senior Management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;
- (e) promote sustainability through appropriate environmental, social and governance considerations in the Company's business strategies;
- (f) oversee and approve the 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
- (g) promote timely and effective communication between the Company and Bank Negara Malaysia ("BNM") on matters affecting or that may affect the safety and soundness of the Company.

Composition of the Board

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

YBhg Tan Sri Leo Moggie (Chairman)  
Dato' Sri Abdul Hamidy bin Abdul Hafiz  
Song Yam Lim  
Gregory Jerome Gerald Fernandes  
Olivier Bouchard  
Susan Yuen Su Min

In accordance with Article 99 of the Company's Articles of Association, YBhg Tan Sri Leo Moggie and Gregory Jerome Gerald Fernandes retire at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

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**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

Composition of the Board (continued)

The Board comprises individuals with a wide range of professional skills and operational experience:

**YBhg Tan Sri Leo Moggie** (Chairman, Independent Non-Executive Director)

Tan Sri Leo Moggie was the Chairman of Tenaga Nasional Berhad and a number of companies under the Tenaga Nasional Group from April 2004 to March 2020. He was formerly a Member of Parliament from 1974 to 2004. He had served as a Minister in the State Government of Sarawak from 1976 to 1978. He was a Minister in the Federal Cabinet from 1978 until he retired as the Minister of Energy, Communications and Multimedia in 2004.

**Dato' Sri Abdul Hamidy Bin Abdul Hafiz** (Independent Non-Executive Director)

Dato' Sri Abdul Hamidy has extensive experience in finance and banking. He was formerly Chairman of Danajamin Nasional Bhd, Credit Guarantee Corporation and Association of Bank Malaysia. He was also the CEO of three financial institutions namely Danaharta Nasional Bhd, Affin Bank Bhd. and Kuwait Finance House Bhd. He is currently a member of the Board of Directors of Sime Darby Bhd, SKY Exchange Sdn Bhd, Ambank Berhad and Ambank Islamic Berhad.

**Song Yam Lim** (Independent Non-Executive Director)

Mr. Song is currently the General Manager of Hap Seng Insurance Services Sdn. Bhd. He has had extensive experience in the insurance industry having held numerous senior executive roles during his 45 years in the industry. He was formerly the Chief Executive Officer and Executive Director for MSIG Insurance (M) Bhd., Aviva Insurance (M) Bhd. and CGU Insurance (M) Bhd.

**Gregory Jerome Gerald Fernandes** (Independent Non-Executive Director)

Mr. Fernandes is currently a Corporate Advisor specializing in strategy, fund raising and other finance related services. He is an accountant by profession and is a Member of the Malaysian Institute of Accountants (MIA) and an Associate Member of the Institute of Chartered Accountants in England & Wales (1981). He began his career in London with Ernst & Young and had since served in executive positions in various large corporations, the most recent as a Board Member, CFO and Senior Vice President for Global Marketing in a public company involved in transport and engineering logistics.

**Susan Yuen Su Min** (Independent Non-Executive Director)

Ms. Susan Yuen Su Min was appointed to Chubb Insurance Malaysia Berhad on 14 February 2019. She has over 30 years of working experience in the banking industry and has served a number of banking establishments including Maybank and HSBC Malaysia. She was also previously attached to the National Bank of Abu Dhabi Malaysia Berhad ("NBAD") where she was the Regional CEO Asia and Country CEO Malaysia from 2014 to 2018. Prior to joining NBAD, she served as CEO of ANZ Banking Group in Hong Kong from 2009 to 2014. She is currently a member of the Board of Directors of Alliance Bank Malaysia Berhad.

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**CORPORATE GOVERNANCE (CONTINUED)**

Composition of the Board (continued)

**Olivier Bouchard (Non-Independent Executive Director)**

Mr. Bouchard is the Regional Chief Financial Officer for Chubb in the Asia Pacific Region. He has extensive experience in the insurance and financial services industry having held numerous senior executive roles in various multinational corporations during his 20 year career. Before his appointment as the Regional Chief Financial Officer in April 2015, he was the Financial Controller for Chubb in Asia Pacific, responsible for the management results and statutory reporting, as well as the compliance environment of the financial division throughout the region.

The current Board Committees are:

Board Audit Committee

The primary objective of the Audit Committee is to assist the Board in the discharge of its responsibilities and to ensure the integrity and transparency of the financial reporting process.

The Audit Committee comprises of the following Directors:

Dato' Sri Abdul Hamidy bin Abdul Hafiz (Chairman)  
YBhg Tan Sri Leo Moggie  
Song Yam Lim  
Gregory Jerome Gerald Fernandes  
Susan Yuen Su Min

Board Nominating Committee

The primary objective of the Nominating Committee is to establish or to ensure that there is a formal and transparent procedure for the appointment of Directors, Chief Executive Officer and senior officers who report directly to the Chief Executive Officer and to assess the effectiveness of individual Directors, the Board as a whole, Chief Executive Officer and senior officers on an on-going basis.

The Nominating Committee comprises of the following Directors:

Gregory Jerome Gerald Fernandes (Chairman)  
YBhg Tan Sri Leo Moggie  
Dato' Sri Abdul Hamidy bin Abdul Hafiz  
Song Yam Lim  
Susan Yuen Su Min (Appointed as Member on 12 December 2019)

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**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

Board Remuneration Committee

The primary objective of the Remuneration Committee is to provide a formal and transparent procedure for developing a Remuneration Policy for Directors, Chief Executive Officer and senior officers and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

The Remuneration Committee comprises the following Directors:

Gregory Jerome Gerald Fernandes (Chairman)  
YBhg Tan Sri Leo Moggie  
Dato' Sri Abdul Hamidy bin Abdul Hafiz

Board Risk Management Committee

The primary objective of the Risk Management Committee is to oversee and ensure the effectiveness of Senior Management's activities in managing the key risk areas of the Company and to ensure that an appropriate risk management framework, strategy and process is in place and functioning effectively.

The Risk Management Committee comprises of the following Directors:

Song Yam Lim (Chairman)  
YBhg Tan Sri Leo Moggie  
Gregory Jerome Gerald Fernandes  
Dato' Sri Abdul Hamidy bin Abdul Hafiz  
Susan Yuen Su Min



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**CORPORATE GOVERNANCE (CONTINUED)**

The number of Board and Board Committee meetings held during the financial year is set out below.

|   | <u>Board of Directors</u> | <u>Audit</u>           | <u>Meetings of Committees</u> |                        |                        |
|---|---------------------------|------------------------|-------------------------------|------------------------|------------------------|
|   |                           |                        | <u>Nominating</u>             | <u>Remuneration</u>    | <u>Risk Management</u> |
| Number of meetings held during the financial year | 7                         | 7                      | 3                             | 2                      | 4                      |
|   | <u>Number attended</u>    | <u>Number attended</u> | <u>Number attended</u>        | <u>Number attended</u> | <u>Number attended</u> |
| YBhg Tan Sri Leo Moggie                           | 7/7                       | 7/7                    | 3/3                           | 2/2                    | 4/4                    |
| Dato' Sri Abdul Hamidy bin Abdul Hafiz            | 7/7                       | 7/7                    | 3/3                           | 2/2                    | 4/4                    |
| Song Yam Lim                                      | 6/7                       | 6/7                    | 3/3                           | -                      | 4/4                    |
| Gregory Jerome Gerald Fernandes                   | 7/7                       | 7/7                    | 3/3                           | 2/2                    | 4/4                    |
| Olivier Bouchard                                  | 6/7                       | -                      | -                             | -                      | -                      |
| Susan Yuen Su Min                                 | 6/7                       | 6/7                    | -                             | -                      | 3/4                    |

Internal Control and Risk Management Framework

The Board is responsible and committed to establishing a sound internal control framework which includes financial, operational and compliance controls and risk management practices. The internal control framework is designed to manage rather than eliminate risks and therefore can only provide reasonable and not absolute assurance of effectiveness. An integral part of the internal control framework is the ongoing company-wide risk management process for identifying, evaluating and managing the significant risks faced by the Company.

The Company's Enterprise Risk Management Framework ("RMF") utilizes the "3 Lines of Defense" strategy, as part of its internal control framework to help the Company to achieve its business objectives, meet its corporate obligations and at the same time maintain its reputation. The implementation of the RMF is delegated to the Enterprise Risk Committee ("ERC") who is responsible for monitoring, assessing and reporting on risk related activity to the Board through the Board Risk Management Committee ("BRMC").

The Board Audit Committee ("BAC") regularly evaluates the effectiveness and adequacy of the Company's internal control framework based on reports prepared by Internal Audit, Compliance, external auditors and any other relevant authority. Internal Audit in turn, ensures that recommendations to improve the effectiveness of the Company's internal controls, risk management and governance processes are addressed in a timely manner.

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**CORPORATE GOVERNANCE (CONTINUED)**

Remuneration Policy

Remuneration systems form a key component of the governance and incentive structure through which the Board and Senior Management (including Chief Executive Officer and Senior Officers) drive performance, convey acceptable risk taking behaviour and reinforce the Company's corporate and risk culture. Senior Officers include 4 Head of Business Line and 10 Head of Support Function.

The overall Remuneration system of the Company is guided by the following principles:

- (a) It is subject to the Board's active oversight to ensure that it operates as intended.
- (b) It is in line with the business and risk strategies, corporate values and long-term interests of the Company.
- (c) It is designed and implemented with input from Control Functions and the Board Risk Management Committee ("RMC") to ensure that risk exposure and risk outcomes are adequately considered.
- (d) It must not threaten the Company's ability to maintain adequate capital base.
- (e) It must be sustainable according to the financial condition of the Company as a whole and justified on the basis of Company performance, the business unit and the individual concerned.
- (f) It must be appropriate to the nature, scale and complexity of the role, function or service performed.
- (g) Remuneration decisions must not be made and/or approved by a beneficiary of that decision.

The Remuneration system of the Company is linked to its risk management framework in that it is consistent with the Risk Appetite and the long-term strategy of the Company. The Remuneration for individuals within the Company must be aligned with prudent risk-taking and appropriately adjusted for risks.

This includes ensuring that:

- (a) Remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement;
- (b) The size of the bonus pool is linked to the overall performance of the Company;
- (c) Incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Company;
- (d) Bonuses are not guaranteed, except in the context of sign-on bonuses;

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**CORPORATE GOVERNANCE (CONTINUED)**

Remuneration Policy (continued)

- (e) For members of Senior Management & Other Material Risk Takers:
- (i) a portion of Remuneration consists of variable Remuneration to be paid on the basis of individual, business-unit and institution-wide measures that adequately assess performance; and
  - (ii) the variable portion of Remuneration increases along with the individual's level of accountability.

The Company participates in industry salary and benefits surveys and are guided by the results arising from these surveys as it is a comparative measure of market competitiveness and alignment.

The Remuneration for each member of Senior Management & Other Material Risk Taker is approved by the Board annually.

**Methodology for Determining Remuneration**

The Company engages in an enterprise wide Performance Planning and Review process ("PPR"). This annual performance review consists of the following:

- (a) establishing the financial, business and development objectives for each department;
- (b) evaluating the results, work skills and competencies; and
- (c) developing appropriate skills and knowledge for current roles and future progression.

This process consists of a series of review conversations between managers and staff completed during the first quarter of each year. The process provides an opportunity for staff to set individual objectives which are aligned to business objectives. Performance achievements are acknowledged and compared against the prior year's target. Development needs are also discussed with individual objectives linked to the business and strategic unit objectives for the Company. Recommendations for reward and recognition arise from this process and are put forward by the relevant divisional and departmental heads.

These performance reviews and recommendations are collated by the Head of Human Resources ("HR") and reviewed in consultation with the CEO. The CEO and Head of HR will review the remuneration recommendations and may consider adjustments, being guided by the assessments of the effectiveness and contributions of the individual concerned and taking into account any salary alignments to the market which is deemed critical. The CEO and Head of HR shall ensure that the Remuneration packages of the Company are competitive and consistent with the Company's culture, objectives and remuneration strategy.

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**CORPORATE GOVERNANCE (CONTINUED)**

Remuneration Policy (continued)

The Company adopts a multi-year framework to measure the performance of members of Senior Management & Other Material Risk Takers. Such a framework provides for:

- (a) the deferment of payment of a portion of variable remuneration to the extent that risks are realised over long periods, with these deferred portions increasing along with the individual's level of accountability;
- (b) the calibration of an appropriate mix of cash, shares, share-linked instruments, and other forms of remuneration to reflect risk alignment; and
- (c) adjustments to the vested and unvested portions of variable remuneration (through malus of unvested awards) should one or more of malus events as stated in the Malus policy have been identified/established.

To promote behaviours that are aligned to the intended effects of incentive structures, the Company ensures that:

- (a) variables used to measure risk and performance outcomes of an individual relate closely to the level of accountability of that individual;
- (b) the determination of performance measures and variable remuneration considers that certain indicators (such as share prices) may be influenced in the short term by factors like market sentiment or general economic conditions which are not specifically related to the Company's performance or an individual's actions, and the use of such indicators does not create incentives for individuals to take on excessive risk in the short term; and
- (c) recipient of Chubb Ltd shares will be required to commit not to undertake activities (such as personal hedging strategies and/or liability-related insurance) in connection with any unvested deferred remuneration awards or any vested awards subject to a retention period) that will undermine the risk alignment effects embedded in their remuneration. Disciplinary action shall be taken against those who breaches this restriction.

To safeguard the independence and authority of individuals engaged in Control Functions, the Company must ensure that the Remuneration of such individuals is based principally on the achievement of Control Functions objectives, and determined in a manner that is independent from the business lines they oversee. To achieve this:

- (a) Remuneration for employees in Control Functions are structured in a way that is principally based on the achievement of their control objectives and does not compromise their independence.
- (b) Due care is exercised to preserve a clear distinction between performance measures of staff responsible for Control Functions and the performance of any business unit.
- (c) The Board Remuneration Committee is actively involved in the performance reviews of individuals primarily responsible for Control Functions.

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**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the Directors' remuneration) 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.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object is to enable the 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.

**DIRECTORS' INTERESTS IN SHARES**

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors in office at the end of the financial year held any interest in shares in, or debentures of the Company or its related corporations during the financial year.

**DIRECTORS' REMUNERATION**

The Directors' remuneration and other emoluments during the financial year are as follows:

|                 | RM'000     |
|-----------------|------------|
| Directors' fees | <u>768</u> |

During the financial year, the Company has purchased a Directors' & Officers' Liability Insurance policy for all its Directors and Officers of the Company, which amounted to RM35,215.

**RESTRICTED SHARE OPTION PLAN**

Under Chubb's long term incentive plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by Chubb to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant.

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**RESTRICTED SHARE OPTION PLAN (CONTINUED)**

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

|                                | <u>Average exercise<br/>price per share</u><br>RM | <u>Share<br/>options</u><br>Units |
|--------------------------------|---|-----------------------------------|
| At beginning of financial year |   | 37,873                            |
| Granted                        | 554.88  | 3,899                             |
| Forfeited                      | 496.02  | (450)                             |
| Exercised                      | 376.88  | (4,257)                           |
| Transferred out                |   | (360)                             |
| At end of financial year       |   | <u>36,705</u>                     |

Out of the 36,705 outstanding options, 28,498 options were exercisable. Options granted in 2019 resulted in 3,899 shares options being issued at exercise price of RM 554.88 each. 4,257 options were exercised in 2019 at exercise price of RM 376.88.

Share options outstanding at the end of the financial year have the following expiry date and exercise prices:

|      | <u>Exercise price<br/>per share</u><br>RM | <u>Share options</u><br><u>2019</u><br>Units |
|------|---|--|
| 2019 | 159.59                                    | -  |
| 2020 | 208.73                                    | 1,060  |
| 2021 | 259.58                                    | 2,898  |
| 2022 | 303.96                                    | 2,554  |
| 2023 | 353.86                                    | 3,325  |
| 2024 | 400.97                                    | 4,117  |
| 2025 | 475.65                                    | 4,383  |
| 2026 | 490.61                                    | 5,377  |
| 2027 | 576.06                                    | 5,461  |
| 2028 | 592.88                                    | 3,631  |
| 2029 | 554.88                                    | 3,899  |
|      |   | <u>36,705</u>                                |

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM76.39 per option. The significant inputs into the model were share price of RM554.88, at the grant date, the exercise price shown above, volatility of 16.00%, dividend yield of 2.24%, an expected option life of 5 years and on annual risk-free interest rate of 2.55%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years. Details of restricted share option plan are set out in Note 14 to the financial statements.

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**STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS**

- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework for insurers issued by Bank Negara Malaysia ("BNM") pursuant to Section 47(1) of the Financial Services Act, 2013;
  - (ii) 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; and
  - (iii) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.

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**STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)**

- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made; and
  - (iii) the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

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

**ULTIMATE HOLDING COMPANY**

The Directors regard Chubb Limited, a company incorporated in Zurich, Switzerland, as the ultimate holding company.

**AUDITORS' REMUNERATION**

Details of auditors' remuneration for financial year ended 31 December 2019 are set out in Note 24 to the financial statements.



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DIRECTORS' REPORT  
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STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

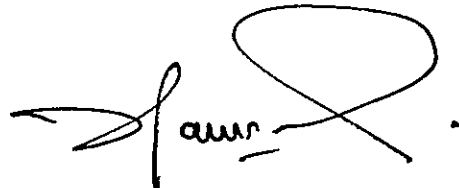
AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 20 March 2020.



SONG YAM LIM  
DIRECTOR



DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ  
DIRECTOR

Kuala Lumpur

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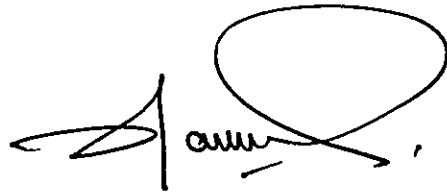
**STATEMENT BY DIRECTORS PURSUANT TO  
SECTION 251(2) OF THE COMPANIES ACT 2016**

We, Song Yam Lim and Dato' Sri Abdul Hamidy bin Abdul Hafiz, two of the Directors of Chubb Insurance Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 21 to 107 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of the financial performance and cash flows of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 20 March 2020.



SONG YAM LIM  
DIRECTOR



DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ  
DIRECTOR

Kuala Lumpur

Registration No.

197001000564 (9827A)

CHUBB INSURANCE MALAYSIA BERHAD  
(Incorporated in Malaysia)

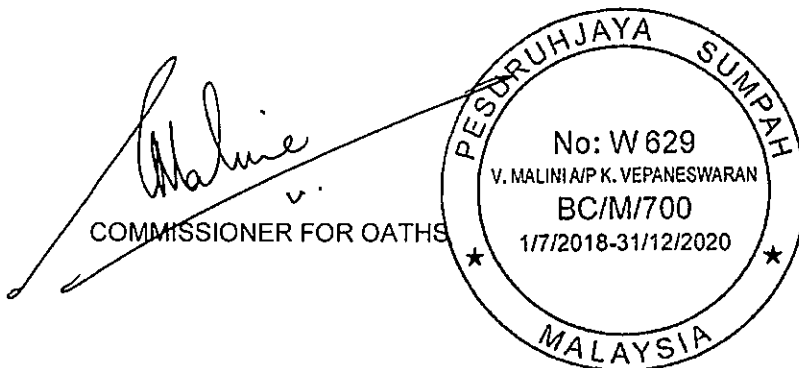
STATUTORY DECLARATION PURSUANT TO  
SECTION 251(1) OF THE COMPANIES ACT 2016

I, Lim Joo Leong, being the officer primarily responsible for the financial management of Chubb Insurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 21 to 107 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



LIM JOO LEONG  
MIA 13173

Subscribed and solemnly declared by the named above at Kuala Lumpur in Malaysia before me, on 20 March 2020.



Level 6, Tribeca  
215, Jalan Imbi, Bukit Bintang,  
55100 Kuala Lumpur.  
Tel: 03-2724 7800



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF CHUBB INSURANCE MALAYSIA BERHAD  
(Incorporated in Malaysia)  
(Company No. (9872A))**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Our opinion**

In our opinion, the financial statements of Chubb Insurance Malaysia Berhad (“the Company”) give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

**What we have audited**

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 107.

**Basis for opinion**

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

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

**Independence and other ethical responsibilities**

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

**Information other than the financial statements and auditors’ report thereon**

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

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



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF CHUBB INSURANCE MALAYSIA BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. (9872A))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon (continued)

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF CHUBB INSURANCE MALAYSIA BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. (9872A))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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



Registration No.

197001000564 (9827A)

**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

|   | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-------------|-----------------------|-----------------------|
| <b>ASSETS</b>                                 |             |                       |                       |
| Property and equipment                        | 4           | 50,084                | 53,570                |
| Right-of-use assets                           | 5           | 2,217                 | -                     |
| Intangible assets                             | 6           | 2,890                 | 2,543                 |
| Investments                                   |             |                       |                       |
| - Available-for-sale financial assets ("AFS") | 7           | 1,233,435             | 1,199,639             |
| Reinsurance assets                            | 8           | 222,325               | 225,770               |
| Insurance receivables                         | 9           | 115,500               | 133,313               |
| Other receivables                             | 10          | 60,502                | 66,274                |
| Deferred tax assets                           | 17          | 20,566                | 23,301                |
| Current tax assets                            |             | 988                   | 1,926                 |
| Cash and cash equivalents                     |             | 290,411               | 315,188               |
|   |             | <u>1,998,918</u>      | <u>2,021,524</u>      |
| <b>EQUITY AND LIABILITIES</b>                 |             |                       |                       |
| Share capital                                 | 11          | 100,000               | 100,000               |
| Retained earnings                             | 12          | 616,253               | 669,533               |
| Available-for-sale fair value reserves        | 13          | 12,581                | 1,306                 |
| Equity reserve                                | 14          | 12,450                | 10,295                |
|   |             | <u>741,284</u>        | <u>781,134</u>        |
| Insurance contract liabilities                | 15          | 1,010,722             | 1,003,704             |
| Investment contract liabilities               | 16          | 511                   | 590                   |
| Insurance payables                            | 18          | 72,301                | 68,674                |
| Lease liabilities                             | 5           | 2,286                 | -                     |
| Other payables                                | 19          | 171,814               | 167,422               |
|   |             | <u>1,257,634</u>      | <u>1,240,390</u>      |
| Total equity                                  |             | <u>741,284</u>        | <u>781,134</u>        |
| Total liabilities                             |             | <u>1,257,634</u>      | <u>1,240,390</u>      |
| Total equity and liabilities                  |             | <u>1,998,918</u>      | <u>2,021,524</u>      |

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



CHUBB INSURANCE MALAYSIA BERHAD  
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

|  | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-------------|-----------------------|-----------------------|
| Gross earned premiums                              | 20(a)       | 862,113               | 914,489               |
| Premiums ceded to reinsurers                       | 20(b)       | (222,922)             | (211,934)             |
| Net earned premiums                                |             | <u>639,191</u>        | <u>702,555</u>        |
| Net investment income                              | 21          | 60,985                | 57,247                |
| Realised gains/(losses)                            | 22          | 1,091                 | (2,076)               |
| Commission income                                  | 23          | 52,975                | 50,611                |
| Other operating income                             |             | 1,641                 | 972                   |
| Net income   |             | <u>116,692</u>        | <u>106,754</u>        |
| Total revenue                                      |             | <u>755,883</u>        | <u>809,309</u>        |
| Gross claims paid                                  |             | (373,068)             | (440,756)             |
| Claims ceded to reinsurers                         |             | 65,608                | 99,790                |
| Gross change to contract liabilities               |             | (19,529)              | 9,913                 |
| Change in contract liabilities ceded to reinsurers |             | (476)                 | (23,853)              |
| Net claims incurred                                |             | <u>(327,465)</u>      | <u>(354,906)</u>      |
| Commission expense                                 |             | (121,461)             | (124,814)             |
| Management expenses                                | 24          | (189,636)             | (214,313)             |
| Finance cost                                       | 5           | (199)                 | -                     |
| Total other expenses                               |             | <u>(311,296)</u>      | <u>(339,127)</u>      |
| Profit before taxation                             |             | 117,122               | 115,276               |
| Taxation   | 25          | (29,402)              | (28,695)              |
| Profit for the financial year                      |             | <u>87,720</u>         | <u>86,581</u>         |
| Earnings per share (sen)                           |             |                       |                       |
| Basic  | 26          | <u>87.72</u>          | <u>86.58</u>          |

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

Registration No.

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CHUBB INSURANCE MALAYSIA BERHAD  
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| Profit for the financial year   | 87,720                | 86,581                |
| Other comprehensive income:   |                       |                       |
| <u>Items that may be subsequently reclassified to profit or loss:</u> |                       |                       |
| Available-for-sale fair value reserves                                |                       |                       |
| Net gains/(losses) arising during the financial year                  | 14,891                | (961)                 |
| Net realised gains transferred to profit or loss                      | (56)                  | (194)                 |
|   | <u>14,835</u>         | <u>(1,155)</u>        |
| Tax effects thereon (Note 17)   | (3,560)               | 277                   |
|   | <u>11,275</u>         | <u>(878)</u>          |
| Total comprehensive income for the financial year                     | <u><u>98,995</u></u>  | <u><u>85,703</u></u>  |

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

Registration No.

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**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

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

|   | Share<br>capital<br>RM'000 | Non-<br>distributable       |                                  | Distributable                  | Total<br>equity<br>RM'000 |
|---|----------------------------|-----------------------------|----------------------------------|--------------------------------|---------------------------|
|   |                            | Equity<br>reserve<br>RM'000 | Fair value<br>reserves<br>RM'000 | Retained<br>earnings<br>RM'000 |                           |
| At 1 January 2019   | 100,000                    | 10,295                      | 1,306                            | 669,533                        | 781,134                   |
| Profit for the financial year   | -                          | -                           | -                                | 87,720                         | 87,720                    |
| Other comprehensive income<br>for the financial year  | -                          | -                           | 11,275                           | -                              | 11,275                    |
| Dividend paid   | -                          | -                           | -                                | (141,000)                      | (141,000)                 |
| Comprehensive income for the<br>financial year- share-based<br>long term incentive plan<br>vested | -                          | 2,155                       | -                                | -                              | 2,155                     |
|   | -                          | 2,155                       | -                                | -                              | 2,155                     |
| At 31 December 2019   | 100,000                    | 12,450                      | 12,581                           | 616,253                        | 741,284                   |
| At 1 January 2018   | 100,000                    | 7,703                       | 2,184                            | 582,952                        | 692,839                   |
| Profit for the financial year   | -                          | -                           | -                                | 86,581                         | 86,581                    |
| Other comprehensive loss<br>for the financial year  | -                          | -                           | (878)                            | -                              | (878)                     |
| Comprehensive income for the<br>financial year- share-based<br>long term incentive plan<br>vested | -                          | 2,592                       | -                                | -                              | 2,592                     |
|   | -                          | 2,592                       | -                                | -                              | 2,592                     |
| At 31 December 2018   | 100,000                    | 10,295                      | 1,306                            | 669,533                        | 781,134                   |

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

**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

|  | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-------------|-----------------------|-----------------------|
| <b>OPERATING ACTIVITIES</b>                                  |             |                       |                       |
| Cash generated from/(used in) operating activities           | 27          | 91,433                | (43,460)              |
| Interest income received                                     |             | 58,378                | 54,683                |
| Dividend income received                                     |             | 66                    | 83                    |
| Income tax paid  |             | (29,289)              | (28,177)              |
|  |             | <hr/>                 | <hr/>                 |
| Net cash flows generated from/(used in) operating activities |             | 120,588               | (16,871)              |
|  |             | <hr/>                 | <hr/>                 |
| <b>INVESTING ACTIVITIES</b>                                  |             |                       |                       |
| Proceeds from disposal of property and equipment             |             | 21                    | 47                    |
| Purchase of property and equipment                           | 4           | (1,275)               | (2,120)               |
| Purchase of intangibles assets                               | 6           | (1,251)               | (1,493)               |
|  |             | <hr/>                 | <hr/>                 |
| Net cash flows used in investing activities                  |             | (2,505)               | (3,566)               |
|  |             | <hr/>                 | <hr/>                 |
| <b>FINANCING ACTIVITIES</b>                                  |             |                       |                       |
| Payment of lease liabilities                                 | 5           | (1,860)               | -                     |
| Dividend paid  |             | (141,000)             | -                     |
|  |             | <hr/>                 | <hr/>                 |
| Net cash flows used in financing activities                  |             | (142,860)             | -                     |
|  |             | <hr/>                 | <hr/>                 |
| Net decrease in cash and cash equivalents                    |             | (24,777)              | (20,437)              |
| Cash and cash equivalents at beginning of the financial year |             | 315,188               | 335,625               |
|  |             | <hr/>                 | <hr/>                 |
| Cash and cash equivalents at end of the financial year       |             | 290,411               | 315,188               |
|  |             | <hr/> <hr/>           | <hr/> <hr/>           |
| Cash and cash equivalents comprise:                          |             |                       |                       |
| Fixed and call deposits:                                     |             |                       |                       |
| - Licensed financial institutions in Malaysia                |             | 277,414               | 296,291               |
| Cash and bank balances                                       |             | 12,997                | 18,897                |
|  |             | <hr/>                 | <hr/>                 |
|  |             | 290,411               | 315,188               |
|  |             | <hr/> <hr/>           | <hr/> <hr/>           |

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

**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

**1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION**

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

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The Directors regard Chubb Limited, a company incorporated in Zurich, Switzerland, as the ultimate holding company of the Company.

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

**2 SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

**(a) Basis of preparation**

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

The financial statements of the Company have also been prepared under the historical cost basis, except otherwise stated in these significant accounting policies. The Company has met the minimum capital requirements as prescribed by the RBC Framework as at the date of the statement of financial position.

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency. Unless otherwise indicated, the amounts in these financial statements have been rounded to the nearest thousand.

CHUBB INSURANCE MALAYSIA BERHAD  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective.**

The relevant new accounting standards, amendments and improvements to published standards and interpretations to existing accounting standards that are effective and applicable for the Company's financial year beginning on 1 January 2019 are as follows:

- (i) MFRS 16 'Leases'
- (ii) Amendments to MFRS 9 'Prepayment Features with Negative Compensation'
- (iii) Amendments to MFRS 119 'Plan Amendment, Curtailment or Settlement'
- (iv) IC Interpretation 23 'Uncertainty over Income Tax Treatments'
- (v) Annual Improvements to MFRSs 2015 – 2017 Cycle

The adoption of these amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods, except for MFRS 16 'Leases'.

**MFRS 16 'Leases'**

The Company has adopted MFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.80% per annum.

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

|                           | <u>31 December 2019</u> | <u>1 January 2019</u> |
|---------------------------|-------------------------|-----------------------|
|                           | RM'000                  | RM'000                |
| Offices                   | 1,869                   | 2,960                 |
| Equipment                 | 348                     | 733                   |
| Total right-of-use assets | <u>2,217</u>            | <u>3,693</u>          |

CHUBB INSURANCE MALAYSIA BERHAD  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective. (continued)**

**MFRS 16 'Leases' (continued)**

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

- Right-of-use assets – increase by RM 3,693,000
- Lease liabilities – increase by RM 3,693,000

In applying MFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

|  | <u>1 January 2019</u><br>RM'000 |
|--|---------------------------------|
| Operating lease commitments disclosed as at 31 December 2018                                   | 1,993                           |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 1,898                           |
| Add: Adjustments as a result of a different treatment of extension and termination options     | 1,795                           |
| <b>Lease liability recognised as at 1 January 2019</b>   | <b>3,693</b>                    |
| Of which are:  |                                 |
| Current lease liabilities  | 51                              |
| Non-current lease liabilities  | 3,642                           |
|  | <u>3,693</u>                    |

**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(a) **Basis of preparation (continued)**

(ii) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective.**

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2020. None of these is expected to have significant effect on the financial statements of the Company, except the following set out below:

- Amendments to MFRS 101 'Presentation of Financial Statements' and MFRS 108 'Accounting Policies, Changes in Accounting Estimates and Errors'- Definition of Material (effective 1 January 2020).
- Amendments to MFRS 3 'Definition of a Business' (effective 1 January 2020) revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments provide guidance to determine whether an input and a substantive process are present, including situation where an acquisition does not have outputs. To be a business without outputs, there will now need to be an organised workforce. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

In addition, the revised definition of the term 'outputs' is narrower, focusses on goods or services provided to customers, generating investment returns and other income but excludes returns in the form of cost savings.

The amendments introduce an optional simplified assessment known as 'concentration test' that, if met, eliminates the need for further assessment. Under this concentration test, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar assets), the assets acquired would not represent a business.

The amendments shall be applied prospectively.



**CHUBB INSURANCE MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(a) Basis of preparation (continued)

(ii) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective.(continued)**

- MFRS 17 'Insurance Contracts' (effective from 1 January 2021) replaces MFRS 4 'Insurance Contracts'.

MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 'Revenue'. An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17.

Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

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

Alternative measurement models are provided for the different insurance coverages:

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

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(a) **Basis of preparation (continued)**

(ii) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective.(continued)**

- MFRS 17 'Insurance Contracts' (effective from 1 January 2021) replaces MFRS 4 'Insurance Contracts'. (continued)

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

The International Accounting Standards Board has tentatively proposed to amend the effective date of IFRS 17 'Insurance Contracts' to 1 January 2022.

The Company has not fully assessed the impact of MFRS 17 on its financial statements.

None of accounting standards, amendments to published standards and interpretations to existing standards listed above were expected to give rise to any material financial impact to the Company upon initial application, except for MFRS 9 and MFRS 17. The Company is currently assessing the full impact arising from the requirements of MFRS 9 and MFRS 17 onto the Company's accounting policies of which the cumulative impact upon adoption will be recognised in the retained earnings as at 1 January 2021, and with enhanced disclosures. The Company expects this process to be completed prior to the respective effective dates.

(iii) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective for financial year beginning on or after 1 January 2018.**

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

|  | <u>FV at end of reporting date</u><br>RM'000 | <u>FV changes during the year</u><br>RM'000 |
|--|--|---|
| Financial assets with contractual terms that give rise to cash flows that are SPPI | 1,510,474                                    | 14,891                                      |
| Other financial assets   | 176,377                                      | -   |
| <b>Total</b>   | <u><u>1,686,851</u></u>                      | <u><u>14,891</u></u>                        |

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iii) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective for financial year beginning on or after 1 January 2018. (continued)**

The table below presents the credit risk exposure for aforementioned financial assets with contractual terms that give rise on SPPI:

|                       | Carrying amount<br>as at<br>31 December 2019 *<br>RM'000 |
|-----------------------|--|
| Government Guaranteed | 782,327  |
| AAA                   | 452,239  |
| AA                    | 223,243  |
| A                     | 43,987   |
| BBB                   | 8,334  |
| Not Rated             | 344  |
| Total                 | <u>1,510,474</u>   |

\*Carrying amount represents amount before adjusting for impairment allowance.

(b) Property and equipment

(i) Measurement basis

Property and equipment are initially recorded at cost. These include expenditure that is directly attributable to the acquisition of the assets.

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 asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(b) Property and equipment (continued)

(i) Measurement basis (continued)

Property and equipment are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

(ii) Depreciation

Freehold land is not depreciated.

Depreciation is calculated using the straight-line basis to allocate the costs of other property and equipment to their residual values over the expected useful lives of the assets.

The expected useful lives of the property and equipment are as follows:

|  |              |
|--|--------------|
| Buildings                                | 50 years     |
| Computers                                | 3 - 10 years |
| Office equipment, furniture and fittings | 3 - 10 years |
| Motor vehicles                           | 5 years      |

The residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged in profit or loss.

(c) Intangible assets

*Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring in use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and appropriate portion of relevant overheads.

Computer software costs recognised as assets are amortised over their estimated useful lives of 4 to 7 years.

Work in progress is not amortised until the asset is ready for its intended use.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

**Accounting policies applied from 1 January 2019 onwards**

Lessee

The Company leases various offices and equipment. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

(i) Lease term

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

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

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

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

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

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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(d) **Leases (continued)**

**Accounting policies applied from 1 January 2019 onwards (continued)**

(iii) **Lease liabilities**

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

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

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

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

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

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

(iv) **Reassessment of lease liabilities**

A reassessment of the lease liability takes place if the cash flows change based on the original terms and conditions.

(v) **Short-term leases and leases of low-value assets**

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases (continued)

**Accounting policies applied from 1 January 2019 onwards (continued)**

Lessor

The Company classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Company recognises lease payments received under operating lease as lease income on a straight-line basis over the lease term.

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of underlying asset and recognised as an expense over the lease term on the same basis as lease income.

**Accounting policies applied until 31 December 2018**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

(i) Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

(ii) Operating lease

An operating lease is a lease other than a finance lease.

Operating lease income or operating lease rentals are credited or charged to profit or loss on a straight line basis over the period of the lease.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Financial instruments**

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

**(i) Financial instrument categories and measurements**

**(1) Investments**

The Company classifies its investments into the following categories: fair value through profit or loss ("FVTPL"), held-to-maturity financial assets ("HTM"), available-for-sale financial assets ("AFS"), and loans and receivables ("LAR").

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

**FVTPL**

Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future or they constitute part of the portfolio of identified securities which has evidence of actual pattern of short-term profit taking are classified as held-for-trading.

These investments are initially recorded at fair value. The gains or losses from the changes in fair value are recognised in profit or loss.



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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(1) Investments (continued)

HTM

Investment with fixed or determinable payments and fixed maturities are categorised as held-to-maturity when the Company has positive intention and ability to hold until maturity.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment plus transaction costs that are directly attributable to their acquisition. After initial measurement, HTM investments are measured at amortised cost, using the effective yield method, less impairment losses.

AFS

These investments are initially recorded at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS are re-measured at fair value at reporting date. Fair value gains or losses are recognised in other comprehensive income, except for impairment losses which are recognised in profit or loss.

Fair value gains and losses of monetary securities denominated in foreign currency are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are reported as a separate component of equity until the investment is derecognised.

Unquoted investments whose fair value cannot be reliably measured are measured at cost. On derecognition, the cumulative fair value gains and losses previously recognised in other comprehensive income are transferred to profit or loss.

LAR

Financial assets with fixed or determinable payments that are not quoted in an active market are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, LAR are carried at amortised cost, using the effective yield method, less impairment losses. LAR comprises of fixed deposits with financial institutions exceeding 3 months. Interest income is recognised in profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(2) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company's insurance receivables are assessed and reviewed for evidence of impairment as described in Note 2(e)(v) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(e)(iv) to the financial statements, have been met.

All financial assets are reviewed for impairment as described in Note 2(e)(v) to the financial statements except for investment designated as FVTPL.

(3) Financial liabilities

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

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

Included in other payables is the deposit held on bonds. This is the cash collateral security provided to the Company for underwriting contract bonds.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(e) Financial instruments (continued)

(ii) Determination of fair value

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

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values or offer prices for liabilities, at the close of business on the reporting date.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and relying as little as possible on entity-specific inputs.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued interest. The fair value of fixed interest/yield-bearing deposits is estimated using discounted cash flow techniques.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(iii) Recognition of financial assets

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

(iv) Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that was recognised in other comprehensive income is reclassified to profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(iv) Derecognition of financial instruments (continued)

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On derecognition, the difference between the carrying amount of the reduced financial liability or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognised in profit or loss.

(v) Impairment of financial assets

*Investments*

The Company assesses at each reporting date whether a financial asset or Company of financial assets is impaired, with the exception of fixed and call deposits.

*Financial assets carried at amortised cost*

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

The Company first assesses 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 assets, whether significant or not, the assets are included in a Company of financial assets with similar credit risk characteristics and that Company of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

*AFS*

In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment, resulting in the recognition of an impairment loss.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(v) Impairment of financial assets (continued)

*AFS (continued)*

If an AFS is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals of impaired losses on debts instruments classified as AFS are reversed through profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in profit or loss.

*Insurance receivables*

Insurance receivables are assessed at each reporting date for objective evidence of impairment, as a result of one or multi events having an impact on the estimated future cash flow of the assets.

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

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

(f) Other receivables from Malaysian Motor Insurance Pool ("MMIP")

The Company's share of investment return of MMIP is recognised as receivable when the right to receive is established. The advances to and receivables from MMIP are classified as part of Other Receivables.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and deposits held at call with financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Cash and cash equivalents (continued)

The Company classifies the cash flows for the purchase and disposal of investments in financial assets in its operating cash flows as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payment of insurance claims benefits.

(h) Provisions

Provisions are recognised when the Company has a present obligation, either legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost expense.

(i) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(j) Equity instruments

*Ordinary share capital*

The Company has issued ordinary shares that are classified as equity. Ordinary shares are recorded at nominal value.

*Dividends on ordinary share capital*

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid. No provision is made for a proposed dividend.

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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(k) **Product classification**

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract under which the Company (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. The recognition and measurement of insurance contracts are set out in Note 2(l) to the financial statements.

Investment contracts are those contracts that do not transfer significant insurance risk.

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 basis as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

(l) **Insurance contracts**

*Premium from direct insurance contract*

Premium of insurance contracts is recognised in a financial year in respect of risks assumed during that particular financial year.

*Acquisition costs*

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

*Claims and expenses*

Claims include all claims occurring during the financial year, whether reported or not, related external claims handling cost that are directly related to the processing and settlement of claim, a reduction for the value of salvage and other recoveries, and any adjustments to claim liabilities from previous financial year.

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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(I) Insurance contracts (continued)

*Premium liabilities*

Premium liabilities refer to the higher of:

- (a) the aggregate of the unearned premium reserves ("UPR"); or
- (b) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall company level.

UPR represent the portion of the gross premiums of insurance policies written net of the related reinsurance premiums ceded to qualified reinsurers that relate to the unexpired periods of the policies at the end of the financial year.

UPR are computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) time apportionment method for non-annual policies;
- (iii) 1/24th method for all other classes of Malaysian general policies; and
- (iv) 1/8th method for all classes of overseas inward business.

At each reporting date, the Company reviews its unexpired risks reserve ("URR") and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The current estimate of future contractual cash flow is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's 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 shall allow for expected future premium refunds.

If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.



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**NOTES TO THE FINANCIAL STATEMENTS**  
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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(l) Insurance contracts (continued)

*Claims liabilities*

Claims liabilities are determined based on the estimated ultimate cost of all claims incurred but not settled at the date of statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statement of financial position.

The liability is calculated at the reporting date using a range of standard actuarial claims projection techniques based on empirical data and current assumptions at best estimate and a PRAD calculated at the overall Company. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

(m) Investment contract

Investment contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are initially measured at fair value being the transaction price excluding transaction costs directly attributable to the issue of the contract. Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Company re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by calculating the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in profit or loss.

(n) Reinsurance

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

Reinsurance premiums ceded are recognised in the same accounting period as the original policy to which the reinsurance relates.

Reinsurance commission income is recognised as revenue on a basis that is consistent with the recognition of costs incurred on the acquisition of underlying insurance contracts.

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(n) Reinsurance (continued)

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

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

Premiums and claims on assumed facultative reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Premiums, claims and other transactions costs on assumed treaty reinsurance are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

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 expire or when the contract is transferred to another party.

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

(o) Other revenue recognition

(i) Rental income

Rental income from investment property is recognised on an accrual basis and straight-line basis over the term of the lease.

(ii) Investment income

Interest income from securities such government securities, bonds and loan stocks are recognised using the effective interest rate method.

The interest income from fixed deposits with financial institutes, are recognised in the financial statements on the accrual basis.

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

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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(p) **Foreign currencies**

(i) **Functional currency**

Functional currency is the currency of the primary economic environment in which an entity operates.

(ii) **Transactions and balances in foreign currencies**

Transactions in currencies other than the functional currency ("foreign currencies") are translated to the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary items denominated in foreign currencies at the reporting date are translated at foreign exchange rates ruling at that date.

Non-monetary items which are measured in terms of historical costs denominated in foreign currencies are translated at foreign exchange rates ruling at the date of the transaction.

Non-monetary items which are measured at fair values denominated in foreign currencies are translated at the foreign exchange rates ruling at the date when the fair values were determined.

Exchange differences arising on the settlement of monetary items and the translation of monetary items are included in profit or loss for the period.

When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any corresponding exchange gain or loss is recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any corresponding exchange gain or loss is recognised in profit or loss.

(q) **Employee benefits**

(i) **Short term benefits**

Wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as expenses in the period in which the associated services are rendered by employees of the Company.

(ii) **Post-employment benefits**

The Company pays fixed contributions to the Employees Provident Fund ("EPF") which is a defined contribution plan.

The Company's legal or constructive obligation is limited to the amount that it agrees to contribute to the EPF. The Company's contributions to the EPF are charged to profit or loss in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(q) **Employee benefits (continued)**

(iii) **Share-based long term incentive plan**

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, Chubb Limited ("Chubb"). The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

Employees' services received in exchange for the share-based long term incentive plan are recognised as an expense in the Company's profit or loss over the vesting period of the grant with a corresponding increase in equity reserves.

The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all share grants issued in the current and prior financial years. There is no liability to the Company for the unamortised portion of the share grants issued. The amortised calculation incorporates the fair market value of Chubb's common stock at grant date, in determining the expense amount.

At each date of statement of financial position, the Company revises its estimate of the number of options that are expected to become vest. It recognises the impact of the revision of original estimates, if any, in profit or loss and a corresponding adjustment to equity reserves over the remaining vesting period.

(r) **Income taxes**

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are outlined below.

(i) Claims liabilities

Claims liabilities for each class of business are estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development, claims payment and the direct and indirect claims-related expenses. The claims liabilities also include a provision of risk margin for adverse deviation ("PRAD"). PRAD is a component of the value of the insurance liabilities which is set at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. For the purpose of this valuation basis, the level of confidence is at 75% at an overall Company level. The final selected estimates are based on a judgemental consideration of results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term to settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

The best estimate outstanding claims liabilities were assessed using four standard actuarial valuation methods:

- Incurred Claim Development method
- Paid Claim Development method
- Bornhuetter-Ferguson method on incurred claims and paid claims
- Expected loss ratio method

The key assumptions and the sensitivity analysis of claims liabilities are disclosed in Note 30 (e) to the financial statements.

(ii) Leases- extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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4 PROPERTY AND EQUIPMENT

|                                 | Freehold<br>land | Buildings | Computers | Office<br>equipment,<br>furniture<br>and<br>fittings | Motor<br>vehicles | Total  |
|---------------------------------|------------------|-----------|-----------|--|-------------------|--------|
|                                 | RM'000           | RM'000    | RM'000    | RM'000   | RM'000            | RM'000 |
| <u>Cost</u>                     |                  |           |           |  |                   |        |
| At 1 January 2018               | 15,206           | 36,071    | 10,342    | 17,664   | 1,018             | 80,301 |
| Additions                       | -                | -         | 1,845     | 275  | -                 | 2,120  |
| Disposals                       | -                | -         | -         | -  | (192)             | (192)  |
| Write-offs                      | -                | -         | (676)     | (148)  | -                 | (824)  |
| Reclassification                | -                | -         | 4,733     | 2,422  | -                 | 7,155  |
| At 31 December 2018             | 15,206           | 36,071    | 16,244    | 20,213   | 826               | 88,560 |
| Additions                       | -                | -         | 1,051     | 224  | -                 | 1,275  |
| Disposals                       | -                | -         | -         | (1)  | (86)              | (87)   |
| Write-offs                      | -                | -         | (77)      | (25)   | -                 | (102)  |
| At 31 December 2019             | 15,206           | 36,071    | 17,218    | 20,411   | 740               | 89,646 |
| <u>Accumulated depreciation</u> |                  |           |           |  |                   |        |
| At 1 January 2018               | -                | 10,313    | 5,727     | 7,594  | 419               | 24,053 |
| Charge for the financial year   | -                | 770       | 1,862     | 1,961  | 147               | 4,740  |
| Disposals                       | -                | -         | -         | -  | (136)             | (136)  |
| Write-offs                      | -                | -         | (676)     | (146)  | -                 | (822)  |
| Reclassification                | -                | -         | 4,733     | 2,422  | -                 | 7,155  |
| At 31 December 2018             | -                | 11,083    | 11,646    | 11,831   | 430               | 34,990 |
| Charge for the financial year   | -                | 770       | 1,950     | 1,945  | 71                | 4,736  |
| Disposals                       | -                | -         | -         | (1)  | (61)              | (62)   |
| Write-offs                      | -                | -         | (77)      | (25)   | -                 | (102)  |
| At 31 December 2019             | -                | 11,853    | 13,519    | 13,750   | 440               | 39,562 |
| <u>Net carrying amount</u>      |                  |           |           |  |                   |        |
| 31 December 2019                | 15,206           | 24,218    | 3,699     | 6,661  | 300               | 50,084 |
| 31 December 2018                | 15,206           | 24,988    | 4,598     | 8,382  | 396               | 53,570 |

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5 LEASES

The Company as a lessee

The Company leases various offices and equipment. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(a) Right-of-use assets

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| Carrying amount of right-of-use assets by class of underlying assets:     |                       |                       |
| Offices   | 1,869                 | -                     |
| Equipment   | 348                   | -                     |
|   | <u>2,217</u>          | <u>-</u>              |
|   |                       |                       |
| Additions to the right-of-use assets during the financial year            | 253                   | -                     |
|   |                       |                       |
| Depreciation charge of right-of-use assets by class of underlying assets: |                       |                       |
| Offices   | (1,338)               | -                     |
| Equipment   | (391)                 | -                     |
|   | <u>(1,729)</u>        | <u>-</u>              |
|   |                       |                       |
| (b) Lease liabilities   |                       |                       |
| Current   | 478                   | -                     |
| Non-current   | 1,808                 | -                     |
|   | <u>2,286</u>          | <u>-</u>              |
|   |                       |                       |
| Interest expenses (included in finance cost)                              | (199)                 | -                     |
|   |                       |                       |
| Total cash outflows for leases  | (1,860)               | -                     |

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5 LEASES (CONTINUED)

The Company as a lessor

The Company leases out its building under operating leases with rentals payable monthly. The Company classifies it as operating lease as the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

|               | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------|-----------------------|-----------------------|
| Rental income | 1,236                 | 758                   |

The following table sets out the maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

|  |              |            |
|--|--------------|------------|
| Within one year                                | 1,362        | 612        |
| Later than one year but not later than 3 years | 2,100        | -          |
|  | <u>3,462</u> | <u>612</u> |

6 INTANGIBLE ASSETS

|                     | <u>Computer<br/>Software</u><br>RM'000 | <u>Work-in-<br/>Progress</u><br>RM'000 | <u>Total</u><br>RM'000 |
|---------------------|--|--|------------------------|
| <u>Cost</u>         |  |  |                        |
| As 1 January 2018   | 16,943                                 | -                                      | 16,943                 |
| Additions           | 790                                    | 703                                    | 1,493                  |
| Write-offs          | (5,342)                                | -                                      | (5,342)                |
| Reclassification    | 144                                    | -                                      | 144                    |
|                     | <u>12,535</u>                          | <u>703</u>                             | <u>13,238</u>          |
| As 31 December 2018 | 12,535                                 | 703                                    | 13,238                 |
| Additions           | 346                                    | 905                                    | 1,251                  |
| Write-offs          | -                                      | (2)                                    | (2)                    |
| Reclassification    | 1,092                                  | (1,092)                                | -                      |
|                     | <u>13,973</u>                          | <u>514</u>                             | <u>14,487</u>          |
| As 31 December 2019 | 13,973                                 | 514                                    | 14,487                 |



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## 6 INTANGIBLE ASSETS (CONTINUED)

|                                     | <u>Computer<br/>Software</u><br>RM'000 | <u>Work-in-<br/>Progress</u><br>RM'000 | <u>Total</u><br>RM'000 |
|-------------------------------------|--|--|------------------------|
| <u>Accumulated depreciation</u>     |  |  |                        |
| As 1 January 2018                   | 11,805                                 | -                                      | 11,805                 |
| Amortisation for the financial year | 1,448                                  | -                                      | 1,448                  |
| Write-offs                          | (2,702)                                | -                                      | (2,702)                |
| Reclassification                    | 144                                    | -                                      | 144                    |
|                                     | <u>10,695</u>                          | <u>-</u>                               | <u>10,695</u>          |
| As 31 December 2018                 | 10,695                                 | -                                      | 10,695                 |
| Amortisation for the financial year | 902                                    | -                                      | 902                    |
| Write-offs                          | -                                      | -                                      | -                      |
| Reclassification                    | -                                      | -                                      | -                      |
|                                     | <u>11,597</u>                          | <u>-</u>                               | <u>11,597</u>          |
| As 31 December 2019                 | <u>11,597</u>                          | <u>-</u>                               | <u>11,597</u>          |
| <u>Net carrying amount</u>          |  |  |                        |
| 31 December 2019                    | <u>2,376</u>                           | <u>514</u>                             | <u>2,890</u>           |
| 31 December 2018                    | <u>1,840</u>                           | <u>703</u>                             | <u>2,543</u>           |

Intangible assets comprise computer software.

## 7 INVESTMENTS

|  | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-----------------------|-----------------------|
| Malaysian Government Securities and guaranteed loans | 782,327               | 755,468               |
| Debt securities                                      | 450,733               | 443,796               |
| Equity securities                                    | 375                   | 375                   |
|  | <u>1,233,435</u>      | <u>1,199,639</u>      |
| AFS  | <u>1,233,435</u>      | <u>1,199,639</u>      |

The following investments mature after 12 months:

|  |                |                |
|--|----------------|----------------|
| Malaysian Government Securities and guaranteed loans | 655,432        | 603,536        |
| Debt securities                                      | 344,246        | 327,217        |
|  | <u>999,678</u> | <u>930,753</u> |

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|   |   |                       |                       |
|---|---|-----------------------|-----------------------|
| 7 | INVESTMENTS (CONTINUED)                                 | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|   | (a) AFS   |                       |                       |
|   | <u>Fair value</u>                                       |                       |                       |
|   | Unquoted equity securities                              | 375                   | 375                   |
|   | Unquoted debt securities                                | 450,733               | 443,796               |
|   | Malaysian Government Securities<br>and guaranteed loans | 782,327               | 755,468               |
|   |   | <u>1,233,435</u>      | <u>1,199,639</u>      |
|   | (b) Carrying values of financial instruments            |                       | <u>AFS</u><br>RM'000  |
|   | At 1 January 2018                                       |                       | 1,078,067             |
|   | Purchases   |                       | 275,767               |
|   | Maturities  |                       | (85,000)              |
|   | Disposals   |                       | (70,331)              |
|   | Fair value gains recorded in:                           |                       |                       |
|   | Other comprehensive income                              |                       | (961)                 |
|   | Net change in interest receivables                      |                       | 1,469                 |
|   | Accretion of discount                                   |                       | 628                   |
|   | At 31 December 2018                                     |                       | <u>1,199,639</u>      |
|   | Purchases   |                       | 353,321               |
|   | Maturities  |                       | (280,000)             |
|   | Disposals   |                       | (55,363)              |
|   | Fair value losses recorded in:                          |                       |                       |
|   | Other comprehensive income                              |                       | 14,891                |
|   | Net change in interest receivables                      |                       | 766                   |
|   | Accretion of discount                                   |                       | 181                   |
|   | At 31 December 2019                                     |                       | <u>1,233,435</u>      |

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## 7 INVESTMENTS (CONTINUED)

## (c) Estimation of fair values

The estimated fair values of corporate debts securities and Malaysian government securities are based on the average indicative mid markets prices obtained from at least three licensed financial institutions.

The fair value of the unquoted equity securities in corporations were determined to approximate the carrying amount as this is immaterial in the context of the financial statements.

Fair value hierarchy

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

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

Financial instruments that are valued not based on observable market data are categorised as Level 3.

Fair value investments

|                                      | <u>2019</u>      | <u>2018</u>      |
|--------------------------------------|------------------|------------------|
|                                      | RM'000           | RM'000           |
| Valuation techniques                 |                  |                  |
| - market observable inputs (Level 2) | 1,233,060        | 1,199,264        |
| - unobservable inputs (Level 3)      | 375              | 375              |
|                                      | <u>1,233,435</u> | <u>1,199,639</u> |

There are no investments that are valued at Level 1 category.

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|   |  |             |                       |                       |
|---|--|-------------|-----------------------|-----------------------|
| 8 | REINSURANCE ASSETS   | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|   | Reinsurance of insurance contracts   | 15          |                       |                       |
|   | Claims liabilities   |             | 202,430               | 202,906               |
|   | Premium liabilities  |             | 19,895                | 22,864                |
|   |  |             | <u>222,325</u>        | <u>225,770</u>        |
|   | Current  |             | 93,768                | 105,058               |
|   | Non-current  |             | 128,557               | 120,712               |
|   |  |             | <u>222,325</u>        | <u>225,770</u>        |
| 9 | INSURANCE RECEIVABLES  |             | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|   | Due premiums including agents/brokers and co-insurers balances   |             | 107,223               | 124,171               |
|   | Due from reinsurers and cedants  |             | 22,370                | 21,908                |
|   |  |             | <u>129,593</u>        | <u>146,079</u>        |
|   | Allowance for impairment   |             | (14,093)              | (12,766)              |
|   |  |             | <u>115,500</u>        | <u>133,313</u>        |
|   | Current  |             | 115,500               | 133,313               |
|   | Non-current  |             | -                     | -                     |
|   |  |             | <u>115,500</u>        | <u>133,313</u>        |
|   | <u>Financial assets</u>  |             |                       |                       |
|   | Gross amounts of recognised financial assets, net of allowance for impairment                                    |             | 140,470               | 162,697               |
|   | Less: Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 18) |             | (24,970)              | (29,384)              |
|   | Net amounts of financial assets presented in the statement of financial position                                 |             | <u>115,500</u>        | <u>133,313</u>        |

There are no financial liabilities subjected to an enforceable master netting arrangement or similar agreement financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2019 (2018: NIL).

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10 OTHER RECEIVABLES

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| Amount due from Malaysian Motor Insurance Pool ("MMIP") |                       |                       |
| - Cash contribution to MMIP                             | 16,859                | 21,859                |
| - Assets held under MMIP                                | 32,030                | 31,039                |
| Deposits  | 775                   | 749                   |
| Other receivables                                       | 10,838                | 12,627                |
|   | <u>60,502</u>         | <u>66,274</u>         |
| Current   | 59,727                | 65,525                |
| Non-current   | 775                   | 749                   |
|   | <u>60,502</u>         | <u>66,274</u>         |

As at 31 December 2019, there is a net receivable of RM14,536,000 (2018: RM12,443,000 net receivable) from MMIP, after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premiums liabilities of RM34,353,000 (2018: RM40,455,000) included in Note 15 to the financial statements.

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

11 SHARE CAPITAL

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| Issued and paid up:                           |                       |                       |
| 100,000,000 ordinary shares with no par value |                       |                       |
| At beginning and end of financial year        | <u>100,000</u>        | <u>100,000</u>        |

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**12 RETAINED EARNINGS**

Under the single-tier tax system which came into effect on 1 January 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are single-tier dividends and are tax exempt on the hands of shareholders.

As at 31 December 2019, the Company is already under the single-tier tax system. The Company also has no tax exempt income available for future distribution of tax exempt dividends.

The Company may distribute single tier tax exempt dividend to its shareholder out of its retained earnings. Pursuant to Section 51 (1) of the Financial Services Act 2013, the Company is required to obtain BNM written approval prior to declaring or paying any dividend.

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

**13 AVAILABLE-FOR-SALE FAIR VALUE RESERVES**

The fair value reserves are in respect of unrealised gains on available-for-sale investments, net of tax.

**14 EQUITY RESERVE**

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, Chubb. The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

**Restricted Share Grant Plan**

Under Chubb's long term incentive plan, 2,931 restricted ordinary shares were awarded during the financial year ended 31 December 2019 to eligible employees of the Company. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a Company scheme with expenses incurred under the scheme charged out by Chubb to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all restricted share grants issued in the current and prior financial years, and is consistent with the treatment required by MFRS 2: Share-based payment. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of Chubb's common stock at grant date, in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by Chubb to the eligible employees.

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14 EQUITY RESERVE (CONTINUED)

Restricted Share Option Plan

Under Chubb's long term incentive plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a Company scheme with expenses incurred under the scheme charged out by Chubb to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

|                                | <u>2019</u>  |  | <u>2018</u>  |  |
|--------------------------------|--|--|--|--|
|                                | <u>Average</u><br><u>exercise</u><br><u>price</u><br><u>per share</u><br><u>RM</u> | <u>Share</u><br><u>options</u><br><u>Units</u> | <u>Average</u><br><u>exercise</u><br><u>price</u><br><u>per share</u><br><u>RM</u> | <u>Share</u><br><u>options</u><br><u>Units</u> |
| At beginning of financial year |  | 37,873   |  | 38,841   |
| Granted                        | 554.88   | 3,899  | 595.71   | 3,946  |
| Forfeited                      | 496.02   | (450)  | 569.94   | (949)  |
| Exercised                      | 376.88   | (4,257)  | 286.23   | (2,360)  |
| Cancelled                      |  | -  |  | (692)  |
| Transferred out                |  | (360)  |  | (913)  |
| Transferred in                 |  | -  |  | -  |
| At end of financial year       |  | <u>36,705</u>                                  |  | <u>37,873</u>                                  |

Out of the 36,705 outstanding options, 28,498 options were exercisable. Options granted in 2019 resulted in 3,899 shares options being issued at exercise price of RM 554.88 each. 4,257 options were exercised in 2019 at exercise price of RM 376.88.

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14 EQUITY RESERVE (CONTINUED)

Restricted Share Option Plan (continued)

Share options outstanding at the end of the financial year have the following expiry date and exercise prices:

|      | Exercise price<br><u>per share</u><br>RM | Share options        |                      |
|------|--|----------------------|----------------------|
|      |  | <u>2019</u><br>Units | <u>2018</u><br>Units |
| 2019 | 159.59                                   | -                    | 612                  |
| 2020 | 208.73                                   | 1,060                | 1,594                |
| 2021 | 259.58                                   | 2,898                | 2,980                |
| 2022 | 303.96                                   | 2,554                | 2,875                |
| 2023 | 353.86                                   | 3,325                | 3,632                |
| 2024 | 400.97                                   | 4,117                | 5,087                |
| 2025 | 475.65                                   | 4,383                | 5,434                |
| 2026 | 490.61                                   | 5,377                | 6,119                |
| 2027 | 576.06                                   | 5,461                | 5,909                |
| 2028 | 592.88                                   | 3,631                | 3,631                |
| 2029 | 554.88                                   | 3,899                | -                    |
|      |  | <u>36,705</u>        | <u>37,873</u>        |

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM76.39 per option. The significant inputs into the model were share price of RM554.88, at the grant date, the exercise price shown above, volatility of 16.00%, dividend yield of 2.24%, an expected option life of 5 years and on annual risk-free interest rate of 2.55%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee Share Purchase Plan

The Company collects monies from local eligible employees and acquires ordinary shares in Chubb on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the Company level by Chubb and not reimbursed from the Company.

The total expenses of employees equity-settled share-based long term incentive plan for the financial year was RM2,202,985 (2018: RM1,856,089).



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15 **INSURANCE CONTRACT LIABILITIES**

|   | 2019             |                            |                | 2018             |                            |                |
|---|------------------|----------------------------|----------------|------------------|----------------------------|----------------|
|   | Gross<br>RM'000  | Re-<br>insurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000  | Re-<br>insurance<br>RM'000 | Net<br>RM'000  |
| General insurance                                       | 1,010,722        | (222,325)                  | 788,397        | 1,003,704        | (225,770)                  | 777,934        |
| Provision for claims reported                           | 549,112          | (129,143)                  | 419,969        | 456,634          | (116,735)                  | 339,899        |
| Provision for incurred but not reported claims ("IBNR") | 140,381          | (73,287)                   | 67,094         | 213,330          | (86,171)                   | 127,159        |
| Claims liabilities                                      | 689,493          | (202,430)                  | 487,063        | 669,964          | (202,906)                  | 467,058        |
| Premium liabilities                                     | 321,229          | (19,895)                   | 301,334        | 333,740          | (22,864)                   | 310,876        |
|   | <u>1,010,722</u> | <u>(222,325)</u>           | <u>788,397</u> | <u>1,003,704</u> | <u>(225,770)</u>           | <u>777,934</u> |

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15 INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

| (i) Claims liabilities   | 2019            |                            |                | 2018            |                            |                |
|--|-----------------|----------------------------|----------------|-----------------|----------------------------|----------------|
|  | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000  |
| At beginning of financial year   | 669,964         | (202,906)                  | 467,058        | 679,877         | (226,759)                  | 453,118        |
| Increase in claims incurred/recoveries anticipated over the financial year | 464,260         | (114,232)                  | 350,028        | 482,895         | (119,289)                  | 363,606        |
| Change in key assumptions  | (71,663)        | 49,100                     | (22,563)       | (52,052)        | 43,352                     | (8,700)        |
| Claims paid during the financial year                                      | (373,068)       | 65,608                     | (307,460)      | (440,756)       | 99,790                     | (340,966)      |
| At end of financial year   | <u>689,493</u>  | <u>(202,430)</u>           | <u>487,063</u> | <u>669,964</u>  | <u>(202,906)</u>           | <u>467,058</u> |

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**15 INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(ii) Premium liabilities**

|  | 2019             |                            |                | 2018             |                            |                |
|--|------------------|----------------------------|----------------|------------------|----------------------------|----------------|
|  | Gross<br>RM'000  | Re-<br>insurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000  | Re-<br>insurance<br>RM'000 | Net<br>RM'000  |
| At beginning of financial year                   | 333,740          | (22,864)                   | 310,876        | 376,010          | (27,966)                   | 348,044        |
| Premiums written in the financial year (Note 20) | 849,602          | (219,953)                  | 629,649        | 872,219          | (206,832)                  | 665,387        |
| Premiums earned during the financial year        | (862,113)        | 222,922                    | (639,191)      | (914,489)        | 211,934                    | (702,555)      |
| At end of financial year                         | <u>321,229</u>   | <u>(19,895)</u>            | <u>301,334</u> | <u>333,740</u>   | <u>(22,864)</u>            | <u>310,876</u> |
| <b>Current</b>                                   |                  |                            |                |                  |                            |                |
| Claims liabilities                               | 368,270          | (92,409)                   | 275,861        | 366,102          | (103,576)                  | 262,526        |
| Premium liabilities                              | 49,268           | (1,359)                    | 47,909         | 52,213           | (1,482)                    | 50,731         |
|  | <u>417,538</u>   | <u>(93,768)</u>            | <u>323,770</u> | <u>418,315</u>   | <u>(105,058)</u>           | <u>313,257</u> |
| <b>Non-current</b>                               |                  |                            |                |                  |                            |                |
| Claims liabilities                               | 321,223          | (110,021)                  | 211,202        | 303,862          | (99,330)                   | 204,532        |
| Premium liabilities                              | 271,961          | (18,536)                   | 253,425        | 281,527          | (21,382)                   | 260,145        |
|  | <u>593,184</u>   | <u>(128,557)</u>           | <u>464,627</u> | <u>585,389</u>   | <u>(120,712)</u>           | <u>464,677</u> |
|  | <u>1,010,722</u> | <u>(222,325)</u>           | <u>788,397</u> | <u>1,003,704</u> | <u>(225,770)</u>           | <u>777,934</u> |

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16 INVESTMENT CONTRACT LIABILITIES

|                                 | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------------------------|-----------------------|-----------------------|
| Investment contract liabilities | 511                   | 590                   |
| At beginning of financial year  | 590                   | 675                   |
| Deposits                        | 1,847                 | 1,334                 |
| Withdrawals                     | (1,926)               | (1,419)               |
| At end of financial year        | 511                   | 590                   |

The carrying amount of the investment contracts liabilities approximate fair value.

17 DEFERRED TAX ASSETS

|                                | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--------------------------------|-----------------------|-----------------------|
| At beginning of financial year | 23,301                | 19,479                |
| Recognised in:                 |                       |                       |
| Profit or loss (Note 25)       | 825                   | 3,545                 |
| Other comprehensive income     | (3,560)               | 277                   |
| At end of financial year       | 20,566                | 23,301                |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes related to the same authority. The following amounts determined after appropriate set off are shown in the statements of financial position:

|  | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-----------------------|-----------------------|
| Presented after appropriate offsetting as follows: |                       |                       |
| Deferred tax assets                                | 20,566                | 23,301                |

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17 DEFERRED TAX ASSETS (CONTINUED)

31 December 2019

|  | Allowance for<br>impairment<br>RM'000 | Right-of-use<br>assets<br>RM'000 | Lease<br>liabilities<br>RM'000 | Provisions<br>RM'000 | Accelerated<br>depreciation<br>RM'000 | Accretion<br>of discount<br>RM'000 | Fair value<br>of securities<br>RM'000 | Others<br>RM'000 | Total<br>RM'000 |
|--|---------------------------------------|----------------------------------|--------------------------------|----------------------|---------------------------------------|------------------------------------|---------------------------------------|------------------|-----------------|
| Deferred tax assets<br>(before off-setting)                    |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
| At beginning of financial year                                 | 3,062                                 | -                                | -                              | 18,670               | -                                     | -                                  | -                                     | 3,716            | 25,448          |
| Recognised in:<br>Profit or loss                               | 318                                   | -                                | 548                            | (283)                | -                                     | -                                  | -                                     | 1,278            | 1,861           |
| At end of financial year                                       | 3,380                                 | -                                | 548                            | 18,387               | -                                     | -                                  | -                                     | 4,994            | 27,309          |
| Deferred tax liabilities<br>(before off-setting)               |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
| At beginning of financial year                                 | -                                     | -                                | -                              | -                    | (1,097)                               | (637)                              | (413)                                 | -                | (2,147)         |
| Recognised in:<br>Profit or loss<br>Other comprehensive income | -                                     | (532)                            | -                              | -                    | 191                                   | (388)                              | (3,560)                               | (307)            | (1,036)         |
| At end of financial year                                       | -                                     | (532)                            | -                              | -                    | (906)                                 | (1,025)                            | (3,973)                               | (307)            | (6,743)         |
| Deferred tax assets<br>(after off-setting)                     |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
|  |                                       |                                  |                                |                      |                                       |                                    |                                       |                  | 20,566          |

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| 17 DEFERRED TAX ASSETS (CONTINUED)               | Allowance for<br>impairment<br>RM'000 | Right-of-use<br>assets<br>RM'000 | Lease<br>liabilities<br>RM'000 | Provisions<br>RM'000 | Accelerated<br>depreciation<br>RM'000 | Accretion<br>of discount<br>RM'000 | Fair value<br>of securities<br>RM'000 | Others<br>RM'000 | Total<br>RM'000 |
|--|---------------------------------------|----------------------------------|--------------------------------|----------------------|---------------------------------------|------------------------------------|---------------------------------------|------------------|-----------------|
| <u>31 December 2018</u>                          |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
| Deferred tax assets<br>(before off-setting)      |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
| At beginning of financial year                   | 2,729                                 | -                                | -                              | 16,655               | -                                     | -                                  | -                                     | 2,971            | 22,355          |
| Recognised in:                                   |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
| Profit or loss                                   | 333                                   | -                                | -                              | 2,015                | -                                     | -                                  | -                                     | 745              | 3,093           |
| Other comprehensive income                       | -                                     | -                                | -                              | -                    | -                                     | -                                  | -                                     | -                | -               |
| At end of financial year                         | 3,062                                 | -                                | -                              | 18,670               | -                                     | -                                  | -                                     | 3,716            | 25,448          |
| Deferred tax liabilities<br>(before off-setting) |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
| At beginning of financial year                   | -                                     | -                                | -                              | -                    | (1,977)                               | (209)                              | (690)                                 | -                | (2,876)         |
| Recognised in:                                   |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
| Profit or loss                                   | -                                     | -                                | -                              | -                    | 880                                   | (428)                              | -                                     | -                | 452             |
| Other comprehensive income                       | -                                     | -                                | -                              | -                    | -                                     | -                                  | 277                                   | -                | 277             |
| At end of financial year                         | -                                     | -                                | -                              | -                    | (1,097)                               | (637)                              | (413)                                 | -                | (2,147)         |
| Deferred tax assets<br>(after off-setting)       |                                       |                                  |                                |                      |                                       |                                    |                                       |                  |                 |
|  |                                       |                                  |                                |                      |                                       |                                    |                                       |                  | 23,301          |

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18 INSURANCE PAYABLES

|                                  | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|----------------------------------|-----------------------|-----------------------|
| Due to agents and intermediaries | 41,618                | 40,461                |
| Due to reinsurers and cedants    | 30,683                | 28,213                |
|                                  | <u>72,301</u>         | <u>68,674</u>         |

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

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| <u>Financial liabilities</u>  |                       |                       |
| Gross amounts of recognised financial liabilities   | 97,271                | 98,058                |
| Less: Gross amounts of recognised financial assets<br>set off in the statement of financial position (Note 9) | <u>(24,970)</u>       | <u>(29,384)</u>       |
| Net amounts of financial liabilities presented in the statement<br>of financial position                      | <u>72,301</u>         | <u>68,674</u>         |

There are no financial assets subjected to an enforceable master netting arrangement or similar agreement financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2019 (2018: NIL).

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## 19 OTHER PAYABLES

|                       | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|-----------------------|-----------------------|-----------------------|
| Accrued liabilities   | 66,193                | 64,329                |
| Payroll liabilities   | 8,727                 | 9,782                 |
| Deposit held on bonds | 69,394                | 61,733                |
| Other payables        | 27,500                | 31,578                |
|                       | <u>171,814</u>        | <u>167,422</u>        |
| Current               | 150,857               | 145,180               |
| Non-current           | 20,957                | 22,242                |
|                       | <u>171,814</u>        | <u>167,422</u>        |

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

## 20 NET EARNED PREMIUMS

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| (a) Gross earned premiums                 |                       |                       |
| General insurance contracts (Note 15(ii)) | 849,602               | 872,219               |
| Change in premium liabilities             | 12,511                | 42,270                |
|   | <u>862,113</u>        | <u>914,489</u>        |
| (b) Premium ceded                         |                       |                       |
| General insurance contracts (Note 15(ii)) | (219,953)             | (206,832)             |
| Change in premium liabilities             | (2,969)               | (5,102)               |
|   | <u>(222,922)</u>      | <u>(211,934)</u>      |
| Net earned premiums                       | <u>639,191</u>        | <u>702,555</u>        |



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|    |  |               |                |
|----|--|---------------|----------------|
| 21 | NET INVESTMENT INCOME                            |               |                |
|    |  | <u>2019</u>   | <u>2018</u>    |
|    |  | RM'000        | RM'000         |
|    | AFS  |               |                |
|    | Interest income                                  | 49,433        | 48,361         |
|    | Dividend income                                  |               |                |
|    | - unquoted equity securities in Malaysia         | 66            | 83             |
|    | Cash and cash equivalents interest income        | 9,540         | 7,777          |
|    | Accretion of discounts                           | 181           | 628            |
|    | Other investment income from MMIP                | 3,663         | 2,276          |
|    | Investment advisory fees and custodian charges   | (1,898)       | (1,878)        |
|    |  | <u>60,985</u> | <u>57,247</u>  |
| 22 | REALISED GAINS/(LOSSES)                          |               |                |
|    |  | <u>2019</u>   | <u>2018</u>    |
|    |  | RM'000        | RM'000         |
|    | <u>Property and equipment:</u>                   |               |                |
|    | Realised losses                                  | (4)           | (9)            |
|    | <u>AFS</u>                                       |               |                |
|    | Realised gains:                                  |               |                |
|    | Unquoted debt securities in Malaysia             | 56            | 194            |
|    | <u>Foreign exchange:</u>                         |               |                |
|    | Realised gains/(losses)                          | 1,039         | (2,261)        |
|    |  | <u>1,091</u>  | <u>(2,076)</u> |
| 23 | COMMISSION INCOME                                |               |                |
|    |  | <u>2019</u>   | <u>2018</u>    |
|    |  | RM'000        | RM'000         |
|    | Commission income related to insurance contracts | <u>52,975</u> | <u>50,611</u>  |

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## 24 MANAGEMENT EXPENSES

|  | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-------------|-----------------------|-----------------------|
| Employee benefits expense  | 24(a)       | 92,660                | 93,432                |
| Directors' remuneration  | 24(b)       | 768                   | 679                   |
| Auditors' remuneration*  |             |                       |                       |
| - Statutory audits   |             | 428                   | 411                   |
| - Other services   |             | 66                    | 216                   |
| Depreciation of property and equipment                           | 4           | 4,736                 | 4,740                 |
| Depreciation of right-of-use assets                              | 5           | 1,729                 | -                     |
| Property and equipment written off                               |             | -                     | 2                     |
| Intangible assets written off                                    |             | 2                     | 2,640                 |
| Rental of office   |             | -                     | 824                   |
| Amortisation of intangible assets                                | 6           | 902                   | 1,448                 |
| Lease rental of equipment  |             | -                     | 402                   |
| EDP expenses   |             | 17,705                | 18,065                |
| Increase in allowance for<br>impairment of insurance receivables |             | 1,327                 | 1,389                 |
| Bad debts written off  |             | 270                   | 407                   |
| Bad debts recovered  |             | (717)                 | (538)                 |
| Advertising  |             | 19,764                | 31,208                |
| Printing and stationery  |             | 6,606                 | 7,200                 |
| Electricity and water  |             | 1,672                 | 1,524                 |
| Postage and telephone  |             | 1,895                 | 2,435                 |
| Regional technical service charges                               |             | 13,577                | 11,361                |
| Outsource services fees  |             | 10,290                | 12,077                |
| Other expenses   |             | 15,956                | 24,391                |
|  |             | <u>189,636</u>        | <u>214,313</u>        |

\*Including out-of-pocket expenses.

|  |  |               |               |
|--|--|---------------|---------------|
| (a) Employee benefits expense                      |  |               |               |
| Wages and salaries                                 |  | 66,170        | 62,357        |
| Social security contributions                      |  | 499           | 492           |
| Contributions to defined contribution plan,<br>EPF |  | 10,015        | 9,987         |
| Other benefits                                     |  | 15,976        | 20,596        |
|  |  | <u>92,660</u> | <u>93,432</u> |

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**24 MANAGEMENT EXPENSES (CONTINUED)**

**(b) Directors' remuneration**

The Directors' remuneration and other emoluments are as follows:

2019

|  | Fees<br>RM'000 | Salary*<br>RM'000 | Bonus*<br>RM'000 | Others*<br>RM'000 | Benefits-<br>in-kind*<br>RM'000 | Total<br>RM'000 |
|--|----------------|-------------------|------------------|-------------------|---------------------------------|-----------------|
| <u>Executive Directors:</u>            |                |                   |                  |                   |                                 |                 |
| Olivier Bouchard                       | 78             | -                 | -                | -                 | -                               | 78              |
| <u>Non-executive Directors:</u>        |                |                   |                  |                   |                                 |                 |
| YBhg Tan Sri Leo Moggie                | 158            | -                 | -                | -                 | -                               | 158             |
| Dato' Sri Abdul Hamidy bin Abdul Hafiz | 147            | -                 | -                | -                 | -                               | 147             |
| Song Yam Lim                           | 132            | -                 | -                | -                 | -                               | 132             |
| Gregory Jerome Gerald Fernandes        | 150            | -                 | -                | -                 | -                               | 150             |
| Susan Yuen Su Min                      | 103            | -                 | -                | -                 | -                               | 103             |
| Total Directors' remuneration          | 768            | -                 | -                | -                 | -                               | 768             |

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24 **MANAGEMENT EXPENSES (CONTINUED)**

(b) **Directors' remuneration (continued)**

2018

|  | <u>Fees</u><br>RM'000 | <u>Salary*</u><br>RM'000 | <u>Bonus*</u><br>RM'000 | <u>Others*</u><br>RM'000 | <u>Benefits-<br/>in-kind*</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--|-----------------------|--------------------------|-------------------------|--------------------------|---|------------------------|
| <u>Executive Directors:</u>  |                       |                          |                         |                          |   |                        |
| Stephen Barry Crouch (also as Chief Executive Officer) (Resigned as director on 23 May 2018) | -                     | 505                      | 219                     | 652                      | 195                                     | 1,571                  |
| Olivier Bouchard   | 79                    | -                        | -                       | -                        | -                                       | 79                     |
| <u>Non-executive Directors:</u>  |                       |                          |                         |                          |   |                        |
| YBhg Tan Sri Leo Moggie  | 159                   | -                        | -                       | -                        | -                                       | 159                    |
| Dato' Sri Abdul Hamid bin Abdul Hafiz  | 152                   | -                        | -                       | -                        | -                                       | 152                    |
| Song Yam Lim   | 136                   | -                        | -                       | -                        | -                                       | 136                    |
| Gregory Jerome Gerald Fernandes  | 153                   | -                        | -                       | -                        | -                                       | 153                    |
| <b>Total Directors' remuneration</b>   | <b>679</b>            | <b>505</b>               | <b>219</b>              | <b>652</b>               | <b>195</b>                              | <b>2,250</b>           |

\* For the period from 1 January 2018 until 23 May 2018.

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24 **MANAGEMENT EXPENSES (CONTINUED)**

(b) **Directors' remuneration (continued)**

The number of executive and non-executive Directors whose total remuneration received during the financial year that fall within the following bands are as follows:

|                                 | <u>Number of Directors</u> |             |
|---------------------------------|----------------------------|-------------|
|                                 | <u>2019</u>                | <u>2018</u> |
| <u>Executive Directors:</u>     |                            |             |
| Below RM100,000                 | 1                          | 1           |
| RM100,001-RM4,000,000           | -                          | 1           |
| <u>Non-executive Directors:</u> |                            |             |
| Below RM100,000                 | -                          | -           |
| RM100,001-RM200,000             | 5                          | 4           |

(c) **Compensation of Key Management Personnel**

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

The details of remuneration received by Chief Executive Officer during the year was as follows:

|  | <u>2019</u>  | <u>2018</u>  |
|--|--------------|--------------|
|  | RM'000       | RM'000       |
| <u>Fixed remuneration</u>                      |              |              |
| Cash-based                                     | 1,780        | 1,816        |
| Benefits-in-kind and other remuneration        | 395          | 364          |
| <u>Variable remuneration</u>                   |              |              |
| Cash-based                                     | 503          | 565          |
| Shares and share-linked instruments (Deferred) | 920          | 921          |
| Benefits-in-kind and other remuneration        | 99           | 103          |
|  | <u>3,697</u> | <u>3,769</u> |

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24 MANAGEMENT EXPENSES (CONTINUED)

(c) Compensation of Key Management Personnel (continued)

The compensation of the key management personnel including Chief Executive Officer are as follows:

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| <b><u>Fixed remuneration</u></b>                |                       |                       |
| Cash-based                                      | 8,983                 | 8,535                 |
| Contributions to defined contribution plan, EPF | 829                   | 765                   |
| Benefits-in-kind and other remuneration         | 692                   | 649                   |
| <b><u>Variable remuneration</u></b>             |                       |                       |
| Cash-based                                      | 1,349                 | 1,345                 |
| Contributions to defined contribution plan, EPF | 97                    | 85                    |
| Shares and share-linked instruments (Deferred)  | 1,952                 | 1,875                 |
| Benefits-in-kind and other remuneration         | 277                   | 299                   |
|   | <u>14,179</u>         | <u>13,553</u>         |

All Senior Officers have received variable remuneration during the financial year.

|                    | <u>Number of officers</u> |      | <u>Amount (RM'000)</u> |      |
|--------------------|---------------------------|------|------------------------|------|
|                    | 2019                      | 2018 | 2019                   | 2018 |
| Guaranteed bonus   | -                         | 10   | -                      | 563  |
| Sign-on awards     | -                         | 1    | -                      | 100  |
| Severance payments | -                         | -    | -                      | -    |

|  | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-----------------------|-----------------------|
| <b><u>Deferred remuneration</u></b>                                  |                       |                       |
| Outstanding shares and share-linked instruments<br>as at 31 December | 3,734                 | 3,865                 |
| Shares and share-linked instruments paid during the year             | -                     | -                     |

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## 25 TAXATION

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| Current income tax:   |                       |                       |
| Current financial year  | 31,316                | 32,836                |
| Over-provision in prior financial years                       | (1,089)               | (596)                 |
|   | <u>30,227</u>         | <u>32,240</u>         |
| Deferred tax (Note 17):                                       |                       |                       |
| Relating to origination and reversal of temporary differences | (1,213)               | (3,079)               |
| Under/(Over)-provision in prior financial years               | 388                   | (466)                 |
|   | <u>(825)</u>          | <u>(3,545)</u>        |
|   | <u>29,402</u>         | <u>28,695</u>         |

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

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| Profit before tax                               | <u>117,122</u>        | <u>115,276</u>        |
| Taxation at Malaysian statutory tax rate of 24% | 28,109                | 27,666                |
| Income not subject to tax                       | (582)                 | (591)                 |
| Expenses not deductible for tax purposes        | 2,576                 | 2,682                 |
| Over-provision of tax in prior financial years  | (701)                 | (1,062)               |
| Tax expense for the financial year              | <u>29,402</u>         | <u>28,695</u>         |

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26 EARNINGS PER SHARE

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

|  | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-----------------------|-----------------------|
| Profit attributable to ordinary equity holders | 87,720                | 86,581                |
| Weighted average number of shares in issue     | 100,000               | 100,000               |
| Basic earnings per share (sen)                 | <u>87.72</u>          | <u>86.58</u>          |

27 CASH FLOWS

|  | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|-----------------------|-----------------------|
| Profit before tax  | 117,122               | 115,276               |
| Investment income  | (60,985)              | (57,247)              |
| Realised gain on AFS investments                                 | (56)                  | (194)                 |
| Realised (gain)/loss on foreign exchange                         | (1,039)               | 2,261                 |
| Depreciation of property and equipment                           | 4,736                 | 4,740                 |
| Depreciation of right-of-use assets                              | 5 1,729               | -                     |
| Amortisation of intangible assets                                | 902                   | 1,448                 |
| Interest charge on lease liabilities                             | 5 199                 | -                     |
| Loss on disposal of property and equipment                       | 4                     | 9                     |
| Property and equipment written off                               | -                     | 2                     |
| Intangible assets written off                                    | 2                     | 2,640                 |
| Increase in allowance for impairment<br>of insurance receivables | 1,327                 | 1,389                 |
| Bad debts written off  | 270                   | 407                   |
| Employees share-based long term incentive plan                   | 2,155                 | 2,592                 |
| Changes in working capital:                                      |                       |                       |
| Decrease in reinsurance assets                                   | 3,445                 | 28,955                |
| Decrease in insurance receivables                                | 16,216                | 19,124                |
| Decrease/(increase) in other receivables                         | 7,367                 | (2,562)               |
| Increase/(decrease) in insurance contract liabilities            | 7,018                 | (52,183)              |
| Increase/(decrease) in insurance payables                        | 3,627                 | (1,403)               |
| Increase in other payables                                       | 5,432                 | 11,807                |
| Net increase in AFS investments                                  | (17,958)              | (120,436)             |
| Decrease in investment contract liabilities                      | (79)                  | (85)                  |
| Cash generated from/(used in) operating activities               | <u>91,433</u>         | <u>(43,460)</u>       |



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28 OPERATING LEASE COMMITMENTS

The Company as lessee

The Company leases premises from various parties under non-cancellable operating leases. The leases typically run for a period of 1 to 5 years with the option to renew the leases after the expiry date.

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

|  | <u>2019*</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--|------------------------|-----------------------|
| Within one year                                | -                      | 1,416                 |
| Later than one year but not later than 5 years | -                      | 577                   |
|  | <u>-</u>               | <u>1,993</u>          |
|  | <u>-</u>               | <u>1,993</u>          |

\*From 1 January 2019, the Company has recognised right-of-use assets for these leases as set out in Note 5 to the financial statements.

29 RELATED PARTY BALANCES AND TRANSACTIONS

The related parties of, and their relationship with the Company, are as follows:

| <u>Company</u>                               | <u>Country of incorporation</u> | <u>Relationship</u>                     |
|--|---------------------------------|---|
| Chubb Limited                                | Switzerland                     | Ultimate holding company                |
| Chubb INA International Holdings Ltd         | United States                   | Immediate holding company               |
| Chubb Tempest Reinsurance Ltd                | Bermuda                         | Subsidiary of ultimate holding company  |
| Chubb Tempest Reinsurance Ltd, Labuan Branch | Labuan                          | Subsidiary of ultimate holding company  |
| Chubb Asia Pacific Pte Ltd                   | Singapore                       | Subsidiary of immediate holding company |
| Chubb Services UK Limited                    | United Kingdom                  | Subsidiary of immediate holding company |
| Cover Direct, Inc                            | United States                   | Subsidiary of immediate holding company |
| Chubb Insurance Hong Kong Limited            | Hong Kong                       | Subsidiary of immediate holding company |
| Chubb IT Development Centre Sdn Bhd          | Malaysia                        | Subsidiary of immediate holding company |
| ACE INA Overseas Insurance Co Ltd            | Bermuda                         | Subsidiary of immediate holding company |
| Chubb INA Overseas Insurance Co Ltd          | Bermuda                         | Subsidiary of immediate holding company |
| Chubb INA Holdings Inc                       | United States                   | Subsidiary of ultimate holding company  |
| Chubb International Management Corporation   | United States                   | Subsidiary of immediate holding company |

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29 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

- (a) In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with its ultimate holding company and related companies, being subsidiaries of Chubb Limited ("Chubb Company").

The related party balances as at the date of the statement of financial position and significant related party transactions arising from normal business transactions during the financial year are set out below.

|   | <u>Country</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|----------------|-----------------------|-----------------------|
| Significant related party outstanding balances: |                |                       |                       |
| <u>Chubb Company</u>                            |                |                       |                       |
| Insurance receivables                           |                | 3,634                 | 2,468                 |
| ACE INA Overseas Insurance Co Ltd               | Bermuda        | 565                   | 877                   |
| Chubb Insurance Hong Kong Limited               | Hong Kong      | 238                   | 739                   |
| Chubb INA Overseas Insurance Co Ltd             | Bermuda        | 395                   | 108                   |
| Chubb Tempest Reinsurance Ltd                   | Bermuda        | 1,940                 | -                     |
| Other related companies within Chubb Company    | Others         | 496                   | 744                   |
| Other receivables                               |                | 2,462                 | 2,896                 |
| Chubb INA International Holdings Ltd            | United States  | 40                    | (32)                  |
| Chubb Asia Pacific Pte Ltd                      | Singapore      | 1,970                 | 2,467                 |
| Other related companies within Chubb Company    | Others         | 452                   | 461                   |
| Insurance payables                              |                | (7,586)               | (6,143)               |
| Chubb Tempest Reinsurance Ltd, Labuan Branch    | Labuan         | (6,832)               | (5,203)               |
| Other related companies within Chubb Company    | Others         | (754)                 | (940)                 |
| Other payables                                  |                | (20,573)              | (20,545)              |
| Chubb Asia Pacific Pte Ltd                      | Singapore      | (13,680)              | (11,434)              |
| Chubb Services UK Limited                       | United Kingdom | (3,630)               | (3,365)               |
| Cover Direct, Inc                               | United States  | (1,240)               | (4,114)               |
| Chubb IT Development Centre Sdn Bhd             | Malaysia       | (1,077)               | (1,377)               |
| Chubb INA Holdings Inc                          | United States  | (535)                 | -                     |
| Other related companies within Chubb Company    | Others         | (411)                 | (255)                 |

Significant related party transactions:

Chubb Company

|  |           |        |        |
|--|-----------|--------|--------|
| Premium income                               |           | 29,874 | 29,101 |
| ACE INA Overseas Insurance Co Ltd            | Bermuda   | 4,559  | 18,686 |
| Chubb Insurance Hong Kong Limited            | Hong Kong | 8,697  | 9,109  |
| Chubb INA Overseas Insurance Co Ltd          | Bermuda   | 9,416  | 101    |
| Chubb Tempest Reinsurance Ltd                | Bermuda   | 5,480  | -      |
| Other related companies within Chubb Company | Others    | 1,722  | 1,205  |

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29 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

|   | <u>Country</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|----------------|-----------------------|-----------------------|
| Significant related party transactions (continued): |                |                       |                       |
| <u>Chubb Company</u>                                |                |                       |                       |
| Premium ceded                                       |                | (142,279)             | (128,457)             |
| Chubb Tempest Reinsurance Ltd, Labuan Branch        | Labuan         | (141,156)             | (128,357)             |
| Other related companies within Chubb Company        | Others         | (1,123)               | (100)                 |
| Commission income                                   |                | 33,123                | 29,511                |
| Chubb Tempest Reinsurance Ltd, Labuan Branch        | Labuan         | 33,124                | 29,492                |
| Other related companies within Chubb Company        | Others         | (1)                   | 19                    |
| Commission expenses                                 |                | (1,352)               | (1,388)               |
| Chubb Insurance Hong Kong Limited                   | Hong Kong      | (731)                 | (872)                 |
| Other related companies within Chubb Company        | Others         | (621)                 | (516)                 |
| Claims recoveries                                   |                | 27,705                | 57,587                |
| Chubb Tempest Reinsurance Ltd, Labuan Branch        | Labuan         | 27,608                | 56,801                |
| Other related companies within Chubb Company        | Others         | 97                    | 786                   |
| Claims paid   |                | (178)                 | (286)                 |
| Chubb Insurance Hong Kong Limited                   | Hong Kong      | (169)                 | (255)                 |
| Other related companies within Chubb Company        | Others         | (9)                   | (31)                  |
| Accounting and administration services              |                |                       |                       |
| Chubb IT Development Centre Sdn Bhd                 | Malaysia       | 240                   | 144                   |
| Rental and parking income                           |                |                       |                       |
| Chubb IT Development Centre Sdn Bhd                 | Malaysia       | 1,308                 | 830                   |
| EDP system charges                                  |                | (6,240)               | (5,047)               |
| Chubb Services UK Limited                           | United Kingdom | (3,609)               | (2,261)               |
| Cover Direct, Inc                                   | United States  | (1,015)               | (1,394)               |
| Chubb IT Development Centre Sdn Bhd                 | Malaysia       | (1,083)               | (1,392)               |
| Chubb INA Holdings Inc                              | United States  | (533)                 | -                     |
| Service fees  |                |                       |                       |
| Chubb International Management Corporation          | United States  | (109)                 | (129)                 |
| Technical support and consultancy services          |                | (13,759)              | (11,785)              |
| Cover Direct, Inc                                   | United States  | (182)                 | (424)                 |
| Chubb Asia Pacific Pte Ltd                          | Singapore      | (13,577)              | (11,361)              |

(b) The remuneration of directors and other key management personnel during the financial year are set out in Note 24 to the financial statements.

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30 RISK MANAGEMENT FRAMEWORK

The Company recognises the importance of effective risk management practices and embedding risk culture within the Company and therefore, it is the commitment of the Company to integrate Enterprise Risk Management ("ERM") into strategic planning and decision making.

(a) Risk Appetite

The risk appetite outlines the degree of risk the Company is willing to assume in pursuit of its strategic objectives against the capital exposed to the risk. The risk appetite is formulated by the Board and is reviewed annually. The risk appetite articulates the risks, controls and returns for material exposures. The Company in general has a conservative risk appetite with a prudent Risk Management Framework in place.

(b) Risk Management Framework

The Company's RMF describes the role of ERM and helps the Company to achieve its business objectives, meet its corporate obligations and at the same time maintain the Company's reputation.

The RMF puts in place a structure and a process to mitigate risks as they are identified or emerge by assessing them against the Company's established appetite and tolerance levels, thus helping to protect and maintain the capital in the interests of all key stakeholders.

(c) Risk Governance and Oversight

The responsibility and oversight of ERM rests with the Board of Directors ("Board"), with the ERC responsible for oversight, policy development, execution and maintaining the appropriate infrastructure. Primary ownership for the daily execution of risk management and controls rests with the business and operating units.

The Board has ultimate risk management responsibility and is also responsible for providing the overall Company direction and strategy, setting financial objectives and for monitoring compliance with regulatory requirements and ethical standards. Chubb's Board has a specific charter setting out its duties and responsibilities. In discharging its responsibility for overall risk management and control, the Board delegates a number of key functions to the BRMC.

The ERC is charged with the responsibility of monitoring, assessing and reporting on risk related activities and meets at least once a quarter, and reports to the BRMC through the Chief Risk Officer ("CRO"). Its objective is to establish, maintain and monitor compliance within a sound risk management framework that integrates risk management into all activities of the business. Its role is to provide advice and assistance including submitting recommendations to the Board on risk management.

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(d) Capital Management and Capital Adequacy

Prudent capital management is the foundation for ensuring the Company is able to fulfil its financial obligations to its shareholders, policyholders, regulators and other key stakeholders. The Board is ultimately responsible for determining that the Company's capital is adequate after taking into account the Company's strategic objectives, size and the complexity of its business.

The Company has separately documented its Internal Capital Adequacy Assessment Process ("ICAAP") to ensure that the capital held is adequate based on the Company's risk profile, business mix and complexity of operations. ICAAP outlines the procedures, systems, controls and personnel to identify, measure, monitor and manage the risks arising from capital related activities of the Company. Capital Management is a fundamental aspect of risk management. Capital adequacy assessments and stress tests are conducted on a regular basis, to ensure that sufficient capital is held to meet the minimum regulatory requirement with an additional buffer to withstand a range of adverse or extreme risk event scenarios.

(e) Major Risks

The Company considers insurance risks, financial risks and operational risks as its major risks.

1 Insurance Risk

The Company has in place underwriting guidelines which ensure that underwriting risk undertaken adhere to proper control procedures, to mitigate the Company's exposure to potential financial liabilities resulting from incurring higher claims cost than expected.

This is due to the nature of claims which can be unpredictable in frequency and severity, and the risk of change in legal or economic conditions affecting insurance pricing and conditions of insurance or reinsurance cover.

The underwriting and claims monitoring programme incorporates standards for underwriting procedures, policy retention limits, use of reinsurance and the setting of claims reserves. Underwriting standards are established to manage the initial insurability of customers. Renewal underwriting standards are in place for business that renews on a periodic basis.

1.1 Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other reinsurers/insurers. Reinsurance does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. In order to minimise losses from reinsurance insolvencies, the Company's reinsurance arrangement is in line with BNM's JPI/GPI 22 on "Guidelines on General Reinsurance Arrangement".

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.2 Concentration risk

The table below sets out the concentration of the Company's general insurance business's gross written premium by lines of business.

|                                 | 2019                   |                                    |                      | 2018                   |                                    |                      |
|---------------------------------|------------------------|------------------------------------|----------------------|------------------------|------------------------------------|----------------------|
|                                 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>RM'000 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>RM'000 |
| Fire                            | 176,592                | (76,677)                           | 99,915               | 174,094                | (64,463)                           | 109,631              |
| Motor                           | 238,931                | (6,506)                            | 232,425              | 266,444                | (9,863)                            | 256,581              |
| Marine, aviation<br>and transit | 66,789                 | (24,885)                           | 41,904               | 62,963                 | (23,501)                           | 39,462               |
| Miscellaneous                   | 367,290                | (111,885)                          | 255,405              | 368,718                | (109,005)                          | 259,713              |
|                                 | <u>849,602</u>         | <u>(219,953)</u>                   | <u>629,649</u>       | <u>872,219</u>         | <u>(206,832)</u>                   | <u>665,387</u>       |

The table below sets out the concentration of the Company's insurance contract liabilities – claims liabilities by lines of business.

|                                 | 2019                   |                                    |                      | 2018                   |                                    |                      |
|---------------------------------|------------------------|------------------------------------|----------------------|------------------------|------------------------------------|----------------------|
|                                 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>RM'000 | <u>Gross</u><br>RM'000 | <u>Re-<br/>insurance</u><br>RM'000 | <u>Net</u><br>RM'000 |
| Fire                            | 135,512                | (62,624)                           | 72,888               | 100,871                | (47,705)                           | 53,166               |
| Motor                           | 249,908                | (10,614)                           | 239,294              | 253,192                | (9,724)                            | 243,468              |
| Marine, aviation<br>and transit | 68,148                 | (30,310)                           | 37,838               | 70,703                 | (32,392)                           | 38,311               |
| Miscellaneous                   | 235,925                | (98,882)                           | 137,043              | 245,198                | (113,085)                          | 132,113              |
|                                 | <u>689,493</u>         | <u>(202,430)</u>                   | <u>487,063</u>       | <u>669,964</u>         | <u>(202,906)</u>                   | <u>467,058</u>       |

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.3 Basis of estimates

The principal assumptions underlying the estimates of liabilities is that the Company's future claim development will follow a similar pattern to the past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, and claim inflation factors and average number of claims for each accident years.

Allowance was made for "pure IBNR" (late reported claims) and Incurred but Not Enough Reported ("IBNER") (development of known claims) and reopened claims as well as expected future claims inflations.

The Company has based its risk margin for adverse deviation for the provision for unexpired risks and insurance contract liabilities at a minimum 75% of sufficiency, according to the requirement set by BNM under the RBC Framework.

1.4 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, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgements 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. Judgement 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.

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.5 Sensitivity analysis

The analysis below is performance for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit after 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.

There are no significant changes to the key assumptions used. The effect of this change in assumption is disclosed in Note 15(i) to the financial statements.

|   | Change in<br><u>assumptions</u> | Impact on<br>gross<br><u>liabilities</u><br>RM'000 | Impact on<br>net<br><u>liabilities</u><br>RM'000 | Impact on<br>profit<br><u>after tax</u><br>RM'000 | Impact on<br><u>equity #</u><br>RM'000 |
|---|---------------------------------|--|--|---|--|
| <u>31 December 2019</u>                             |                                 |  |  |   |  |
| Ultimate loss ratio for<br>the latest accident year | +10%                            | 53,640   | 39,584   | (30,084)  | (30,084)                               |
| Average claims<br>handling expenses                 | +10%                            | 2,344  | 2,344  | (1,781)   | (1,781)                                |
| PRAD*   | +10%                            | 5,958  | 4,133  | (3,141)   | (3,141)                                |
| <u>31 December 2018</u>                             |                                 |  |  |   |  |
| Ultimate loss ratio for<br>the latest accident year | +10%                            | 56,179   | 41,564   | (31,589)  | (31,589)                               |
| Average claims<br>handling expenses                 | +10%                            | 1,863  | 1,863  | (1,416)   | (1,416)                                |
| PRAD*   | +10%                            | 5,685  | 3,893  | (2,959)   | (2,959)                                |

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

\* Provision for Risk of Adverse Deviation



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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.6 Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to-date.

The table provides a historical perspective on the adequacy of the unpaid claims estimates established in previous years. The Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserve when there is considerable uncertainty. Generally, the uncertainty associated with ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence of adequacy of provision is relatively at its highest.

The Company believes that the estimate of the total claims outstanding as at 31 December 2019 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

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| 30  | RISK MANAGEMENT FRAMEWORK (CONTINUED)                         | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      | 2019      |
|-----|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|     |   | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    |
| (e) | Major Risks (continued)                                       |           |           |           |           |           |           |           |           |
| 1   | Insurance Risk (continued)                                    |           |           |           |           |           |           |           |           |
| 1.6 | Gross estimated general insurance claims liabilities for 2019 |           |           |           |           |           |           |           |           |
|     | <u>Accident year</u>  |           |           |           |           |           |           |           |           |
|     | At end of accident year                                       | 398,457   | 371,250   | 423,208   | 465,667   | 508,386   | 511,495   | 527,127   | 489,591   |
|     | One year later  | 303,710   | 300,665   | 376,209   | 419,774   | 429,937   | 454,671   | 443,108   |           |
|     | Two years later   | 280,268   | 287,955   | 348,493   | 413,319   | 419,641   | 454,011   |           |           |
|     | Three years later   | 270,279   | 276,265   | 357,115   | 404,762   | 411,250   |           |           |           |
|     | Four years later  | 242,811   | 275,481   | 350,693   | 402,296   |           |           |           |           |
|     | Five years later  | 240,381   | 274,167   | 346,878   |           |           |           |           |           |
|     | Six years later   | 239,396   | 271,729   |           |           |           |           |           |           |
|     | Seven years later   | 241,030   |           |           |           |           |           |           |           |
|     | Current estimate of cumulative claims incurred                | 241,030   | 271,729   | 346,878   | 402,296   | 411,250   | 454,011   | 443,108   | 489,591   |
|     | At end of accident year                                       | (71,742)  | (96,053)  | (134,887) | (120,578) | (158,548) | (180,681) | (181,004) | (157,632) |
|     | One year later  | (175,731) | (205,404) | (271,312) | (335,296) | (319,636) | (332,828) | (319,242) |           |
|     | Two years later   | (206,679) | (233,636) | (306,064) | (364,033) | (365,672) | (380,641) |           |           |
|     | Three years later   | (219,270) | (253,229) | (329,162) | (377,282) | (379,343) |           |           |           |
|     | Four years later  | (232,085) | (263,977) | (335,168) | (383,020) |           |           |           |           |
|     | Five years later  | (234,380) | (265,385) | (338,334) |           |           |           |           |           |
|     | Six years later   | (236,375) | (267,223) |           |           |           |           |           |           |
|     | Seven years later   | (238,963) |           |           |           |           |           |           |           |
|     | Cumulative payments to-date                                   | (238,963) | (267,223) | (338,334) | (383,020) | (379,343) | (380,641) | (319,242) | (157,632) |

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**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

**(e) Major Risks (continued)**

**1 Insurance Risk (continued)**

**1.6 Gross estimated general insurance claims liabilities for 2019 (continued)**

| <u>Accident year</u>  | <u>Prior years</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>Total</u> |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| RM'000  | RM'000             | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000       |
| Outstanding claims  | 5,868              | 2,067       | 4,506       | 8,544       | 19,276      | 31,907      | 73,370      | 123,866     | 331,959     | 601,363      |
| Claims handling expenses  |                    |             |             |             |             |             |             |             |             | 23,441       |
| Total gross central estimate<br>Risk margin   |                    |             |             |             |             |             |             |             |             | 624,804      |
|   |                    |             |             |             |             |             |             |             |             | 64,689       |
| Gross insurance claims liabilities per statement of financial position (Note 15(i)) |                    |             |             |             |             |             |             |             |             | 689,493      |

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| 30  | RISK MANAGEMENT FRAMEWORK (CONTINUED)                                | 2011      | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      |
|-----|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|     | <u>Accident year</u>   | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    |
| (f) | <u>Major Risks</u> (continued)                                       |           |           |           |           |           |           |           |           |
| 1   | <u>Insurance Risk</u> (continued)                                    |           |           |           |           |           |           |           |           |
| 1.6 | <u>Gross estimated general insurance claims liabilities for 2018</u> |           |           |           |           |           |           |           |           |
|     | At end of accident year  | 517,686   | 398,457   | 371,250   | 423,208   | 465,667   | 508,386   | 511,495   | 527,127   |
|     | One year later   | 576,361   | 303,710   | 300,665   | 376,209   | 419,774   | 429,937   | 454,671   |           |
|     | Two years later  | 560,720   | 280,268   | 287,955   | 348,493   | 413,319   | 419,641   |           |           |
|     | Three years later  | 542,166   | 270,279   | 276,265   | 357,115   | 404,762   |           |           |           |
|     | Four years later   | 549,550   | 242,811   | 275,481   | 350,693   |           |           |           |           |
|     | Five years later   | 562,742   | 240,381   | 274,167   |           |           |           |           |           |
|     | Six years later  | 562,544   | 239,396   |           |           |           |           |           |           |
|     | Seven years later  | 564,702   |           |           |           |           |           |           |           |
|     | Current estimate of cumulative claims incurred                       | 564,702   | 239,396   | 274,167   | 350,693   | 404,762   | 419,641   | 454,671   | 527,127   |
|     | At end of accident year  | (150,885) | (71,742)  | (96,053)  | (134,887) | (120,578) | (158,548) | (180,681) | (181,004) |
|     | One year later   | (370,422) | (175,731) | (205,404) | (271,312) | (335,296) | (319,636) | (332,828) |           |
|     | Two years later  | (408,647) | (206,679) | (233,636) | (306,064) | (364,033) | (365,672) |           |           |
|     | Three years later  | (490,153) | (219,270) | (253,229) | (329,162) | (377,282) |           |           |           |
|     | Four years later   | (506,269) | (232,085) | (263,977) | (335,168) |           |           |           |           |
|     | Five years later   | (556,579) | (234,380) | (265,385) |           |           |           |           |           |
|     | Six years later  | (557,352) | (236,375) |           |           |           |           |           |           |
|     | Seven years later  | (560,859) |           |           |           |           |           |           |           |
|     | Cumulative payments to-date  | (560,859) | (236,375) | (265,385) | (335,168) | (377,282) | (365,672) | (332,828) | (181,004) |

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Major Risks (continued)

1 Insurance Risk (continued)

1.6 Gross estimated general insurance claims liabilities for 2018 (continued)

| <u>Accident year</u>  | <u>Prior years</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>Total</u> |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| RM'000  | RM'000             | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000      | RM'000       |
| Outstanding claims  | 7,352              | 3,843       | 3,021       | 8,782       | 15,525      | 27,480      | 53,969      | 121,843     | 346,123     | 587,938      |
| Claims handling expenses  |                    |             |             |             |             |             |             |             |             | 18,632       |
| Total gross central estimate  |                    |             |             |             |             |             |             |             |             | 606,570      |
| Risk margin   |                    |             |             |             |             |             |             |             |             | 63,394       |
| Gross insurance claims liabilities per statement of financial position (Note 15(f)) |                    |             |             |             |             |             |             |             |             | 669,964      |

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**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

| (g) <u>Major Risks</u> (continued)                                     |           |           |           |           |           |           |           |           |  |  |  |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|--|--|
| 1 <u>Insurance Risk</u> (continued)                                    |           |           |           |           |           |           |           |           |  |  |  |
| 1.7 <u>Net estimated general insurance claims liabilities for 2019</u> |           |           |           |           |           |           |           |           |  |  |  |
| <u>Accident year</u>   | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      | 2019      |  |  |  |
|  | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    |  |  |  |
| At end of accident year  | 244,587   | 236,777   | 268,001   | 294,111   | 383,254   | 406,854   | 397,779   | 367,657   |  |  |  |
| One year later   | 221,715   | 218,056   | 260,354   | 283,517   | 338,221   | 375,033   | 358,130   |           |  |  |  |
| Two years later  | 209,725   | 214,151   | 254,350   | 281,604   | 337,398   | 374,241   |           |           |  |  |  |
| Three years later  | 203,991   | 211,227   | 252,284   | 277,990   | 334,081   |           |           |           |  |  |  |
| Four years later   | 170,937   | 210,248   | 250,904   | 277,431   |           |           |           |           |  |  |  |
| Five years later   | 170,138   | 208,790   | 249,463   |           |           |           |           |           |  |  |  |
| Six years later  | 167,711   | 205,879   |           |           |           |           |           |           |  |  |  |
| Seven years later  | 168,865   |           |           |           |           |           |           |           |  |  |  |
| Current estimate of cumulative claims incurred                         | 168,865   | 205,879   | 249,463   | 277,431   | 334,081   | 374,241   | 358,130   | 367,657   |  |  |  |
| At end of accident year  | (62,070)  | (81,305)  | (98,723)  | (104,029) | (139,422) | (161,085) | (156,711) | (133,173) |  |  |  |
| One year later   | (134,276) | (164,280) | (199,461) | (224,228) | (265,183) | (290,806) | (271,821) |           |  |  |  |
| Two years later  | (153,936) | (185,353) | (226,243) | (246,896) | (298,988) | (324,229) |           |           |  |  |  |
| Three years later  | (160,321) | (198,795) | (235,817) | (259,025) | (310,325) |           |           |           |  |  |  |
| Four years later   | (163,794) | (200,465) | (240,017) | (263,917) |           |           |           |           |  |  |  |
| Five years later   | (165,619) | (201,478) | (243,352) |           |           |           |           |           |  |  |  |
| Six years later  | (166,180) | (202,178) |           |           |           |           |           |           |  |  |  |
| Seven years later  | (167,201) |           |           |           |           |           |           |           |  |  |  |
| Cumulative payments to-date  | (167,201) | (202,178) | (243,352) | (263,917) | (310,325) | (324,229) | (271,821) | (133,173) |  |  |  |

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**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(g) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Net estimated general insurance claims liabilities for 2019 (continued)

| <u>Accident year</u>  | <u>Prior years</u> | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019    | Total   |
|---|--------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
| RM'000  | RM'000             | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000  | RM'000  |
| Outstanding claims  | (2,368)            | 1,664  | 3,701  | 6,111  | 13,514 | 23,756 | 50,012 | 86,309 | 234,484 | 417,183 |
| Claims handling expenses  |                    |        |        |        |        |        |        |        |         | 23,441  |
| Total gross central estimate  |                    |        |        |        |        |        |        |        |         | 440,624 |
| Risk margin   |                    |        |        |        |        |        |        |        |         | 46,439  |
| Gross insurance claims liabilities per statement of financial position (Note 15(i)) |                    |        |        |        |        |        |        |        |         | 487,063 |

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| 30  | RISK MANAGEMENT FRAMEWORK (CONTINUED)                              | 2011      | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      |
|-----|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|     |  | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    |
| (e) | <u>Major Risks</u> (continued)                                     |           |           |           |           |           |           |           |           |
| 1   | <u>Insurance Risk</u> (continued)                                  |           |           |           |           |           |           |           |           |
| 1.7 | <u>Net estimated general insurance claims liabilities for 2018</u> |           |           |           |           |           |           |           |           |
|     | <u>Accident year</u>   |           |           |           |           |           |           |           |           |
|     | At end of accident year  | 208,442   | 244,587   | 236,777   | 268,001   | 294,111   | 383,254   | 406,854   | 397,779   |
|     | One year later   | 197,134   | 221,715   | 218,056   | 260,354   | 283,517   | 338,221   | 375,033   |           |
|     | Two years later  | 188,216   | 209,725   | 214,151   | 254,350   | 281,604   | 337,398   |           |           |
|     | Three years later  | 174,254   | 203,991   | 211,227   | 252,284   | 277,990   |           |           |           |
|     | Four years later   | 172,426   | 170,937   | 210,248   | 250,904   |           |           |           |           |
|     | Five years later   | 170,747   | 170,138   | 208,790   |           |           |           |           |           |
|     | Six years later  | 170,762   | 167,711   |           |           |           |           |           |           |
|     | Seven years later  | 171,920   |           |           |           |           |           |           |           |
|     | Current estimate of cumulative claims incurred                     | 171,920   | 167,711   | 208,790   | 250,904   | 277,990   | 337,398   | 375,033   | 397,779   |
|     | At end of accident year  | (64,932)  | (62,070)  | (81,305)  | (98,723)  | (104,029) | (139,422) | (161,085) | (156,711) |
|     | One year later   | (138,241) | (134,276) | (164,280) | (199,461) | (224,228) | (265,183) | (290,806) |           |
|     | Two years later  | (158,010) | (153,936) | (185,353) | (226,243) | (246,896) | (298,988) |           |           |
|     | Three years later  | (165,403) | (160,321) | (198,795) | (235,817) | (259,025) |           |           |           |
|     | Four years later   | (167,527) | (163,794) | (200,465) | (240,017) |           |           |           |           |
|     | Five years later   | (168,597) | (165,619) | (201,478) |           |           |           |           |           |
|     | Six years later  | (168,514) | (166,180) |           |           |           |           |           |           |
|     | Seven years later  | (170,587) |           |           |           |           |           |           |           |
|     | Cumulative payments to-date  | (170,587) | (166,180) | (201,478) | (240,017) | (259,025) | (298,988) | (290,806) | (156,711) |



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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Net estimated general insurance claims liabilities for 2018 (continued)

| <u>Accident year</u>  | <u>Prior years</u> |             |             |             |             |             |             |             |             |               | <u>Total</u> |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|
|   | <u>RM'000</u>      | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>RM'000</u> |              |
| Outstanding claims  |                    | 1,333       | 1,531       | 7,312       | 10,887      | 18,965      | 38,410      | 84,227      | 241,068     | 402,956       |              |
| Claims handling expenses  | (777)              |             |             |             |             |             |             |             |             | 18,632        |              |
| Total net central estimate  |                    |             |             |             |             |             |             |             |             | 421,588       |              |
| Risk margin   |                    |             |             |             |             |             |             |             |             | 45,470        |              |
| Net insurance claims liabilities per statement of financial position (Note 15(i)) |                    |             |             |             |             |             |             |             |             | 467,058       |              |

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk

The Board recognises the Company's exposure to business, economic and financial risks and the need to develop and implement measures to mitigate the risks identified as having potentially adverse impact on the Company's operations and impairment of its financial strength. The Board has assumed the primary responsibility of developing and implementing the Company's risk management program by evaluating, managing and monitoring the principal risks.

2.1 Credit risk

Credit risk is the risk of financial loss resulting from a failure of a debtor to honour its obligations to the Company.

The Company manages its credit risk in respect of receivables by establishing defined tolerance on credit period, putting in place collection procedures and rigorously monitoring its credit portfolio.

In terms of exposures to debt securities, the Company maintains a diversified portfolio of investments in government guaranteed and minimum A-rated financial instruments at the time of purchase issued by companies with strong credit ratings.

Credit exposure

The table below shows the maximum exposure to credit risk for the components in the statement of financial position.

|   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---|-----------------------|-----------------------|
| AFS                                     | 1,233,060             | 1,199,264             |
| Reinsurance assets – claims liabilities | 202,430               | 202,906               |
| Insurance receivables                   | 115,500               | 133,313               |
| Other receivables *                     | 59,454                | 64,689                |
| Cash and cash equivalents               | 290,411               | 315,188               |
|   | <u>1,900,855</u>      | <u>1,915,360</u>      |

\*Excluding prepayments which are not subject to credit risk.

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

Credit exposure by credit rating

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

|   | <u>Neither past-<br/>due nor<br/>impaired</u><br>RM'000 | <u>Not past-<br/>due but<br/>impaired</u><br>RM'000 | <u>Past due<br/>and<br/>impaired</u><br>RM'000 | <u>Total</u><br>RM'000 |
|---|---|---|--|------------------------|
| <u>31 December 2019</u>                       |   |   |  |                        |
| AFS   | 1,233,060   | -   | -  | 1,233,060              |
| Reinsurance assets – claims liabilities       | 202,430   | -   | -  | 202,430                |
| Insurance receivables                         | 15,749  | 62,725  | 51,119   | 129,593                |
| Allowance for impairment of doubtful<br>Debts | -   | (318)   | (13,775)                                       | (14,093)               |
| Other receivables                             | 59,454  | -   | -  | 59,454                 |
| Cash and cash equivalents                     | 290,411   | -   | -  | 290,411                |
|   | <u>1,801,104</u>  | <u>62,407</u>                                       | <u>37,344</u>                                  | <u>1,900,855</u>       |
| <u>31 December 2018</u>                       |   |   |  |                        |
| AFS   | 1,199,264   | -   | -  | 1,199,264              |
| Reinsurance assets – claims liabilities       | 202,906   | -   | -  | 202,906                |
| Insurance receivables                         | 12,420  | 72,160  | 61,499   | 146,079                |
| Allowance for impairment of doubtful<br>Debts | -   | (505)   | (12,261)                                       | (12,766)               |
| Other receivables                             | 64,689  | -   | -  | 64,689                 |
| Cash and cash equivalents                     | 315,188   | -   | -  | 315,188                |
|   | <u>1,794,467</u>  | <u>71,655</u>                                       | <u>49,238</u>                                  | <u>1,915,360</u>       |

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

The ageing analysis of insurance receivables is as follows:

|   | <u>Neither<br/>past due<br/>nor impaired</u><br>RM'000 | <u>Not past-<br/>due but<br/>impaired</u><br>0-3 months<br>RM'000 | <u>Past due<br/>and<br/>impaired</u><br>3-6 months<br>RM'000 | <u>Past due<br/>and<br/>impaired</u><br>>6 months<br>RM'000 | <u>Total</u><br>RM'000 |
|---|--|---|--|---|------------------------|
| <u>31 December 2019</u>                       |  |   |  |   |                        |
| Insurance receivables                         | 15,749   | 62,949  | 22,815   | 28,080  | 129,593                |
| Allowance for impairment<br>of doubtful debts | -  | (318)   | (126)  | (13,649)  | (14,093)               |
|   | <u>15,749</u>  | <u>62,631</u>   | <u>22,689</u>  | <u>14,431</u>   | <u>115,500</u>         |
| <u>31 December 2018</u>                       |  |   |  |   |                        |
| Insurance receivables                         | 12,420   | 72,160  | 35,702   | 25,797  | 146,079                |
| Allowance for impairment<br>of doubtful debts | -  | (505)   | (4,112)  | (8,149)   | (12,766)               |
|   | <u>12,420</u>  | <u>71,655</u>   | <u>31,590</u>  | <u>17,648</u>   | <u>133,313</u>         |

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Standard & Poor's Financial Services LLC ("S&P"), Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC") credit rating of counterparties. AAA is the highest possible rating.

|                              | <u>Government<br/>Guaranteed</u><br>RM'000 | <u>AAA</u><br>RM'000 | <u>AA</u><br>RM'000 | <u>A</u><br>RM'000 | <u>BBB</u><br>RM'000 | <u>Not rated</u><br>RM'000 | <u>Total</u><br>RM'000 |
|------------------------------|--|----------------------|---------------------|--------------------|----------------------|----------------------------|------------------------|
| <u>31 December 2019</u>      |  |                      |                     |                    |                      |                            |                        |
| AFS                          | 782,327                                    | 216,445              | 215,516             | 10,438             | 8,334                | -                          | 1,233,060              |
| Reinsurance assets           |  |                      |                     |                    |                      |                            |                        |
| - Claims liabilities         | -  | -                    | 131,578             | 62,299             | 27                   | 8,526                      | 202,430                |
| Insurance receivables        | -  | -                    | 591                 | 4,737              | 8                    | 110,164                    | 115,500                |
| Other receivables            | -  | -                    | -                   | -                  | -                    | 59,454                     | 59,454                 |
| Cash and cash<br>Equivalents | -  | 247,791              | 7,747               | 33,550             | 179                  | 1,144                      | 290,411                |
|                              | <u>782,327</u>                             | <u>464,236</u>       | <u>355,432</u>      | <u>111,024</u>     | <u>8,548</u>         | <u>179,288</u>             | <u>1,900,855</u>       |

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

|                              | <u>Government<br/>Guaranteed</u><br>RM'000 | <u>AAA</u><br>RM'000 | <u>AA</u><br>RM'000 | <u>A</u><br>RM'000 | <u>BBB</u><br>RM'000 | <u>Not rated</u><br>RM'000 | <u>Total</u><br>RM'000 |
|------------------------------|--|----------------------|---------------------|--------------------|----------------------|----------------------------|------------------------|
| <u>31 December 2018</u>      |  |                      |                     |                    |                      |                            |                        |
| AFS                          | 755,469                                    | 177,994              | 243,617             | 15,330             | 6,854                | -                          | 1,199,264              |
| Reinsurance assets           |  |                      |                     |                    |                      |                            |                        |
| - Claims liabilities         | -  | -                    | 138,482             | 56,016             | 12                   | 8,396                      | 202,906                |
| Insurance receivables        | -  | -                    | 625                 | 2,487              | 42                   | 130,159                    | 133,313                |
| Other receivables            | -  | -                    | -                   | -                  | -                    | 64,689                     | 64,689                 |
| Cash and cash<br>equivalents | -  | 265,272              | 7,683               | 40,724             | 101                  | 1,408                      | 315,188                |
|                              | <u>755,469</u>                             | <u>443,266</u>       | <u>390,407</u>      | <u>114,557</u>     | <u>7,009</u>         | <u>204,652</u>             | <u>1,915,360</u>       |

Impaired financial assets

As at 31 December 2019, insurance receivables of RM14,093,000 (2018: RM12,766,000) were impaired based on individual and collective assessment. An insurance receivable is considered as individually impaired if the counterparty is in the process of liquidation, legal actions has been taken to recover the outstanding balance disputed, defaulted or delinquent in payment. Insurance receivables with insignificant balances are Companyed together and assessed collectively based on past payment trends.

The Company records impairment allowance for insurance receivables in a separate allowance account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

|                               | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|-------------------------------|-------------|-----------------------|-----------------------|
| At 1 January                  |             | 12,766                | 11,377                |
| Charge for the financial year | 24          | 1,327                 | 1,389                 |
| At 31 December                |             | <u>14,093</u>         | <u>12,766</u>         |

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

No collateral is held as security for any past due or impaired financial assets.

In addition, the Company has no impairment as at 31 December 2019 (2018: RM Nil) from its investment in debt securities in accordance to the Company's accounting policy as disclosed in Note 2(e)(v) to the financial statements.

2.2 Liquidity risk

Liquidity risk arises when the Company does not have the availability of funds to honour all cash outflow commitments as they fall due.

The Company's principal liquidity objective is to ensure that funds are available to meet its insurance and reinsurance obligations. Management utilises monthly cash flow reporting and forecasting to identify known, expected and potential cash outflows to determine an appropriate operating liquidity to cover expected and potential payments.

Maturity profiles

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

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

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**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

- (e) Major Risks (continued)  
2 Financial Risk (continued)  
2.2 Liquidity risk (continued)

Maturity profiles (continued)

Premium liabilities and the reinsurers' share of premium liabilities have been excluded from the analysis as they do not have any contractual obligations.

|                               | Carrying<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000  |
|-------------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|------------------|
| <b>31 December 2019</b>       |                             |                            |                          |                          |                           |                            |                               |                  |
| Financial instruments:<br>AFS | 1,233,435                   | 237,612                    | 731,328                  | 187,049                  | 173,856                   | 9,696                      | 375                           | 1,339,916        |
| Reinsurance assets            |                             |                            |                          |                          |                           |                            |                               |                  |
| – claims liabilities          | 202,430                     | 92,409                     | 79,806                   | 17,996                   | 12,219                    | -                          | -                             | 202,430          |
| Insurance receivables         | 115,500                     | 115,500                    | -                        | -                        | -                         | -                          | -                             | 115,500          |
| Other receivables             | 59,454                      | 59,454                     | -                        | -                        | -                         | -                          | -                             | 59,454           |
| Cash and cash equivalents     | 290,411                     | 290,411                    | -                        | -                        | -                         | -                          | -                             | 290,411          |
| <b>Total assets</b>           | <b>1,901,230</b>            | <b>795,386</b>             | <b>811,134</b>           | <b>205,045</b>           | <b>186,075</b>            | <b>9,696</b>               | <b>375</b>                    | <b>2,007,711</b> |

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**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

- (e) Major Risks (continued)  
2 Financial Risk (continued)  
2.2 Liquidity risk (continued)

Maturity profiles (continued)

|                                | Carrying<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000 |
|--------------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|-----------------|
| <b>31 December 2019</b>        |                             |                            |                          |                          |                           |                            |                               |                 |
| Insurance contract liabilities |                             |                            |                          |                          |                           |                            |                               |                 |
| – claims liabilities           | 689,493                     | 368,270                    | 236,381                  | 53,683                   | 31,159                    | -                          | -                             | 689,493         |
| Insurance payables             | 72,301                      | 72,301                     | -                        | -                        | -                         | -                          | -                             | 72,301          |
| Lease liabilities              | 2,286                       | 1,433                      | 953                      | 48                       | -                         | -                          | -                             | 2,434           |
| Other payables                 | 171,814                     | 151,024                    | 17,657                   | 3,889                    | 65                        | -                          | -                             | 172,635         |
| <b>Total liabilities</b>       | <b>935,894</b>              | <b>593,028</b>             | <b>254,991</b>           | <b>57,620</b>            | <b>31,224</b>             | <b>-</b>                   | <b>-</b>                      | <b>936,863</b>  |



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**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

- (e) Major Risks (continued)  
2 Financial Risk (continued)  
2.2 Liquidity risk (continued)  
Maturity profiles (continued)

|                           | Carrying<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000 |
|---------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|-----------------|
| <b>31 December 2018</b>   |                             |                            |                          |                          |                           |                            |                               |                 |
| Financial instruments:    |                             |                            |                          |                          |                           |                            |                               |                 |
| AFS                       | 1,199,639                   | 275,283                    | 548,295                  | 265,417                  | 236,286                   | 9,791                      | 375                           | 1,335,447       |
| Reinsurance assets        | 202,906                     | 103,576                    | 73,045                   | 15,357                   | 10,928                    | -                          | -                             | 202,906         |
| - claims liabilities      | 133,313                     | 133,313                    | -                        | -                        | -                         | -                          | -                             | 133,313         |
| Insurance receivables     | 64,689                      | 64,689                     | -                        | -                        | -                         | -                          | -                             | 64,689          |
| Other receivables         | 315,188                     | 315,426                    | -                        | -                        | -                         | -                          | -                             | 315,426         |
| Cash and cash equivalents |                             |                            |                          |                          |                           |                            |                               |                 |
| Total assets              | 1,915,735                   | 892,287                    | 621,340                  | 280,774                  | 247,214                   | 9,791                      | 375                           | 2,051,781       |

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**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

- (f) Major Risks (continued)  
2 Financial Risk (continued)  
2.2 Liquidity risk (continued)

Maturity profiles (continued)

|                                | Carrying<br>value<br>RM'000 | Within<br>a year<br>RM'000 | 1 - 3<br>years<br>RM'000 | 3 - 5<br>years<br>RM'000 | 5 - 15<br>years<br>RM'000 | Over<br>15 years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000 |
|--------------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|-------------------------------|-----------------|
| Insurance contract liabilities | 669,964                     | 366,102                    | 226,202                  | 49,620                   | 28,040                    | -                          | -                             | 669,964         |
| – claims liabilities           | 68,674                      | 68,674                     | -                        | -                        | -                         | -                          | -                             | 68,674          |
| Insurance payables             | 167,422                     | 145,302                    | 21,749                   | 1,067                    | 15                        | -                          | -                             | 168,133         |
| Other payables                 |                             |                            |                          |                          |                           |                            |                               |                 |
| Total liabilities              | 906,060                     | 580,078                    | 247,951                  | 50,687                   | 28,055                    | -                          | -                             | 906,771         |

31 December 2018

Insurance contract liabilities  
– claims liabilities  
Insurance payables  
Other payables

Total liabilities

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.3 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 of three types of risk, namely foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

2.3.1 Foreign currency risk

Foreign exchange risk is the exposure of a company's financial strength to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a reduction in measures of financial strength.

The Company transacts in minimal selected currencies and monitors corresponding assets and liabilities created at transaction level to ensure optimal currency positions.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). Its exposure to foreign exchange risk is minimum and mainly arises principally with respect to United State Dollar ("USD"), Australian Dollar ("AUD"), New Zealand Dollar ("NZD") and Singapore Dollar ("SGD").

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia, and hence, primarily denominated in the local currency as is its insurance contract liabilities.

The Company does not engage in derivative transactions for speculative purposes. Where deemed necessary in line with the Company's risk management policy, the Company enters into derivative transactions solely for hedging purposes.

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

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)2 Financial Risk (continued)2.3 Market Risk (continued)

2.3.2 Interest rate risk

Interest rate risk refers to the effect of interest rate changes on the market value of a fixed income portfolio. When interest rates (yields) of fixed income securities increase, their prices will decrease, and vice versa. Fixed income securities with longer maturity and lower coupon rates are usually more sensitive to interest rate changes.

The Company is exposed to interest rate risk through its investments in fixed income securities and money market placements with the financial institutions. These investments are managed internally, aided by an appointed investment advisor which is a licensed fund manager. Interest rate risk is managed via management and monitoring of the portfolio duration with active support from the investment advisor.

The sensitivity analysis below illustrates impact of 100bps increase/decrease in interest rate to investment value based on portfolio holdings as of 31 December 2018, holding other variables constant. Note that the sensitivity analysis assumes the following:

- 1) Money market rates are adjusted to the same quantum of any change in interest rate movement. This refers to money market placements with financial institutions.
- 2) Parallel shift in yields in the same quantum of any change in interest rate movement. This refers to investment in fixed income securities.

| Variable charges                | 2019                                 |                             | 2018                                 |                             |
|---------------------------------|--------------------------------------|-----------------------------|--------------------------------------|-----------------------------|
|                                 | Impact on profit after tax<br>RM'000 | Impact on equity*<br>RM'000 | Impact on profit after tax<br>RM'000 | Impact on equity*<br>RM'000 |
| Interest rate +100 basis points | -                                    | (18,389)                    | -                                    | (18,368)                    |
| Interest rate -100 basis points | -                                    | 18,389                      | -                                    | 18,368                      |

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

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.3 Market Risk (continued)

2.3.3 Equity price risk

Equity price risk refers to risk of changes in the value of an equity security. Securities may increase or decline in value due to various factors affecting equity market. Generally, it can be affected by industry-wide factors, or reasons specific to the company or its securities, such as management performance and financial positions. Price risk can be mitigated through diversification in general.

The Company is exposed to equity price risk arising from investment held by the Company and classified in the statement of financial position as available-for-sale financial assets that mainly consists of unquoted equities amounting to RM 375,000 (2018: RM375,000).

As the Company's portfolio of investments in unquoted equities is insignificant, the impact arising from sensitivity in equity price risk is deemed minimal.

3 Operational Risk

Operational risk is the risk of loss arising from system failure, human errors, 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 by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access control, authorisation and reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit.

Business risks, such as, changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

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30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

Capital structure

The capital structure of the Company as at 31 December 2019, as prescribed under the RBC Framework is provided below:

|                              | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|------------------------------|-----------------------|-----------------------|
| Eligible Tier 1 Capital:     |                       |                       |
| Share capital                | 100,000               | 100,000               |
| Retained earnings            | 616,253               | 669,533               |
|                              | <u>716,253</u>        | <u>769,533</u>        |
| Tier 2 Capital:              |                       |                       |
| AFS reserves                 | 12,581                | 1,306                 |
| Equity reserve               | 12,450                | 10,295                |
| Amount deducted from capital | (23,456)              | (25,844)              |
|                              | <u>717,828</u>        | <u>755,290</u>        |
| Total capital available      | <u><u>717,828</u></u> | <u><u>755,290</u></u> |