# 2020 Annual Report

**QBE INSURANCE (MALAYSIA) BERHAD**

Registration No.: 198701002415 (161086-D)

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**ANNUAL REPORT 2020**

# Corporate information

## Board of directors

**Arunothayam Rajaratnam**
*LL.B Honours 1974 (Singapore University)*
*Admitted as an Advocate & Solicitor of Singapore Bar, 1975*
*Chartered Insurance Practitioner, 1995*
*(Chartered Insurance Institute of United Kingdom)*

**Dato' Tan Ang Meng**
*Certified Public Accountant (CPA), Malaysia*

**Jason Andrew Hammond**
*Bachelor of Business (Accounting)*
*Master of Business Administration*
*Member of Certified Public Accountant (CPA), Australia*

**Saw Teow Yam**
*Bachelor of Economics (Honours)*

## Company secretary

**Choong Shaw Hney**
*MAICSA 7041114*

## Registered office

No.638, Level 6, Block B1,
Pusat Dagang Setia Jaya
(Leisure Commerce Square),
No. 9, Jalan PJS 8/9,
46150 Petaling Jaya,
Selangor Darul Ehsan,
Malaysia.

## Auditors

PricewaterhouseCoopers PLT

## Solicitors

Skrine

## Main banker

Citibank Berhad

## Our Purpose

**We give people the confidence to achieve their ambitions**

Everyone has ambitions and goals – both personal and professional. We give people the confidence to achieve them by helping them manage risks so they can focus on the outcome they desire, not the potential barriers holding them back.

## Our Vision

**To be the insurer that builds the strongest partnerships with customers**

Our customers are defined very broadly. This means there are many different stakeholder groups we are committed to building the strongest partnerships with – they include our major trading partners, brokers, agents, insureds, policyholders, claimants as well as our most important asset, our own people.

QBE DNA

Everything we do at QBE is underpinned by our DNA – because we know it's not just what we do that matters, it's how we do it that makes the difference.

At QBE, when we show-up for our people, customers, communities or shareholders across the globe:

- We are customer-centred **#OutsideIn**
- We are technical experts **#KnowYourStuff**
- We are diverse **#MixItUp**
- We are fast-paced **#RampItUp**
- We are courageous **#DoTheRightThing**
- We are accountable **#OwnItNow**
- We are a team **#Together**

# Board of Directors

## Arunothayam Rajaratnam

**Independent Non-Executive Director**

Ms. Arunothayam Rajaratnam (Aruno), was appointed as the Chairperson of QBE Malaysia on 18 November 2020.

She is a former Lawyer and a Chartered Insurance Practitioner has held diverse roles in the industry including being a Principle Officer, Underwriter, Broker, Reinsurer, Legal Counsel, Claims Manager and Loss Adjuster. She was awarded the "Personality Of The Year" at the 19th Asia Insurance Industry Awards (2015) in recognition of her 40 years of experience in the Asian insurance industry. In 2014, Aruno was the 1st Asian and only the 2nd woman to be awarded the prestigious PLUS 1 Award at the PLUS International Conference in Las Vegas, USA. She placed the 1st Directors & Officers Policy in Asia in 1986 and co-authored the mandatory textbook for the Certificate of General Insurance in Singapore in 1990. Aruno was the pioneer who developed and managed the First Compulsory Professional Indemnity Insurance Scheme for Lawyers in Singapore. She continues to conduct lectures for the Insurance industry and organises several workshops in Asia for PLUS and for Bima Gyaan platform in India.

## Dato' Tan Ang Meng

**Independent Non-Executive Director**

Dato' Tan was appointed as an Independent Non-Executive Director of QBE Malaysia on 13 April 2016. He is the Chairman of the Audit Committee and Nomination Committee. He is also a member of the Remuneration Committee and Risk & Capital Committee.

He is a Certified Public Accountant and was admitted to the Malaysia Institute of Certified Public Accountants in 1980. Dato' Tan started his career in 1975 with PriceWaterhouseCoopers, Kuala Lumpur in the audit division. He left the firm in 1981 to join UMW. In 1983, he joined Guinness Malaysia Berhad. Following the merger between Guinness Malaysia Berhad and Malayan Breweries (M) Sdn. Bhd., he was transferred to Malayan Breweries Limited in 1991 (which later changed its name to Asia Pacific Breweries Ltd) and served within the Group until January 2001. During that period, he held various senior management positions with his last position as Regional Director based in Singapore with responsibility for the brewery operations in China, Vietnam, Cambodia and Myanmar. In March 2001, he joined as Chief Executive Officer of Fraser & Neave Holdings Bhd, a position he held until his retirement in November 2010. Dato' Tan is also a Director of Tower Real Estate Investment Trust, and Red Sena Berhad (under members' voluntary liquidation), which all are listed on Bursa Malaysia. He is also a director of Loob Berhad, which is currently dormant.

## Jason Andrew Hammond

**Executive Director**

Jason Andrew Hammond was appointed as a Director of QBE Malaysia on 15 May 2019. He holds a Bachelor of Business (Accounting), a Masters of Business Administration and is a member of Certified Public Accountant (CPA), Australia.

Jason joined QBE in 2004 as the State Manager for NSW and subsequently spent the next 10 years as General Manager for Workers Compensation in Australia where he was responsible for the management of QBE's Australian Workers Compensation Division. More recently, he was the General Manager of QBE's Australia Broker Distribution business. Prior to his appointment as the CEO for QBE Asia, Jason was the interim CEO for QBE North Asia seconded from QBE Australia.

## Saw Teow Yam

**Independent Non-Executive Director**

Ms Saw Teow Yam (Yen), was appointed as an Independent Non-Executive Director of QBE Malaysia on 5 November 2020. She is the Chairman of the Risk and Capital Committee and Remuneration Committee. She is also a member of the Audit Committee and Nomination Committee. She holds a Bachelor of Economics (Honours).

Yen brings 30 years' experience in insurance and reinsurance in the Asia Pacific region across business development, marketing and distribution, operations, and client servicing. She was the Chief Executive Officer of Tokio Marine Insurance (Malaysia) Berhad, from which she retired in 2016. Prior to that she led Aviva's Indonesian franchise and ran CIMB's Assurance business. Yen is an innovative thinker with a passion for technology and currently runs her own consultancy connecting reinsurance companies with investors and tech businesses.

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# Central office managers

## Sunther Kuppan ACII, B. Law & Econs.

**Chief Executive Officer**

Sunther Kuppan joined QBE Insurance (Malaysia) Berhad in October 2014 as Claims Manager. He was then appointed as the Head of Claims in 2017 and in 2020 assumed the role of Head of Operations and Claims. In May 2021, Sunther was appointed as the Chief Executive Officer of QBE Insurance (Malaysia) Berhad.

Sunther has over 25 years of experience in the general insurance field in the areas of claims management and general operations. He has held various management roles throughout his career and brings with him technical expertise/knowledge.

In addition to Bachelor Degrees in Law and Economics, Sunther holds the Associateship of Chartered Insurance Institute (ACII) of United Kingdom.

## Kevin Choong MBA, B. Eng (Hons) in Civil and Structural Engineering

**Head of Agency Distribution**

Kevin Choong joined QBE in June 2018 and was appointed as Head of Agency Distribution on 1st May 2019. Kevin's responsibilities include the formulation and implementation of strategic marketing plans to promote agency development and business growth. In addition, Kevin is tasked with overseeing the business performance of QBE's branches nationwide.

Kevin has over 30 years of experience in the insurance industry. Before joining QBE, he was Head of Consumer Lines at Chubb Insurance Malaysia and prior to that, was Chief Distribution Officer at Great Eastern General Insurance Malaysia. He has also held senior management positions at Zurich General Insurance Malaysia and Allianz General Insurance Malaysia.

Kevin has been actively involved in PIAM, having represented the association in the PIAM/LIAM/MTA Joint Technical Committee on Medical Health Insurance for a number of years. He was also Deputy Convenor of PIAM's Accident, Health & Others sub-committee prior to joining QBE.

Kevin holds a Bachelor's of Engineering degree in Civil and Structural Engineering as well as a Master's in Business Administration degree, both undertaken at The University of Sheffield , United Kingdom.

## Lim Boon Boon ACCA (UK), MIA, B. (Hons) Accounting and Financial Management, Six Sigma Green Belt

**Head of Finance**

Boon Boon joined QBE in May 2018 as a Finance Manager and was appointed as Head of Finance of QBE Insurance (Malaysia) Berhad in March 2020.

Boon Boon has over 20 years of accounting and finance experiences in local and multi-national companies for multiple industries. Boon Boon has also spent time in Ernst and Young Shanghai as an audit manager.

Boon Boon holds a honour degree of Accounting and Financial Management from the University of Sheffield and green belt six sigma business process improvement certification.

She is a member of Association of Chartered Certified Accountant (“ACCA”) and Malaysian Institute of Accountants.

# Central office managers continued

## Nor Azima Binti Abdul B. Management (Hons)

**Head of HR, Central Asia**

Nor Azima joined QBE Insurance (Malaysia) Berhad in February 2010 and is responsible of the overall People strategy of the company.

Azima has 29 years of experiences in human resource management, 22 years of which are in the insurance sector. Her experience covers a wide range of human resources and leadership expertise, including HR transformation, HR Programs, development of high-performance culture, business restructuring as well as mergers and acquisitions.

Azima holds a Bachelor of Management majoring in Finance and Accounting from University Science of Malaysia and Certificate in Insurance from Malaysian Institute of Insurance.

# Chairman's statement

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of QBE Insurance (Malaysia) Berhad ("QBE Malaysia") for the financial year ended 31 December 2020.

## Economic Environment

In 2020, the economy of Malaysia contracted by 5.6% whilst the inflation rate was estimated at an average of -1.2% compared to 0.7% in 2019. In respect of the gross written premium ("GWP"), the general insurance industry had contracted by 0.6% to RM17.660 billion.

## 2020 Performance

Whilst we recognise that our GWP declined by 10.9 % in 2020, we believe that the portfolio now has a much better risk selection and pricing adequacy than before. The Brilliant Basics strategic initiative was introduced to ensure high standards of underwriting, pricing and claims management across all countries and portfolios to drive better quality business. As a result, QBE Malaysia reported an underwriting profit before tax ("PBT") of RM20.7 million in 2020, a 340.4% growth from RM4.7 million in 2019. The Brilliant Basics programme is expected to drive a further reduction in claims costs due to improved pricing adequacy, better risk selection and more effective claims management, making for a long-term sustainable business.

2020 was a year like no other. Despite the global pandemic, we are very pleased to say that we have not let this unprecedented challenge slow us down. Even in such a challenging year, QBE Asia has achieved a number of significant milestones, these include: launching our 2023 Asia Ambition, deploying digital initiatives to transform and sustain our business processes, piloting B2B2C, and introducing robotics to better manage our data and reduce time spent on repetitive tasks.

Furthermore, we are proud to be part of QBE Asia who was selected for the *Insurance Business Asia Top Insurance Workplaces 2020*. This is no doubt a significant recognition of our efforts in fostering a diverse and empowered workplace that positively affects employees.

## 2021 Outlook

The World Bank has projected the gross domestic product ("GDP") of Malaysia will expand at 5.6% to 6.7% in 2021 on the back of the COVID-19 vaccine deployment. The industry expects the operating and business climate to be challenging with possible stagnation in the general insurance industry.

While it is unclear how long it will take for the economy to fully recover from the pandemic, we remain focused on transforming our business and leveraging technology to deliver better outcomes for all our stakeholders.

I am very proud of our people who work with passion and integrity every day to deliver outstanding outcomes for our customers. We have a diligent and talented team, a sound balance sheet and a program of work that allow us to better serve our customers, shareholders, and communities.

## Acknowledgements

On behalf of the Board of Directors, I would like to record my sincere gratitude to all our valued business partners for their continued support and loyalty over the years. The Board would like to extend its appreciation for the commitment and leadership from the senior management team and all employees for their support and dedication in striving through a tough year in 2020.

The Board wishes to inform that Dato' Koh Hong Sun has retired as Chairman with effect from 17 November 2020 and welcome Ms Saw Teow Yam as the new Non-Executive Director. I would like to thank Dato' Koh Hong Sun for his dedicated service and commitment during his tenure as Chairman.

In closing, I would like to thank my fellow Board Members who have provided their invaluable support and commitment throughout the year.

**Arunothayam Rajaratnam**
**Chairperson**
**QBE Insurance (Malaysia) Berhad**

# 2020 snapshot

**Net combined operating ratio (NCOR%)**

**99.2%**

2019 **108.2%**

**Gross written premium**

**MYR218.4Mil**

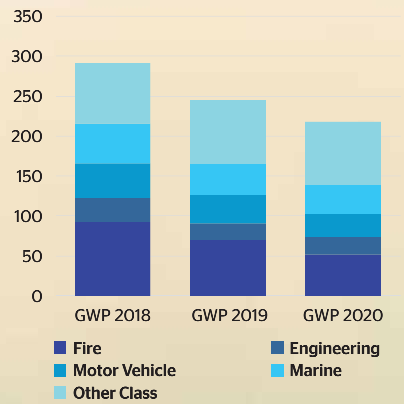
**10.9% from 2019**

**Net claims ratio** (%)

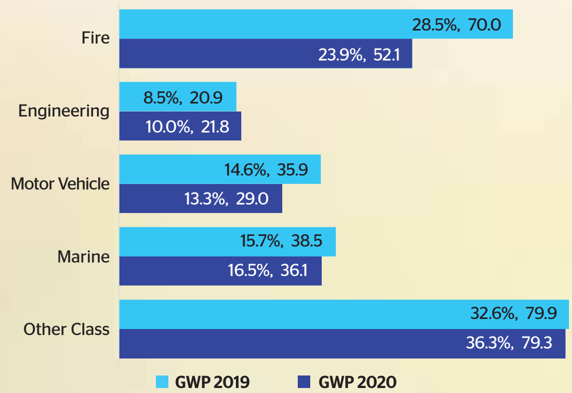
**53.1%**

2019 **62.6%**

**Gross written premium** (RM' mil)
by class of business



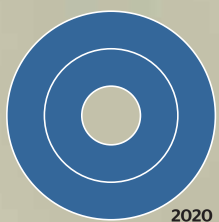

**Business portfolio 2020** (RM' mil)




**Earnings per share** (cents)

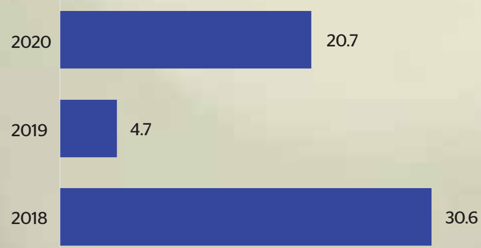

**Net profit after income tax** (RM' mil)


**Investment 2020**

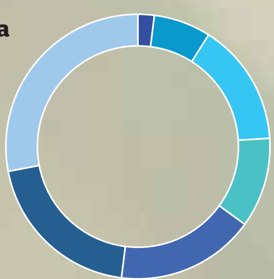


| | 2020 | 2019 |
|---|---|---|
| Money Market Placement | 100% | 100% |
| Government Bonds | 0% | 0% |

**Underwriting profit before tax** (RM' mil)




**Business Across Malaysia**



| | 2020 | 2019 |
|---|---|---|
| MMIP | 2% | 1% |
| Southern Agency | 7% | 9% |
| Northern Agency | 15% | 16% |
| East M'sia Agency | 11% | 10% |
| Central Agency | 17% | 18% |
| Bancassurance | 0% | 0% |
| Brokers | 20% | 28% |
| Major Trading Partners | 28% | 18% |

# Chief Executive Officer's statement

We are pleased to announce QBE Malaysia recorded a good financial performance in 2020 despite the COVID-19 pandemic. We have successfully navigated through 2020 by building a strong foundation within the organisation with seamless remote operations to deliver excellent customer service through digital adoption for our business processes, enablement of our people and embedment of our Customer@QBE mindset, ensuring our business is able to operate sustainably.

## External Environment

In 2020, consistent with the world's economy, the Malaysian economy experienced severe challenges during the COVID-19 pandemic. Malaysia's economy contracted by 5.6% in 2020 compared to 4.3% growth in 2019. The general insurance industry registered a decline of 0.6% in 2020 with Gross Written Premium (GWP) of RM17.660 billion.

## 2020 Performance

QBE Malaysia recorded an underwriting profit before tax of RM20.7 million, which was RM16.0 million higher than previous year. This was primarily due to a decrease in claims and expenses incurred. In 2020, we achieved targets for cost reduction and capital ratio. The earnings per share stood at 7.26 cents for 2020 compared to 1.28 cents in 2019.

Against the backdrop of economic contraction and intense competition in the Malaysian insurance sector, QBE Malaysia's GWP contracted by 10.9% to RM218.4 million, while net earned premium decreased by 14.5% to RM182.9 million. However, the net claims incurred ratio decreased by 9.5% from 62.6% in 2019 to 53.1% in 2020. This is in line with delivering consistent excellence in our underwriting, pricing and claims.

QBE Malaysia recorded statutory Net Combined Operating Ratio (NCOR) of 99.2% in 2020, compared to 108.2% in 2019. The company maintained a sound Capital Adequacy Ratio (CAR) during 2020, exceeding both the Supervisory CAR and the company's own internal capital target as per our Capital Management Plan.

The investment portfolio for 2020 was lower than 2019 by RM12.0 million. QBE Malaysia remains cautious on market volatility, as such, the company has positioned its investment portfolio to maintain running yield, with the view to capture term premium and an attractive spread on term deposits. In 2020, the investment income was RM19.2 million with an average investment yield of 3.34%.

## Business across the country

Although QBE Malaysia recorded a contracting GWP, we are now comfortable with the risks that we have on our books and will continue to focus on writing risks that provide the organisation with an acceptable return. We have instituted a strong Brilliant Basics underwriting culture within our distribution teams as well as across the organisation. While our distribution teams remain strong with a good channel mix, we will continue to look for ways to diversify our channels and build on our distribution strategy.

## Operations

Our Customer Service team continues to provide market leading service, reflecting our commitment to further enhance the customer experience. One of our pillars at QBE Malaysia is to embed customer-centricity in all that we do, and we will continue to focus and invest in this area.

# Chief Executive Officer's statement continued

## Corporate Social Responsibility

At QBE Malaysia, corporate social responsibility is part of our business strategy. Sustainable and responsible business practices matter to all our stakeholders, customers, employees, potential recruits, shareholders and investors, the communities in which we do business, and the society at large.

In 2020, we donated to MERCY Malaysia to provide medical and humanitarian assistance to Malaysians in crisis and non-crisis situations through its COVID-19 Pandemic Fund. We also donated to Persatuan Insurance Am Malaysia for their COVID-19 Relief Fund.

## World-class Human Capital

QBE Malaysia continues to invest in building, developing and retaining the best individuals by implementing initiatives covering leadership, managerial, technical, and talent programmes that embody QBE's commitment to the Employee Value Proposition. In 2020, QBE Malaysia records:

- Employees participating in online industry conferences to enhance their skills as well as bring value to the industry
- Employees attending Asia Top Talent 2020 program
- An online in-house education programme that sponsored several employees to pursue insurance professional qualification, AMII Level 1 and AMII Level 2
- Participation in Asia Business Acumen Workshop that is designed to help employees understand the big picture in business, the importance of interdependence between functions within the organisation, as well as the key performance indicators that drive the business

## Employee Engagement

QBE Malaysia continues with our effort to increase productivity and retention through the following platforms:

- Regular online employee townhall sessions and business updates from business leaders continue to play a vital role in our communication with employees to better align with QBE's direction and encourage knowledge sharing across all levels to meet global objectives.
- Through Diversity and Inclusion (D&I) initiatives, QBE celebrates festivals of all races and support D&I activities such as International Women's Day. A plethora of virtual health awareness programmes were organised which proved successful with high participation rates and increased employee engagement.

In closing, I am pleased with the progress we have made against our strategic objectives for 2020.

Today, QBE Malaysia is strategically, operationally, and financially stronger. I am optimistic of what the future holds for QBE Malaysia in 2021 and beyond.

**Sunther Kuppan**
**Chief Executive Officer**
**QBE Insurance (Malaysia) Berhad**

# Financial report & statements contents

# Directors' report

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Directors have pleasure in presenting their report to the member together with the annual audited financial statements of the Company for the financial year ended 31 December 2020.

## Principal Activity

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 these activities during the financial year.

## Financial Results

| | |
|---|---|
| Net profit for the financial year | RM 15,677,498 |

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

## Dividends

No dividend was paid or declared by the Company since the end of the last financial year. The Directors have not recommended any final dividend to be paid for the financial year under review.

## Reserves and Provisions

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

## Provision for Outstanding Claims

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") issued by Bank Negara Malaysia ("BNM") for insurers.

## Share Capital

There was no issuance of shares by the Company during the financial year.

## Other Statutory Information

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

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

(i) the amount written off for bad debts or the amount of the allowance for 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.

(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, other than the subsequent event as disclosed in Note 27 to the financial statements.

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.

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

## Subsequent Event

Details of the subsequent event is as disclosed in Note 27 to the financial statements.

## Corporate Governance

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under Financial Services Act 2013 ("FSA") and Bank Negara Malaysia ("BNM") Guidelines in particular BNM/RH/PD_029-9 on Corporate Governance.

The Company and its Directors are committed to ensuring that the highest standards of corporate governance are practised. Integrity is a fundamental value to our business that is applied to all our activities.

**(a) Board Responsibility and Oversight**

The Board comprises four Directors, represented by three independent non-executive directors (including the Chairman) and an executive director. Seven meetings were held during the financial year ended 31 December 2020 and four meetings have been scheduled for the year 2021, with additional meetings to be convened as necessary.

The Board is responsible for the overall governance of the Company and is committed to ensuring that the highest standards are being maintained and compliance with relevant Acts, Regulations and Guidelines are being observed. The Directors bring to the Board a wide range of business and financial experience and participate fully in decisions on the key issues of the Company.

**(b) Committees**

The Board is supported by several committees which comprise certain members of the Board. The main committees of the Board are the Audit, Nomination, Remuneration and Risk & Capital Committees.

Committee membership is reviewed at least annually and the Committees meet regularly as required, to deal with matters that are referred by the Board or management from time to time. Details of Directors' and Committee members' attendance at Board and Committee meetings are outlined in the table of meeting attendance set out on page 6 of this report.

(i) Audit Committee

The membership of the Audit Committee comprises three independent non-executive directors. The current members of the Audit Committee are Dato' Tan Ang Meng (Chairman), Dato' Koh Hong Sun (retired on 17 November 2020), Arunothayam Rajaratnam and Saw Teow Yam (appointed on 5 November 2020).

# Directors' report (cont'd)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

## **Corporate Governance** (continued)

**(b) Committees** (continued)

(i) Audit Committee (continued)

The Audit Committee operates under written terms of reference determined by the Board and the role of the Committee is to oversee and enhance credibility of the Company's financial reporting process, and to ensure all policies, procedures and all statutory and non-statutory guidelines are adhered to.

There are formal procedures in place for both internal and external auditors to report conclusions and recommendations to management and to the Audit Committee. All aspects of the system of internal controls are subjected to regular review to ensure their adequacy and effectiveness.

(ii) Nomination Committee

The membership of the Nomination Committee comprises three independent non-executive directors and an executive director. The current members of the Committee are Dato' Tan Ang Meng (Chairman), Dato' Koh Hong Sun (retired on 17 November 2020), Arunothayam Rajaratnam, Jason Andrew Hammond and Saw Teow Yam (appointed on 5 November 2020). The Nomination Committee operates under written terms of reference determined by the Board, taking into consideration all relevant Bank Negara Malaysia's guidelines. The role of the Committee is to establish the minimum requirements for the appointment of Board members, the Chief Executive Officer and key senior officers, including overseeing the composition, size and skills of the Board members and its effectiveness.

The Committee believes the skills, experience and qualities of Directors are conducive to the efficient running of the business.

(iii) Remuneration Committee

The membership of the Remuneration Committee comprises three independent non-executive directors. The current members of the Remuneration Committee are Saw Teow Yam (Chairman, appointed on 5 November 2020), Arunothayam Rajaratnam, Dato' Tan Ang Meng and Dato' Koh Hong Sun (retired on 17 November 2020).

The Remuneration Committee operates under written terms of reference determined by the Board and is responsible for the development of the Company's remuneration policy for its Directors, Chief Executive Officer and key senior officers. The Committee considers recommendations from management and provides specific recommendations on the remuneration packages and other terms of employment for executive and non-executive directors, senior management as well as staff development to ensure that high quality people are retained.

(iv) Risk & Capital Committee

The Risk & Capital Committee comprises three independent non-executive directors. The current members of the Risk & Capital Committee are Saw Teow Yam (Chairman, appointed on 5 November 2020), Arunothayam Rajaratnam, Dato' Tan Ang Meng and Dato' Koh Hong Sun (retired on 17 November 2020).

The Risk & Capital Committee operates under written terms of reference determined by the Board and is responsible for overseeing the senior management's activities in managing the key risk areas of the Company.

The Company has established internal controls to manage risk in the key areas of exposure relevant to its business and the Committee has a risk management framework to identify significant areas of business risk and to effectively and expeditiously manage those risks. Systems are designed to provide reasonable assurance that the assets of the Company are safeguarded, insurance risk exposure is within desired limits, reinsurance protections are adequate and counterparties are subject to security assessment.

The scope of internal controls covers not only financial controls but also operational and compliance controls as well as risk management. The system is intended to provide reasonable assurance, but not an absolute guarantee, against material financial misstatement or loss.

The Committee recommends and the Board approves a comprehensive Risk Management Strategy and Reinsurance Management Strategy on an annual basis and is responsible to the shareholders for the performance of the Company and as such, fulfils a critical role in establishing and maintaining an effective risk management strategy.

**(c) Management Accountability**

The Company has well documented and updated organisational structures showing all reporting lines as well as clearly documented job descriptions for management and executive employees.

A formal process of developing and monitoring individual goals on a consultative basis is adopted for staff performance appraisals to ensure that the goals are in line with the Company's corporate objectives and responsibilities.

**(d) Public Accountability**
The Company has always ensured that its business is conducted fairly, honestly and professionally.

**(e) Corporate Independence**
All material related party transactions have been disclosed in the notes to the financial statements.

**(f) Financial Reporting**
The Directors are responsible for ensuring that the accounting records are properly kept and that the Company's financial statements are prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The Board and senior management receive regular financial and management reports to enable them to effectively monitor the financial performance and condition of the Company in relation to the corporate objectives and responsibilities.

## Meetings of Directors

| | Full meeting of directors | Meetings of Committees: Audit | Nomination | Remuneration | Risk & Capital |
|---|---|---|---|---|---|
| Number of meetings held during the year | 7 | 4 | 4 | 2 | 4 |
| | Number Attended | Number Attended | Number Attended | Number Attended | Number Attended |
| Dato' Koh Hong Sun (Retired on 17 November 2020) | 5 | 3 | 4 | 2 | 3 |
| Arunothayam Rajaratnam | 6 | 3 | 3 | 1 | 3 |
| Dato' Tan Ang Meng | 7 | 4 | 4 | 2 | 4 |
| Jason Andrew Hammond | 7 | 4 | 4 | 2 | 4 |
| Saw Teow Yam (Appointed on 5 November 2020) | 2 | 1 | 0 | 0 | 1 |

## Directors and their Interests in Shares

(a) The Directors who have held office since the date of the last report are as follows:
Dato' Koh Hong Sun (Retired on 17 November 2020)
Dato' Tan Ang Meng
Arunothayam Rajaratnam (Appointed as Chairperson on 18 November 2020)
Jason Andrew Hammond
Saw Teow Yam (Appointed on 5 November 2020)

(b) In accordance with Regulation 63 of the Company's Constitution, Arunothayam Rajaratnam retire by rotation at the forthcoming Annual General Meeting and being eligible, offers herself for re-election.

(c) In accordance with Regulation 68 of the Company's Constitution, Saw Teow Yam who was appointed during the financial year, retires at the forthcoming Annual General Meeting and being eligible, offers herself for re-election.

(d) According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, the interest of the Directors in office at the end of the financial year in shares in the Company or its holding company or subsidiaries of the holding company during the financial year were as follows:

| Shares in QBE Insurance Group Limited (Ultimate holding company) | At 1.1.2020 | Acquired | Extinguished | At 31.12.2020 |
|---|---|---|---|---|
| Jason Andrew Hammond | 259 | 12,735 | (8,983) | 4,011 |

<u>Rights over shares in QBE Insurance Group Limited granted to the Directors</u>

| Shares in QBE Insurance Group Limited (Ultimate holding company) | At 1.1.2020 | Granted | Extinguished | At 31.12.2020 |
|---|---|---|---|---|
| Jason Andrew Hammond | 51,534 | 10,845 | - | 62,379 |

(e) Other than the above, none of the other Directors in office at the end of the financial year held any interest in the shares in or debentures of the Company or its related corporations during the financial year.

# Directors' report (cont'd)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

## Directors' Remuneration

Details of Directors' remuneration are set out in Note 18 to the financial statements.

## Indemnity to Directors and Officers

During the financial year, the total amount of indemnity insurance premium paid for the Directors and certain officers of the Company were RM25,260.

## Directors' Benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the options and rights granted over the shares of the ultimate holding corporation as disclosed in this report.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of fees and other emoluments received or due and receivable by directors shown in Note 18 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except that certain directors received remuneration from the Company's ultimate holding corporation and other related corporations.

## Share Option Scheme

No Share Option Scheme was offered during the financial year.

## Ultimate Holding Corporation

The Directors regard QBE Insurance Group Limited, a corporation incorporated in Australia, as the ultimate holding corporation.

## Registered Office and Principal Place of Business

The registered office and principal place of business of the Company are located at No. 638, Level 6, Block B1, Pusat Dagang Setia Jaya (Leisure Commerce Square), No 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor.

## Auditors' Remuneration

Details of auditors' remuneration are set out in Note 17 to the financial statements.

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

## Auditors

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

This report was approved by the Board of Directors on 2 March 2021. Signed on behalf of the Board of Directors:

Arunothayam Rajaratnam
Director

Jason Andrew Hammond
Director

Petaling Jaya

# Statement by directors

PURSUANT TO SECTION 251 (2) OF THE COMPANIES ACT 2016

We, Arunothayam Rajaratnam and Jason Andrew Hammond, two of the Directors of QBE Insurance (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 20 to 59 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2020 and financial performance of the Company for the financial year ended 31 December 2020 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 2 March 2021.

Arunothayam Rajaratnam
Director

Jason Andrew Hammond
Director

Petaling Jaya

# Statutory declaration

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

I, Lim Boon Boon, the officer primarily responsible for the financial management of QBE Insurance (Malaysia) Berhad, do solemnly and sincerely declare that, the financial statements set out on pages 20 to 59 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Lim Boon Boon

Subscribed and solemnly declared by the above named Lim Boon Boon at Petaling Jaya in the State of Selangor Darul Ehsan on 2 March 2021.

Before me,

PESURUHJAYA SUMPAH
B381
RADZIAH BINTI
ABDUL RAHMAN
01.01.2019 - 31.12.2021
MALAYSIA

Commissioner for Oaths

No 513, Block A3, Pusat Dagang Setia Jaya
No. 9, Jalan PJS 8/9, 46150 Petaling Jaya
Selangor Darul Ehsan

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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF

# QBE Insurance (Malaysia) Berhad

(Incorporated in Malaysia)
Registration No. 198701002415 (161086-D)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion
In our opinion, the financial statements of QBE Insurance (Malaysia) Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2020, 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 2020, 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 20 to 59.

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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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, which we obtained prior to the date of this auditors' report, and Chairman's Statement and Chief Executive Officer's Statement, which is expected to be made available to us after that date. Other information does not include the financial statements of the Company and our auditors' report thereon.

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

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 on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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Auditors' responsibilities for the audit of the financial statements

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

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

(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.

## OTHER MATTERS

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

PricewaterhouseCoopers PLT

PricewaterhouseCoopers PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Soo Hoo Khoon Yean
02682/10/2021 J
Chartered Accountant

Kuala Lumpur
2 March 2021

# Statement of financial position

AS AT 31 DECEMBER 2020

| | NOTE | 2020<br>RM | 2019<br>RM |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 3 | 7,948,774 | 8,212,525 |
| Intangible assets | 4 | 978,778 | 1,908,980 |
| Right-of-use assets | 5 | 1,053,032 | 1,263,563 |
| Investments | 6 | 477,647,273 | 491,478,690 |
| Loans and receivables | | 477,647,273 | 491,478,690 |
| Reinsurance assets | 11 | 77,398,124 | 60,068,503 |
| Insurance receivables | 7 | 74,829,278 | 89,222,371 |
| Other receivables | 8 | 52,511,926 | 54,586,821 |
| Deferred tax asset | 12 | 3,265,355 | 5,104,987 |
| Cash and bank balances | | 15,360,705 | 7,762,651 |
| **Total assets** | | 710,993,245 | 719,609,091 |
| **Liabilities** | | | |
| Insurance contract liabilities | 11 | 407,719,970 | 404,366,060 |
| Lease liabilities | 5 | 1,032,356 | 1,258,839 |
| Insurance payables | 13 | 15,786,556 | 34,418,904 |
| Tax payable | | 729,101 | 1,056,179 |
| Other payables | 14 | 67,332,684 | 75,794,029 |
| **Total liabilities** | | 492,600,667 | 516,894,011 |
| **Shareholders' equity** | | | |
| Share capital | 9 | 108,000,000 | 108,000,000 |
| Retained earnings | 10 | 110,392,578 | 94,715,080 |
| | | 218,392,578 | 202,715,080 |
| **Total liabilities and shareholders' equity** | | 710,993,245 | 719,609,091 |

*The accompanying notes are an integral part of these financial statements.*

# Statement of comprehensive income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

| | NOTE | 2020<br>RM | 2019<br>RM |
|---|---|---|---|
| Gross earned premiums | 15(a) | 235,663,497 | 273,085,129 |
| Premium ceded to reinsurers | 15(b) | (52,806,126) | (59,170,732) |
| **Net earned premiums** | | 182,857,371 | 213,914,397 |
| Investment income | 16 | 19,216,861 | 22,289,342 |
| Loss on disposal of property, plant and equipment | | (938) | (127,650) |
| Gain on disposal of investment | | - | 3,500 |
| Unrealised loss on investments | 6 | - | (10,010) |
| Reinsurance commission income | | 6,949,172 | 4,504,921 |
| Other operating income/(expenses) | | 275,694 | (64,812) |
| **Total revenue** | | 209,298,160 | 240,509,688 |
| Gross claims paid | | (122,468,447) | (196,482,247) |
| Claims recoveries from reinsurers | | 29,482,617 | 72,341,387 |
| Gross charge to claims liabilities | | (20,665,362) | 19,258,991 |
| Charge in claims liabilities ceded to reinsurers | | 16,604,182 | (29,061,536) |
| **Net claims incurred** | | (97,047,010) | (133,943,405) |
| Fee and commission expense | | (37,736,888) | (40,936,417) |
| Management expenses | 17 | (53,846,409) | (60,977,401) |
| **Other expenses** | | (91,583,297) | (101,913,818) |
| **Profit before taxation** | | 20,667,853 | 4,652,465 |
| Taxation | 19 | (4,990,355) | (1,880,824) |
| **Net profit and total comprehensive income for the year** | | 15,677,498 | 2,771,641 |
| Earnings per share (sen) | 20 | 7.26 | 1.28 |

*The accompanying notes are an integral part of these financial statements.*

# Statement of changes in equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

| | NOTE | SHARE CAPITAL<br>RM | DISTRIBUTABLE<br>RETAINED<br>EARNINGS<br>RM | TOTAL<br>RM |
|---|---|---|---|---|
| **At 1 January 2019** | | 108,000,000 | 91,943,439 | 199,943,439 |
| Total comprehensive income for the financial year | | - | 2,771,641 | 2,771,641 |
| **At 31 December 2019** | | 108,000,000 | 94,715,080 | 202,715,080 |
| **At 1 January 2020** | | 108,000,000 | 94,715,080 | 202,715,080 |
| Total comprehensive income for the financial year | | - | 15,677,498 | 15,677,498 |
| **At 31 December 2020** | | 108,000,000 | 110,392,578 | 218,392,578 |

*The accompanying notes are an integral part of these financial statements.*

# Statement of cash flows

For the financial year ended 31 December 2020

| | 2020<br>RM | 2019<br>RM |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net profit for the financial year | 15,677,498 | 2,771,641 |
| Adjustments for: | | |
| Depreciation on property, plant and equipment | 1,385,421 | 1,290,427 |
| Amortisation of intangible assets | 1,180,077 | 1,992,295 |
| Depreciation of right-of-use assets | 1,040,816 | 1,105,533 |
| Loss on disposal of property, plant and equipment | 938 | 127,650 |
| Gain on disposal of investments | - | (3,500) |
| Unrealised loss on investments | - | 10,010 |
| Allowance of impairment on insurance receivables | 890,566 | 1,214,145 |
| Interest income | (19,216,861) | (22,289,342) |
| Interest expense for lease liabilities | 44,560 | 62,576 |
| Taxation | 4,990,355 | 1,880,824 |
| **Profit from operation before changes in operating assets and liabilities** | 5,993,370 | (11,837,741) |
| Proceeds from maturity of FVTPL investments | - | 7,000,000 |
| Decrease/(Increase) in LAR investments | 12,000,000 | (2,000,000) |
| Decrease in premium liabilities | (18,036,892) | (26,368,183) |
| Increase in claims liabilities | 4,061,181 | 9,802,544 |
| Decrease in insurance receivables | 13,502,526 | 4,708,381 |
| Increase in other receivables | 2,074,896 | 7,377,570 |
| (Decrease)/Increase in insurance payables | (18,632,348) | 141,511 |
| Decrease in other payables | (8,461,344) | (8,599,364) |
| Income taxes paid | (3,477,800) | (2,579,307) |
| Interest income received | 21,048,278 | 23,440,287 |
| Interest charge on lease liabilities | (44,560) | (62,576) |
| **Net cash generated from operating activities** | 10,027,307 | 1,023,122 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from disposal of property, plant and equipment | 26,499 | 11,028 |
| Purchase of property, plant and equipment | (1,149,107) | (707,523) |
| Purchase of intangible assets | (249,875) | (91,000) |
| **Net cash used in investing activities** | (1,372,483) | (787,495) |
| **CASH FLOW FROM FINANCING ACTIVITY** | | |
| Lease payment | (1,056,770) | (1,110,257) |
| **Net cash used in financing activity** | (1,056,770) | (1,110,257) |
| Net movement in cash and cash equivalents | 7,598,054 | (874,630) |
| Cash and cash equivalents at 1 January | 7,762,651 | 8,637,281 |
| Cash and cash equivalents at 31 December | 15,360,705 | 7,762,651 |
| **Cash and cash equivalents comprise:** | | |
| Cash and bank balances | 15,360,705 | 7,762,651 |

**Reconciliation of liabiities arising from financing activity**

| | 2020<br>RM | 2019<br>RM |
|---|---|---|
| **Lease liabilities** | | |
| At 31 December 2018 | - | - |
| Effect of adoption of MFRS 16 | - | 2,166,377 |
| At 1 January | 1,258,839 | 2,166,377 |
| Cash flows | (1,101,330) | (1,172,833) |
| Interest charge | 44,560 | 62,576 |
| Lease addition | 830,287 | 202,719 |
| At 31 December | 1,032,356 | 1,258,839 |

*The accompanying notes are an integral part of these financial statements.*

# Notes to the financial statements

## 1. Principal activity

The Company, a public limited liability Company incorporated and domiciled in Malaysia, is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of these activities during the financial year.

## 2. Significant accounting policies

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

**2.1 Basis of Preparation**

The financial statements of the Company have been prepared in accordance with the 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 on a historical cost basis, except for those financial instruments that have been measured at their fair values and insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") Framework for insurers issued by Bank Negara Malaysia ("BNM").

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 the 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 2.3 to the financial statements.

**(a) Standards, amendments to published standards and interpretations that are effective**

The Company has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2020:

(i) The Conceptual Framework for Financial Reporting (Revised 2018)
(ii) Amendments to MFRS 101 and MFRS 108 'Definition of Material'
(iii) Amendments to MFRS 3 'Definition of a Business'
(iv) Amendments to MFRS 9, MFRS 139 and MFRS 7 'Interest Rate Benchmark Reform'
(v) Amendments to MFRS 4 'Extension of the Temporary Exemption from Applying MFRS 9'

The adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

New standards that are effective and were deferred for adoption:

- Amendments to MFRS 4 - Applying MFRS 9 'Financial Instruments' with MFRS 4 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018).

  The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 'Financial Instruments' before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

  The amendments provide 2 different approaches for entities: (i) a temporary exemption from MFRS 9 for entities that meet specific requirements; and (ii) the overlay approach. Both approaches are optional.

  The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2023 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

  An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies MFRS 9 for the first time.

  The Company's business activity is predominately insurance and hence, qualifies for the temporary exemption approach. Consequently, management has decided to apply the temporary exemption from MFRS 9 from its annual period beginning 1 January 2018 and will adopt MFRS 9 for its annual period beginning 1 January 2023.

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"):

| Financial assets | Fair value as at 31.12.2020 RM | Change in fair value RM | Cash flows characteristic |
|---|---|---|---|
| Investments (Note 6) | | | |
| - Deposits with financial institutions | 477,647,273 | - | SPPI |
| Other receivables | 52,420,476 | - | SPPI |
| Cash and bank balances | 15,360,705 | - | SPPI |
| | 545,428,454 | - | |

| Financial assets | Fair value as at 31.12.2019 RM | Change in fair value RM | Cash flows characteristic |
|---|---|---|---|
| Investments (Note 6) | | | |
| - Deposits with financial institutions | 491,478,690 | - | SPPI |
| Other receivables | 54,291,617 | - | SPPI |
| Cash and bank balances | 7,762,651 | - | SPPI |
| | 553,532,958 | - | |

Insurance receivables and reinsurance assets have been excluded from the above assessment as they will be under the scope of MFRS 17 Insurance Contracts.

Other than the financial assets included in the table above and assets that are within the scope of MFRS 17, Insurance Contract, all other assets in the statement of financial position are non-financial asset.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

All financial assets with SPPI cash flows of the Company as at 31 December 2020 have low credit risk and is disclosed in Note 25 in the financial statements.

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) replaces MFRS 139 'Financial Instruments: Recognition and Measurement'.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Company intends to adopt MFRS 9 together with MFRS 17.

All other new standards, amendments to published standards, and interpretations that are effective for the current financial year are not relevant to the company.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### 2.1 Basis of Preparation (continued)

**(b) Standards and amendments that have been issued 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 a significant effect on the financial statements of the Company, except the following:

- MFRS 17 'Insurance Contracts' (effective from 1 January 2023) 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 from Contracts with Customers'. An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

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

Alternative measurement models are provided for the different insurance coverages:

a) Simplified Premium Allocation Approach if the insurance coverage period is a year or less
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.

The company is currently assessing the financial and operation impact that may arise from the adoption of MFRS 17.

### 2.2 Summary of Significant Accounting Policies

**(a) Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Leasehold building is amortised in equal instalments over the period of lease of 70.59 years. Depreciation on other property, plant and equipment is calculated using the straight-line basis to allocate their cost to their residual values over the expected useful lives of the assets. The expected useful lives of the assets are as follows:

| | |
|---|---|
| Motor Vehicles | 5 years |
| EDP Equipment | 3 - 5 years |
| Office Equipment | 3 - 10 years |
| Furniture & Fittings | 2 - 10 years |
| Renovations | 2 - 5 years |
| Freehold Building | 50 years |

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See Note 2.2 (d) to the financial statements on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the statement of comprehensive income.

**(b) Intangible Assets**

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised internal-use software costs include external direct costs of materials and services consumed in developing or obtaining the software. Capitalisation of these costs ceases no later than the point at which the project is substantially completed and ready for its intended purpose. These costs are amortised over their expected useful life of 4 to 5 years on a straight-line basis, with the useful lives being reviewed annually.

**(c) Leases**

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).

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Company is a lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

*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).

*ROU assets*

ROU assets are initially measured at cost comprising the following:
(i) The amount of the initial measurement of lease liability;
(ii) Any lease payments made at or before the commencement date less any lease incentive received;
(iii) Any initial direct costs; and
(iv) 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.

*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:
(i) Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
(ii) Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
(iii) Amounts expected to be payable by the Company under residual value guarantees;
(iv) The exercise price of a purchase and extension options if the group is reasonably certain to exercise that option; and
(v) 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 when that rate can be readily determined. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate. Given QBE's practice of borrowing centrally, the 'incremental borrowing rate (IBR)' will be derived by Group on behalf of the subsidiaries. The IBR will be determined by reference to observable market data, including the following:
(i) QBE Group 'credit default swap' rate (CDS); and
(ii) risk free rate for the currency and tenor of the lease liability.

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.

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 management expenses in profit or loss in Note 17 to the financial statements.

*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 all leases of low-value assets are recognised on a straight-line bases as an expense in profit or loss.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### 2.2 Summary of Significant Accounting Policies (continued)

**(d) Impairment of Non-Financial Assets**

The carrying values of non-financial assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is charged to the statement of comprehensive income immediately.

A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the statement of comprehensive income.

**(e) Investments and Other Financial Assets**

The Company classifies its investments into financial assets as loans and other receivables ("LAR").

*LAR*

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

The Company classifies the cash flows for the purchase and disposal of LAR investments 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 payments of insurance benefits and claims.

**(f) Fair Value of Financial Instruments**

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

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

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/profit. The fair value of fixed interest/yield-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

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.

**(g) Impairment of Financial Instruments**

The Company assesses at each date of the statement of financial position whether a financial assets or group of financial assets is impaired.

*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 the statement of comprehensive income.

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

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

**(h) Derecognition of Financial Assets**

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.

**(i) Product Classification**

The Company issues contracts that transfer insurance risk.

Insurance contracts are those that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

**(j) General Insurance Underwriting Results**

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

*Gross Premiums*

Gross premiums are recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year upon the issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been raised as of the date of the statement of financial position are accrued at that date and are recognised in the statement of comprehensive income during the financial year.

Inward facultative reinsurance premiums are recognised in the financial year in respect of the facultative risks assumed during that particular financial year, as in the case of direct policies, following the individual risks' inception dates.

Inward treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inceptions dates of these risks and contractually accounted for, as such to reinsurers under the terms of the proportional treaties. In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premium are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

*Premium Liabilities*

Premium liabilities refer to the higher of:

(i) the aggregate of the unearned premium reserves ("UPR") or

(ii) 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. The best estimate value 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.

UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

**2.2 Summary of Significant Accounting Policies** (continued)

**(j) General Insurance Underwriting Results** (continued)

*Premium Liabilities* (continued)

In determining the UPR at the date of the statement of financial position, the method that most accurately reflects the actual unearned premium used is as follows:

(i) 25% method for marine cargo and transit business;

(ii) 1/365th method (i.e. daily pro-rata method) for all other classes of general insurance business in respect of Malaysian general policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

*Claims Liabilities*

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

Provision for claims liabilities is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the date of the statement of financial position. Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the date of the statement of financial position, based on an actuarial valuation.

Throughout the course of the financial year, management regularly re-assesses claims and provisions both on an individual and class basis, based on independent professional advice and reports, other available information and management's own assessment of the claims and provisions.

*Acquisition Costs*

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. For presentation of the financial statement purpose, the acquisition costs arose from acquiring and renewing insurance policy are deducted from premium liabilities.

**(k) Reinsurance**

*Reinsurance ceded*

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.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance costs are recognised in statement of comprehensive income immediately at the date of purchase and are not amortised.

*Reinsurance assumed*

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

Premium and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business. Reinsurance liabilities represent balances due to reinsurance companies. Amount payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

*Reinsurance assets or liabilities*

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

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 statement of comprehensive income.

1 Corporate information
2 Business review
3 Financial report
4 Other information

**(l) Insurance Receivables**

Insurance receivables are recognised when due and measured on initial recognition at 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.

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 statement of comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired using the same processes adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets.

**(m) Other receivables from MMIP**

Short term advances to MMIP are measured at amortised costs using the effective interest method less impairment. 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.

**(n) General Insurance Contract Liabilities**

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

These liabilities comprise claims liabilities and premiums liabilities.

Claims liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the date of the 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 the statement of financial position. The liability is calculated at the reporting data using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for premium liabilities represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

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

**(o) Other Revenue Recognition**

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

*Rental Income*

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

*Interest and Profit Income*

Income is recognised on an accrual basis using the effective yield method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective yield of the instrument.

*Dividend Income*

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

*Realised Gains and Losses on Investments*

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

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### 2.2 Summary of Significant Accounting Policies (continued)

**(p) Reinsurance commission income**

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.

**(q) Income Tax**

Income tax on the statement of comprehensive income for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit and surplus for the year and is measured using the tax rates that have been enacted at the date of the statement of financial position.

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax is recognised as income or an expense and included in the statement of comprehensive income for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

**(r) Provisions**

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

**(s) Employee Benefits**

**(i) Short-term Employee Benefits**

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

**(ii) Post-employment Benefits**

The Company's contributions to defined contribution plans are charged to the statement of comprehensive income in the period to which they relate to. Once the contributions have been paid, the Company has no further payment obligations.

**(iii) Cash-Settled Share-Based Plan**

The Company participates in a cash-settled, share-based plan for the employees of the Company. The fair value of the employee services received in exchange for the grant of the share appreciation rights is recognised in the statement of comprehensive income over the vesting periods of the grant with a corresponding increase in liabilities.

The total amount to be expensed off on the vesting period is determined by reference to the fair value of the share appreciation rights. At each date of the statement of financial position, the Company reviews its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the statement of comprehensive income.

The cumulative liability incurred will be reversed as cash is paid, net of any directly attributable transaction costs, at the end of vesting period.

**(t) Foreign Currencies**

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the date of the statement of financial position are translated to Ringgit Malaysia at exchange rates prevailing at the date of the statement of financial position. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the statement of comprehensive income.

**(u) Insurance Payables and Other Payables**
Insurance payables and other payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

**(v) Cash and Cash Equivalents**
Cash and cash equivalents consist of cash on hand, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

**(w) 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 circumstance 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 a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

**(x) Share Capital**
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares and options are shown in equity as a deduction, net of tax, from the proceeds.

**(y) Dividends**
Dividends are recognised as liabilities when the obligation to pay is established in which the dividends are declared and approved by BNM and the Company's shareholders. No provision is made for a proposed dividend.

### 2.3 Significant Accounting Judgements, Estimates and Assumptions

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

**(a) Key Sources of Estimation Uncertainty and Assumptions**
The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Valuation of General Insurance Contract Liabilities***

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the date of the statement of financial position and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the date of the statement of financial position.

It can take a significant period of time before the ultimate claims costs can be established with certainty, and hence, actual future claim payments will not develop exactly as projected. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Gluck, Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. Historical claims development data is adjusted for the impact of inflation, and explicit assumptions are made for the rate of future claims inflation applied to the projected losses. Additional qualitative judgement is used to assess the extent to which the past trends may not apply in future, (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Refer to Note 24 to the financial statements for the disclosures on insurance risk.

# Notes to the financial statements (continued)

## 3. Property, plant and equipment

| | MOTOR VEHICLES RM | EDP EQUIPMENT RM | OFFICE EQUIPMENT RM | FURNITURE & FITTINGS RM | RENOVATIONS RM | LEASEHOLD BUILDING RM | TOTAL RM |
|---|---|---|---|---|---|---|---|
| **Net book value** | | | | | | | |
| At 1 January 2020 | 312,120 | 1,100,201 | 350,584 | 773,509 | 302,560 | 5,373,551 | 8,212,525 |
| Additions | - | 1,146,908 | 2,199 | - | - | - | 1,149,107 |
| Disposals | - | - | (467) | - | - | - | (467) |
| Written off | - | (10,653) | (6,050) | (9,538) | (729) | - | (26,970) |
| Depreciation | (121,291) | (751,853) | (105,371) | (159,570) | (172,072) | (75,264) | (1,385,421) |
| At 31 December 2020 | 190,829 | 1,484,603 | 240,895 | 604,401 | 129,759 | 5,298,287 | 7,948,774 |
| **At 31 December 2020** | | | | | | | |
| Cost | 608,645 | 6,242,183 | 1,525,252 | 1,930,483 | 2,194,969 | 6,587,782 | 19,089,314 |
| Accumulated depreciation | (417,816) | (4,757,580) | (1,284,357) | (1,326,082) | (2,065,210) | (1,289,495) | (11,140,540) |
| Net Book Value | 190,829 | 1,484,603 | 240,895 | 604,401 | 129,759 | 5,298,287 | 7,948,774 |

| | MOTOR VEHICLES RM | EDP EQUIPMENT RM | OFFICE EQUIPMENT RM | FURNITURE & FITTINGS RM | RENOVATIONS RM | LEASEHOLD BUILDING RM | TOTAL RM |
|---|---|---|---|---|---|---|---|
| **Net book value** | | | | | | | |
| At 1 January 2019 | 369,720 | 1,123,923 | 440,273 | 1,016,818 | 534,763 | 5,448,610 | 8,934,107 |
| Additions | - | 657,869 | 49,654 | - | - | - | 707,523 |
| Disposals | - | - | - | - | - | - | - |
| Written off | - | (34,345) | (20,251) | (53,138) | (30,944) | - | (138,678) |
| Depreciation | (57,600) | (647,246) | (119,092) | (190,171) | (201,259) | (75,059) | (1,290,427) |
| At 31 December 2019 | 312,120 | 1,100,201 | 350,584 | 773,509 | 302,560 | 5,373,551 | 8,212,525 |
| **At 31 December 2019** | | | | | | | |
| Cost | 704,009 | 5,173,128 | 1,588,451 | 1,984,028 | 2,300,709 | 6,587,782 | 18,338,107 |
| Accumulated depreciation | (391,889) | (4,072,927) | (1,237,867) | (1,210,519) | (1,998,149) | (1,214,231) | (10,125,582) |
| Net Book Value | 312,120 | 1,100,201 | 350,584 | 773,509 | 302,560 | 5,373,551 | 8,212,525 |

## 4. Intangible Assets

| | 2020 RM | 2019 RM |
|---|---|---|
| **Cost** | | |
| At 1 January | 10,346,851 | 10,235,851 |
| Addition | 249,875 | 91,000 |
| Reclass from EDP Equipment | - | 30,000 |
| Write off | (625) | (10,000) |
| At 31 December | 10,596,101 | 10,346,851 |
| **Accumulated amortisation** | | |
| At 1 January | 8,437,871 | 6,425,576 |
| Amortisation during the financial year | 1,180,077 | 1,992,295 |
| Reclass from EDP Equipment | - | 30,000 |
| Write off | (625) | (10,000) |
| At 31 December | 9,617,323 | 8,437,871 |
| **Net book value** | | |
| At 31 December | 978,778 | 1,908,980 |

The Company had reclassified certain Property, Plant and Equipment that met the definition of intangible assets to Intangible Assets.

## 5. Right-of-use

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. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Information about ROU assets, expenses and cash flows related to leases:

| | 2020 RM | 2019 RM |
|---|---|---|
| Carrying amounts of ROU asset by class of underlying assets: | | |
| Properties | 912,401 | 1,062,552 |
| Equipment | 140,631 | 201,011 |
| | 1,053,032 | 1,263,563 |
| Additions to the ROU assets during the financial year | 864,611 | 2,369,096 |
| Depreciation charge of ROU assets by class of underlying assets: | | |
| Properties | (980,437) | (1,059,148) |
| Equipment | (60,379) | (46,385) |
| | (1,040,816) | (1,105,533) |
| Lease Liability | | |
| Amount due for settlement within 12 months | 676,745 | 846,042 |
| Amount due for settlement after 12 months | 355,611 | 412,797 |
| | 1,032,356 | 1,258,839 |

# Notes to the financial statements (continued)

## 6. Investments

| | 2020<br>RM | 2019<br>RM |
|---|---|---|
| The Company's investments are summarised as follows: | | |
| Loan and receivables ("LAR") | 471,000,000 | 483,000,000 |
| Accrued interest | 6,647,273 | 8,478,690 |
| | 477,647,273 | 491,478,690 |
| Total investments | 477,647,273 | 491,478,690 |
| The following investments mature after 12 months: | | |
| LAR | 477,647,273 | 491,478,690 |

### (a) LAR

| Amortised cost | 2020<br>RM | 2019<br>RM |
|---|---|---|
| Deposits with financial institutions | 471,000,000 | 483,000,000 |
| Accrued interest | 6,647,273 | 8,478,690 |
| Total investments at LAR | 477,647,273 | 491,478,690 |

The carrying value of investments in LAR as at 31 December 2020 (31 December 2019) approximates their fair value.

### (b) Carrying Value of Financial Instruments

| | FVTPL<br>RM | LAR<br>RM | TOTAL<br>RM |
|---|---|---|---|
| **At 1 January 2019** | 7,072,656 | 490,563,489 | 497,636,145 |
| Purchases/deposits | - | 959,000,000 | 959,000,000 |
| Maturities | (6,996,500) | (957,000,000) | (963,996,500) |
| Unrealised loss recorded in profit or loss | (10,010) | - | (10,010) |
| Movement in accrued interest | (66,146) | (1,084,799) | (1,150,945) |
| **At 31 December 2019** | - | 491,478,690 | 491,478,690 |
| Purchases/deposits | - | 795,033,973 | 795,033,973 |
| Maturities | - | (807,033,973) | (807,033,973) |
| Movement in accrued interest | - | (1,831,417) | (1,831,417) |
| **At 31 December 2020** | - | 477,647,273 | 477,647,273 |

## 7. Insurance receivables

| | 2020 RM | 2019 RM |
|---|---|---|
| Due premiums including agents/brokers and co-insurers balances | 57,888,690 | 69,445,735 |
| Due from reinsurers and cedants | 21,477,618 | 23,423,100 |
| | 79,366,308 | 92,868,835 |
| Allowance for impairment | (4,537,030) | (3,646,464) |
| | 74,829,278 | 89,222,371 |
| Receivable within 12 months | 74,829,278 | 89,222,371 |

| | 2020 RM | 2019 RM |
|---|---|---|
| Gross amount of recognised financial assets, net of allowance for impairment | 83,541,055 | 100,937,163 |
| Less: Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 13) | (8,711,777) | (11,714,792) |
| Net amounts of financial assets presented in the statement of financial position | 74,829,278 | 89,222,371 |

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2020 (31 December 2019: Nil). The carrying amount of insurance receivables as at 31 December 2020 (31 December 2019) approximates their fair values.

## 8. Other receivables

| | 2020 RM | 2019 RM |
|---|---|---|
| Malaysian Motor Insurance Pool ("MMIP") | | |
| - Cash calls made | 13,859,477 | 16,859,477 |
| - Other assets held in MMIP | 34,584,207 | 33,184,327 |
| | 48,443,684 | 50,043,804 |
| Amount due from related companies | 11,482 | 57,644 |
| Other receivables | 4,056,760 | 4,485,373 |
| | 52,511,926 | 54,586,821 |
| Receivable within 12 months | 51,057,383 | 53,131,750 |

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

MMIP as at 31 December 2020 is a net receivable of RM20,484,014 (2019: net receivable of RM19,535,626) after setting off the amount receivable from MMIP against the Company's share of MMIP's claims and premium liabilities amounting RM29,759,670 (2019: RM34,353,178) included in Insurance Contract Liabilities (Note 11) to the financial statements.

# Notes to the financial statements (continued)

## 9. Share capital

| | 2020 NO OF SHARES | 2020 RM | 2019 NO OF SHARES | 2019 RM |
|---|---|---|---|---|
| Issued and fully paid share capital | | | | |
| At 1 January/31 December - | | | | |
| Ordinary shares | 216,000,000 | 108,000,000 | 216,000,000 | 108,000,000 |

## 10. Retained earnings

The Company may distribute single tier 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 Bank Negara Malaysia's written approval prior to declaring or paying any dividend. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

## 11. Insurance contract liabilities

| | GROSS RM | REINSURANCE RM | NET RM |
|---|---|---|---|
| **At 31 December 2020** | | | |
| Provision for outstanding claims | 243,054,616 | (66,814,953) | 176,239,663 |
| Provision for incurred but not reported claims ("IBNR") | 77,745,785 | (4,647,158) | 73,098,627 |
| Claims liabilities (i) | 320,800,401 | (71,462,111) | 249,338,290 |
| Premium liabilities (ii) | 86,919,569 | (5,936,013) | 80,983,556 |
| | 407,719,970 | (77,398,124) | 330,321,846 |
| **At 31 December 2019** | | | |
| Provision for outstanding claims | 252,726,216 | (60,938,853) | 191,787,363 |
| Provision for incurred but not reported claims ("IBNR") | 47,408,823 | 6,080,923 | 53,489,746 |
| Claims liabilities (i) | 300,135,039 | (54,857,930) | 245,277,109 |
| Premium liabilities (ii) | 104,231,021 | (5,210,573) | 99,020,448 |
| | 404,366,060 | (60,068,503) | 344,297,557 |

| | 2020 RM | 2019 RM |
|---|---|---|
| Gross: | | |
| Current | 272,898,410 | 289,566,231 |
| Non current | 134,821,560 | 114,799,829 |
| | 407,719,970 | 404,366,060 |
| Reinsurance: | | |
| Current | (47,881,569) | (39,494,154) |
| Non current | (29,516,555) | (20,574,349) |
| | (77,398,124) | (60,068,503) |
| Net: | | |
| Current | 225,016,841 | 250,072,077 |
| Non current | 105,305,005 | 94,225,480 |
| | 330,321,846 | 344,297,557 |

| | 2020 GROSS RM | 2020 REINSURANCE RM | 2020 NET RM |
|---|---|---|---|
| **(i) Claims liabilities** | | | |
| **At 1 January** | 300,135,039 | (54,857,930) | 245,277,109 |
| Claims incurred in the current accident year | 142,925,566 | (25,414,678) | 117,510,888 |
| Adjustment to claims incurred in prior accident years due to changes in assumptions: | | | |
| - Development factors and discount rates | 19,007,411 | (7,483,500) | 11,523,911 |
| Other claims experience movements to claims incurred | (18,799,168) | (13,188,620) | (31,987,788) |
| Claims paid during the financial year | (122,468,447) | 29,482,617 | (92,985,830) |
| **At 31 December** | 320,800,401 | (71,462,111) | 249,338,290 |
| **(ii) Premium liabilities** | | | |
| **At 1 January** | 104,231,021 | (5,210,573) | 99,020,448 |
| Premium written in the financial year | 218,352,045 | (53,531,566) | 164,820,479 |
| Premium earned during the financial year | (235,663,497) | 52,806,126 | (182,857,371) |
| **At 31 December** | 86,919,569 | (5,936,013) | 80,983,556 |

| | 2019 GROSS RM | 2019 REINSURANCE RM | 2019 NET RM |
|---|---|---|---|
| **(i) Claims liabilities** | | | |
| **At 1 January** | 319,394,031 | (83,919,466) | 235,474,565 |
| Claims incurred in the current accident year | 193,054,720 | (53,458,024) | 139,596,696 |
| Adjustment to claims incurred in prior accident years due to changes in assumptions: | | | |
| - Development factors and discount rates | 2,344,662 | (166,566) | 2,178,096 |
| Other claims experience movements to claims incurred | (18,176,127) | 10,344,739 | (7,831,388) |
| Claims paid during the financial year | (196,482,247) | 72,341,387 | (124,140,860) |
| **At 31 December** | 300,135,039 | (54,857,930) | 245,277,109 |
| **(ii) Premium liabilities** | | | |
| **At 1 January** | 132,198,183 | (6,809,552) | 125,388,631 |
| Premium written in the financial year | 245,117,967 | (57,571,753) | 187,546,214 |
| Premium earned during the financial year | (273,085,129) | 59,170,732 | (213,914,397) |
| **At 31 December** | 104,231,021 | (5,210,573) | 99,020,448 |

# Notes to the financial statements (continued)

## 12. Deferred tax asset

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

| | 2020 RM | 2019 RM |
|---|---|---|
| As at 1 January | 5,104,987 | 5,218,828 |
| Recognised in income statement (note 19) | (1,839,632) | (113,841) |
| As at 31 December | 3,265,355 | 5,104,987 |

The movements in deferred tax asset during the financial year comprise the tax effects of the following:

| | AT 1 JANUARY RM | (CHARGED)/ CREDITED RM | AT 31 DECEMBER RM |
|---|---|---|---|
| **2020** | | | |
| Recognised in income statement: | | | |
| Excess of capital allowance over depreciation | (158,593) | 149,907 | (8,686) |
| Impairment loss on insurance receivables | 875,151 | 213,736 | 1,088,887 |
| Premium liabilities | 826,110 | (307,813) | 518,297 |
| Employee benefits accrued | 815,887 | 293,635 | 1,109,522 |
| Other provisions | 2,746,431 | (2,189,096) | 557,335 |
| | 5,104,986 | (1,839,631) | 3,265,355 |
| **2019** | | | |
| Recognised in income statement: | | | |
| Excess of capital allowance over depreciation | (630,554) | 471,961 | (158,593) |
| Impairment loss on insurance receivables | 583,756 | 291,395 | 875,151 |
| Premium liabilities | 1,201,913 | (375,803) | 826,110 |
| Employee benefits accrued | 873,253 | (57,366) | 815,887 |
| Other provisions | 3,192,862 | (446,430) | 2,746,432 |
| Fair value changes of FVTPL investments | (2,402) | 2,402 | - |
| | 5,218,828 | (113,841) | 5,104,987 |

## 13. Insurance payables

| | 2020 RM | 2019 RM |
|---|---|---|
| Due to agents and intermediaries | 11,223,160 | 12,489,498 |
| Due to reinsurers and cedants | 4,563,396 | 21,929,406 |
| | 15,786,556 | 34,418,904 |
| Payable within 12 months | 15,786,556 | 34,418,904 |

The carrying amount disclosed above approximates the fair value at the date of the statement of financial position.

| | 2020 RM | 2019 RM |
|---|---|---|
| Gross amounts of recognised financial liabilities | 24,498,333 | 46,133,696 |
| Less: Gross amounts of recognised financial assets set off in the statement of financial position (Note 7) | (8,711,777) | (11,714,792) |
| Net amounts of financial liabilities presented in the statement of finacial position | 15,786,556 | 34,418,904 |

As disclosed in Note 7 to the financial statements, there are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2020 (31 December 2019: Nil).

## 14. Other payables

| | 2020 RM | 2019 RM |
|---|---|---|
| Payroll liabilities | 5,116,349 | 3,720,214 |
| Duties and other taxes payable | 682,510 | 824,426 |
| Other liabilities | 4,247,141 | 10,274,179 |
| Payroll restructuring cost | 1,459,376 | - |
| Cash call | 44,652,537 | 49,721,636 |
| Accrual of Head Office Charges | 9,224,544 | 9,224,544 |
| Provision for profit commission | 1,950,227 | 2,029,030 |
| | 67,332,684 | 75,794,029 |

The carrying amount disclosed above approximates the fair value at the date of the statement of financial position.

All amounts are payable within one year.

A reconciliation of the provision for profit commission is as follows:

| | 2020 RM | 2019 RM |
|---|---|---|
| At 1 January | 2,029,030 | 2,564,258 |
| Profit commission paid | (1,905,803) | (2,368,417) |
| (Over)/under provision in prior financial year | (123,227) | (195,841) |
| Current financial year | 1,950,227 | 2,029,030 |
| At 31 December | 1,950,227 | 2,029,030 |

## 15. Net earned premiums

| | 2020 RM | 2019 RM |
|---|---|---|
| **(a) Gross earned premiums** | | |
| Written premium | 218,352,045 | 245,117,967 |
| Change in premium liabilities | 17,311,452 | 27,967,162 |
| | 235,663,497 | 273,085,129 |
| **(b) Premiums ceded** | | |
| Ceded premium | (53,531,566) | (57,571,753) |
| Change in premium liabilities | 725,440 | (1,598,979) |
| | (52,806,126) | (59,170,732) |
| **Net earned premiums** | 182,857,371 | 213,914,397 |

# Notes to the financial statements (continued)

## 16. Investment income

| | 2020 RM | 2019 RM |
|---|---|---|
| FVTPL investment | | |
| Interest income | - | 65,419 |
| LAR investments | | |
| Interest income | 16,109,340 | 18,261,064 |
| Investment income - MMIP | 3,107,521 | 3,962,859 |
| | 19,216,861 | 22,289,342 |

## 17. Management expenses

| | 2020 RM | 2019 RM |
|---|---|---|
| Staff salaries and bonus | 20,124,571 | 22,977,361 |
| Defined contribution plans | 2,689,593 | 3,101,740 |
| Other employee benefits | 914,379 | 2,046,232 |
| Staff costs | 23,728,543 | 28,125,333 |
| Non-Executive Directors: | | |
| Fees | 228,800 | 240,000 |
| Others | 17,000 | 18,000 |
| Directors' remuneration | 245,800 | 258,000 |
| Depreciation of property, plant and equipment | 1,385,421 | 1,290,427 |
| Amortisation of intangible assets | 1,180,077 | 1,992,295 |
| Depreciation of right-of-use assets | 1,040,816 | 1,105,533 |
| Auditors' remuneration: | | |
| Statutory audit | 282,578 | 293,348 |
| Other services | 1,000 | 8,750 |
| Office rental | 22,312 | 27,735 |
| EDP expenses | 2,286,336 | 4,010,752 |
| Communication expenses | 125,953 | 83,970 |
| Travelling expenses | 609,700 | 1,047,311 |
| Bad debts and doubtful debts: | | |
| Allowance of impairment on insurance receivables | 890,566 | 1,214,145 |
| Bad debts recoveries | - | (7,906) |
| Bad debts written off | 79,398 | 425,793 |
| Head office expenses | 9,224,536 | 9,224,536 |
| Interest expense for lease liabilities | 44,560 | 62,576 |
| Restructuring cost | 2,975,378 | - |
| Other expenses | 9,723,435 | 11,814,803 |
| | 29,872,066 | 32,594,068 |
| Total Expenses | 53,846,409 | 60,977,401 |

Included in staff costs are benefits-in-kind attributable to the Company's Chief Executive Officer amounted to RM2,636,149 (2019: RM1,462,721).

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## 18. 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, including any director (executive or non-executive).

The total remuneration of the Directors is disclosed in Note 17 to the financial statements.

The compensation of the Chief Executive Officer and Non-Executive Directors are as follows:

| | FEE RM | SALARY RM | BONUS RM | OTHERS RM | BENEFIT-IN -KIND RM | TOTAL RM |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Chief Executive Officer | | | | | | |
| Christopher Paul Kurinsky | - | 885,212 | 39 | 1,475,379 | 275,519 | 2,636,149 |
| Non-Executive Directors | | | | | | |
| Dato' Koh Hong Sun | 84,800 | - | - | 5,000 | - | 89,800 |
| Arunothayam Rajaratnam | 72,000 | - | - | 6,000 | - | 78,000 |
| Dato' Tan Ang Meng | 72,000 | - | - | 6,000 | - | 78,000 |
| | 228,800 | 885,212 | 39 | 1,492,379 | 275,519 | 2,881,949 |

| | FEE RM | SALARY RM | BONUS RM | OTHERS RM | BENEFIT-IN -KIND RM | TOTAL RM |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Chief Executive Officer | | | | | | |
| Christopher Paul Kurinsky | - | 859,079 | 252,134 | 115,583 | 235,925 | 1,462,721 |
| Non-Executive Directors | | | | | | |
| Dato' Koh Hong Sun | 96,000 | - | - | 6,000 | - | 102,000 |
| Arunothayam Rajaratnam | 72,000 | - | - | 6,000 | - | 78,000 |
| Dato' Tan Ang Meng | 72,000 | - | - | 6,000 | - | 78,000 |
| | 240,000 | 859,079 | 252,134 | 133,583 | 235,925 | 1,720,721 |

There is no compensation paid to Executive Directors during the financial year.

The compensation of the other key management personnel is as follows:

| | 2020 RM | 2019 RM |
|---|---|---|
| Salary and other remuneration | 4,130,271 | 3,825,737 |
| Benefits-in-kind | 45,031 | 73,196 |
| Share-based payment | - | 24,320 |
| | 4,175,302 | 3,923,253 |

| | Number of officers | |
|---|---|---|
| | 2020 | 2019 |
| Salary and other remuneration | 9 | 9 |
| Benefits-in-kind | 9 | 9 |
| Share-based payment | 1 | 3 |

# Notes to the financial statements (continued)

## 19. Income tax expense

| | 2020 RM | 2019 RM |
|---|---|---|
| Current tax | 3,150,723 | 1,766,983 |
| Deferred tax | 1,839,632 | 113,841 |
| Tax expense | 4,990,355 | 1,880,824 |
| Current tax | | |
| Current year | 5,255,340 | 4,294,577 |
| Under/(over) provision in prior financial years | (2,104,617) | (2,527,594) |
| | 3,150,723 | 1,766,983 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (368,736) | (2,354,330) |
| Under provision in prior financial years | 2,208,368 | 2,468,171 |
| | 1,839,632 | 113,841 |
| | 4,990,355 | 1,880,824 |
| Reconciliation of prima facie tax to income tax expenses: | | |
| Profit before tax | 20,667,853 | 4,652,465 |
| Tax calculated at the Malaysian Tax rate of 24% | 4,960,285 | 1,116,592 |
| Tax effect of: | | |
| Non-deductible expenses | 144,213 | 771,541 |
| Non-deductible foreign reinsurance expenses | 545,109 | 618,708 |
| Non-taxable income | (763,003) | (566,594) |
| Under/(over) provision in prior financial years | 103,751 | (59,423) |
| Income tax expense attributable to profit | 4,990,355 | 1,880,824 |

## 20. Earnings per share

The earnings per ordinary share has been calculated based on the net profit for the financial year of RM15,677,498 (2019: RM2,771,641) and on the weighted average number of ordinary shares in issue during the financial year of 216,000,000 (2019: 216,000,000).

## 21. Dividend

No dividend was paid during the financial year (2019: Nil) and the Directors have not recommended any final dividend to be paid for the financial year under review.

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## 22. Significant related party disclosures

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party disclosures.

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

| Related Companies | Relationship |
|---|---|
| QBE Insurance Group Limited (Incorporated in Australia) | Ultimate holding company |
| QBE Insurance Holdings Pty Limited (Incorporated in Australia) | Penultimate holding company |
| QBE Asia Pacific Holdings Limited (Incorporated in Hongkong) | Immediate holding company |
| QBE Group Services Pty Ltd - HongKong Branch (Incorporated in Australia) | Subsidiary of ultimate holding company |
| QBE Insurance (Australia) Limited (Incorporated in Australia) | Subsidiary of ultimate holding company |
| Equator Reinsurances Limited (Incorporated in Bermuda) | Subsidiary of penultimate holding company |
| QBE UK Limited (Incorporated in United Kingdom) | Subsidiary of penultimate holding company |
| QBE Insurance (International) Pty Ltd (Incorporated in Australia) | Subsidiary of penultimate holding company |
| QBE European Services Limited (Incorporated in United Kingdom) | Subsidiary of penultimate holding company |
| QBE European Underwriting Services (Australia) Pty Limited (Incorporated in Australia) | Subsidiary of penultimate holding company |
| Raheja QBE General Insurance Company Limited (Incorporated in India) | Associate of penultimate holding company |
| QBE Insurance (Vietnam) Company Limited (Incorporated in Vietnam) | Subsidiary of penultimate holding company |
| PT QBE General Insurance Indonesia (Incorporated in Indonesia) | Subsidiary of immediate holding company |
| QBE General Insurance (Hongkong) Ltd (Incorporated in Hongkong) | Subsidiary of immediate holding company |
| QBE Insurance (Singapore) Pte Ltd (Incorporated in Singapore) | Subsidiary of immediate holding company |
| QBE Hongkong & Shanghai Insurance Limited (Incorporated in Hongkong) | Subsidiary of immediate holding company |

In the normal course of business, the Company undertakes various transactions with other companies deemed related on terms agreed between the Company and related parties.

The significant related party transactions during the financial year and balances at the financial year end between the Company and these related parties are set out as follows:

| | 2020 RM | 2019 RM |
|---|---|---|
| **Business transactions with subsidiaries of ultimate holding:** | | |
| Head Office Charges * | (9,224,536) | (9,224,544) |
| Reinsurance claims recoveries | 872,940 | 306,273 |
| Reinsurance premium ceded | (4,804,287) | (1,606,783) |
| Reinsurance commission earned | 1,458,394 | 483,278 |
| **Business transactions with subsidiaries of penultimate holding:** | | |
| Reinsurance claims recoveries | 7,497,456 | 68,356,799 |
| Reinsurance premium ceded | (34,741,395) | (47,923,249) |
| Reinsurance commission earned | 2,889,150 | 2,488,814 |
| **Business transactions with subsidiaries of immediate holding:** | | |
| Reinsurance claims recoveries | - | 99,367 |
| Reinsurance premium ceded | (1,912,652) | (103,276) |
| Reinsurance commission earned | 363,212 | 19,623 |

# Notes to the financial statements (continued)

## 22. Significant related party disclosures (continued)

Amounts due from / (due to) related entities as at the date of the statement of financial position are set out below:

| | 2020<br>RM | 2019<br>RM |
|---|---|---|
| **Amount due from related companies:** | | |
| Insurance receivables | 12,102,093 | 1,758,001 |
| Other receivables | 11,482 | 57,644 |
| Reinsurance assets - claims liabilities | 71,433,983 | 72,636,316 |
| **Amount due to related companies:** | | |
| Insurance payables | (11,224,664) | (7,191,085) |
| Other payables | (6,925,715) | (13,963,728) |

* The head office charges are comprised of technical services and training expenses, marketing and communication support expenses, finance and accounting support expenses, human resources support expenses, risk management and compliance support expenses, actuarial support expenses and General IT management support expenses.

## 23. Risk management framework

The Board annually approves a comprehensive risk management strategy ("RMS") and a reinsurance management strategy ("REMS"), both of which are available for review by BNM when requested. The Company's risk management policy, strategy and framework are embedded in all operations, ensuring a consistent approach to managing risk across the organisation.

The Company's strategy for managing risk is to:
- achieve competitive advantage by better understanding the risk environments in which we operate;
- operate within our stated risk appetite and more effectively allocating capital and resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises by reducing uncertainty and volatility through the identification and management of risks to the achievement of strategies and objectives.

The Company aims to adopt a rigorous approach to managing risk. The key objectives of the Company's approach to risk management are to:
- drive conscious and objective risk-based decisions to optimise return;
- give confidence to the business to actively take appropriate risks; and
- adopt leading practices and a single Enterprise Risk Management approach globally that allows for more consistent and improved outcomes.

It is the Company's philosophy to ensure that risk management is embedded in the business and that the risk makers or risk takers are themselves the risk managers. Embedding a risk assessment mindset in business planning and management processes assists in keeping focus on the key objectives and identifying metrics required to monitor portfolio performance and improvement initiatives. The management of risk must occur at each point in the business management cycle.

Risk management is a key part of strategic and business planning. It underpins the setting of limits and authorities and it is embedded in the monitoring and evaluation of performance. This approach to risk management supports the Company in ensuring the Company's risks are managed in an integrated manner.

The Company is in the business of managing risk. The Company's ability to satisfy customers' risk management needs is central to what it does. The Company aims to generate wealth and maximise returns for its shareholders by pursuing opportunities that involve risk. The Company's people have the responsibility to ensure that the key risks are managed and controlled on a day-to-day basis. The Company aims to use its ability to properly manage risk to provide more certainty and improved outcome for all stakeholders.

The Company seeks to only take on risks that fall within the Company's stated risk appetite and aims to manage them in a way to achieve an optimal return overall. The Company's ERM Framework is designed to support this approach and enhance decision-making by its people. A strong approach to risk management informs decision-making and enables the Company to measure and judge its risk exposures. Ultimately, this gives the Company greater confidence and expands its capacity to take on risks to improve returns.

The Company's risk profile is assessed under the following broad risk categories:

- Strategic risk
- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Group Risk

Each of these is described more fully in sections (a) to (g) below.

**(a) Strategic risk**

Strategic risk is the current and prospective impact on earnings and/or capital arising from strategic business decisions and responsiveness to external change. Strategic risk includes the following sub categories:

- business product, market, and distribution approach;
- capital structure and management;
- acquisition decision and negotiation;
- tax planning and decisioning; and
- investment strategy.

**(b) Insurance risk**

Insurance risk is the risk of fluctuation in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Insurance risk includes the following sub categories:

- underwriting/pricing;
- insurance concentrations;
- reserving; and
- reinsurance.

**(c) Credit risk**

Credit risk is the risk of not covering money owed to the company by third parties as well as the loss of value of assets due to deterioration in credit quality. QBE's exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors. Credit risk includes the following sub categories:

- reinsurance counterparty credit and other recoveries;
- premium and other counterparty credit; and
- investment counterparty credit.

**(d) Market risk**

Market risk is the risk of variation in the value of investments due to movements in market factors. Market factors include but are not limited to interest rates, credit spreads, foreign exchange rates, equity prices and commodity derivatives. Market risk includes the following sub categories:

- investment market movement (including equity, interest rate, credit spreads); and
- foreign exchange rate movement.

**(e) Liquidity risk**

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors or only being able to do so at excessive cost.

**(f) Operational risk**

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). Operational risk includes the following sub categories:

- internal fraud;
- external fraud;
- employment practices (people risks);
- improper business practices;
- disasters and other events;
- technology and infrastructure failures; and
- business and transaction processing

**(g) Group risk**

Group Risk is the risk to the Company arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company.

# Notes to the financial statements (continued)

## 24. Insurance risk

The table below sets out the concentration of General insurance contracts liabilities by type of contract.

| | 2020 GROSS RM | 2020 REINSURANCE RM | 2020 NET RM | 2019 GROSS RM | 2019 REINSURANCE RM | 2019 NET RM |
|---|---|---|---|---|---|---|
| Motor | 69,728,486 | (892,017) | 68,836,469 | 79,980,255 | (1,485,113) | 78,495,142 |
| Fire | 124,042,851 | (73,112,512) | 50,930,339 | 90,159,426 | (30,046,501) | 60,112,925 |
| Marine, Aviation & Transit | 45,867,595 | (7,403,210) | 38,464,385 | 52,433,163 | (10,785,402) | 41,647,761 |
| Miscellaneous | 168,081,038 | 4,009,615 | 172,090,653 | 181,793,216 | (17,751,487) | 164,041,729 |
| Insurance contract liabilities | 407,719,970 | (77,398,124) | 330,321,846 | 404,366,060 | (60,068,503) | 344,297,557 |

**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 assumption in respect of average claims costs, claim handling costs and average number of claims for each accident year. Assumptions are also made in relation to the rate of claims inflation in the future.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as, judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumption include variation in interest rates and delays in settlement.

**Sensitivities**

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

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

| | CHANGE IN ASSUMPTIONS | IMPACT ON GROSS LIABILITIES RM | IMPACT ON NET LIABILITIES RM | IMPACT ON PROFIT BEFORE TAX (ADDITIONAL LOSS) RM | IMPACT ON EQUITY RM |
|---|---|---|---|---|---|
| **31 December 2020** | | | | | |
| Average claim cost | +10% | 32,080,040 | 24,933,829 | 24,933,829 | 18,949,710 |
| Number of claims | +10% | 4,397,100 | 3,417,593 | 3,417,593 | 2,597,371 |
| Inflation | +1% | 3,991,000 | 3,246,717 | 3,246,717 | 2,467,505 |
| Discount rate | -1% | 4,093,213 | 3,329,313 | 3,329,313 | 2,530,278 |
| Ultimate loss ratio | +5% | 11,900,232 | 9,309,138 | 9,309,138 | 7,074,945 |
| **31 December 2019** | | | | | |
| Average claim cost | +10% | 30,013,504 | 24,527,711 | 24,527,711 | 18,641,060 |
| Number of claims | +10% | 5,894,447 | 4,817,075 | 4,817,075 | 3,660,977 |
| Inflation | +1% | 3,558,519 | 2,902,513 | 2,902,513 | 2,205,910 |
| Discount rate | -1% | 3,609,129 | 2,943,817 | 2,943,817 | 2,237,301 |
| Ultimate loss ratio | +5% | 13,856,390 | 10,644,974 | 10,644,974 | 8,090,180 |

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

**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 date of the statement of financial position, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercise a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin maintained should decrease.

Gross General Insurance Claims Liabilities for 2020:

| INCURRED CLAIMS ACCIDENT YEAR | NOTE | BEFORE 2013 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | 2019 RM'000 | 2020 RM'000 | TOTAL RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of accident year | | | 94,132 | 137,702 | 147,906 | 150,448 | 318,069 | 201,375 | 193,055 | 142,926 | |
| One year later | | | 91,690 | 132,111 | 153,306 | 144,840 | 262,359 | 180,901 | 220,273 | | |
| Two years later | | | 87,219 | 126,849 | 146,455 | 142,151 | 264,645 | 176,999 | | | |
| Three years later | | | 83,941 | 121,899 | 141,555 | 141,354 | 256,888 | | | | |
| Four years later | | | 82,380 | 120,786 | 143,639 | 136,209 | | | | | |
| Five years later | | | 82,296 | 123,431 | 139,067 | | | | | | |
| Six years later | | | 81,942 | 119,827 | | | | | | | |
| Seven years later | | | 81,030 | | | | | | | | |
| **Current estimate of cumulative claims incurred** | | | 81,030 | 119,827 | 139,067 | 136,209 | 256,888 | 176,999 | 220,273 | 142,926 | |
| **Claims payment Accident year** | | | | | | | | | | | |
| At end of accident year | | | 20,147 | 40,951 | 30,387 | 29,013 | 55,141 | 47,739 | 83,516 | 36,373 | |
| One year later | | | 54,947 | 83,131 | 93,762 | 91,043 | 166,880 | 104,172 | 125,908 | | |
| Two years later | | | 62,620 | 96,948 | 119,597 | 113,630 | 202,520 | 128,739 | | | |
| Three years later | | | 68,426 | 106,400 | 125,981 | 123,073 | 217,449 | | | | |
| Four years later | | | 71,272 | 110,386 | 131,350 | 124,715 | | | | | |
| Five years later | | | 74,659 | 112,982 | 132,036 | | | | | | |
| Six years later | | | 76,337 | 113,325 | | | | | | | |
| Seven years later | | | 76,938 | | | | | | | | |
| **Cumulative payments to-date** | | | 76,938 | 113,325 | 132,036 | 124,715 | 217,449 | 128,739 | 125,908 | 36,373 | |
| Gross general insurance contract liabilities per statement of financial position | 11 | 3,064 | 4,092 | 6,502 | 7,031 | 11,494 | 39,439 | 48,260 | 94,365 | 106,553 | 320,800 |
| Current estimate of surplus | | | | | | | | | | | |
| % surplus of initial gross reserve | | | 14% | 13% | 6% | 9% | 19% | 12% | -14% | 0% | |

# Notes to the financial statements (continued)

## 24. Insurance risk (continued)

Net General Insurance Claims Liabilities for 2020:

| INCURRED CLAIMS ACCIDENT YEAR | NOTE | BEFORE 2013 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | 2019 RM'000 | 2020 RM'000 | TOTAL RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of accident year | | | 85,959 | 116,455 | 135,095 | 141,688 | 182,898 | 159,178 | 139,597 | 117,511 | |
| One year later | | | 82,605 | 113,209 | 130,217 | 133,720 | 161,302 | 144,953 | 142,288 | | |
| Two years later | | | 77,868 | 108,363 | 122,328 | 131,981 | 168,760 | 142,647 | | | |
| Three years later | | | 73,183 | 101,061 | 118,863 | 130,848 | 159,981 | | | | |
| Four years later | | | 71,807 | 99,977 | 118,245 | 126,195 | | | | | |
| Five years later | | | 71,328 | 102,737 | 113,896 | | | | | | |
| Six years later | | | 71,148 | 99,945 | | | | | | | |
| Seven years later | | | 70,220 | | | | | | | | |
| **Current estimate of cumulative claims incurred** | | | 70,220 | 99,945 | 113,896 | 126,195 | 159,981 | 142,647 | 142,288 | 117,511 | |
| **Claims payment Accident year** | | | | | | | | | | | |
| At end of accident year | | | 18,900 | 25,372 | 28,684 | 28,137 | 47,443 | 40,445 | 41,473 | 27,081 | |
| One year later | | | 46,684 | 65,743 | 80,636 | 86,273 | 105,958 | 86,405 | 75,330 | | |
| Two years later | | | 54,181 | 79,712 | 99,378 | 108,009 | 126,139 | 105,322 | | | |
| Three years later | | | 57,993 | 86,539 | 104,878 | 115,142 | 136,384 | | | | |
| Four years later | | | 60,995 | 90,441 | 108,466 | 116,757 | | | | | |
| Five years later | | | 63,911 | 92,953 | 107,865 | | | | | | |
| Six years later | | | 65,429 | 93,293 | | | | | | | |
| Seven years later | | | 66,029 | | | | | | | | |
| **Cumulative payments to-date** | | | 66,029 | 93,293 | 107,865 | 116,757 | 136,384 | 105,322 | 75,330 | 27,081 | |
| Net general insurance contract liabilities per statement of financial position | 11 | 4,716 | 4,191 | 6,652 | 6,031 | 9,438 | 23,597 | 37,325 | 66,958 | 90,430 | 249,338 |
| Current estimate of surplus % surplus of initial net reserve | | | 18% | 14% | 16% | 11% | 13% | 10% | -2% | 0% | |

Gross General Insurance Claims Liabilities for 2019:

| INCURRED CLAIMS ACCIDENT YEAR | NOTE | BEFORE 2012 RM'000 | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | 2019 RM'000 | TOTAL RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of accident year | | | 92,620 | 94,132 | 137,702 | 147,906 | 150,448 | 318,069 | 201,375 | 193,055 | |
| One year later | | | 85,299 | 91,690 | 132,111 | 153,306 | 144,840 | 262,359 | 180,901 | | |
| Two years later | | | 82,245 | 87,219 | 126,849 | 146,455 | 142,151 | 264,645 | | | |
| Three years later | | | 79,046 | 83,941 | 121,899 | 141,555 | 141,354 | | | | |
| Four years later | | | 76,173 | 82,380 | 120,786 | 143,639 | | | | | |
| Five years later | | | 76,272 | 82,296 | 123,431 | | | | | | |
| Six years later | | | 75,725 | 81,942 | | | | | | | |
| Seven years later | | | 75,805 | | | | | | | | |
| **Current estimate of cumulative claims incurred** | | | 75,805 | 81,942 | 123,431 | 143,639 | 141,354 | 264,645 | 180,901 | 193,055 | |
| **Claims payment Accident year** | | | | | | | | | | | |
| At end of accident year | | | 19,869 | 20,147 | 40,951 | 30,387 | 29,013 | 55,141 | 47,739 | 83,516 | |
| One year later | | | 49,758 | 54,947 | 83,131 | 93,762 | 91,043 | 166,880 | 104,172 | | |
| Two years later | | | 59,861 | 62,620 | 96,948 | 119,597 | 113,630 | 202,520 | | | |
| Three years later | | | 66,122 | 68,426 | 106,400 | 125,981 | 123,073 | | | | |
| Four years later | | | 69,057 | 71,272 | 110,386 | 131,350 | | | | | |
| Five years later | | | 70,497 | 74,659 | 112,982 | | | | | | |
| Six years later | | | 72,520 | 76,337 | | | | | | | |
| Seven years later | | | 73,330 | | | | | | | | |
| **Cumulative payments to-date** | | | 73,330 | 76,337 | 112,982 | 131,350 | 123,073 | 202,520 | 104,172 | 83,516 | |
| Gross general insurance contract liabilities per statement of financial position | 11 | 2,643 | 2,475 | 5,605 | 10,449 | 12,289 | 18,281 | 62,125 | 76,729 | 109,539 | 300,135 |
| Current estimate of surplus | | | | | | | | | | | |
| % surplus of initial gross reserve | | | 18% | 13% | 10% | 3% | 6% | 17% | 10% | 0% | |

# Notes to the financial statements (continued)

## 24. Insurance risk (continued)

Net General Insurance Claims Liabilities for 2019:

| INCURRED CLAIMS ACCIDENT YEAR | NOTE | BEFORE 2012 RM'000 | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | 2019 RM'000 | TOTAL RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of accident year | | | 79,184 | 85,959 | 116,455 | 135,095 | 141,688 | 182,898 | 159,178 | 139,597 | |
| One year later | | | 73,057 | 82,605 | 113,209 | 130,217 | 133,720 | 161,302 | 144,953 | | |
| Two years later | | | 69,338 | 77,868 | 108,363 | 122,328 | 131,981 | 168,760 | | | |
| Three years later | | | 66,952 | 73,183 | 101,061 | 118,863 | 130,848 | | | | |
| Four years later | | | 64,033 | 71,807 | 99,977 | 118,245 | | | | | |
| Five years later | | | 64,824 | 71,328 | 102,737 | | | | | | |
| Six years later | | | 64,692 | 71,148 | | | | | | | |
| Seven years later | | | 64,838 | | | | | | | | |
| **Current estimate of cumulative claims incurred** | | | 64,838 | 71,148 | 102,737 | 118,245 | 130,848 | 168,760 | 144,953 | 139,597 | |
| **Claims payment Accident year** | | | | | | | | | | | |
| At end of accident year | | | 17,676 | 18,900 | 25,372 | 28,684 | 28,137 | 47,443 | 40,445 | 41,473 | |
| One year later | | | 38,942 | 46,684 | 65,743 | 80,636 | 86,273 | 105,958 | 86,405 | | |
| Two years later | | | 48,184 | 54,181 | 79,712 | 99,378 | 108,009 | 126,139 | | | |
| Three years later | | | 54,125 | 57,993 | 86,539 | 104,878 | 115,142 | | | | |
| Four years later | | | 56,919 | 60,995 | 90,441 | 108,466 | | | | | |
| Five years later | | | 59,094 | 63,911 | 92,953 | | | | | | |
| Six years later | | | 61,492 | 65,429 | | | | | | | |
| Seven years later | | | 62,310 | | | | | | | | |
| **Cumulative payments to-date** | | | 62,310 | 65,429 | 92,953 | 108,466 | 115,142 | 126,139 | 86,405 | 41,473 | |
| Net general insurance contract liabilities per statement of financial position | 11 | 2,468 | 2,528 | 5,719 | 9,784 | 9,779 | 15,706 | 42,621 | 58,548 | 98,124 | 245,277 |
| Current estimate of surplus % surplus of initial net reserve | | | 18% | 17% | 12% | 12% | 8% | 8% | 9% | 0% | |

## 25. Financial risks

### (1) Credit Risk

In the normal course of business, the Company incurs credit risk from trade receivables and financial institutions. There is no significant concentration of credit risk.

The credit risk on financial assets of the Company is generally the carrying amount, which is net of any allowances. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counterparty. The Company does not expect any counterparties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security.

**Credit Exposure**

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments.

| | NOTE | 2020 RM | 2019 RM |
|---|---|---|---|
| LAR: | | | |
| Fixed and call deposits | 6(a) | 477,647,273 | 491,478,690 |
| Reinsurance assets - claims liabilities | 11 | 71,462,111 | 54,857,930 |
| Insurance receivables | 7 | 74,829,278 | 89,222,371 |
| Other receivables (exclude prepayment) | 8 | 52,420,476 | 54,291,617 |
| Cash and bank balances | | 15,360,705 | 7,762,651 |
| | | 691,719,843 | 697,613,259 |

To manage the credit risks of insurance receivables, the Company has established credit policies that govern credit approval, review and monitoring processes and impairment assessment processes. The credit policies also lay down the actions to be taken to handle debts overdue for a certain period of time. There are also monthly management reports showing the ageing analysis of balance overdue, and the management will monitor the ageing analysis on a regular basis.

The following table summarises the credit quality of financial assets and reinsurance assets at the date of the statement of financial position.

| | NEITHER PAST-DUE NOR IMPAIRED RM | PAST DUE BUT NOT IMPAIRED RM | PAST DUE AND IMPAIRED RM | TOTAL RM |
|---|---|---|---|---|
| **31 December 2020** | | | | |
| LAR: | | | | |
| Fixed and call deposits | 477,647,273 | - | - | 477,647,273 |
| Reinsurance assets - claims liabilities | 113,732,909 | - | - | 113,732,909 |
| Insurance receivables | 38,708,439 | 36,120,840 | 4,537,030 | 79,366,309 |
| Other receivables | 52,420,476 | - | - | 52,420,476 |
| Cash and bank balances | 15,360,705 | - | - | 15,360,705 |
| | 697,869,802 | 36,120,840 | 4,537,030 | 738,527,672 |
| Allowance for impairment | - | - | (4,537,030) | (4,537,030) |
| | 697,869,802 | 36,120,840 | - | 733,990,642 |

# Notes to the financial statements (continued)

## 25. Financial risks (continued)

### (1) Credit Risk (continued)

**Credit Exposure** (continued)

| | NEITHER PAST-DUE NOR IMPAIRED RM | PAST DUE BUT NOT IMPAIRED RM | PAST DUE AND IMPAIRED RM | TOTAL RM |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| LAR: | | | | |
| Fixed and call deposits | 491,478,690 | - | - | 491,478,690 |
| Reinsurance assets - claims liabilities | 94,138,853 | - | - | 94,138,853 |
| Insurance receivables | 55,220,500 | 34,001,871 | 3,646,464 | 92,868,835 |
| Other receivables | 54,291,617 | - | - | 54,291,617 |
| Cash and bank balances | 7,762,651 | - | - | 7,762,651 |
| | 702,892,311 | 34,001,871 | 3,646,464 | 740,540,646 |
| Allowance for impairment | - | - | (3,646,464) | (3,646,464) |
| | 702,892,311 | 34,001,871 | - | 736,894,182 |

**Credit Exposure by Credit Rating**

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the recognised local or international rating agencies' credit ratings of counterparties. AAA is the highest possible rating. Rated assets fall outside the range of AAA to BBB are classified as speculative grade and thus are considered as non-investment grade.

| 31 December 2020 | AAA RM | AA RM | A RM | NOT RATED RM | TOTAL RM |
|---|---|---|---|---|---|
| LAR: | | | | | |
| Fixed and call deposits | 277,341,094 | 200,306,179 | - | - | 477,647,273 |
| Reinsurance assets - claims liabilities | - | 12,033,053 | 69,495,547 | 32,204,309 | 113,732,909 |
| Insurance receivables | - | 59,303 | 654,409 | 74,115,567 | 74,829,279 |
| Other receivables | - | - | - | 52,420,476 | 52,420,476 |
| Cash and bank balances | 14,593,394 | - | 758,811 | 8,500 | 15,360,705 |
| | 291,934,488 | 212,398,535 | 70,908,767 | 158,748,852 | 733,990,642 |
| **31 December 2019** | | | | | |
| LAR: | | | | | |
| Fixed and call deposits | 327,532,959 | 163,945,731 | - | - | 491,478,690 |
| Reinsurance assets - claims liabilities | - | 1,015,362 | 88,045,278 | 5,078,213 | 94,138,853 |
| Insurance receivables | - | 40,910 | 1,205,831 | 87,975,630 | 89,222,371 |
| Other receivables | - | - | - | 54,291,617 | 54,291,617 |
| Cash and bank balances | 7,488,361 | - | 263,290 | 11,000 | 7,762,651 |
| | 335,021,320 | 165,002,003 | 89,514,399 | 147,356,460 | 736,894,182 |

During the financial year, no credit exposure limits were exceeded.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

**Aged Analysis of Financial Assets Past-Due But Not Impaired***

| | <30 DAYS | 31-60 DAYS | 61-90 DAYS | >90 DAYS | TOTAL |
|---|---|---|---|---|---|
| **31 December 2020** | | | | | |
| Insurance receivables | 4,117,426 | 13,809,283 | 7,304,884 | 10,889,247 | 36,120,840 |
| **31 December 2019** | | | | | |
| Insurance receivables | 3,904,392 | 7,047,839 | 6,411,395 | 16,638,245 | 34,001,871 |

* Past-due but not impaired refers to amounts outstanding more than 90 days from the effective date of the transactions. The above balances had been aged according to the period subsequent to classification of these balances as past-due.

**Impaired Financial Assets**
A receivable is considered as individually impaired if the counterparty is in the process of liquidation or legal action has been taken to recover the outstanding balances.

At 31 December 2020, based on individual assessment of insurance receivables, there are impaired insurance receivables of RM4,537,030 (2019: RM3,646,464). The Company considers insurance receivables classified as "past due and impaired" as those which the Company has remote chance to recover. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for insurance receivables in separate allowance for impairment losses account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

| | 2020 RM | 2019 RM |
|---|---|---|
| **At 1 January** | 3,646,464 | 2,432,319 |
| Allowance | 890,566 | 1,214,145 |
| **At 31 December** | 4,537,030 | 3,646,464 |

**(2) Liquidity Risk**
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- In addition to treasury cash held for working capital requirements, and in accordance with the Company's liquidity policy, a minimum percentage of investments and cash are held in liquid short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations.
- The Company limits the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

**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/profit payable and receivables.

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

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

# Notes to the financial statements (continued)

## 25. Financial risks (continued)

**(2) Liquidity Risk** (continued)

**Maturity Profiles** (continued)

| | CARRYING VALUE RM | UP TO A YEAR RM | 1-3 YEARS RM | 3-5 YEARS RM | 5-15 YEARS RM | TOTAL RM |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Investments: | | | | | | |
| LAR | 477,647,273 | 483,265,418 | - | - | - | 483,265,418 |
| Reinsurance assets - | | | | | | |
| claims liabilities | 71,462,111 | 41,945,556 | 26,685,532 | 2,612,382 | 218,641 | 71,462,111 |
| Insurance receivables | 74,829,279 | 74,829,279 | - | - | - | 74,829,279 |
| Cash and bank balances | 15,360,705 | 15,360,705 | - | - | - | 15,360,705 |
| **Total assets** | 639,299,368 | 615,400,958 | 26,685,532 | 2,612,382 | 218,641 | 644,917,513 |
| Insurance contract liabilities - | | | | | | |
| claims liabilities | 320,800,401 | 185,978,841 | 107,004,717 | 20,271,347 | 7,545,496 | 320,800,401 |
| Insurance payables | 15,786,555 | 15,786,555 | - | - | - | 15,786,555 |
| Lease liabilities | 1,032,356 | 676,745 | 355,611 | - | - | 1,032,356 |
| Other payables | 61,533,825 | 61,533,825 | - | - | - | 61,533,825 |
| Tax payable | 729,101 | 729,101 | - | - | - | 729,101 |
| **Total liabilities** | 399,882,238 | 264,705,067 | 107,360,328 | 20,271,347 | 7,545,496 | 399,882,238 |

| | CARRYING VALUE RM | UP TO A YEAR RM | 1-3 YEARS RM | 3-5 YEARS RM | 5-15 YEARS RM | TOTAL RM |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Investments: | | | | | | |
| LAR | 491,478,690 | 498,625,349 | - | - | - | 498,625,349 |
| Reinsurance assets - | | | | | | |
| claims liabilities | 54,857,930 | 34,283,581 | 15,414,121 | 3,920,853 | 1,239,375 | 54,857,930 |
| Insurance receivables | 89,222,371 | 89,222,371 | - | - | - | 89,222,371 |
| Cash and bank balances | 7,762,651 | 7,762,651 | - | - | - | 7,762,651 |
| **Total assets** | 643,321,642 | 629,893,952 | 15,414,121 | 3,920,853 | 1,239,375 | 650,468,301 |
| Insurance contract liabilities - | | | | | | |
| claims liabilities | 300,135,039 | 185,335,210 | 89,597,735 | 19,345,639 | 5,856,455 | 300,135,039 |
| Insurance payables | 34,418,904 | 34,418,904 | - | - | - | 34,418,904 |
| Lease liabilities | 1,258,839 | 846,042 | 412,797 | - | - | 1,258,839 |
| Other payables | 71,249,389 | 71,249,389 | - | - | - | 71,249,389 |
| Tax payable | 1,056,179 | 1,056,179 | - | - | - | 1,056,179 |
| **Total liabilities** | 408,118,350 | 292,905,724 | 90,010,532 | 19,345,639 | 5,856,455 | 408,118,350 |

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

| | CURRENT* RM | NON-CURRENT RM | TOTAL RM |
|---|---|---|---|
| **31 December 2020** | | | |
| Property, plant and equipment | - | 7,948,774 | 7,948,774 |
| Intangible assets | - | 978,778 | 978,778 |
| Right-of-use assets | 430,268 | 622,764 | 1,053,032 |
| Investments: | | | |
| - LAR | 477,647,273 | - | 477,647,273 |
| Reinsurance assets | 47,881,569 | 29,516,555 | 77,398,124 |
| Insurance receivables | 74,829,278 | - | 74,829,278 |
| Other receivables | 50,965,933 | 1,454,543 | 52,420,476 |
| Deferred tax asset | - | 3,265,355 | 3,265,355 |
| Cash and bank balances | 15,360,705 | - | 15,360,705 |
| **Total assets** | 667,115,026 | 43,786,769 | 710,901,795 |
| **31 December 2019** | | | |
| Property, plant and equipment | - | 8,212,525 | 8,212,525 |
| Intangible assets | - | 1,908,980 | 1,908,980 |
| Right-of-use assets | 229,436 | 1,034,127 | 1,263,563 |
| Investments: | | | |
| - LAR | 491,478,690 | - | 491,478,690 |
| Reinsurance assets | 39,494,154 | 20,574,349 | 60,068,503 |
| Insurance receivables | 89,222,371 | - | 89,222,371 |
| Other receivables | 52,836,546 | 1,455,071 | 54,291,617 |
| Deferred tax asset | - | 5,104,987 | 5,104,987 |
| Cash and bank balances | 7,762,651 | - | 7,762,651 |
| **Total assets** | 681,023,848 | 38,290,039 | 719,313,887 |

* expected utilisation or settlement within 12 months from the date of the statement of financial position.

**(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 three (3) types of risk – foreign exchanges rates (Currency risk), market interest rates/profit yields (Interest Rate/Profit Yield risk) and market prices (Price risk).

The key features of the Company's market risk management practices and policies are as follows:

- The Company is exposed to market risk on its investments in fixed interest securities. It is not the Company's policy to hedge its market risks.
- The risk management process is subject to regular internal audit and close senior management scrutiny, including regular Board and other management reporting.
- All investments are made in accordance with the Company's investments guidelines which are approved by the Board of Directors.

**Currency Risk**

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

The Company's primary transactions are carried out in Ringgit Malaysia (RM) and the Company undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currency arise. It is not the Company's policy to hedge its foreign currency risks.

The Company's main foreign exchange risk come from recognised assets and liabilities that arises from reinsurance 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 on reinsurance assets and liabilities is deemed minimal as the Company has no significant concentration of foreign currency risk.

# Notes to the financial statements (continued)

## 25. Financial risks (continued)

**(3) Market Risk** (continued)

**Interest Rate/Profit Yield Risk**
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate/profit yield.

The Company's risk management approach is to minimise interest rate risk by investing in high quality, liquid fixed interest securities and cash and actively managing the duration of the fixed interest portfolio.

**Price Risk**
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

**(4) Operational Risks**
Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company manages operational risk within the same robust control framework as its other risks. One of the cornerstones of the Company's risk management framework is the recruitment and retention of high-quality people who are entrusted with appropriate levels of authority within the parameters of disciplined risk management practices. The Company operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorisation and reconciliation procedures.

## 26. Regulatory capital requirements

As per the Risk Based Capital ("RBC") Framework issued by BNM, the Company is required to assess its capital profile and develop appropriate plans towards developing internal capital target/plans. In line with this requirement, management had developed a Capital Management Framework ("CMF") that takes into account the Company's strategic business direction and changing business environment, and adequate processes to monitor and ensure the maintenance of an appropriate level of capital which commensurate with the current risk profile of the Company. The Board had approved and adopted the CMF for implementation with effect from 10 August 2018.

The Risk & Capital Committee is responsible for the oversight of the Company's capital management. All proposals for any deviation from capital targets or capital raising exercise must be approved by the Risk & Capital Committee prior to recommendation to the Board of Directors for approval and implementation.

The capital structure of the company as at 31 December 2020 and 31 December 2019 as prescribed under the RBC Framework is as below:

| | NOTE | 2020<br>RM | 2019<br>RM |
|---|---|---|---|
| **Eligible Tier 1 Capital** | | | |
| Share capital (paid-up) | 9 | 108,000,000 | 108,000,000 |
| Reserves, including retained earnings | | 110,392,578 | 94,715,080 |
| | | 218,392,578 | 202,715,080 |
| Amounts deducted from Capital | 12 | (3,265,355) | (5,104,987) |
| | | 215,127,223 | 197,610,093 |

## 27. Significant event after reporting date

In the beginning of 2021, the rapid spread of the Covid-19 has been declared a pandemic and it has caused one of the most severe economic and financial market turmoil.

COVID-19 continued to disrupt economies and capital market worldwide. The operating environment continues to be challenging in the near term as consumer and retailer sentiments are expected to remain subdued against the backdrop of economic uncertainties.

While the results of the Company for the year have remained resilient, the Company has been taking necessary and thoughtful steps to strengthen its business resilience and adjust its operating models in managing the business. The Company will continue to monitor the situation and remains vigilant and cautious in managing operating costs, business growth and risk profile of the Company's portfolio.

## 28. Approval of financial statements

The financial statements were authorised for issue by the Board of Directors with a resolution of the Directors on 2 March 2021.

# Branch network

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