

Company No.

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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Company No.

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2018

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

CORPORATE INFORMATION

DOMICILE : Malaysia

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

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

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

Company No.	
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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

PRINCIPAL ACTIVITY

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

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

RESULTS

	RM'000
Profit for the financial year	86,581
	<u> </u>

RESERVES AND PROVISIONS

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

DIVIDENDS

No dividend was paid or declared by the Company since the end of last financial year. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2018.

SHARE CAPITAL

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

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is satisfied that the Company has substantially complied with the prescriptive applications in BNM/RH/PD_029-9: Corporate Governance.

Board Responsibilities

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

- (a) approve the Risk Appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company's risk profile;

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Responsibilities (continued)

- (b) oversee the selection, performance, remuneration and succession plans of the Chief Executive Officer, Control Function heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Company;
- (c) oversee the implementation of the Company's governance framework and Internal Control Framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Company's operations;
- (d) promote, together with Senior Management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;
- (e) promote sustainability through appropriate environmental, social and governance considerations in the Company's business strategies;
- (f) oversee and approve the recovery and resolution as well as business continuity plans for the Company to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress; and
- (g) promote timely and effective communication between the Company and Bank Negara Malaysia ("BNM") on matters affecting or that may affect the safety and soundness of the Company.

Composition of the Board

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

YBhg Tan Sri Leo Moggie (Chairman)
Dato' Sri Abdul Hamidy bin Abdul Hafiz
Song Yam Lim
Gregory Jerome Gerald Fernandes
Olivier Bouchard
Stephen Barry Crouch (resigned on 23 May 2018)
Susan Yuen Su Min (appointed on 14 February 2019)

In accordance with Article 85 of the Company's Articles of Association, Susan Yuen Su Min retires at the forthcoming Annual General Meeting and, being eligible, has offered herself for re-election.

In accordance with Article 99 of the Company's Articles of Association, Dato' Sri Abdul Hamidy bin Abdul Hafiz and Song Yam Lim retire at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Composition of the Board (continued)

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

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

Tan Sri Leo Moggie is the Chairman of Tenaga Nasional Berhad and a number of companies under the Tenaga Nasional Group with effect from the date of his appointment on 12 April 2004. He was formerly a Member of Parliament from 1974 to 2004. He had served as a Minister in the State Government of Sarawak from 1976 to 1978. He was a Minister in the Federal Cabinet from 1978 until he retired as the Minister of Energy, Communications and Multimedia in 2004.

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

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

Song Yam Lim (Independent Non-Executive Director)

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

Gregory Jerome Gerald Fernandes (Independent Non-Executive Director)

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

Susan Yuen Su Min (Independent Non-Executive Director)

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

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Composition of the Board (continued)

Olivier Bouchard (Non-Independent Executive Director)

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

The current Board Committees are:

Audit Committee

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

The Audit Committee comprises of the following Directors:

Dato' Sri Abdul Hamidy bin Abdul Hafiz (Chairman)
YBhg Tan Sri Leo Moggie
Song Yam Lim
Gregory Jerome Gerald Fernandes
Susan Yuen Su Min (Appointed as member on 14 February 2019)

Nominating Committee

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

The Nominating Committee comprises of the following Directors:

Gregory Jerome Gerald Fernandes (Chairman)
YBhg Tan Sri Leo Moggie
Dato' Sri Abdul Hamidy bin Abdul Hafiz
Song Yam Lim
Stephen Barry Crouch (Resigned on 23 May 2018)

CHUBB INSURANCE MALAYSIA BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Committee

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

The Remuneration Committee comprises the following Directors:

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

Risk Management Committee

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

The Risk Management Committee comprises of the following Directors:

Song Yam Lim (Chairman)
YBhg Tan Sri Leo Moggie
Gregory Jerome Gerald Fernandes
Dato' Sri Abdul Hamidy bin Abdul Hafiz
Susan Yuen Su Min (Appointed as member on 14 February 2019)

CHUBB INSURANCE MALAYSIA BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

	<u>Board of Directors</u>	<u>Audit</u>	<u>Nominating</u>	<u>Meetings of Committees</u>	
				<u>Remuneration</u>	<u>Risk Management</u>
Number of meetings held during the financial year	8	7	5	4	4
	<u>Number attended</u>	<u>Number attended</u>	<u>Number attended</u>	<u>Number attended</u>	<u>Number attended</u>
YBhg Tan Sri Leo Moggie	7/8	6/7	5/5	4/4	3/4
Dato' Sri Abdul Hamidy bin Abdul Hafiz	8/8	7/7	5/5	4/4	4/4
Song Yam Lim	8/8	7/7	5/5	-	4/4
Gregory Jerome Gerald Fernandes	7/8	7/7	5/5	4/4	4/4
Olivier Bouchard	7/8	-	-	-	-
Stephen Barry Crouch*	4/4	-	3/3	-	-

* Resigned on 23 May 2018

Internal Control and Risk Management Framework

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

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

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

CHUBB INSURANCE MALAYSIA BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Policy

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

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

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

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

This includes ensuring that:

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

CHUBB INSURANCE MALAYSIA BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Policy (continued)

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

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

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

Methodology for Determining Remuneration

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

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

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

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

CHUBB INSURANCE MALAYSIA BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Policy (continued)

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

- (a) the deferment of payment of a portion of variable remuneration to the extent that risks are realised over long periods, with these deferred portions increasing along with the individual's level of accountability;
- (b) the calibration of an appropriate mix of cash, shares, share-linked instruments, and other forms of remuneration to reflect risk alignment; and
- (c) adjustments to the vested and unvested portions of variable remuneration (through malus, clawbacks and other reversals or downward revaluations of awards) in the event of bad performance of the business unit attributable to the individual or if he commits serious legal, regulatory or internal policy breaches.

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

- (a) variables used to measure risk and performance outcomes of an individual relate closely to the level of accountability of that individual;
- (b) the determination of performance measures and variable remuneration considers that certain indicators (such as share prices) may be influenced in the short term by factors like market sentiment or general economic conditions which are not specifically related to the Company's performance or an individual's actions, and the use of such indicators does not create incentives for individuals to take on excessive risk in the short term; and
- (c) members of Senior Management & Other Material Risk Takers commit not to undertake activities (such as personal hedging strategies and liability-related insurance) that will undermine the risk alignment effects embedded in their remuneration.

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

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

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the Directors' remuneration) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

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

DIRECTORS' REMUNERATION

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

	RM'000
Directors' fees	697
Executive director's salary and other emoluments*	1,571
	<hr/>
	2,268
	<hr/> <hr/>

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

During the financial year, the Company has purchased a Directors' & Officers' Liability Insurance policy for all its Directors and Officers of the Company, which amounted to RM40,725.

RESTRICTED SHARE OPTION PLAN

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

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

RESTRICTED SHARE OPTION PLAN (CONTINUED)

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

	<u>Average exercise price per share</u> RM	<u>Share options</u> Units
At beginning of financial year		38,841
Granted	595.71	3,946
Forfeited	569.94	(949)
Exercised	286.23	(2,360)
Cancelled		(692)
Transferred out		(913)
At end of financial year		<u>37,873</u>

Out of the 37,873 outstanding options, 27,823 options were exercisable. Options granted in 2018 resulted in 3,946 shares options being issued at exercise price of RM 595.71 each. 2,360 options were exercised in 2018 at exercise price of RM 286.23.

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

	<u>Exercise price per share</u> RM	<u>Share options</u> <u>2018</u> Units
2018	250.99	-
2019	160.35	612
2020	209.73	1,594
2021	260.82	2,980
2022	305.41	2,875
2023	355.54	3,632
2024	402.88	5,087
2025	477.92	5,434
2026	492.95	6,119
2027	578.80	5,909
2028	595.71	3,631
		<u>37,873</u>

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM120.73 per option. The significant inputs into the model were share price of RM595.71, at the grant date, the exercise price shown above, volatility of 23.00%, dividend yield of 2.04%, an expected option life of 5 years and on annual risk-free interest rate of 2.71%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years. Details of restricted share option plan are set out in Note 13 to the financial statements.

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

CHUBB INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

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

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

ULTIMATE HOLDING COMPANY

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

AUDITORS' REMUNERATION

Details of auditors' remuneration for financial year ended 31 December 2018 are set out in Note 23 to the financial statements.

CHUBB INSURANCE MALAYSIA BERHAD
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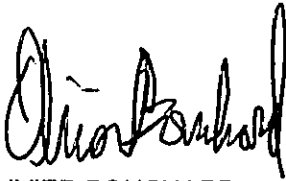
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

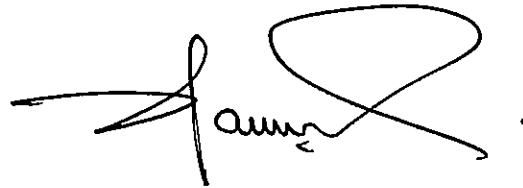
AUDITORS

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

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



OLIVIER BOUCHARD
DIRECTOR



DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ
DIRECTOR

Kuala Lumpur

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

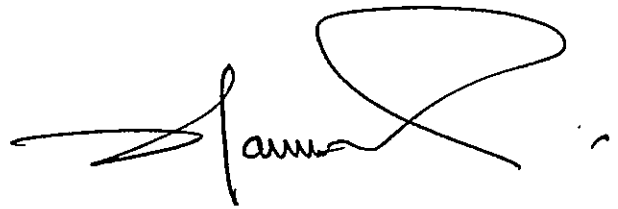
**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 251(2) OF THE COMPANIES ACT 2016**

We, Olivier Bouchard and Dato' Sri Abdul Hamidy Bin Abdul Hafiz, two of the Directors of Chubb Insurance Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 21 to 101 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2018 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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



OLIVIER BOUCHARD
DIRECTOR



DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ
DIRECTOR

Kuala Lumpur

Company No.

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CHUBB INSURANCE MALAYSIA BERHAD
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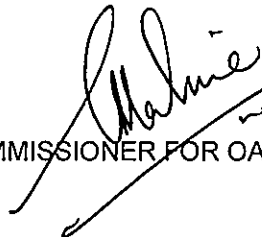
STATUTORY DECLARATION PURSUANT TO
SECTION 251(1) OF THE COMPANIES ACT 2016


I, Lim Joo Leong, being the officer primarily responsible for the financial management of Chubb Insurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 21 to 101 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



LIM JOO LEONG
MIA 13173

Subscribed and solemnly declared by the named above at Kuala Lumpur in Malaysia before me, on 21 March 2019.


COMMISSIONER FOR OATHS



Level 28, Central Plaza
34, Jalan Sultan Ismail
50250 Kuala Lumpur.
Tel: 03-2149 0836



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 9827A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Chubb Insurance Malaysia Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2018, 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 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 101.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CHUBB INSURANCE MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 9827A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CHUBB INSURANCE MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 9827A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CHUBB INSURANCE MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 9827A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2019 J
Chartered Accountant

Kuala Lumpur
21 March 2019

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	<u>Note</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
ASSETS			
Property and equipment	4	53,570	56,248
Intangible assets	5	2,543	5,138
Investments			
- Available-for-sale financial assets ("AFS")	6	1,199,639	1,078,067
Reinsurance assets	7	225,770	254,725
Insurance receivables	8	133,313	154,233
Other receivables	9	66,274	63,328
Deferred tax assets	16	23,301	19,479
Current tax assets		1,926	5,988
Cash and cash equivalents		315,188	335,625
		<u>2,021,524</u>	<u>1,972,831</u>
EQUITY AND LIABILITIES			
Share capital	10	100,000	100,000
Retained earnings	11	669,533	582,952
Available-for-sale fair value reserves	12	1,306	2,184
Equity reserve	13	10,295	7,703
		<u>781,134</u>	<u>692,839</u>
Insurance contract liabilities	14	1,003,704	1,055,887
Investment contract liabilities	15	590	675
Insurance payables	17	68,674	70,078
Other payables	18	167,422	153,352
		<u>1,240,390</u>	<u>1,279,992</u>
Total equity and liabilities		<u>2,021,524</u>	<u>1,972,831</u>

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

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	<u>Note</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
Gross earned premiums	19(a)	914,489	944,225
Premiums ceded to reinsurers	19(b)	(211,934)	(215,186)
Net earned premiums		<u>702,555</u>	<u>729,039</u>
Net investment income	20	57,247	53,360
Realised (losses)/ gains	21	(2,076)	946
Commission income	22	50,611	52,520
Other operating income		972	1,199
Net income		<u>106,754</u>	<u>108,025</u>
Total revenue		<u>809,309</u>	<u>837,064</u>
Gross claims paid		(440,756)	(412,572)
Claims ceded to reinsurers		99,790	88,692
Gross change to contract liabilities		9,913	(48,721)
Change in contract liabilities ceded to reinsurers		(23,853)	12,215
Net claims incurred		<u>(354,906)</u>	<u>(360,386)</u>
Commission expense		(124,814)	(134,077)
Management expenses	23	(214,313)	(236,794)
Total other expenses		<u>(339,127)</u>	<u>(370,871)</u>
Profit before taxation		115,276	105,807
Taxation	24	(28,695)	(27,244)
Profit for the financial year		<u>86,581</u>	<u>78,563</u>
Earnings per share (sen)			
Basic	25	<u>86.58</u>	<u>78.56</u>

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

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	<u>2018</u> RM'000	<u>2017</u> RM'000
Profit for the financial year	86,581	78,563
Other comprehensive income:		
<u>Items that may be subsequently reclassified to profit or loss:</u>		
Available-for-sale fair value reserves		
Net (losses)/gains arising during the financial year	(961)	6,014
Net realised (gains)/ losses transferred to profit or loss	(194)	5
	<u>(1,155)</u>	<u>6,019</u>
Tax effects thereon (Note 16)	277	(1,445)
	<u>(878)</u>	<u>4,574</u>
Total comprehensive income for the financial year	<u><u>85,703</u></u>	<u><u>83,137</u></u>

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

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Share capital RM'000	Equity reserve RM'000	Non- distributable Fair value reserves RM'000	Distributable Retained earnings RM'000	Total equity RM'000
At 1 January 2018	100,000	7,703	2,184	582,952	692,839
Profit for the financial year	-	-	-	86,581	86,581
Other comprehensive income for the financial year	-	-	(878)	-	(878)
Comprehensive income for the financial year- share-based long term incentive plan vested	-	2,592	-	-	2,592
	-	2,592	-	-	2,592
At 31 December 2018	<u>100,000</u>	<u>10,295</u>	<u>1,306</u>	<u>669,533</u>	<u>781,134</u>
At 1 January 2017	100,000	6,040	(2,390)	620,689	724,339
Profit for the financial year	-	-	-	78,563	78,563
Other comprehensive income for the financial year	-	-	4,574	-	4,574
Dividend paid	-	-	-	(116,300)	(116,300)
Comprehensive income for the financial year- share-based long term incentive plan vested	-	1,663	-	-	1,663
	-	1,663	-	-	1,663
At 31 December 2017	<u>100,000</u>	<u>7,703</u>	<u>2,184</u>	<u>582,952</u>	<u>692,839</u>

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

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	<u>Note</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
OPERATING ACTIVITIES			
Cash (used in)/generated from operating activities	26	(43,460)	142,844
Interest income received		54,683	51,720
Dividend income received		83	82
Income tax paid		(28,177)	(21,320)
Net cash flows (used in)/generated from operating activities		<u>(16,871)</u>	<u>173,326</u>
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		47	133
Purchase of property and equipment	4	(2,120)	(3,612)
Purchase of intangibles assets	5	(1,493)	(974)
Net cash flows used in investing activities		<u>(3,566)</u>	<u>(4,453)</u>
FINANCING ACTIVITIES			
Dividend paid		-	(116,300)
Net cash flows used in financing activities		<u>-</u>	<u>(116,300)</u>
Net (decrease)/increase in cash and cash equivalents		(20,437)	52,573
Cash and cash equivalents at beginning of the financial year		335,625	283,052
Cash and cash equivalents at end of the financial year		<u>315,188</u>	<u>335,625</u>
Cash and cash equivalents comprise:			
Fixed and call deposits:			
- Licensed financial institutions in Malaysia		296,291	321,717
Cash and bank balances		18,897	13,908
		<u>315,188</u>	<u>335,625</u>

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

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during reported financial year. It also requires Directors to exercise their judgment 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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

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

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

The relevant new accounting standards, amendments and improvements to published standards and interpretations to existing accounting standards that are effective and applicable for the Company's financial year beginning on or after 1 January 2018 are as follows:

- (i) IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- (ii) Amendments to MFRS 4 Applying MFRS 9 'Financial Instruments' with MFRS 4 'Insurance Contracts'
- (iii) MFRS 15 'Revenue from Contracts with Customers'
- (iv) Amendments to MFRS 2 'Share-based Payment – Classification and Measurement of Share-based Payment Transactions'

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

The Company has adopted amendments to MFRS 4 Applying MFRS 9 'Financial Instruments' with MFRS 4 'Insurance Contracts' in the 2018 financial statements.

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 4 "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 2021 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 2021.

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CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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"):

	FV at end of reporting date	FV changes during the period
	<u>RM'000</u>	<u>RM'000</u>
Financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI")	1,199,264	(961)
Other financial assets	515,149	-
Total	<u><u>1,714,413</u></u>	<u><u>(961)</u></u>

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

	Carrying amount as at 31 December 2018 *
	<u>RM'000</u>
Government Guaranteed	755,469
AAA	177,994
AA	243,617
A	15,330
BBB	6,854
Total	<u><u>1,199,264</u></u>

*Carrying amount represents amount before adjusting for impairment allowance.

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning on or after 1 January 2019. None of these is expected to have significant effect on the financial statements of the Company, except the following set out below:

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at the reporting date, the Company has non-cancellable operating lease commitments of RM1,993,000, see Note 27.

Based on the preliminary assessment, the Company expects to recognise right-of-use assets and lease liabilities of approximately RM1,950,000 on 1 January 2019.

Operating cash flows will increase and financing cash flows decrease by approximately RM1,420,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

- Amendments to MFRS 9 'Prepayment features with negative compensation' (effective 1 January 2019) allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:
 - (i) Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.
- Amendments to MFRS 119 'Plan amendment, curtailment or settlement' (effective 1 January 2019) requires an entity to use the updated actuarial assumptions from remeasurement of its net defined benefit liability or asset arising from plan amendment, curtailment or settlement, to determine current service cost and net interest for the remaining period after the change to the plan. The amendments will be applied prospectively.

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

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

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

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

Alternative measurement models are provided for the different insurance coverages:

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

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

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

CHUBB INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

None of accounting standards, amendments to published standards and interpretations to existing standards listed above were expected to give rise to any material financial impact to the Company upon initial application, except for MFRS 9, MFRS 16 and MFRS 17. Based on the Company's preliminary assessment, the impact for MFRS 16 were disclosed in Note 2 (a) (ii) to the Financial Statements. The Company is currently assessing the full impact arising from the requirements of MFRS 9 and MFRS 17 onto the Company's accounting policies of which the cumulative impact upon adoption will be recognised in the retained earnings as at 1 January 2021, and with enhanced disclosures. The Company expects this process to be completed prior to the respective effective dates.

(b) **Property and equipment**

(i) **Measurement basis**

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

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

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

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

(ii) **Depreciation**

Freehold land is not depreciated.

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment (continued)

(ii) Depreciation (continued)

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

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

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

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

(c) Intangible assets

Computer software

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

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

(i) Finance lease

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

(ii) Operating lease

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

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

(e) Financial instruments

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

(i) Financial instrument categories and measurements

(1) Investments

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

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

FVTPL

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(1) Investments (continued)

HTM

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

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

AFS

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

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

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

LAR

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

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

(e) Financial instruments (continued)

(i) Financial instrument categories and measurements (continued)

(2) Insurance receivables

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

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

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

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

(3) Financial liabilities

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

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

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

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

(e) Financial instruments (continued)

(ii) Determination of fair value

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

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

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

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

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

(iii) Recognition of financial assets

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

(iv) Derecognition of financial instruments

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(iv) Derecognition of financial instruments (continued)

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

(v) Impairment of financial assets

Investments

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

Financial assets carried at amortised cost

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the assets are included in a 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 for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

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

AFS

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(v) Impairment of financial assets (continued)

AFS (continued)

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

Insurance receivables

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

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

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

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

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

(g) Cash and cash equivalents

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Cash and cash equivalents (continued)

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

(h) Provisions

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

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

(i) Contingent liabilities and contingent assets

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

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

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

(j) Equity instruments

Ordinary share capital

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

Dividends on ordinary share capital

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Product classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract under which the Company (insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. The recognition and measurement of insurance contracts are set out in Note 2(j) to the financial statements.

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

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

(l) Insurance contracts

Premium from direct insurance contract

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

Acquisition costs

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

Claims and expenses

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

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

(l) Insurance contracts (continued)

Premium liabilities

Premium liabilities refer to the higher of:

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Insurance contracts (continued)

Claims liabilities

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

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

(m) Investment contract

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

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

(n) Reinsurance

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

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

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

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

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

(n) Reinsurance (continued)

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

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

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

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

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

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

(o) Other revenue recognition

(i) Rental income

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

(ii) Investment income

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Foreign currencies

(i) Functional currency

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

(ii) Transactions and balances in foreign currencies

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

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

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

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

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

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

(q) Employee benefits

(i) Short term benefits

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

(ii) Post-employment benefits

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(iii) Share-based long term incentive plan

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

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

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

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

(r) Income taxes

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Claims liabilities

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

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

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

The key assumptions and the sensitivity analysis of claims liabilities are disclosed in Note 29 (e) to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4 PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Computers	Office equipment, furniture and fittings	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>						
At 1 January 2017	15,206	36,071	10,462	17,011	1,044	79,794
Additions	-	-	1,765	1,398	449	3,612
Disposals	-	-	-	-	(475)	(475)
Write-offs	-	-	(1,885)	(745)	-	(2,630)
At 31 December 2017	15,206	36,071	10,342	17,664	1,018	80,301
Additions	-	-	1,845	275	-	2,120
Disposals	-	-	-	-	(192)	(192)
Write-offs	-	-	(676)	(148)	-	(824)
Reclassification	-	-	4,733	2,422	-	7,155
At 31 December 2018	15,206	36,071	16,244	20,213	826	88,560
<u>Accumulated depreciation</u>						
At 1 January 2017	-	9,543	5,842	6,348	631	22,364
Charge for the financial year	-	770	1,757	1,984	103	4,614
Disposals	-	-	-	-	(315)	(315)
Write-offs	-	-	(1,872)	(738)	-	(2,610)
At 31 December 2017	-	10,313	5,727	7,594	419	24,053
Charge for the financial year	-	770	1,862	1,961	147	4,740
Disposals	-	-	-	-	(136)	(136)
Write-offs	-	-	(676)	(146)	-	(822)
Reclassification	-	-	4,733	2,422	-	7,155
At 31 December 2018	-	11,083	11,646	11,831	430	34,990
<u>Net carrying amount</u>						
31 December 2018	15,206	24,988	4,598	8,382	396	53,570
31 December 2017	15,206	25,758	4,615	10,070	599	56,248

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5 INTANGIBLE ASSETS

	<u>Computer Software</u> RM'000	<u>Work-in- Progress</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>			
At 1 January 2017	16,148	-	16,148
Additions	974	-	974
Write-offs	(179)	-	(179)
As 31 December 2017	16,943	-	16,943
Additions	790	703	1,493
Write-offs	(5,342)	-	(5,342)
Reclassification	144	-	144
As 31 December 2018	12,535	703	13,238
<u>Accumulated depreciation</u>			
At 1 January 2017	10,574	-	10,574
Amortisation for the financial year	1,410	-	1,410
Write-offs	(179)	-	(179)
As 31 December 2017	11,805	-	11,805
Amortisation for the financial year	1,448	-	1,448
Write-offs	(2,702)	-	(2,702)
Reclassification	144	-	144
As 31 December 2018	10,695	-	10,695
<u>Net carrying amount</u>			
31 December 2018	1,840	703	2,543
31 December 2017	5,138	-	5,138

Intangible assets comprise computer software.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

6	INVESTMENTS		
		<u>2018</u>	<u>2017</u>
		RM'000	RM'000
	Malaysian Government Securities and guaranteed loans	755,468	680,214
	Debt securities	443,796	397,478
	Equity securities	375	375
		<u>1,199,639</u>	<u>1,078,067</u>
	AFS	<u>1,199,639</u>	<u>1,078,067</u>
	The following investments mature after 12 months:		
	Malaysian Government Securities and guaranteed loans	603,536	624,510
	Debt securities	327,217	367,216
		<u>930,753</u>	<u>991,726</u>
(a)	AFS		
	<u>Fair value</u>		
	Unquoted equity securities	375	375
	Unquoted debt securities	443,796	397,478
	Malaysian Government Securities and guaranteed loans	755,468	680,214
		<u>1,199,639</u>	<u>1,078,067</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(b) Carrying values of financial instruments

	<u>AFS</u> RM'000
At 1 January 2017	1,054,438
Purchases	177,079
Maturities	(150,000)
Disposals	(10,000)
Fair value gains recorded in:	
Other comprehensive income	6,014
Net change in interest receivables	576
Amortisation of premium	(40)
At 31 December 2017	<u>1,078,067</u>
Purchases	275,767
Maturities	(85,000)
Disposals	(70,331)
Fair value losses recorded in:	
Other comprehensive income	(961)
Net change in interest receivables	1,469
Accretion of discount	628
At 31 December 2018	<u><u>1,199,639</u></u>

CHUBB INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(c) Estimation of fair values

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

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

Fair value hierarchy

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

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

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

Fair value investments

	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Valuation techniques		
- market observable inputs (Level 2)	1,199,264	1,077,692
- unobservable inputs (Level 3)	375	375
	<u>1,199,639</u>	<u>1,078,067</u>

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

7	REINSURANCE ASSETS	<u>Note</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
	Reinsurance of insurance contracts	14		
	Claims liabilities		202,906	226,759
	Premium liabilities		22,864	27,966
			<u>225,770</u>	<u>254,725</u>
	Current		105,058	118,983
	Non-current		120,712	135,742
			<u>225,770</u>	<u>254,725</u>
8	INSURANCE RECEIVABLES		<u>2018</u> RM'000	<u>2017</u> RM'000
	Due premiums including agents/brokers and co-insurers balances		124,171	137,033
	Due from reinsurers and cedants		21,908	28,577
			<u>146,079</u>	<u>165,610</u>
	Allowance for impairment of doubtful debts		(12,766)	(11,377)
			<u>133,313</u>	<u>154,233</u>
	Current		133,313	154,233
	Non-current		-	-
			<u>133,313</u>	<u>154,233</u>
	<u>Financial assets</u>			
	Gross amounts of recognised financial assets, net of allowance for impairment		162,697	185,098
	Less: Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 17)		(29,384)	(30,865)
	Net amounts of financial assets presented in the statement of financial position		<u>133,313</u>	<u>154,233</u>

There are no financial liabilities subjected to an enforceable master netting arrangement or similar agreement financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2018 (2017: NIL).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

9 OTHER RECEIVABLES

	<u>2018</u> RM'000	<u>2017</u> RM'000
Amount due from Malaysian Motor Insurance Pool ("MMIP")		
- Cash contribution to MMIP	21,859	25,359
- Assets held under MMIP	31,039	33,861
Deposits	749	753
Other receivables	12,627	3,355
	<u>66,274</u>	<u>63,328</u>
Current	65,525	62,575
Non-current	749	753
	<u>66,274</u>	<u>63,328</u>

As at 31 December 2018, there is a net receivable of RM12,443,000 (2017: RM12,694,000 net receivable) from MMIP, after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premiums liabilities of RM40,454,511 (2017: RM46,525,693) included in Note 14 to the financial statements.

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

10 SHARE CAPITAL

	<u>2018</u> RM'000	<u>2017</u> RM'000
Issued and paid up:		
100,000,000 ordinary share with no par value		
At beginning and end of financial year	<u>100,000</u>	<u>100,000</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

11 RETAINED EARNINGS

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

As at 31 December 2018, the Company is already under the single-tier tax system. The Company also has no tax exempt income available for future distribution of tax exempt dividends.

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

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

12 AVAILABLE-FOR-SALE FAIR VALUE RESERVES

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

13 EQUITY RESERVE

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

Restricted Share Grant Plan

Under Chubb's long term incentive plan, 3,582 restricted ordinary shares were awarded during the financial year ended 31 December 2018 to eligible employees of the Company. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by Chubb to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all restricted share grants issued in the current and prior financial years, and is consistent with the treatment required by MFRS 2: Share-based payment. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of Chubb's common stock at grant date, in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by Chubb to the eligible employees.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13 EQUITY RESERVE (CONTINUED)

Restricted Share Option Plan

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

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

	<u>2018</u>		<u>2017</u>	
	Average exercise price per share RM	Share options Units	Average exercise price per share RM	Share options Units
At beginning of financial year		38,841		32,919
Granted	595.71	3,946	587.91	6,835
Forfeited	569.94	(949)	532.53	(272)
Exercised	286.23	(2,360)	449.61	(530)
Expiration		-		(86)
Cancelled		(692)		-
Transferred out		(913)		(2,001)
Transferred in		-		1,976
At end of financial year		<u>37,873</u>		<u>38,841</u>

Out of the 37,873 outstanding options, 27,823 options were exercisable. Options granted in 2018 resulted in 3,946 shares options being issued at exercise price of RM 595.71 each. 2,360 options were exercised in 2018 at exercise price of RM 286.23.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13 EQUITY RESERVE (CONTINUED)

Restricted Share Option Plan (continued)

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

	Exercise price <u>per share</u> RM	Share options	
		<u>2018</u> Units	<u>2017</u> Units
2018	250.99	-	1,920
2019	160.35	612	570
2020	209.73	1,594	1,594
2021	260.82	2,980	2,980
2022	305.41	2,875	2,875
2023	355.54	3,632	3,632
2024	402.88	5,087	5,278
2025	477.92	5,434	6,034
2026	492.95	6,119	7,031
2027	578.80	5,909	6,927
2028	595.71	3,631	-
		<u>37,873</u>	<u>38,841</u>

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM120.73 per option. The significant inputs into the model were share price of RM595.71, at the grant date, the exercise price shown above, volatility of 23.00%, dividend yield of 2.04%, an expected option life of 5 years and on annual risk-free interest rate of 2.71%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee Share Purchase Plan

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

The total expenses of employees equity-settled share-based long term incentive plan for the financial year was RM1,856,089 (2017: RM1,663,592).

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

	2018			2017		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
14 INSURANCE CONTRACT LIABILITIES						
General insurance	1,003,704	(225,770)	777,934	1,055,887	(254,725)	801,162
Provision for claims reported	456,634	(116,735)	339,899	452,125	(150,620)	301,505
Provision for incurred but not reported claims ("IBNR")	213,330	(86,171)	127,159	227,752	(76,139)	151,613
Claims liabilities	669,964	(202,906)	467,058	679,877	(226,759)	453,118
Premium liabilities	333,740	(22,864)	310,876	376,010	(27,966)	348,044
	1,003,704	(225,770)	777,934	1,055,887	(254,725)	801,162

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14 INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

(i) Claims liabilities	2018			2017		
	Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
At beginning of financial year	679,877	(226,759)	453,118	631,156	(214,544)	416,612
Increase in claims incurred/recoveries anticipated over the financial year	482,895	(119,289)	363,606	566,651	(159,134)	407,517
Change in key assumptions	(52,052)	43,352	(8,700)	(105,358)	58,227	(47,131)
Claims paid during the financial year	(440,756)	99,790	(340,966)	(412,572)	88,692	(323,880)
At end of financial year	669,964	(202,906)	467,058	679,877	(226,759)	453,118

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NOTES TO THE FINANCIAL STATEMENTS
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14	(ii)	Premium liabilities	2018			2017		
			Gross RM'000	Re- insurance RM'000	Net RM'000	Gross RM'000	Re- insurance RM'000	Net RM'000
		At beginning of financial year	376,010	(27,966)	348,044	368,110	(27,705)	340,405
		Premiums written in the financial year (Note 19)	872,219	(206,832)	665,387	952,125	(215,447)	736,678
		Premiums earned during the financial year	(914,489)	211,934	(702,555)	(944,225)	215,186	(729,039)
		At end of financial year	333,740	(22,864)	310,876	376,010	(27,966)	348,044
	Current	Claims liabilities	366,102	(103,576)	262,526	379,366	(116,744)	262,622
		Premium liabilities	52,213	(1,482)	50,731	58,470	(2,239)	56,231
			418,315	(105,058)	313,257	437,836	(118,983)	318,853
	Non-current	Claims liabilities	303,862	(99,330)	204,532	300,511	(110,015)	190,496
		Premium liabilities	281,527	(21,382)	260,145	317,540	(25,727)	291,813
			585,389	(120,712)	464,677	618,051	(135,742)	482,309
			1,003,704	(225,770)	777,934	1,055,887	(254,725)	801,162

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15 INVESTMENT CONTRACT LIABILITIES

	<u>2018</u> RM'000	<u>2017</u> RM'000
Investment contract liabilities	590	675
At beginning of financial year	675	1,135
Deposits	1,334	1,869
Withdrawals	(1,419)	(2,329)
At end of financial year	590	675

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

16 DEFERRED TAX ASSETS

	<u>2018</u> RM'000	<u>2017</u> RM'000
At beginning of financial year	19,479	15,362
Recognised in:		
Profit or loss (Note 24)	3,545	5,562
Other comprehensive income	277	(1,445)
At end of financial year	23,301	19,479

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

	<u>2018</u> RM'000	<u>2017</u> RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	23,301	19,479
Current	24,812	22,401
Non-current	(1,511)	(2,922)
	23,301	19,479

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16 DEFERRED TAX ASSETS (CONTINUED)

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Accretion of discount RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
<u>31 December 2018</u>							
Deferred tax assets (before off-setting)							
At beginning of financial year	2,729	16,655	-	-	(690)	2,971	21,665
Recognised in:							
Profit or loss	333	2,015	-	-	-	745	3,093
Other comprehensive income	-	-	-	-	277	-	277
At end of financial year	3,062	18,670	-	-	(413)	3,716	25,035
Deferred tax liabilities (before off-setting)							
At beginning of financial year	-	-	(1,977)	(209)	-	-	(2,186)
Recognised in:							
Profit or loss	-	-	880	(428)	-	-	452
At end of financial year	-	-	(1,097)	(637)	-	-	(1,734)
Deferred tax assets (after off-setting)							
							23,301

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

16 DEFERRED TAX ASSETS (CONTINUED)

31 December 2017

	Allowance for doubtful debts RM'000	Provisions RM'000	Accelerated depreciation RM'000	Accretion of discount RM'000	Fair value of securities RM'000	Others RM'000	Total RM'000
Deferred tax assets (before off-setting)							
At beginning of financial year	2,410	14,095	-	-	755	563	17,823
Recognised in:							
Profit or loss	319	2,560	-	-	-	2,408	5,287
Other comprehensive income	-	-	-	-	(1,445)	-	(1,445)
At end of financial year	2,729	16,655	-	-	(690)	2,971	21,665
Deferred tax liabilities (before off-setting)							
At beginning of financial year	-	-	(2,288)	(173)	-	-	(2,461)
Recognised in:							
Profit or loss	-	-	311	(36)	-	-	275
At end of financial year	-	-	(1,977)	(209)	-	-	(2,186)
Deferred tax assets (after off-setting)							
							19,479

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

17 INSURANCE PAYABLES

	<u>2018</u> RM'000	<u>2017</u> RM'000
Due to agents and intermediaries	40,461	33,685
Due to reinsurers and cedants	28,213	36,393
	<u>68,674</u>	<u>70,078</u>

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

Financial liabilities

Gross amounts of recognised financial liabilities	98,058	100,943
Less: Gross amounts of recognised financial assets set off in the statement of financial position (Note 8)	<u>(29,384)</u>	<u>(30,865)</u>
Net amounts of financial liabilities presented in the statement of financial position	<u>68,674</u>	<u>70,078</u>

As disclosed in Note 8 to the financial statements, there are no financial liabilities subjected to an enforceable master netting arrangement or similar agreement financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2018 (2017: NIL).

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18 OTHER PAYABLES

	<u>2018</u> RM'000	<u>2017</u> RM'000
Accrued liabilities	64,329	60,169
Payroll liabilities	9,782	9,574
Deposit held on bonds	61,733	56,837
Other payables	31,578	26,772
	<u>167,422</u>	<u>153,352</u>
Current	145,180	128,154
Non-current	22,242	25,198
	<u>167,422</u>	<u>153,352</u>

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

19 NET EARNED PREMIUMS

	<u>2018</u> RM'000	<u>2017</u> RM'000
(a) Gross earned premiums		
General insurance contracts (Note 14(ii))	872,219	952,125
Change in premium liabilities	42,270	(7,900)
	<u>914,489</u>	<u>944,225</u>
(b) Premium ceded		
General insurance contracts (Note 14(ii))	(206,832)	(215,447)
Change in premium liabilities	(5,102)	261
	<u>(211,934)</u>	<u>(215,186)</u>
Net earned premiums	<u>702,555</u>	<u>729,039</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20	NET INVESTMENT INCOME		
		<u>2018</u>	<u>2017</u>
		RM'000	RM'000
	AFS		
	Interest income	48,361	42,649
	Dividend income		
	- unquoted equity securities in Malaysia	83	82
	Cash and cash equivalents interest income	7,777	9,599
	Accretion of discounts/(amortisation of premiums)	628	(40)
	Other investment income from MMIP	2,276	3,077
	Investment advisory fees and custodian charges	(1,878)	(2,007)
		<u>57,247</u>	<u>53,360</u>
21	REALISED (LOSSES)/GAINS		
		<u>2018</u>	<u>2017</u>
		RM'000	RM'000
	<u>Property and equipment:</u>		
	Realised losses	(9)	(27)
	AFS		
	Realised gains/ (losses):		
	Unquoted debt securities in Malaysia	194	(5)
	<u>Foreign exchange:</u>		
	Realised (losses)/ gains	(2,261)	978
		<u>(2,076)</u>	<u>946</u>
22	COMMISSION INCOME		
		<u>2018</u>	<u>2017</u>
		RM'000	RM'000
	Commission income related to insurance contracts	<u>50,611</u>	<u>52,520</u>

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23 MANAGEMENT EXPENSES

	<u>Note</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
Employee benefits expense	23(a)	93,432	90,902
Directors' remuneration	23(b)	679	683
Auditors' remuneration*			
- Statutory audits		411	406
- Other services		216	113
Depreciation of property and equipment	4	4,740	4,614
Property and equipment written off		2	20
Intangible assets written off		2,640	-
Rental of office		824	798
Amortisation of intangible assets	5	1,448	1,410
Lease rental of equipment		402	392
EDP expenses		18,065	35,701
Increase in allowance for impairment of doubtful debts		1,389	1,328
Bad debts written off		407	1,136
Bad debts recovered		(538)	(123)
Advertising		31,208	39,939
Printing and stationery		7,200	7,633
Electricity and water		1,524	1,485
Postage and telephone		2,435	2,175
Regional technical service charges		11,361	13,316
Outsource services fees		12,077	15,641
Other expenses		24,391	19,225
		<u>214,313</u>	<u>236,794</u>

*Including out-of-pocket expenses.

(a) Employee benefits expense			
Wages and salaries		62,357	60,851
Social security contributions		492	504
Contributions to defined contribution plan, EPF		9,987	9,715
Other benefits		20,596	19,832
		<u>93,432</u>	<u>90,902</u>

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23 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

The Directors' remuneration and other emoluments are as follows:

2018

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

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

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23 **MANAGEMENT EXPENSES (CONTINUED)**

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

2017

	<u>Fees</u> RM'000	<u>Salary</u> RM'000	<u>Bonus</u> RM'000	<u>Others</u> RM'000	<u>Benefits- in-kind</u> RM'000	<u>Total</u> RM'000
<u>Executive Directors:</u>						
Stephen Barry Crouch (also as Chief Executive Officer)	-	1,109	540	1,834	477	3,960
Olivier Bouchard	81	-	-	-	-	81
<u>Non-executive Directors:</u>						
YBhg Tan Sri Leo Moggie	162	-	-	-	-	162
Dato' Sri Abdul Hamidy bin Abdul Hafiz	152	-	-	-	-	152
Song Yam Lim	135	-	-	-	-	135
Gregory Jerome Gerald Fernandes	153	-	-	-	-	153
Total Directors' remuneration	683	1,109	540	1,834	477	4,643

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23 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration (continued)

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

	<u>Number of Directors</u>	
	<u>2018</u>	<u>2017</u>
<u>Executive Directors:</u>		
Below RM100,000	1	1
RM100,001-RM4,000,000	1	1
<u>Non-executive Directors:</u>		
Below RM100,000	-	-
RM100,001-RM200,000	4	4

Total staff costs of the Company (including Executive Director) are RM 93,432,000 (2017: RM90,902,000).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM3,769,323(2017: RM 3,960,716).

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

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

	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
<u>Fixed remuneration</u>		
Cash-based	8,535	7,631
Contributions to defined contribution plan,EPF	765	656
Benefits-in-kind and other remuneration	649	534
<u>Variable remuneration</u>		
Cash-based	1,345	1,667
Contributions to defined contribution plan,EPF	85	107
Shares and share-linked instruments	1,875	1,872
Benefits-in-kind and other remuneration	299	216
	<u>13,553</u>	<u>12,683</u>

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24 TAXATION

	<u>2018</u> RM'000	<u>2017</u> RM'000
Current income tax:		
Current financial year	32,836	30,269
(Over)/under-provision in prior financial years	(596)	2,537
	<u>32,240</u>	<u>32,806</u>
Deferred tax (Note 16):		
Relating to origination and reversal of temporary differences	(3,545)	(5,562)
	<u>(3,545)</u>	<u>(5,562)</u>
	<u>28,695</u>	<u>27,244</u>

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

	<u>2018</u> RM'000	<u>2017</u> RM'000
Profit before tax	<u>115,276</u>	<u>105,807</u>
Taxation at Malaysian statutory tax rate of 24%	27,666	25,394
Income not subject to tax	(591)	(798)
Expenses not deductible for tax purposes	2,682	2,501
(Over)/under-provision in prior financial years	(1,062)	147
Tax expense for the financial year	<u>28,695</u>	<u>27,244</u>

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25 EARNINGS PER SHARE

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

	<u>2018</u> RM'000	<u>2017</u> RM'000
Profit attributable to ordinary equity holders	86,581	78,563
Weighted average number of shares in issue	100,000	100,000
Basic earnings per share (sen)	<u>86.58</u>	<u>78.56</u>

26 CASH FLOWS

	<u>2018</u> RM'000	<u>2017</u> RM'000
Profit before tax	115,276	105,807
Investment income	(57,247)	(53,360)
Realised (gain)/loss on AFS investments	(194)	5
Realised loss/(gain) on foreign exchange	2,261	(978)
Depreciation of property and equipment	4,740	4,614
Amortisation of intangible assets	1,448	1,410
Loss on disposal of property and equipment	9	27
Property and equipment written off	2	20
Intangible assets written off	2,640	-
Increase in allowance for impairment of doubtful debts	1,389	1,328
Bad debts written off	407	1,136
Employees share-based long term incentive plan	2,592	1,663
Changes in working capital:		
Decrease/(increase) in reinsurance assets	28,955	(12,476)
Decrease in insurance receivables	19,124	20,337
(Increase)/decrease in other receivables	(2,562)	7,847
(Decrease)/increase in insurance contract liabilities	(52,183)	56,621
(Decrease)/increase in insurance payables	(1,403)	3,974
Increase in other payables	11,807	22,408
Net increase in AFS investments	(120,436)	(17,079)
Decrease in investment contract liabilities	(85)	(460)
Cash (used in)/generated from operating activities	<u>(43,460)</u>	<u>142,844</u>

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27 OPERATING LEASE COMMITMENTS

(a) The Company as lessee

The Company leases premises from various parties under non-cancellable operating leases. The leases typically run for a period of 2 to 4 years with the option to renew the leases after the expiry date.

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

	2018 RM'000	2017 RM'000
Within one year	1,416	1,670
Later than one year but not later than 4 years	577	1,246
	<u>1,993</u>	<u>2,916</u>

28 RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

28 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

	<u>Country</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
Significant related party outstanding balances:			
<u>Chubb Group</u>			
Insurance receivables		2,468	2,446
ACE INA Overseas Insurance Co.Ltd	Bermuda	877	1,214
Chubb Insurance Hong Kong Limited	Hong Kong	739	459
Other related companies within Chubb Group	Others	852	773
Other receivables		2,896	2,077
Chubb INA International Holdings Ltd	United States	(32)	222
Chubb Asia Pacific Pte Ltd	Singapore	2,467	1,285
Other related companies within Chubb Group	Others	461	570
Insurance payables		(6,143)	(8,878)
Chubb Tempest Reinsurance Ltd, Labuan Branch	Labuan	(5,203)	(7,820)
Other related companies within Chubb Group	Others	(940)	(1,058)
Other payables		(20,545)	(18,863)
Chubb Asia Pacific Pte Ltd	Singapore	(11,434)	(12,933)
Chubb Services UK Limited	United Kingdom	(3,365)	(2,866)
Cover Direct, Inc	United States	(4,114)	(2,105)
Chubb IT Development Centre Sdn Bhd	Malaysia	(1,377)	(846)
Other related companies within Chubb Group	Others	(255)	(113)
Significant related party transactions:			
<u>Chubb Group</u>			
Premium income		29,101	28,463
ACE INA Overseas Insurance Co.Ltd	Bermuda	18,686	17,389
Chubb Insurance Hong Kong Limited	Hong Kong	9,109	9,019
Other related companies within Chubb Group	Others	1,306	2,055
Premium ceded		(128,357)	(126,864)
Chubb Tempest Reinsurance Ltd, Labuan Branch	Labuan	(128,357)	(126,382)
Other related companies within Chubb Group	Others	-	(482)
Commission income		29,492	28,079
Chubb Tempest Reinsurance Ltd, Labuan Branch	Labuan	29,492	28,077
Other related companies within Chubb Group	Others	-	2
Commission expenses		(1,388)	(1,459)
Chubb Insurance Hong Kong Limited	Hong Kong	(872)	(816)
Other related companies within Chubb Group	Others	(516)	(643)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

28 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

	<u>Country</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
Significant related party transactions (continued):			
<u>Chubb Group</u>			
Claims recoveries		57,584	42,641
Chubb Tempest Reinsurance Ltd, Labuan Branch	Labuan	56,801	42,197
Other related companies within Chubb Group	Others	783	444
Claims paid		(286)	(775)
Chubb Insurance Hong Kong Limited	Hong Kong	(255)	(433)
Other related companies within Chubb Group	Others	(31)	(342)
Accounting and administration services			
Chubb IT Development Centre Sdn Bhd	Malaysia	144	144
Rental and parking income			
Chubb IT Development Centre Sdn Bhd	Malaysia	830	830
EDP system charges		(5,047)	(5,705)
Chubb Services UK Limited	United Kingdom	(2,261)	(3,048)
Cover Direct, Inc	United States	(1,394)	(1,763)
Chubb IT Development Centre Sdn Bhd	Malaysia	(1,392)	(894)
Service fees			
Other related companies within Chubb Group	Others	(129)	(127)
Technical support and consultancy services		(11,785)	(13,926)
Cover Direct, Inc	United States	(424)	(610)
Chubb Asia Pacific Pte Ltd	Singapore	(11,361)	(13,316)

29 RISK MANAGEMENT FRAMEWORK

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

(a) Risk Appetite

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

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Management Framework

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

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

(c) Risk Governance and Oversight

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

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

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

(d) Capital Management and Capital Adequacy

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

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

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks

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

1 Insurance Risk

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

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

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

1.1 Reinsurance risk

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

1.2 Concentration risk

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

	2018			2017		
	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000
Fire	174,094	(64,463)	109,631	188,562	(70,265)	118,297
Motor	266,444	(9,863)	256,581	313,479	(12,561)	300,918
Marine, aviation and transit	62,963	(23,501)	39,462	65,096	(24,106)	40,990
Miscellaneous	368,718	(109,005)	259,713	384,988	(108,515)	276,473
	<u>872,219</u>	<u>(206,832)</u>	<u>665,387</u>	<u>952,125</u>	<u>(215,447)</u>	<u>736,678</u>

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29 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.2 Concentration risk (continued)

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

	2018			2017		
	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000
Fire	100,871	(47,705)	53,166	103,425	(46,238)	57,187
Motor	253,192	(9,724)	243,468	254,803	(10,759)	244,044
Marine, aviation and transit	70,703	(32,392)	38,311	55,530	(25,432)	30,098
Miscellaneous	245,198	(113,085)	132,113	266,119	(144,330)	121,789
	<u>669,964</u>	<u>(202,906)</u>	<u>467,058</u>	<u>679,877</u>	<u>(226,759)</u>	<u>453,118</u>

1.3 Basis of estimates

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

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

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

1.4 Key assumptions

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

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

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.4 Key assumptions (continued)

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

1.5 Sensitivity analysis

The analysis below is performance for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit after tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

There are no significant changes to the key assumptions used. The effect of this change in assumption is disclosed in Note 14(i) to the financial statements.

	<u>Change in assumptions</u>	<u>Impact on gross liabilities</u> RM'000	<u>Impact on net liabilities</u> RM'000	<u>Impact on profit after tax</u> RM'000	<u>Impact on equity #</u> RM'000
<u>31 December 2018</u>					
Ultimate loss ratio for the latest accident year	+10%	56,179	41,564	31,589	31,589
Average claims handling expenses	+10%	1,863	1,863	1,416	1,416
PRAD*	+10%	5,685	3,893	2,959	2,959
<u>31 December 2017</u>					
Ultimate loss ratio for the latest accident year	+10%	56,360	42,128	32,017	32,017
Average claims handling expenses	+10%	1,922	1,922	1,461	1,461
PRAD*	+10%	5,858	3,689	2,804	2,804

Impact on equity reflects adjustments for tax, when applicable.

* Provision for Risk of Adverse Deviation

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.6 Claims development table

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

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

The Company believes that the estimate of the total claims outstanding as at 31 December 2018 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

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

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

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

<u>Accident year</u>	<u>Prior years</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2017</u> RM'000	<u>2018</u> RM'000	<u>Total</u> RM'000
Outstanding claims	7,352	3,843	3,021	8,782	15,525	27,480	53,969	121,843	346,123	587,938
Claims handling expenses										18,632
Total gross central estimate Risk margin										606,570
Gross insurance claims liabilities per statement of financial position (Note 14(i))										63,394
										669,964

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		2010	2011	2012	2013	2014	2015	2016	2017
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
29	RISK MANAGEMENT FRAMEWORK (CONTINUED)								
(e)	Major Risks (continued)								
1	Insurance Risk (continued)								
1.6	Gross estimated general insurance claims liabilities for 2017								
	Accident year								
	At end of accident year	341,434	517,686	398,457	371,250	423,208	465,667	508,386	511,495
	One year later	337,476	576,361	303,710	300,665	376,209	419,774	429,937	
	Two years later	302,276	560,720	280,268	287,955	348,493	413,319		
	Three years later	284,634	542,166	270,279	276,265	357,115			
	Four years later	274,589	549,550	242,811	275,481				
	Five years later	287,580	562,742	240,381					
	Six years later	287,973	562,544						
	Seven years later	312,867							
	Current estimate of cumulative claims incurred	312,867	562,544	240,381	275,481	357,115	413,319	429,937	511,495
	At end of accident year	(84,613)	(150,885)	(71,742)	(96,053)	(134,887)	(120,578)	(158,548)	(180,681)
	One year later	(188,536)	(370,422)	(175,731)	(205,404)	(271,312)	(335,296)	(319,636)	
	Two years later	(233,135)	(408,647)	(206,679)	(233,636)	(306,064)	(364,033)		
	Three years later	(250,711)	(490,153)	(219,270)	(253,229)	(329,162)			
	Four years later	(257,667)	(506,269)	(232,085)	(263,977)				
	Five years later	(264,826)	(556,579)	(234,380)					
	Six years later	(271,019)	(557,352)						
	Seven years later	(272,382)							
	Cumulative payments to-date	(272,382)	(557,352)	(234,380)	(263,977)	(329,162)	(364,033)	(319,636)	(180,681)

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Major Risks (continued)

1 Insurance Risk (continued)

1.6 Gross estimated general insurance claims liabilities for 2017 (continued)

<u>Accident year</u>	<u>Prior years</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Outstanding claims	13,600	40,485	5,192	6,001	11,504	27,953	49,286	110,301	330,814	595,136
Claims handling expenses										19,223
Total gross central estimate Risk margin										614,359
Gross insurance claims liabilities per statement of financial position (Note 14(i))										65,518
										679,877

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29 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

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

1 **Insurance Risk (continued)**

1.7 **Net estimated general insurance claims liabilities for 2018**

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

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29 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

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

1 **Insurance Risk (continued)**

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

Accident year	2011	2012	2013	2014	2015	2016	2017	2018	Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Outstanding claims	1,333	1,531	7,312	10,887	18,965	38,410	84,227	241,068	402,956
Claims handling expenses	(777)								18,632
Total net central estimate									421,588
Risk margin									45,470
Net insurance claims liabilities per statement of financial position (Note 14(i))									467,058

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

1 Insurance Risk (continued)

1.7 Net estimated general insurance claims liabilities for 2017

<u>Accident year</u>	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2017</u> RM'000
At end of accident year	196,025	208,442	244,587	236,777	268,001	294,111	383,254	406,854
One year later	191,010	197,134	221,715	218,056	260,354	283,517	338,221	
Two years later	176,458	188,216	209,725	214,151	254,350	281,604		
Three years later	167,717	174,254	203,991	211,227	252,284			
Four years later	161,042	172,426	170,937	210,248				
Five years later	162,429	170,747	170,138					
Six years later	162,110	170,762						
Seven years later	161,426							
Current estimate of cumulative claims incurred	161,426	170,762	170,138	210,248	252,284	281,604	338,221	406,854
At end of accident year	(66,631)	(64,932)	(62,070)	(81,305)	(98,723)	(104,029)	(139,422)	(161,085)
One year later	(123,660)	(138,241)	(134,276)	(164,280)	(199,461)	(224,228)	(265,183)	
Two years later	(144,316)	(158,010)	(153,936)	(185,353)	(226,243)	(246,896)		
Three years later	(151,954)	(165,403)	(160,321)	(198,795)	(235,817)			
Four years later	(155,515)	(167,527)	(163,794)	(200,465)				
Five years later	(156,571)	(168,597)	(165,619)					
Six years later	(159,339)	(168,514)						
Seven years later	(159,661)							
Cumulative payments to-date	(159,661)	(168,514)	(165,619)	(200,465)	(235,817)	(246,896)	(265,183)	(161,085)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Major Risks (continued)
1 Insurance Risk (continued)

1.7 Net estimated general insurance claims liabilities for 2017 (continued)

<u>Accident year</u>	<u>Prior years</u>		<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2017</u> RM'000	<u>Total</u> RM'000
	1,769	1,765									
Outstanding claims		1,765		2,248	4,519	9,783	16,467	34,708	73,038	245,769	390,066
Claims handling expenses											19,223
Total net central estimate Risk margin											409,289
Net insurance claims liabilities per statement of financial position (Note 14(i))											43,829
											453,118

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk

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

2.1 Credit risk

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

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

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

Credit exposure

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

	<u>2018</u> RM'000	<u>2017</u> RM'000
AFS	1,199,639	1,078,067
Reinsurance assets – claims liabilities	202,906	226,759
Insurance receivables	133,313	154,233
Other receivables *	64,689	61,897
Cash and cash equivalents	315,188	335,625
	<u>1,915,735</u>	<u>1,856,581</u>

*Excluding prepayments which are not subject to credit risk.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

Credit exposure by credit rating

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

	<u>Neither past- due nor impaired</u> RM'000	<u>Not past- due but impaired</u> RM'000	<u>Past due and impaired</u> RM'000	<u>Total</u> RM'000
<u>31 December 2018</u>				
AFS	1,199,639	-	-	1,199,639
Reinsurance assets – claims liabilities	202,906	-	-	202,906
Insurance receivables	12,420	72,160	61,499	146,079
Allowance for impairment of doubtful Debts	-	(505)	(12,261)	(12,766)
Other receivables	64,689	-	-	64,689
Cash and cash equivalents	315,188	-	-	315,188
	<u>1,794,842</u>	<u>71,655</u>	<u>49,238</u>	<u>1,915,735</u>
<u>31 December 2017</u>				
AFS	1,078,067	-	-	1,078,067
Reinsurance assets – claims liabilities	226,759	-	-	226,759
Insurance receivables	15,104	88,988	61,518	165,610
Allowance for impairment of doubtful debts	-	(1,981)	(9,396)	(11,377)
Other receivables	61,897	-	-	61,897
Cash and cash equivalents	335,625	-	-	335,625
	<u>1,717,452</u>	<u>87,007</u>	<u>52,122</u>	<u>1,856,581</u>

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NOTES TO THE FINANCIAL STATEMENTS
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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

The ageing analysis of insurance receivables is as follows:

	Neither past due nor impaired RM'000	Not past- due but impaired 0-3 months RM'000	Past due and impaired 3-6 months RM'000	Past due and impaired >6 months RM'000	Total RM'000
<u>31 December 2018</u>					
Insurance receivables	12,420	72,160	35,702	25,797	146,079
Allowance for impairment of doubtful debts	-	(505)	(4,112)	(8,149)	(12,766)
	<u>12,420</u>	<u>71,655</u>	<u>31,590</u>	<u>17,648</u>	<u>133,313</u>
<u>31 December 2017</u>					
Insurance receivables	15,104	88,988	34,129	27,389	165,610
Allowance for impairment of doubtful debts	-	(1,981)	(792)	(8,604)	(11,377)
	<u>15,104</u>	<u>87,007</u>	<u>33,337</u>	<u>18,785</u>	<u>154,233</u>

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

	Government Guaranteed RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
<u>31 December 2018</u>							
AFS	755,469	177,994	243,617	15,330	6,854	375	1,199,639
Reinsurance assets							
- Claims liabilities	-	-	138,424	53,791	-	10,691	202,906
Insurance receivables	-	-	552	577	-	132,184	133,313
Other receivables	-	-	-	-	-	64,689	64,689
Cash and cash Equivalents	-	265,272	7,683	40,724	101	1,408	315,188
	<u>755,469</u>	<u>443,266</u>	<u>390,276</u>	<u>110,422</u>	<u>6,955</u>	<u>209,347</u>	<u>1,915,735</u>

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NOTES TO THE FINANCIAL STATEMENTS
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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

	<u>Government Guaranteed</u> RM'000	<u>AAA</u> RM'000	<u>AA</u> RM'000	<u>A</u> RM'000	<u>BBB</u> RM'000	<u>Not rated</u> RM'000	<u>Total</u> RM'000
<u>31 December 2017</u>							
AFS	680,214	162,879	222,948	5,120	6,531	375	1,078,067
Reinsurance assets							
- Claims liabilities	-	-	165,436	49,865	-	11,458	226,759
Insurance receivables	-	-	497	431	-	153,305	154,233
Other receivables	-	-	-	-	-	61,897	61,897
Cash and cash equivalents	-	263,865	7,559	62,585	94	1,522	335,625
	<u>680,214</u>	<u>426,744</u>	<u>396,440</u>	<u>118,001</u>	<u>6,625</u>	<u>228,557</u>	<u>1,856,581</u>

Impaired financial assets

As at 31 December 2018, insurance receivables of RM12,766,000 (2017: RM11,377,000) were impaired based on individual and collective assessment. An insurance receivable is considered as individually impaired if the counterparty is in the process of liquidation, legal actions has been taken to recover the outstanding balance disputed, defaulted or delinquent in payment. Insurance receivables with insignificant balances are grouped together and assessed collectively based on past payment trends.

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

	<u>Note</u>	<u>2018</u> RM'000	<u>2017</u> RM'000
At 1 January		11,377	10,049
Charge for the financial year	23	1,389	1,328
At 31 December		<u>12,766</u>	<u>11,377</u>

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.1 Credit risk (continued)

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

In addition, the Company has no impairment (2017: RM Nil) from its investment in debts securities in accordance to the Company's accounting policy as disclosed in Note 2(e)(v) to the financial statements.

2.2 Liquidity risk

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

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

Maturity profiles

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

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

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

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

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

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

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29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

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

Maturity profiles (continued)

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
<u>31 December 2018</u>								
Insurance contract liabilities								
– claims liabilities	669,964	366,102	226,202	49,620	28,040	-	-	669,964
Insurance payables	68,674	68,674	-	-	-	-	-	68,674
Other payables	167,422	145,302	21,749	1,067	15	-	-	168,133
Total liabilities	906,060	580,078	247,951	50,687	28,055	-	-	906,771

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

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

Maturity profiles (continued)

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
<u>31 December 2017</u>								
Financial instruments:								
AFS	1,078,067	87,493	514,509	377,816	230,115	8,305	375	1,218,613
Reinsurance assets	226,759	116,744	80,839	20,146	9,030	-	-	226,759
- claims liabilities	154,233	154,233	-	-	-	-	-	154,233
Insurance receivables	61,897	61,897	-	-	-	-	-	61,897
Other receivables	335,625	336,001	-	-	-	-	-	336,001
Cash and cash equivalents								
Total assets	1,856,581	756,368	595,348	397,962	239,145	8,305	375	1,997,503

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Major Risks (continued)

2 Financial Risk (continued)

2.2 Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Within a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
<u>31 December 2017</u>								
Insurance contract liabilities								
– claims liabilities	679,877	379,366	222,049	53,784	24,678	-	-	679,877
Insurance payables	70,078	70,078	-	-	-	-	-	70,078
Other payables	153,352	128,232	23,946	1,880	-	-	-	154,058
Total liabilities	903,307	577,676	245,995	55,664	24,678	-	-	904,013

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

2 Financial Risk (continued)

2.3 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk, namely foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

2.3.1 Foreign currency risk

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

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

2.3.2 Interest rate risk

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

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

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

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

	Variable charges	2018		2017	
		Impact on income statement RM'000	Impact on equity* RM'000	Impact on income statement RM'000	Impact on equity* RM'000
Interest rate	+100 basis points	-	(18,368)	-	(20,608)
Interest rate	-100 basis points	-	18,368	-	20,608

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

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

2.3.3 Equity price risk

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

The Company is exposed to equity price risk arising from investment held by the Company and classified in the statement of financial position as available-for-sale financial assets that mainly consists of unquoted equities amounting to RM 375,000 (2017: RM375,000).

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

3 Operational Risk

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

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access control, authorisation and reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit.

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Major Risks (continued)

Capital structure

The capital structure of the Company as at 31 December 2018, as prescribed under the RBC Framework is provided below:

	<u>2018</u> RM'000	<u>2017</u> RM'000
Eligible Tier 1 Capital:		
Share capital	100,000	100,000
Retained earnings	669,533	582,952
	<u>769,533</u>	<u>682,952</u>
Tier 2 Capital:		
AFS reserves	1,306	2,184
Equity reserve	10,295	7,703
Amount deducted from capital	(25,844)	(24,617)
	<u>755,290</u>	<u>668,222</u>
Total capital available	<u><u>755,290</u></u>	<u><u>668,222</u></u>