

**Asia Capital Reinsurance Malaysia
Sdn. Bhd.**

(Company No. 200701004295 (762294-T))
(Incorporated in Malaysia)

**Financial statements for the year
ended 31 December 2019**

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))
(Incorporated in Malaysia)

Directors' report for the year ended 31 December 2019

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

Principal activities

The Company is principally engaged in the underwriting of general reinsurance business. Effective from 5 December 2019, the Company has ceased the underwriting of new general reinsurance business.

Results

| | RM'000 |
|---------------------|---------------|
| Profit for the year | <u>21,361</u> |

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

Directors of the Company

Directors who served during the financial year until the date of this report are:

Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir
Law Song Keng (Resigned w.e.f. 31 December 2019)
Sim Hwee Cher (Appointed w.e.f. 1 January 2020)
Datuk Mohd Najib Bin Hj. Abdullah
Sergei Alexeyevich Korol (Resigned w.e.f. 31 March 2020)

Directors' interests in shares

None of the Directors holding office at 31 December 2019 had any interest in the ordinary shares or debentures of the Company and of its related corporations during the financial year.

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Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in Note 25 to the financial statements or the fixed salary of a full time employee of the Company or of related corporations) 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.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares

There were no changes in the issued share capital of the Company during the financial year.

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and insurance cost

During the financial year, the sum insured of the insurance for indemnity cover for the Directors and Officers of the Group is SGD50,000k (approximately RM152,060k). The Group includes ACR Capital Holdings Pte. Ltd., Asia Capital Reinsurance Group Pte. Ltd., Asia Capital Reinsurance Malaysia Sdn. Bhd., ACR ReTakaful Holdings Ltd., ACR ReTakaful MEA B.S.C (c), ACR ReTakaful Bhd., Concord Insurance Company Limited, and ACR Holdings Limited. The Company does not extend the cover to the auditors.

Provision for insurance liabilities

Before the statement of profit or loss and other comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework for Insurers.

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Other statutory information

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that:

- (i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) any current assets which were unlikely to be realised in the ordinary course of the business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or
- (ii) that would render the amount of provision for insurance liabilities, inadequate to any substantial extent, or
- (iii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or
- (iv) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or
- (v) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Company misleading.

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

- (i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

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| Company No. 200701004295 (762294-T) |
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Board of Directors

The following is the details and the meeting attendance of each Director at board and board committee meetings during the financial year:

1. Board of Directors Meeting

| Name | Attendance |
|--|------------|
| <u>Non-Independent Executive Director</u> | |
| Sergei Alexeyevich Korol (Resigned w.e.f. 31 March 2020) | 5/5 |
| <u>Independent Non-Executive Directors</u> | |
| Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir (Chairman) | 5/5 |
| Datuk Mohd Najib Bin Hj. Abdullah | 5/5 |
| Law Song Keng (Resigned w.e.f. 31 December 2019) | 5/5 |
| Sim Hwee Cher (Appointed w.e.f. 1 January 2020) | - |

2. Audit Committee Meeting

| Name | Attendance |
|---|------------|
| Law Song Keng (Chairman) (Resigned w.e.f. 31 December 2019) | 4/4 |
| Sim Hwee Cher (Chairman) (Appointed w.e.f. 1 January 2020) | - |
| Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir | 4/4 |
| Datuk Mohd Najib Bin Hj. Abdullah | 4/4 |

3. Risk Management Committee Meeting

| Name | Attendance |
|--|------------|
| Datuk Mohd Najib Bin Hj. Abdullah (Chairman) | 4/4 |
| Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir | 4/4 |
| Law Song Keng (Resigned w.e.f. 31 December 2019) | 4/4 |
| Sim Hwee Cher (Appointed w.e.f. 1 January 2020) | - |

Board of Directors (continued)

4. Nominating Committee Meeting

| Name | Attendance |
|--|------------|
| Datuk Mohd Najib Bin Hj. Abdullah (Chairman) | 1/1 |
| Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir | 1/1 |
| Sergei Alexeyevich Korol (Resigned w.e.f. 31 March 2020) | 1/1 |
| Law Song Keng (Resigned w.e.f. 31 December 2019) | 1/1 |
| Sim Hwee Cher (Appointed w.e.f. 1 January 2020) | - |

5. Remuneration Committee Meeting

| Name | Attendance |
|---|------------|
| Law Song Keng (Chairman) (Resigned w.e.f. 31 December 2019) | 1/1 |
| Sim Hwee Cher (Chairman) (Appointed w.e.f. 1 January 2020) | - |
| Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir | 1/1 |
| Datuk Mohd Najib Bin Hj. Abdullah | 1/1 |

The maximum tenure of an Independent Non-Executive Director (“INED”) shall be upon him having served 9 years from the date of his first appointment as Director or upon the expiry of his prevailing term of appointment as Director as approved by Bank Negara Malaysia (“BNM”), whichever is the later date.

Upon reaching such maximum tenure, the INED shall, subject to approval of BNM for his re-appointment as Director, remains as a Director but shall be re-designated as Non-Independent Non-Executive Director.

All Board members have complied with the requirement of serving on the Board of not more than fifteen companies.

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Board of Directors (continued)

Profile of Directors

The following are the profile of the Directors of the Company:

Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir Independent Non-Executive Director

Datuk Dr. Syed Muhamad bin Syed Abdul Kadir, graduated with a Bachelor of Arts (Hons.) from University Malaya in 1971. He obtained a Masters of Business Administration from the University of Massachusetts, USA in 1977 and proceeded to obtain a PhD (Business Management) from Virginia Polytechnic Institute and State University, USA in 1986. In 2005, he obtained a Bachelor of Jurisprudence (Hons.) from University Malaya. He obtained the Certificate in Legal Practise in 2008 from the Malaysian Professional Legal Board. He was admitted as an Advocate and Solicitor of the High Court of Malaya in July 2009, and obtained the Master of Law (Corporate Law) from Universiti Teknologi Mara (UiTM) in November 2009. In June 2011, he became a member of The Chartered Institute of Arbitrators, United Kingdom and in May 2012, he became the fellow of the said Institute.

He started his career in 1973 as Senior Project Officer, School of Financial Management at the National Institute of Public Administration (INTAN) and held various positions before his final appointment as Deputy Director (Academic). In November 1988, he joined the Ministry of Education as Secretary of Higher Education and thereafter assumed the post of Deputy Secretary (Foreign and Domestic Borrowing, Debt Management), Finance Division of the Federal Treasury. From June 1993 to June 1997, he joined the Board of Directors, Asian Development Bank, Manila, Philippines, first as Alternate Director and later as Executive Director.

Datuk Dr. Syed Muhamad then joined the Ministry of Finance as Secretary (Tax Division) and subsequently became the Deputy Secretary General (Operations) of Ministry of Finance. Prior to his retirement, Datuk Dr. Syed was Secretary General, Ministry of Human Resource from August 2000 to February 2003.

During his career, he wrote and presented many papers relating to human resource development. His special achievement was that his dissertation "A Study on Board of Directors and Organizational Effectiveness" was published by Garland Publisher, Inc. of New York in 1991.

Datuk Dr. Syed is the Chairman of Sun Life Malaysia Assurance Berhad, Sun Life Malaysia Takaful Berhad and CIMB-Principal Islamic Asset Management Sdn. Bhd.. He is also a Director of Malakoff Corporation Berhad, BSL Corporation Berhad, Solution Engineering Holdings Berhad and ACR ReTakaful Berhad. He also holds directorships in a number of private companies.

Law Song Keng (Resigned w.e.f. 31 December 2019) Independent Non-Executive Director

Law Song Keng holds a BSc (First Class Honours in Mathematics) from University of Singapore, MSc(Actuarial Science) from Northeastern University USA, Fellowship of Society of Actuaries USA, and Honorary Fellowship of Singapore Insurance Institute. He attended the Advanced Management Program in Harvard University USA.

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Board of Directors (continued)

Profile of Directors (continued)

Law Song Keng (Resigned w.e.f. 31 December 2019) (continued)

Independent Non-Executive Director (continued)

Currently, he is a Director of IFS Capital Ltd., Director of Great Eastern Holdings Ltd., Chairman of Frasers Hospitality Asset Management Pte. Ltd., Chairman of Frasers Hospitality Trust Management Pte. Ltd. and Chairman of Concord Insurance Company Ltd (Hong Kong).

His previous awards and honours include Entrance Scholarship from University of Singapore, Public Service Commission Scholarships for Actuarial Programmes at Northeastern University USA, National Day Award – Public Service Star (Bintang Bakti Masyarakat) conferred by the President of Singapore, and the Asia Insurance Industry “Personality of the Year Award 2001” – Asia Insurance Review Magazine.

Sim Hwee Cher (Appointed w.e.f. 1 January 2020)

Independent Non-Executive Director

Mr Sim Hwee Cher currently serves as Director at Asia Capital Reinsurance Group Pte. Ltd., ACR Capital Holdings Pte. Ltd., NTUC Income Co-Operative Limited, UOL Group Ltd., Mandai Park Holdings Pte. Ltd. and The Esplanade Co Ltd. In addition, he is Council member of Community Chest of Singapore and National Youth Achievement Award Association and Member of the Advisory Board for the Duke-NUS Centre for Ageing, Research and Education.

He was previously from PricewaterhouseCoopers LLP Singapore where he held the roles of Vice Chairman (Operations), Assurance leader, member of the Leadership Team and member of the Executive Board of the China, Hong Kong, Singapore and Taiwan firm.

Mr Sim holds a Bachelor of Accountancy (Honours) from National University of Singapore. He is a Fellow of the Chartered and Certified Accountants of UK and also a Fellow of the Certified Public Accountants of Australia.

Datuk Mohd Najib Bin Hj. Abdullah

Independent Non-Executive Director

Datuk Mohd Najib Bin Hj. Abdullah is currently the Chairman of Etiqa General Insurance Berhad and Etiqa Life Insurance Berhad. He is also a board member of Maybank Ageas Holdings Berhad and ACR ReTakaful Berhad.

Datuk Mohd Najib was formerly Group Managing Director of the Malaysian Industrial Development Finance Berhad, Chief Executive Officer of MIDF Amanah Investment Bank Berhad and the Chief Executive Officer/Executive Director of Malaysia National Insurance Berhad. He started his career as a Management Accountant with Hewlett Packard, and later served in Citigroup/Citibank whereby he had held several senior management roles.

His Majesty Seri Paduka Baginda Yang di-Pertuan Agong conferred the “Panglima Jasa Negara” to Datuk Mohd. Najib in June 2010 and His Majesty Tuanku Raja Perlis conferred the “Dato’ Paduka Mahkota Perlis” in May 2013.

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Board of Directors (continued)

Profile of Directors (continued)

Sergei Alexeyevich Korol (Resigned w.e.f. 31 March 2020) Non-Independent Executive Director

Sergei Alexeyevich Korol is currently the Chief Financial Officer in ACR Capital Holdings Pte. Ltd., Director of ACR ReTakaful Berhad, ACR ReTakaful MEA B.S.C (c) and ACR ReTakaful Holdings Limited. He joined the ACR group in 2015, bringing him 18 years of insurance experience, particularly in financial stewardship. He was previously with Chubb Group in Hong Kong, Metlife Inc., and various AIG operating life companies. Sergei has a Master of Arts (International Studies) from John Hopkins University, US and a Master in Business Administration from INSEAD, Singapore. He is a CFA Charterholder.

Trainings attended

The following are the trainings attended by the Directors:

- Speaking on Development of Insurance Law in Malaysia
- Training on: Latest amendments to the Listing Requirements, Roles and responsibilities of Directors, Board and Board Committees under the Listing Requirements and Malaysian Code on Corporate Governance and Common breaches of the Listing Requirements with case studies
- Forum on “2nd Distinguished Board Leadership Series: Rethinking Strategy”
- Talk on “CG Watch: How Does Malaysia Rank”
- Bursa Advocacy on Diversity: “Demystifying the Diversity Conundrum: The Road to Business Excellence”
- Financial Industry Conference (FIC) 2019
- Independent Directors Programme on “The Essence of Independence”
- 2nd PIDM – FIDE Forum Annual Dialogue with the CEO of PIDM to discuss key issue on deposit insurance and a strategic overview of PIDM’s evolution and future plans
- FIDE Forum on “3rd Distinguished Board Leadership Series: Artificial Intelligence and its Role in FIs”
- FIDE Forum – ISRA Program – “Value Based Intermediation: Director’s Role”
- Panel Slot Wacana Intelektual: CEO@Faculty: Charting Your Career Path
- Penceramah bagi Program Seminar Persediaan Kerjaya untuk Pelajar Fakulti Ekonomi and Muamalat
- Khazanah Megatrends Forum
- 16th Annual Asia Pacific Investor Conference 2019 by Citi
- CLOUDSEC Singapore | See. Secure. Go Further!
- INSEAD event on US China and de-globalisation
- CCH® Tagetik Day in Singapore
- RBC2 Industry Town Hall by MAS
- PNB Leadership Forum 2019
- IFRS 17 – Overview and Its Impact on Etiqa Group
- Etiqa Annual Risk Workshop
- FIDE Module A Insurance
- Ageas Partnership Days
- FIDE Module B Insurance
- PNB Corporate Summit 2019
- ACRA-SID Audit Seminar
- Board Chairman Conversation
- SID Nomination Committee Chairman

Statement on corporate governance and internal controls

i) Board responsibilities

In discharging its duties, the Board of Directors (“the Board”) is responsible for ensuring compliance with the Financial Services Act 2013, BNM’s Guidelines and other directives. The Board also has taken concerted steps to ensure compliance with BNM’s guideline on Corporate Governance (BNM/RH/PD 029-9) issued on 3 August 2016.

The duties and responsibilities of the Board are as follows:

- (i) Approve the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company’s risk profile;
- (ii) Oversee the selection, performance, remuneration and succession plans of the Chief Executive Officer (“CEO”), 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;
- (iii) 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;
- (iv) Promote, together with senior management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;
- (v) Promote sustainability through appropriate environmental, social and governance considerations in the Company’s business strategies;
- (vi) 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
- (vii) Promote timely and effective communication between the Company and the BNM on matters affecting or that may affect the safety and soundness of the Company.

The following are the Committees established to assist the Board in discharging its responsibilities:

Audit Committee

The Audit Committee (“AC”), comprising non-executive and independent members of the Board, meets regularly and a total of four (4) meetings were held during the year ended 31 December 2019. AC reviews the annual audited financial statements of the Company which is then tabled to the Board for approval. The activities of the AC are governed by its Terms of Reference that are approved by the Board.

Statement on corporate governance and internal controls (continued)

i) Board responsibilities (continued)

Audit Committee (continued)

The duties and responsibilities of the AC are as follows:

- (i) To review and report the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its works;
- (ii) To review the results of the Company's internal audit procedures and the adequacy of actions taken by the management based on the reports;
- (iii) To ensure that the external auditors fulfil the minimum qualification criteria set by BNM and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors (including their remuneration, terms of engagement and scope of the external audit);
- (iv) To review the external and internal audit plans; and assess the effectiveness of the audit process, discuss with the external and internal auditors the findings of their work and any major issue that arose during the course of the audit or any other matters which the auditors may wish to discuss;
- (v) To review and approve non-audit services rendered by the external auditors;
- (vi) To review the annual audited financial statements of the Company and thereafter submit them to the Board for approval;
- (vii) To review the adequacy and effectiveness of risk management and internal control systems instituted within the Company;
- (viii) To review any related party transactions and conflicts of interest situations that may arise within the Company; and
- (ix) To perform any other functions as may be agreed by the AC and the Board of Directors.

Risk Management Committee

The Company has in place a formal and integrated enterprise-wide risk management framework to identify, evaluate and manage risks by identifying all major risks in critical areas of operations, assessing the possible impact of significant exposures and risk mitigation measures taken.

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

- (i) To oversee the management's activities in managing the key risk areas of the Company and to ensure that the risk management actions are consistent with the risk strategy and policies, including effective implementation of the risk management framework;

Statement on corporate governance and internal controls (continued)

i) Board responsibilities (continued)

Risk Management Committee (continued)

- (ii) To review and recommend risk management strategies, policies and risk tolerance for the Boards' approval;
- (iii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
- (iv) To ensure that adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staffs are responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities; and
- (v) To review various risk management reports on corporate key risks, risk-based capital (i.e. capital adequacy ratio) and stress testing (i.e. ICAAP documents), actuarial reserving, financial condition, asset liability management, risk position against risk appetite/tolerance limit, strategic and tactical asset allocation, credit counterparty assessment, retrocession programme, business continuity management and other risk management activities.

Nominating Committee

The Nominating Committee has the responsibility of assessing and reviewing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO.

The duties and responsibilities of the Nominating Committee are as follows:

- (i) To establish the minimum requirements for the Board and the CEO to perform their responsibilities effectively;
- (ii) To oversee the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive, Non-Executive and Independent Directors, and mix of skills and other core competencies required;
- (iii) To assess and recommend nominees for directorship, the Directors nominated to serve on Board Committees, as well as nominees for the position of CEO. This would include assessing Directors and the CEO proposed for re-appointment, before an application for approval is submitted to BNM;
- (iv) To establish a formal mechanism for annual review and assessment on the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO;

Statement on corporate governance and internal controls (continued)

i) Board responsibilities (continued)

Nominating Committee (continued)

- (v) To carry out annual assessments on the fitness and propriety of Directors and CEO;
- (vi) To ensure that all Directors undergo appropriate induction programmes and receive continuous training;
- (vii) To carry out annual reviews of the Fit and Proper Policy (including recommendation of nominees for key positions to the Board in accordance with the said Policy. In respect of the Appointed Actuary, the Nominating Committee must also ensure and be satisfied that the candidate fulfills the specific requirements prescribed by Bank Negara Malaysia); and
- (viii) To oversee the appointment, management succession planning and performance evaluation of key senior officers and recommending to the Board the removal of key senior officers if they are ineffective, errant or negligent in discharging their responsibilities.

Remuneration Committee

The Remuneration Committee has the responsibility of reviewing and recommending to the Board a framework of remuneration including employee benefits such as salaries, social security contributions, paid annual leave, paid sick leave, bonuses and retirement benefits for the employees of the Company as well as the Directors and the CEO.

The duties and responsibilities of Remuneration Committee are as follows:

- (i) To make decisions in reference to the Company, business unit and individual performance, together with a review of current industry and market trends, market benchmark compensation information and any other relevant business or market information;
- (ii) To link the annual performance review in both quantitative and qualitative assessments of the relevant work performance, of individuals and includes a discretionary variable compensation component linked to overall company performance;
- (iii) To reward discretionary variable compensation to all individuals based on individual's performance against individual, business-unit and firm-wide measures that are agreed and decided for each individual for the relevant performance assessment year;
- (iv) To ensure a transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of Directors and key senior officers;
- (v) To approve the service contracts of the Executive Directors and key senior officers;
- (vi) To determine the targets for any performance related pay schemes operated by the Company and reviewing key performance indicators;

Statement on corporate governance and internal controls (continued)

i) Board responsibilities (continued)

Remuneration Committee (continued)

- (vii) To ensure that any contractual terms on termination and retirement and any payments made are fair to the individual and the Company, that a non-performer is not rewarded and that the duty to mitigate loss is fully recognised; and
- (viii) To ensure that the Company's human resource policy, practices and guidelines are in accordance with the applicable labour statute(s) and guidelines.

ii) Management accountability

Whilst the Board is responsible for creating the framework and policies within which the Company should operate, the management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

iii) Corporate independence

All material related party transactions have been disclosed in Note 28 to the financial statements.

iv) Risk management framework

The Company maintains a risk management framework that is designed to be consistent with the basic principles of sound management practices.

The framework is made of a Policy Statement that is implemented and monitored by using a "five-line-of-defence" model. The model comprises five (5) elements of risk governance, which are as follows:

- Business units and operation team: the first line of defence – Primarily responsible for risk identification and management;
- Independent risk management and compliance functions: the second line of defence – Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed;
- Internal audit function: the third line of defence – Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided;
- Management and CEO: the fourth line of defence – Establish clear guidance on business and risk strategy and ensure effective risk controls; and
- Board Risk assessment: the fifth line of defence – Provide effective oversight to ensure consistency with risk strategy and policies and leading the tone-at-the-top to ensure sound control environment.

Statement on corporate governance and internal controls (continued)

v) Financial reporting

The Directors are responsible for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with applicable approved Malaysian Financial Reporting Standards ("MFRSs") issued by the Malaysian Accounting Standards Board ("MASB"), accounting principles generally accepted in Malaysia, the Companies Act 2016, and the Financial Services Act, 2013.

vi) Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

Remuneration policy

In line with best practice to ensure appropriate levels of remuneration to directors and employees,

- (a) the management has conducted a limited survey on the fees for Non-Executive Directors paid by other insurance and reinsurance companies of Malaysia. The information obtained is used as a guide for the Remuneration Committee to determine the fees payable to the Company's Non-Executive Directors.
- (b) the management participated in an annual salary benchmarking survey (with the rest of the Malaysia Insurance Industry) conducted by Willis Towers Watson, which information and details are used by management to guide the annual salary levels and increments appropriate for the Company's employees.

Remuneration Structure

Salary

All employees in the Company receive a fixed salary, consisting of a base salary paid monthly according to the position and function. The salary level is evaluated on an annual basis with no secure or contractual increase.

Employee Benefits

Employee benefits are optional, non-wage compensation provided to employees in addition to their normal wages or salaries. These types of benefits may include group insurance, maternity, education assistance, leave, mobile, parking and etc.. The entitlement may vary by the level positions in the Company. These benefits may be amended, removed or increased at the discretion of the Company.

Remuneration Structure (continued)

Performance Bonus

The Company uses variable cash remuneration in the form of performance bonuses to incentivise and reward high and sustainable performances. The Company does not award guaranteed bonuses. The bonuses granted for the year reflect performances relative to the financial and non-financial key performance indicators (“KPIs”) and target set in the business plan.

The Company does not have any clawback arrangements with the employees. To mitigate risks, the Company subscribes to prudent remuneration practices.

Performance measures and the link to strategy

Performance metrics adopted include financial KPIs linked to the achievement of the Company’s strategy and goals.

Financial KPIs are:

1. Gross Written Premium
2. Gross Technical Combined Ratio
3. Gross Operating Expenditures Ratio
4. Return on Equity
5. 3 Years Strategy

Non-financial KPIs are part of the individual KPIs for staff, including KPIs for Governance Building the Company, People and Leadership, identifying agreed projects or initiatives which serve to increase the Company’s sustainability and capability in the future.

In evaluating the performance metric, 3 target levels are determined.

- Minimum % : Point where incentive payment begins. Below this level, no incentives are earned. This encourages best efforts even if target is unachievable
- Target % : Expected target performance as approved in the Business and Budget Plan
- Maximum % : Beyond this point, no extra incentives are earned. This prevents the risks of over associated with over leveraging

Once the Corporate KPIs are agreed between the Board and the CEO, the CEO will cascade the key performance indicators down to the rest of the Management team, and set supplementary key performance indicators for each of his reporting business/functional units.

Then, manager and employee jointly set KPIs aligned with the Corporate targets and agree on KPIs weightage.

Each employee performance assessment will be measured on the KPIs and company core values.

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Remuneration Structure (continued)

Material Risk Takers

Material risk takers as defined by BNM in its policy document on Corporate Governance are employees who may or may not be a member of the senior management and:

- can materially commit or control significant amounts of the Company's resources or whose actions are likely to have significant impact on its risk profile; or
- is among the most highly remunerated officers in the Company.

As defined above, the Company's material risk takers comprise of employees undertaking the following roles:

1. CEO
2. Head of Finance
3. Head of Risk and Compliance
4. Head of Claims
5. Investment Manager

| Table A | | |
|--|---------------------|-----------------|
| Total value of remuneration awards for the financial year | Unrestricted | Deferred |
| | RM | RM |
| Fixed remuneration | | |
| • Cash-based | 1,331,868 | Nil |
| • Shares and share-linked instruments | Nil | Nil |
| • Other | Nil | Nil |
| Variable remuneration | | |
| • Cash-based | 199,876 | Nil |
| • Shares and share-linked instruments | Nil | Nil |
| • Other | Nil | Nil |

Significant event during the year

The significant event during the year is as disclosed in Note 33 to the financial statements.

Company No. 200701004295 (762294-T)

Immediate holding and ultimate holding companies

The immediate and ultimate holding companies are Asia Capital Reinsurance Group Pte. Ltd. and ACR Capital Holdings Pte. Ltd., respectively, both companies incorporated in Singapore. The ultimate holding company has changed to Catalina Holdings (Bermuda) Ltd. after the financial year on 31 March 2020 and has remained as the ultimate holding company of the Company until the date of this report.

Auditors

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 25 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board:



.....
Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir
Kuala Lumpur, Malaysia



.....
Sim Hwee Cher
Singapore

Date: **15 JUN 2020**

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))

(Incorporated in Malaysia)

Statement of financial position as at 31 December 2019

| | Note | 2019 RM'000 | 2018 RM'000 |
|-------------------------------------|------|----------------|----------------|
| Assets | | | |
| Property and equipment | 3 | 9,039 | 8,738 |
| Right-of-use assets | 4 | 79 | - |
| Investment properties | 5 | 32,270 | 34,455 |
| Investments | 6 | 367,428 | 329,539 |
| Reinsurance assets | 7 | 293,902 | 326,838 |
| Insurance receivables | 8 | 72,641 | 34,295 |
| Other receivables | 9 | 3,456 | 5,813 |
| Tax recoverable | | - | 3,950 |
| Deferred acquisition costs | 10 | 3,670 | 2,825 |
| Assets classified as held for sale | 12 | - | 2,385 |
| Cash and cash equivalents | 13 | 35,067 | 47,497 |
| Total assets | | <u>817,552</u> | <u>796,335</u> |
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 14 | 275,000 | 275,000 |
| Reserves | 14 | 33,837 | 4,469 |
| Total equity | | <u>308,837</u> | <u>279,469</u> |
| Liabilities | | | |
| Insurance contract liabilities | 15 | 445,899 | 462,868 |
| Lease liabilities | 16 | 79 | - |
| Insurance payables | 17 | 47,587 | 43,128 |
| Other payables | 18 | 11,030 | 10,451 |
| Tax payable | | 1,145 | - |
| Deferred tax liabilities | 11 | 2,975 | 419 |
| Total liabilities | | <u>508,715</u> | <u>516,866</u> |
| Total equity and liabilities | | <u>817,552</u> | <u>796,335</u> |

The notes on pages 25 to 94 are an integral part of these financial statements.

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))

(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

| | Note | 2019 RM'000 | 2018 RM'000 |
|--|-------|-----------------|------------------|
| Operating revenue | 19 | <u>127,355</u> | <u>137,369</u> |
| Gross earned premiums | 15(b) | 126,959 | 153,996 |
| Premiums ceded to reinsurers | 15(b) | <u>(91,709)</u> | <u>(122,531)</u> |
| Net earned premiums | 20 | <u>35,250</u> | <u>31,465</u> |
| Investment income | 21 | 18,777 | 15,673 |
| Realised gains and losses | 22 | 2,759 | 11 |
| Commission income | 23 | 27,738 | 27,204 |
| Fair value gain | 24 | 715 | - |
| Other operating income | 26 | <u>2,057</u> | <u>847</u> |
| Other revenue | | <u>52,046</u> | <u>43,735</u> |
| Gross benefits and claims paid | | (62,712) | (82,980) |
| Claims ceded to reinsurers | | 58,541 | 60,332 |
| Change in gross contract liabilities | | (1,412) | 66,147 |
| Change in contract liabilities ceded to reinsurers | | <u>(10,333)</u> | <u>(46,815)</u> |
| Net claims incurred | | <u>(15,916)</u> | <u>(3,316)</u> |
| Commission expenses | 23 | (29,186) | (31,951) |
| Fair value losses | 24 | - | (1,881) |
| Management expenses | 25 | (12,205) | (13,452) |
| Other operating expenses | 26 | <u>(1,503)</u> | <u>(763)</u> |
| Other expenses | | <u>(42,894)</u> | <u>(48,047)</u> |
| Profit before tax | | 28,486 | 23,837 |
| Tax expense | 27 | <u>(7,125)</u> | <u>(6,996)</u> |
| Profit for the year | | <u>21,361</u> | <u>16,841</u> |
| Profit for the year attributable to equity holders of Company | | <u>21,361</u> | <u>16,841</u> |

The notes on pages 25 to 94 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019 (continued)

| | Note | 2019 RM'000 | 2018 RM'000 |
|--|------|----------------|----------------|
| Profit for the year | | <u>21,361</u> | <u>16,841</u> |
| Other comprehensive income: | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| - Surplus/(Deficit) on property revaluation | | 544 | (238) |
| Items that may be reclassified subsequently to profit or loss | | | |
| Fair value of available-for-sale financial assets | | | |
| - Gains/(Losses) arising during the year | | 12,548 | (831) |
| - Reclassification adjustments for gains/(losses) included in profit or loss | | (2,759) | (11) |
| | 6(c) | <u>9,789</u> | <u>(842)</u> |
| | | 10,333 | (1,080) |
| Tax effect thereon: | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| - (Surplus)/Deficit on property revaluation | | (131) | 57 |
| - Impact of changes in tax rate to 24% | | - | (628) |
| | | (131) | (571) |
| Items that may be reclassified subsequently to profit or loss | | | |
| Fair value of available-for-sale financial assets | | | |
| - (Gains)/Losses arising during the year | | (2,857) | 199 |
| - Reclassification adjustments for losses/(gains) included in profit or loss | | 662 | 3 |
| | | <u>(2,195)</u> | <u>202</u> |
| Total other comprehensive income/(loss) for the year, net of tax | | <u>8,007</u> | <u>(1,449)</u> |
| Total comprehensive income for the year attributable to equity holders of Company | | <u>29,368</u> | <u>15,392</u> |

The notes on pages 25 to 94 are an integral part of these financial statements.

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))

(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2019

| | -----Non-Distributable----- | | | | (Accumulated losses)/ Retained earnings RM'000 | Total equity RM'000 |
|--|-----------------------------|-------------------------------------|---------------------------|--------------------------|--|---------------------|
| | Share capital RM'000 | Property revaluation reserve RM'000 | Available-for-sale RM'000 | Retained earnings RM'000 | | |
| At 1 January 2018 | 275,000 | 3,138 | (219) | (13,842) | 264,077 | |
| Fair value of available-for-sale financial assets | - | - | (632) | - | (632) | |
| Losses arising during the year | - | - | (8) | - | (8) | |
| Reclassification adjustments for losses included in profit or loss | - | (181) | - | - | (181) | |
| Surplus on revaluation | - | (628) | - | - | (628) | |
| Impact of changes in tax rate to 24% | - | - | - | - | - | |
| Profit for the year | - | - | - | 16,841 | 16,841 | |
| Total comprehensive income for the year | - | (809) | (640) | 16,841 | 15,392 | |
| At 31 December 2018 | 275,000 | 2,329 | (859) | 2,999 | 279,469 | |
| Note 14 | Note 14 | Note 14 | Note 14 | Note 14 | Note 14 | |

Company No. 200701004295 (762294-T)

Statement of changes in equity for the year ended 31 December 2019 (continued)

| | -----Non-Distributable----- | | | | Total equity RM'000 |
|--|-----------------------------|--|------------------------------|--|------------------------|
| | Share capital RM'000 | Property revaluation reserve RM'000 | Available-for-sale RM'000 | (Accumulated losses)/ Retained earnings RM'000 | |
| At 1 January 2019 | 275,000 | 2,329 | (859) | 2,999 | 279,469 |
| Fair value of available-for-sale financial assets | - | - | 9,691 | - | 9,691 |
| Gains arising during the year | - | - | (2,097) | - | (2,097) |
| Reclassification adjustments for losses included in profit or loss | - | 413 | - | - | 413 |
| Surplus on revaluation | - | - | - | 21,361 | 21,361 |
| Profit for the year | - | 413 | 7,594 | 21,361 | 29,368 |
| Total comprehensive income for the year | - | 413 | 7,594 | 21,361 | 29,368 |
| At 31 December 2019 | 275,000 | 2,742 | 6,735 | 24,360 | 308,837 |
| | Note 14 | Note 14 | Note 14 | Note 14 | Note 14 |

The notes on pages 25 to 94 are an integral part of these financial statements.

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))

(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2019

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 28,486 | 23,837 |
| Adjustments for: | | | |
| Depreciation of right-of-use-assets | | 21 | - |
| Depreciation of property and equipment | | 243 | 253 |
| Gain on disposals of investment properties | | (330) | (4) |
| Investment income | | (18,146) | (15,091) |
| Gain on disposal of investments, net | | (2,759) | (11) |
| Accretion of discounts | | (250) | (192) |
| Amortisation of premium | | 281 | 189 |
| Fair value (gain)/loss on revaluation of investment properties | | (715) | 1,881 |
| Unrealised loss/(gain) on foreign exchange for investment | | 489 | (1,398) |
| Bad debts written off | | 751 | - |
| (Reversal)/Provision of impairment of insurance receivable | | (761) | 1,173 |
| Operating profit before changes in working capital | | 7,310 | 10,637 |
| Purchase of securities/investments | | (234,513) | (177,561) |
| Proceeds from disposal of securities/investments | | 208,652 | 115,939 |
| Decrease in reinsurance assets | | 32,936 | 76,118 |
| (Increase)/Decrease in deferred acquisition costs | | (845) | 281 |
| (Increase)/Decrease in receivables | | (36,212) | 18,302 |
| Decrease in insurance contract liabilities | | (16,969) | (98,447) |
| Increase/(Decrease) in payables | | 5,038 | (13,230) |
| Cash used in operations | | (34,603) | (67,961) |
| Tax paid | | (1,656) | (3,656) |
| Interest received | | 18,235 | 14,258 |
| Net cash used in operating activities | | <u>(18,024)</u> | <u>(57,359)</u> |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | - | (75) |
| Proceeds from disposal of investment properties | | 5,615 | 4 |
| Net cash generated from/(used in) investing activities | | <u>5,615</u> | <u>(71)</u> |

Statement of cash flows for the year ended 31 December 2019 (continued)

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|------|----------------|----------------|
| Cash flow from financing activities | | | |
| Payment of lease liabilities | | (21) | - |
| Net cash used in financing activities | | (21) | - |
| Net decrease in cash and cash equivalents | | (12,430) | (57,430) |
| Cash and cash equivalents at beginning of year | | 47,497 | 104,927 |
| Cash and cash equivalents at end of year | 13 | <u>35,067</u> | <u>47,497</u> |

Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

| | Note | 2019 RM'000 | 2018 RM'000 |
|--|------|----------------|----------------|
| Fixed deposits with licensed banks in Malaysia | 13 | 27,457 | 41,212 |
| Cash and bank balances | 13 | 7,610 | 6,285 |
| | | <u>35,067</u> | <u>47,497</u> |

The notes on pages 25 to 94 are an integral part of these financial statements.

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))

(Incorporated in Malaysia)

Notes to the financial statements

Asia Capital Reinsurance Malaysia Sdn. Bhd. is a limited liability company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:

Registered office and principal place of business

Unit A-12A-8, Level 12A

Menara UOA Bangsar

5 Jalan Bangsar Utama 1

59000 Kuala Lumpur

The Company is principally engaged in underwriting general reinsurance business. Effective from 5 December 2019, the Company has ceased in underwriting new general reinsurance business.

The immediate and ultimate holding companies during the financial year were Asia Capital Reinsurance Group Pte. Ltd. and ACR Capital Holdings Pte. Ltd. respectively until 31 March 2020. Both companies were incorporated in Singapore. From 31 March 2020 until the date of this report, Catalina Holdings (Bermuda) Ltd., a corporation which is incorporated in Bermuda is regarded as the Company's ultimate holding company as disclosed in Note 33 to the financial statements.

The financial statements were authorised for issue by the Board on 15 June 2020.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the requirements of the Companies Act 2016 and the Financial Services Act, 2013 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combination – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 June 2020

- Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, except for amendments to MFRS 3 which is not applicable to the Company.
- from the annual period beginning on 1 January 2021 for the accounting standards and amendments that are effective for annual periods beginning on or after 1 June 2020 and 1 January 2021.
- from the annual period beginning on 1 January 2022 for the amendments that are effective for annual periods beginning on or after 1 January 2022, except for amendments to MFRS 1, amendments to MFRS 3 and MFRS 141 which are not applicable to the Company.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The initial application of the abovementioned standards, amendments and interpretations are not expected to have any material impacts to the financial statements of the Company except as mentioned below:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The amendments to MFRS 4, *Insurance Contracts* allow two alternatives to address the transitional challenges from different effective dates of MFRS 9 and the proposed new standard on insurance contracts, MFRS 17, *Insurance Contracts*. The amendments introduced two additional voluntary options, namely an overlay approach and a deferral approach to be applied subject to certain criteria being met, which help to address temporary volatility in reported results of entities dealing with insurance contracts.

The overlay approach involves the option to recognise the possible volatility in other comprehensive income, instead of profit or loss, whilst the deferral approach provides temporary exemption from applying MFRS 9 for entities whose activities are predominantly connected with insurance contracts until the earlier of the effective date of the proposed new standard on insurance contracts and the annual reporting periods beginning on or after 1 January 2021.

The Company has elected to apply the temporary exemption from MFRS 9 that permits, but does not require, the Company to apply MFRS 139, *Financial Instruments: Recognition and Measurement* rather than MFRS 9 for its annual periods beginning before 1 January 2021. An insurer may apply the temporary exemption from MFRS 9 if:

- (i) it has not previously applied any version of MFRS 9 before; and
- (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The Company has not adopted any version of MFRS 9 as of the date of these financial statements and its carrying amount of an entity's liabilities arising from contracts within MFRS 4's scope is significant. The Company has performed the reassessment and it qualifies for the temporary exemption from MFRS 9 under the Amendments to MFRS 4. The percentage of the total carrying amount of its liabilities as of 31 December 2019 is 87%.

Based on the initial assessment undertaken by the Company, the following are the designation and valuation of the financial assets if MFRS 9 was adopted at the end of the reporting period. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments* (continued)

| | New classification under MFRS 9 | Carrying amounts 31.12.2019 | Carrying amounts 31.12.2018 | Changes in carrying amounts |
|--|---|------------------------------------|------------------------------------|------------------------------------|
| | | RM'000 | RM'000 | RM'000 |
| Investments | | | | |
| Malaysian Government Incentives/ Government Investment Issues* | Fair value through other comprehensive income (FVOCI) | 14,535 | 29,746 | - |
| Corporate debt securities* | FVOCI | 261,401 | 267,382 | - |
| Unit trust in Malaysia | FVTPL | 91,492 | 32,411 | - |
| Insurance receivables | Amortised cost | 72,641 | 34,295 | - |
| Other receivables (excluding prepayments) | Amortised cost | 3,430 | 5,663 | - |
| Cash and cash equivalents | Amortised cost | 35,067 | 47,497 | - |
| Total financial assets | | 478,566 | 416,994 | - |

* Assuming these instruments are held for both collecting contractual cash flows and for selling and are expected to give rise to cash flows representing solely payments of principal and interest.

MFRS 17, *Insurance Contracts*

MFRS 17 was issued by MASB in August 2017. The standard will replace the existing MFRS 4 and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The Company is currently assessing the financial impact of adopting MFRS 17.

(b) Basis of measurement

The financial statements have been prepared on historical cost basis other than as disclosed in Note 2 to the financial statements.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 15 – Claims and premiums liabilities

Insurance contract provisions for general reinsurance business consist of claims liabilities and premium liabilities. The process undertaken by the Company to derive the insurance contract provisions of the general reinsurance business is as follow:

(i) Process in determining claims liabilities

The Company determines the claims liabilities in accordance with the Risk-Based Capital Framework as well as internationally recognised practices. The assumptions used in the estimation of insurance assets and liabilities are intended to result in a provision which is sufficient to cover any liabilities arising out of insurance contracts to the extent that can be reasonably foreseen.

However, given the uncertainty in establishing a provision for insurance claims, it is likely that the final outcome will prove to be different from the original liability established.

Provision is made at the end of the reporting period for the expected ultimate cost of settlement for all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses plus a "Provision of Risk Margin for Adverse Deviation" ("PRAD") at 75% probability of adequacy.

The data used for determining the expected ultimate claims liability is collated internally based on information received from cedants relating to business underwritten by the Company. This is further supplemented by externally available information on industry statistic and trends plus internal pricing loss assumptions used in the pricing model, where available.

1. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

- Note 15 – Claims and premiums liabilities (continued)

(i) Process in determining claims liabilities (continued)

The Company's reserving methodology is intended to result in the expected outcome for the ultimate loss settlement for each type and class of business. The Company also considers the nature of the risk underwritten, geographical location, sum insured, and previous experience to estimate expected loss ratios for each class of business and underwriting year. The derived expected loss ratios are checked to ensure that they are consistent with observable market trends, internal pricing loss ratios or other market information, as considered necessary.

The Company sets aside case reserve after taking into consideration the claim circumstances, current available information and historical evidence of similar claims. Case estimates are reviewed regularly and updated as and when new information becomes available. However, the ultimate claims liabilities may vary as a result of subsequent development.

The Company systematically and periodically reviews the provisions established and adjusts the loss estimation process in an effort to achieve minimum variation between the actual final outcome and the original projection. The provision for outstanding claims liabilities have been determined in current values.

In estimating the claims liabilities, the selected Ultimate Loss Ratios ("ULRs") for each reserving cohort have been based on Estimated Loss ratio, Link Ratio and Bornhuetter-Ferguson methods. Triangulations have been built for all lines of business. The selected ULR is then applied to Net Earned Premium ("NEP") in order to project the amount of ultimate loss for each underwriting year. The ultimate loss amount is then reduced by claims paid or incurred for known claims for each underwriting year in order to estimate the amount of Incurred But Not Reported ("IBNR") losses.

(ii) Process in determining premium liabilities

The Company determines the premium liabilities based on the higher of unearned premium reserves ("UPR") and unexpired risk reserves ("URR") at the required risk margin of adverse deviation.

The URR is the 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 expected future premium refunds.

1. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

- Note 3 & Note 5 – Valuation of buildings and investment properties

Building and investment properties of the Company are reported at valuation which is based on valuations performed by independent professional valuers.

The independent professional valuers have exercised judgement in determining the factors used in the valuation process. Also, judgement has been applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting valuation estimates.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

Arising from the adoption of MFRS 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into as compared to those applied in previous financial statements. The impacts arising from the changes are disclosed in Note 34.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

(b) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. Significant accounting policies (continued)

(b) Property and equipment (continued)

(i) Recognition and measurement (continued)

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other operating income" and "other operating expenses" respectively in profit or loss.

The Company revalues its buildings every 5 years or at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value. Additions subsequent to their revaluation are stated in the financial statements at cost until the next revaluation exercise.

Surplus arising on revaluation is credited to the property revaluation reserve account. Any deficit arising from the revaluation is charged against the property revaluation account to the extent of a previous surplus held in that account for the same assets. In all other cases, a decrease in the carrying amount is charged to the profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date that they are available for use.

2. Significant accounting policies (continued)

(b) Property and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

| | |
|-------------------------------------|----------|
| Buildings | 50 years |
| Office equipment | 3 years |
| Furniture, fittings and renovations | 3 years |
| Motor vehicles | 5 years |
| Computer equipment | 3 years |

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(c) Leases

The Company has applied MFRS 16 using the modified retrospective approach, under which the Company has chosen to measure the right-of-use asset equals to the lease liability at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current financial year

(i) Definition of lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either the Company has the right to operate the asset; or the Company designed the asset in a way that predetermines how and for what purpose it will be used.

2. Significant accounting policies (continued)

(c) Leases (continued)

Current financial year (continued)

(ii) Recognition and initial measurement

(a) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company has elected not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and some leases of low-value assets (e.g. printing and photostat machines). The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

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

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

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

2. Significant accounting policies (continued)

(c) Leases (continued)

Current financial year (continued)

(iii) Subsequent measurement

(a) As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) As a lessor

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

Previous financial year

As a lessee

Operating leases

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

2. Significant accounting policies (continued)

(d) Investment properties

(i) Investment properties carried at fair value

Investment properties are properties which are owned or right-of-use asset held under a lease contract to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(ii) Reclassifications to/from investment properties carried at fair value

When an item of property and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(e) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(i) Initial recognition and measurement (continued)

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

(a) *Loans and receivables, excluding insurance receivables*

Loans and receivables category comprises debt instruments that are not quoted in an active market which includes deposits with financial institutions and other receivables.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(b) *Available-for-sale financial assets*

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(c) *Insurance receivables*

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

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

All financial assets are subject to review for impairment (see Note 2(f)(i) and (ii)).

Financial liabilities

All financial liabilities (including insurance payable) are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Regular way purchase or sale of financial assets

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

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(iii) Regular way purchase or sale of financial assets (continued)

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all risks and rewards of the financial asset is transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

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

(f) Impairment

(i) Financial assets, excluding insurance receivables

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2(f)(ii) below) is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets, excluding insurance receivables (continued)

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's 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. The amount of the reversal is recognised in profit or loss.

(ii) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the insurance receivables is reduced through the use of an allowance account.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Insurance receivables (continued)

If, in a subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's 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. The amount of the reversal is recognised in the profit or loss.

(iii) Other assets

The carrying amounts of other assets (except for investment properties measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro-rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. Significant accounting policies (continued)

(g) Product classification

The Company issues contracts that transfer insurance risk or financial risk or both.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance risk is the risk other than financial risk.

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

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract, or if the host insurance contract is measured at fair value through profit or loss.

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

(h) 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.

2. Significant accounting policies (continued)

(h) Reinsurance (continued)

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

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, if any, is recorded in profit or loss.

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

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

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or 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.

(i) General insurance underwriting results

The general insurance underwriting results are determined after taking into account premiums, commissions, unearned premiums and claims incurred.

Written premiums include premiums on contracts entered into during the period, irrespective whether they relate in part to later financial period. Written premiums are disclosed gross of commission payable to cedants and intermediaries.

(i) *Facultative business*

Premium from facultative business including premium in the pipeline is recognised as income on the inception date basis.

2. Significant accounting policies (continued)

(i) General insurance underwriting results (continued)

(ii) *Treaty business*

Premium from treaty business including premium in the pipeline is recognised on an accrual basis. The management of the Company is of the view that the policy gives a true and fair view of the financial position and the results of its operations as it accords with the accrual basis of accounting, resulting in consistently four quarters of treaty business being recognised in a particular financial year.

Provision for Unearned Premiums

Provision for unearned premiums is the higher of the aggregate of the Unearned Premium Reserves (“UPR”) for all lines of business and the best estimate of the Unexpired Risk Reserves (“URR”) at the required risk margin for adverse deviation.

Unearned Premium Reserves

The UPR represents the portion of net premium income of reinsurance policies written that relates to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at the end of the reporting period, the method that most accurately reflects the actual unearned premium is used. The methods used at the end of the current and previous financial year are set out below.

Malaysian and Non-Malaysian Business – method prescribed by BNM

“1/8” method is applied to premiums for Malaysian and Non-Malaysian policies. This is further adjusted for reinsurance ceded to foreign reinsurers by deducting the lower of:

- (i) the premium ceded to foreign reinsurers as required under the guidelines issued by BNM; and
- (ii) the deposits retained from foreign reinsurers for which premiums are accounted during the preceding twelve months.

Unexpired Risk Reserves

The URR is the 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 expected future premium refunds.

2. Significant accounting policies (continued)

(j) Insurance contract liabilities

General insurance contract liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, 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 end of the reporting period. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

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

(k) Acquisition cost and deferred acquisition costs (“DAC”)

The cost of acquiring and renewing reinsurance policies net of income derived from retroceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Acquisition costs or retroceding income which are not recoverable, or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

Subsequent to initial recognition, these costs are amortised/allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss.

DAC is derecognised when the related contracts are either settled or disposed off.

(l) Other income recognition

(i) Interest income

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

2. Significant accounting policies (continued)

(l) Other income recognition (continued)

(ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Realised gains and losses on investments

Realised gains and losses recorded in profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short-term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

2. Significant accounting policies (continued)

(o) Provisions

A provision is recognised if, as a result of a past event, the Company has a present, legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies (continued)

(q) Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3. Property and equipment

| | Buildings RM'000 | Computer equipment RM'000 | Office equipment RM'000 | Furniture and fittings RM'000 | Renovation RM'000 | Total RM'000 |
|------------------------------------|---------------------|---------------------------------|-------------------------------|-------------------------------------|----------------------|-----------------|
| Cost/Valuation | | | | | | |
| At 1 January 2018 | 9,157 | 1,265 | 213 | 259 | 368 | 11,262 |
| Addition | - | 75 | - | - | - | 75 |
| Disposal | - | (38) | - | - | - | (38) |
| Revaluation of property | (457) | - | - | - | - | (457) |
| At 31 December 2018/1 January 2019 | 8,700 | 1,302 | 213 | 259 | 368 | 10,842 |
| Revaluation of property | 330 | - | - | - | - | 330 |
| At 31 December 2019 | 9,030 | 1,302 | 213 | 259 | 368 | 11,172 |
| Accumulated depreciation | | | | | | |
| At 1 January 2018 | 18 | 1,252 | 211 | 259 | 368 | 2,108 |
| Depreciation for the year | 219 | 32 | 2 | - | - | 253 |
| Disposal | - | (38) | - | - | - | (38) |
| Revaluation of property | (219) | - | - | - | - | (219) |
| At 31 December 2018/1 January 2019 | 18 | 1,246 | 213 | 259 | 368 | 2,104 |
| Depreciation for the year | 214 | 29 | - | - | - | 243 |
| Revaluation of property | (214) | - | - | - | - | (214) |
| At 31 December 2019 | 18 | 1,275 | 213 | 259 | 368 | 2,133 |
| Carrying amounts | | | | | | |
| At 1 January 2018 | 9,139 | 13 | 2 | - | - | 9,154 |
| At 31 December 2018/1 January 2019 | 8,682 | 56 | - | - | - | 8,738 |
| At 31 December 2019 | 9,012 | 27 | - | - | - | 9,039 |

3. Property and equipment (continued)

3.1 Buildings were revalued as at 31 December 2019 by VPC Alliance (KL) Sdn. Bhd., a firm of independent professional valuers that has appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued. The fair values are based on open market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeable, prudently and without compulsion.

Had the buildings been carried at historical cost less accumulated depreciation, the carrying amount of the buildings that would have been included in the statement of financial position at end of the year are as follows:

| | 2019 RM'000 | 2018 RM'000 |
|-----------|----------------|----------------|
| Buildings | <u>6,113</u> | <u>6,269</u> |

Fair value information

Fair value of buildings is categorised as follows:

| | Level 2 | |
|-----------|----------------|----------------|
| | 2019 RM'000 | 2018 RM'000 |
| Buildings | <u>9,030</u> | <u>8,700</u> |

4. Right-of-use assets

| | Printing and photostat machines RM'000 | Total RM'000 |
|----------------------------------|--|-----------------|
| At 1 January 2019 | 100 | 100 |
| Depreciation charge for the year | <u>(21)</u> | <u>(21)</u> |
| At 31 December 2019 | <u>79</u> | <u>79</u> |

5. Investment properties

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|------|----------------|----------------|
| At 1 January | | 34,455 | 38,721 |
| Change in fair value gains/(losses) | 24 | 715 | (1,881) |
| Transferred to assets classified as held for sale | 12 | - | (2,385) |
| Disposal | | <u>(2,900)</u> | <u>-</u> |
| At 31 December | | <u>32,270</u> | <u>34,455</u> |

5. Investment properties (continued)

Investment properties comprise a number of commercial properties that are leased to third parties.

The following are recognised in the profit or loss in respect of investment properties:

| | 2019 RM'000 | 2018 RM'000 |
|---------------------------|----------------|----------------|
| Lease income | 2,021 | 1,795 |
| Direct operating expenses | (332) | (428) |
| Fair value gains/(losses) | <u>715</u> | <u>(1,881)</u> |

Fair value information

Fair value of investment properties are categorised as follows:

| | Level 2 | |
|-----------|----------------|----------------|
| | 2019 RM'000 | 2018 RM'000 |
| Buildings | <u>32,270</u> | <u>34,455</u> |

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment properties, either directly or indirectly.

Level 2 fair values of buildings have been generally derived using the sales comparison approach. Sales price of comparable units in the same investment properties are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable units in the same investment properties.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

6. Investments

(a) Available-for-sale (“AFS”) financial assets

All the Company’s investments are classified as available-for-sale (“AFS”) financial assets. The carrying values of the AFS financial assets are measured at fair value and comprised the following:

| | 2019 RM’000 | 2018 RM’000 |
|--|----------------|----------------|
| Unquoted in Malaysia | | |
| Malaysian Government Securities/ Government Investment Issues | 14,535 | 29,746 |
| Corporate debt securities | 261,401 | 267,382 |
| Quoted in Malaysia | | |
| Unit trusts | <u>91,492</u> | <u>32,411</u> |
| | <u>367,428</u> | <u>329,539</u> |

(b) Estimation of fair values

The fair values of quoted securities and unit trusts are their quoted closing market prices at the end of the reporting period.

The fair values for Malaysian Government Securities, Government Investment Issues and local corporate debt securities are their indicative mid market prices quoted by Bond Pricing Agency Malaysia and the fair value of foreign debt securities are their last traded prices quoted by Bloomberg at the end of the reporting period.

(c) Carrying values of investments

| | 2019 RM’000 | 2018 RM’000 |
|---|----------------|----------------|
| At 1 January | 329,539 | 267,347 |
| Addition | 234,513 | 177,561 |
| Disposal/Maturity/Repayment | (205,893) | (115,928) |
| Fair value gains/(losses) recorded in other comprehensive income | 9,789 | (842) |
| Unrealised (losses)/gains on foreign exchange | (489) | 1,398 |
| Amortisation of premium | (281) | (189) |
| Accretion of discounts | <u>250</u> | <u>192</u> |
| At 31 December | <u>367,428</u> | <u>329,539</u> |

7. Reinsurance assets

| | Note | 2019 RM'000 | 2018 RM'000 |
|------------------------------------|-------|----------------|----------------|
| Reinsurance of insurance contracts | | | |
| Claims liabilities | 15(a) | 263,893 | 274,226 |
| Premium liabilities | 15(b) | <u>30,009</u> | <u>52,612</u> |
| | 15 | <u>293,902</u> | <u>326,838</u> |

8. Insurance receivables

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|------|----------------|----------------|
| Amount due from cedants | | 26,256 | 26,976 |
| Amount due from retrocessionaires | | 36,145 | - |
| Amount due from immediate holding company | 8.1 | - | 1,132 |
| Amount due from related companies | 8.1 | <u>8,370</u> | <u>4,997</u> |
| | | 70,771 | 33,105 |
| Premium reserve deposits due from | | | |
| - immediate holding company | 8.1 | 2,278 | 2,360 |
| - related company | 8.1 | <u>4</u> | <u>3</u> |
| | | 73,053 | 35,468 |
| Less: Provision for impairment loss | | <u>(412)</u> | <u>(1,173)</u> |
| | | <u>72,641</u> | <u>34,295</u> |

8.1 The amounts due from immediate holding company and related companies are unsecured, interest free and repayable on demand.

9. Other receivables

| | Note | 2019 RM'000 | 2018 RM'000 |
|--|------|----------------|----------------|
| Income due and accrued | | 3,076 | 3,165 |
| Other receivables | | 246 | 606 |
| Amount due from ultimate holding company | 9.1 | - | 1,388 |
| Amount due from related company | 9.1 | <u>134</u> | <u>654</u> |
| | | <u>3,456</u> | <u>5,813</u> |

9.1 The amounts due from ultimate holding company and related company are unsecured, interest free and repayable on demand.

10. Deferred acquisition costs

| | 2019 | 2018 |
|--------------------------|----------------|----------------|
| | RM'000 | RM'000 |
| Gross of reinsurance | | |
| At 1 January | 11,123 | 15,888 |
| Movement during the year | <u>(3,063)</u> | <u>(4,765)</u> |
| At 31 December | <u>8,060</u> | <u>11,123</u> |
| Reinsurance | | |
| At 1 January | (8,298) | (12,782) |
| Movement during the year | <u>3,908</u> | <u>4,484</u> |
| At 31 December | <u>(4,390)</u> | <u>(8,298)</u> |
| Net of reinsurance | | |
| At 1 January | 2,825 | 3,106 |
| Movement during the year | <u>845</u> | <u>(281)</u> |
| At 31 December | <u>3,670</u> | <u>2,825</u> |

11. Deferred tax liabilities

The amounts, determined after appropriate offsetting, are as follows:

| | 2019 | 2018 |
|--------------------------|----------------|---------------|
| | RM'000 | RM'000 |
| Deferred tax liabilities | <u>(2,975)</u> | <u>(419)</u> |

Deferred tax assets and liabilities are attributable to the following:

| | 2019 | 2018 |
|--|----------------|----------------|
| | RM'000 | RM'000 |
| Deferred tax liabilities: | | |
| Investment property | (1,491) | (629) |
| Available-for-sale reserve | (1,923) | - |
| Revaluation reserve | <u>(867)</u> | <u>(736)</u> |
| | <u>(4,281)</u> | <u>(1,365)</u> |
| Offsetting against deferred tax asset: | | |
| Available-for-sale reserve | - | 272 |
| Provisions | 930 | 546 |
| Others | <u>376</u> | <u>128</u> |
| Net deferred tax liabilities | <u>(2,975)</u> | <u>(419)</u> |

11. Deferred tax liabilities (continued)

Movement in temporary differences during the financial year

| | At 1.1.2018 RM'000 | Recognised in profit or loss (Note 27) RM'000 | Recognised in other comprehensive income RM'000 | At 31.12.2018/ 1.1.2019 RM'000 | Recognised in profit or loss (Note 27) RM'000 | Recognised in other comprehensive income RM'000 | At 31.12.2019 RM'000 |
|----------------------------|--------------------------|---|---|---|---|---|----------------------------|
| Investment property | (2,044) | 1,415 | - | (629) | (862) | - | (1,491) |
| Provisions | 345 | 201 | - | 546 | 384 | - | 930 |
| Available-for-sale reserve | 70 | - | 202 | 272 | - | (2,195) | (1,923) |
| Revaluation reserve | (165) | - | (571) | (736) | - | (131) | (867) |
| Others | 2,228 | (2,100) | - | 128 | 248 | - | 376 |
| Total | 434 | (484) | (369) | (419) | (230) | (2,326) | (2,975) |

12. Assets classified as held for sale

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|------|----------------|----------------|
| At 1 January | | 2,385 | - |
| Transferred to assets classified as held for sale | 5 | - | 2,385 |
| Disposal | | (2,385) | - |
| At 31 December | | <u>-</u> | <u>2,385</u> |

13. Cash and cash equivalents

| | 2019 RM'000 | 2018 RM'000 |
|--|----------------|----------------|
| Cash and bank balances | 7,610 | 6,285 |
| Fixed deposits with licensed banks in Malaysia | | |
| - Maturities of less than 3 months | <u>27,457</u> | <u>41,212</u> |
| | <u>35,067</u> | <u>47,497</u> |

14. Share capital and reserves**Share capital**

| | Amount 2019 RM'000 | Number of shares 2019 '000 | Amount 2018 RM'000 | Number of shares 2018 '000 |
|---|--------------------------|-------------------------------------|--------------------------|-------------------------------------|
| Issued and fully paid shares with no par value classified as equity instruments: | | | | |
| Ordinary shares | | | | |
| At 1 January/31 December | <u>275,000</u> | <u>300,000</u> | <u>275,000</u> | <u>300,000</u> |

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

14. Share capital and reserves (continued)

Reserves

The reserves as shown in the statements of financial position and changes in equity are as follows:

| | 2019 | 2018 |
|------------------------------|----------------------|---------------------|
| | RM'000 | RM'000 |
| Property revaluation reserve | 2,742 | 2,329 |
| Available-for-sale | 6,735 | (859) |
| Accumulated profits | <u>24,360</u> | <u>2,999</u> |
| | <u>33,837</u> | <u>4,469</u> |

Property revaluation reserve

The property revaluation reserve relates to the revaluation of buildings since 2010. It is not distributable as dividend until after the sale of the buildings.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

15. Insurance contract liabilities

| Note | 2019 | | 2018 | | |
|---|-----------------|-----------------------|-----------------|-----------------------|---------------|
| | Gross RM'000 | Reinsurance RM'000 | Gross RM'000 | Reinsurance RM'000 | Net RM'000 |
| General insurance | 445,899 | (293,902) | 462,868 | (326,838) | 136,030 |
| The general insurance contract liabilities and its movements are further analysed as follows: | | | | | |
| Reported by Cedants | | | | | |
| Provision for reported claims | 233,793 | (166,002) | 210,599 | (151,891) | 58,708 |
| Provision for IBNR | 163,748 | (97,891) | 185,530 | (122,335) | 63,195 |
| Provision for outstanding claims | 397,541 | (263,893) | 396,129 | (274,226) | 121,903 |
| Provision for unearned premiums | 48,358 | (30,009) | 66,739 | (52,612) | 14,127 |
| | 445,899 | (293,902) | 462,868 | (326,838) | 136,030 |

Note 7

Note 7

During the year, the Company entered into a novation agreement with a related company, ACR ReTakaful Berhad ("ACRR") to assume a portfolio of risk from ACRR.

As at 31 December, the remaining gross and net provision for outstanding claims amounted to RM31,432k (2018: RM25,621k) and RM10,394k (2018: RM6,869k) respectively.

15. Insurance contract liabilities (continued)**(a) Provision for outstanding claims**

| | 2019 | | 2018 | |
|--|-----------------|-----------------------|-----------------|-----------------------|
| | Gross RM'000 | Reinsurance RM'000 | Gross RM'000 | Reinsurance RM'000 |
| At 1 January | 396,129 | (274,226) | 462,276 | (321,041) |
| Claims incurred for the current accident year | 37,500 | (17,533) | 58,952 | (43,637) |
| Adjustments to claims incurred in prior accident year | 26,696 | (32,972) | (30,071) | 21,927 |
| Movement in FPRAD of claims liabilities at 75% confidence level | (59) | 2,297 | (11,548) | 8,193 |
| Movement in claims handling expenses | (13) | - | (500) | - |
| Claims paid during the year* | (62,712) | 58,541 | (82,980) | 60,332 |
| At 31 December | 397,541 | (263,893) | 396,129 | (274,226) |
| | | | | |
| | | Net RM'000 | | Net RM'000 |
| | | 121,903 | | 141,235 |
| | | 19,967 | | 15,315 |
| | | (6,276) | | (8,144) |
| | | 2,238 | | (3,355) |
| | | (13) | | (500) |
| | | (4,171) | | (22,648) |
| | | 133,648 | | 121,903 |

*Included in the claims paid during the year are gross reported claims of RM7,585k (2018: RM16,034k) and ceded reported claims of RM4,078k (2018: RM11,037k) assumed by the Company pursuant to the novation agreement entered with ACRR.

(b) Provision for unearned premiums

| | 2019 | | 2018 | |
|---------------------------------|-----------------|-----------------------|-----------------|-----------------------|
| | Gross RM'000 | Reinsurance RM'000 | Gross RM'000 | Reinsurance RM'000 |
| At 1 January | 66,739 | (52,612) | 99,039 | (81,915) |
| Premium written during the year | 108,578 | (69,106) | 121,696 | (93,228) |
| Premium earned during the year | (126,959) | 91,709 | (153,996) | 122,531 |
| At 31 December | 48,358 | (30,009) | 66,739 | (52,612) |
| | | Net RM'000 | | Net RM'000 |
| | | 14,127 | | 17,124 |
| | | 39,472 | | 28,468 |
| | | (35,250) | | (31,465) |
| | | 18,349 | | 14,127 |

16. Lease liabilities

Leases as lessee (MFRS 16)

| | 2019 RM'000 |
|--|----------------|
| Lease liabilities are payable as follows: | |
| - Current | 21 |
| - Non-current | 58 |
| | <u>79</u> |

17. Insurance payables

| | 2019 RM'000 | 2018 RM'000 |
|----------------------------------|----------------|----------------|
| | Note | |
| Due to cedants | 5,008 | 8,213 |
| Due to retrocessionaires | 2,996 | 2,884 |
| Due to immediate holding company | 17.1 39,568 | 31,519 |
| Due to related companies | 17.1 15 | 512 |
| | <u>47,587</u> | <u>43,128</u> |

The carrying amounts disclosed above approximate their fair values at the end of the reporting period.

17.1 Insurance payables due to immediate holding company and related companies are unsecured, interest free and repayable on demand.

18. Other payables

| | 2019 RM'000 | 2018 RM'000 |
|----------------------------------|----------------|----------------|
| | Note | |
| Accrued liabilities | 5,734 | 4,358 |
| Due to immediate holding company | 18.1 5,296 | 6,093 |
| | <u>11,030</u> | <u>10,451</u> |

18.1 The amount due to immediate holding company is unsecured, interest free and repayable on demand.

19. Operating revenue

| | 2019 RM'000 | 2018 RM'000 |
|-------------------|----------------|----------------|
| | Note | |
| Gross premium | 20 108,578 | 121,696 |
| Investment income | 21 18,777 | 15,673 |
| | <u>127,355</u> | <u>137,369</u> |

20. Net earned premiums

| | 2019 | 2018 |
|--|-----------------|------------------|
| | RM'000 | RM'000 |
| (a) Gross premiums | | |
| Amount written | 108,578 | 121,696 |
| Change in unearned premiums provisions | <u>18,381</u> | <u>32,300</u> |
| | <u>126,959</u> | <u>153,996</u> |
| (b) Premiums ceded | | |
| Amount ceded | (69,106) | (93,228) |
| Change in unearned premiums provisions | <u>(22,603)</u> | <u>(29,303)</u> |
| | <u>(91,709)</u> | <u>(122,531)</u> |
| Net earned premiums (a + b) | <u>35,250</u> | <u>31,465</u> |

21. Investment income

| | 2019 | 2018 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Rental of properties received from third parties | - | 1,795 |
| Lease income | 2,021 | - |
| Direct operating expenses on investment properties | (332) | (428) |
| Available-for-sale financial assets – interest income | 16,910 | 13,710 |
| Cash and cash equivalents – interest income | 809 | 1,348 |
| Accretion of discounts | 250 | 192 |
| Amortisation of premiums | (281) | (189) |
| Investment expense | <u>(600)</u> | <u>(755)</u> |
| | <u>18,777</u> | <u>15,673</u> |

22. Realised gains and losses

| | 2019 | 2018 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Available-for-sale financial assets | | |
| Realised gains: | | |
| Corporate debt securities – unquoted in Malaysia | 2,803 | 174 |
| Realised losses: | | |
| Corporate debt securities – unquoted in Malaysia | <u>(44)</u> | <u>(163)</u> |
| Total net realised gains for available-for-sale financial assets | <u>2,759</u> | <u>11</u> |

23. Commission expenses/(income)

| | 2019 | 2018 |
|--|-----------------|-----------------|
| | RM'000 | RM'000 |
| Commission expenses | | |
| Gross acquisition costs | 26,123 | 27,186 |
| Movement in deferred acquisition costs | 3,063 | 4,765 |
| | <u>29,186</u> | <u>31,951</u> |
| Commission income | | |
| Reinsurance income | (23,830) | (22,720) |
| Movement in deferred acquisition costs | (3,908) | (4,484) |
| | <u>(27,738)</u> | <u>(27,204)</u> |

24. Fair value gains/(losses)

| | 2019 | 2018 |
|--------------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Investment properties gains/(losses) | 715 | (1,881) |

25. Management expenses

| | 2019 | 2018 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Staff salaries and related expenses | 6,571 | 5,410 |
| Key management personnel remuneration | | |
| - Fees | 388 | 388 |
| - Other remuneration | 682 | 711 |
| Auditors' remuneration | | |
| - Audit fees | | |
| KPMG in Malaysia | 244 | 175 |
| Overseas affiliates of KPMG in Malaysia | 86 | 60 |
| Depreciation of property and equipment | 243 | 253 |
| Depreciation of right-of-use assets | 21 | - |
| Bad debts written off | 751 | - |
| (Reversal)/Provision of impairment loss of insurance receivables | (761) | 1,173 |
| Management fees | 2,627 | 3,226 |
| Rental of office | - | 8 |
| Other expenses | 1,353 | 2,048 |
| Total management expenses | <u>12,205</u> | <u>13,452</u> |

(a) Employee benefits expenses

| | 2019 | 2018 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Wages and salaries | 2,844 | 3,743 |
| Redundancy provision | 2,835 | - |
| Social security contributions | 25 | 29 |
| Contribution to Employees' Provident Fund | 435 | 621 |
| Other benefits | 432 | 1,017 |
| | <u>6,571</u> | <u>5,410</u> |

Company No. 200701004295 (762294-T)

25. Management expenses (continued)

(b) Key management personnel remuneration

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors are as follows:

| 2019 | Fees RM'000 | Salary RM'000 | Bonus RM'000 | EPF RM'000 | Other RM'000 | Benefits- in-kind RM'000 | Total RM'000 |
|---|----------------|------------------|-----------------|---------------|-----------------|--------------------------------|-----------------|
| Chief Executive Officer | - | 492 | 72 | 70 | - | 18 | 652 |
| - Hue Yann Wei (Resigned w.e.f 10 January 2020) | | | | | | | |
| Directors | | | | | | | |
| - Law Song Keng (Resigned w.e.f 31 December 2019) | 128 | - | - | - | 16 | - | 144 |
| - Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir | 132 | - | - | - | 16 | - | 148 |
| - Datuk Mohd Najib Bin Hj. Abdullah | 128 | - | - | - | 16 | - | 144 |
| - Sergei Alexeyevich Korol (Resigned w.e.f. 31 March 2020) | - | - | - | - | - | - | - |
| Total Directors' Remuneration (including benefits-in-kind) | 388 | - | - | - | 48 | - | 436 |
| Total Chief Executive Officer and Directors' Remuneration (including benefits-in-kind) | 388 | 492 | 72 | 70 | 48 | 18 | 1,088 |

Company No. 200701004295 (762294-T)

25. Management expenses (continued)

(b) Key management personnel remuneration (continued)

| 2018 | Fees RM'000 | Salary RM'000 | Bonus RM'000 | EPF RM'000 | Other RM'000 | Benefits- in-kind RM'000 | Total RM'000 |
|---|----------------|------------------|-----------------|---------------|-----------------|--------------------------------|-----------------|
| Chief Executive Officer - Hue Yann Wei | - | 480 | 65 | 74 | 50 | 18 | 687 |
| Directors | | | | | | | |
| - Hans-Joachim Guenther (Resigned w.e.f. 30 September 2018) | - | - | - | - | - | - | - |
| - Dato' Dr. R. Thillainathan A/L Ramasamy (Resigned w.e.f. 20 February 2018) | 128 | - | - | - | - | - | 128 |
| - Dato' Mohd Salleh Bin Haji Harun (Resigned w.e.f. 20 February 2018) | 132 | - | - | - | - | - | 132 |
| - Law Song Keng | 128 | - | - | - | 14 | - | 142 |
| - Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir | - | - | - | - | 14 | - | 14 |
| - Datuk Mohd Najib Bin Hj. Abdulllah - Sergei Alexeyevich Korol (Appointed w.e.f. 1 October 2018) | - | - | - | - | 14 | - | 14 |
| Total Directors' Remuneration (including benefits-in-kind) | 388 | - | - | - | 42 | - | 430 |
| Total Chief Executive Officer and Directors' Remuneration (including benefits-in-kind) | 388 | 480 | 65 | 74 | 92 | 18 | 1,117 |

26. Other operating expenses/(income)

| | 2019 RM'000 | 2018 RM'000 |
|---|------------------------------|------------------------------|
| Other operating expenses | | |
| Realised loss on foreign exchange | 337 | 702 |
| Unrealised loss on foreign exchange | 1,166 | - |
| Others | - | 61 |
| | <u>1,503</u> | <u>763</u> |
| Other operating income | | |
| Unrealised gain on foreign exchange | - | (43) |
| Gain on disposals of property and equipment | (330) | (4) |
| Management fee | (1,028) | (766) |
| Others | (699) | (34) |
| | <u>(2,057)</u> | <u>(847)</u> |

27. Tax expense

| | 2019 RM'000 | 2018 RM'000 |
|---|------------------------------|------------------------------|
| Recognised in profit or loss | | |
| Current tax expense | 5,993 | 5,450 |
| - Under provision in prior year | 902 | 1,062 |
| | <u>6,895</u> | <u>6,512</u> |
| Deferred tax expense | | |
| - Reversal and origination of temporary differences | (648) | 1,400 |
| - Under/(over) provision in prior year | 878 | (916) |
| | <u>7,125</u> | <u>6,996</u> |
| Reconciliation of tax expense | | |
| Profit before tax | <u>28,486</u> | <u>23,837</u> |
| Income tax using Malaysian tax rates* | 6,837 | 5,721 |
| Tax effect in respect of: | | |
| Non-deductible expenses | 1,121 | 1,229 |
| Income not subject to tax | (827) | (446) |
| Effect of lower tax rates for offshore business | (1,786) | 1,044 |
| Differential in tax rate | - | (698) |
| Under provision in prior year | 1,780 | 146 |
| Tax expense for the year | <u>7,125</u> | <u>6,996</u> |

* The Company's Malaysian business tax rate is 24% (2018: 24%). Non-Malaysian business is subjected to 5% tax rate. Consequently, deferred tax assets and liabilities are measured using these tax rates.

28. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The related parties of the Company are:

(i) Ultimate holding company

The ultimate holding company is ACR Capital Holdings Pte. Ltd., a corporation incorporated in Singapore.

(ii) Immediate holding company

The immediate holding company is Asia Capital Reinsurance Group Pte. Ltd., a corporation incorporated in Singapore.

(iii) Related companies

The related companies are ACR ReTakaful Berhad and ACR ReTakaful MEA B.S.C. (c), corporations incorporated in Malaysia and Bahrain respectively.

(iv) Key management personnel

Key management personnel include the Company's Executive and Non-Executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The Executive and Non-Executive Directors compensation is disclosed in Note 25.

28. Related parties (continued)

Related party transactions have been entered into in the normal course of business under normal trade terms. Significant related party transactions, other than key management personnel compensation, are as follows:

| Transactions amount for the year ended 31 December | 2019 | 2018 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Ultimate holding company (ACR Capital Holdings Pte. Ltd. as at 31 December 2019) | | |
| - Resources sharing expense recoveries | (55) | - |
| Immediate holding company | | |
| - Gross premium retroceded | (43,328) | (44,185) |
| - Commission income | 14,883 | 12,936 |
| - Claims recovery | 20,492 | 37,749 |
| - Gross premium accepted | 25,583 | 48,928 |
| - Commission expense | (2,925) | (8,072) |
| - Claims paid | (40,599) | (34,843) |
| - Resources sharing expense recoveries | 117 | - |
| - Management fee expense | (2,527) | (3,226) |
| - Management fee income | 410 | 217 |
| Related companies | | |
| - Gross premium retroceded | - | 13 |
| - Commission income | - | (489) |
| - Claims recovery | - | (22) |
| - Gross premium accepted | 2 | 37 |
| - Commission expense | (5) | (73) |
| - Claims paid | (65) | (184) |
| - Resource sharing expense recoveries | - | 6 |
| - Management fee income | 626 | 549 |
| - Novation of gross outstanding claims | (7,585) | (16,034) |
| - Novation of ceded outstanding claims | 4,078 | 11,037 |

The net balance outstanding arising from the above transactions have been disclosed in Note 8, Note 9, Note 17 and Note 18 to the financial statements. There are no impairment loss recognised and bad debts written off in respect of amount due from ultimate holding company, immediate holding company and related companies.

All the amounts outstanding are unsecured and expected to be settled with cash.

29. Risk management framework

The Company is exposed to a variety of reinsurance and financial risks in the normal course of its business activities. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is the approving authority for changes and exceptions to all risk management strategy, policies and procedures which are established to identify, analyse and monitor the risks faced by the Company. The Board also approves the Company's risk tolerance and risk limits.

The Board is supported by two Board committees:

- AC; and
- RMC

The RMC focuses on major underwriting risks, investment risk and risk management strategies whilst the AC will deal with internal controls and compliance procedures. The AC and RMC report to the Board on the risks reviewed by the respective committees. The management also reports to the Board on overall risk assessment through the CEO.

The Company's management is responsible for implementing the risk management framework. This is executed through an Enterprise Risk Management Committee and the Committee with representatives from key business units, is responsible for driving the implementation of the Enterprise Risk Management framework across the Company.

30. Insurance risk management

Reinsurance and insurance risk refer to the risk of financial loss and consequent inability to meet liabilities as a result of inadequate or inappropriate underwriting, claims management, product design, pricing and reserving.

The Company underwrites treaty and facultative reinsurance business both on a proportional and non-proportional basis. Main classes of reinsurance business underwritten include aviation, credit, marine, energy, property, engineering, casualty and motor.

(i) Underwriting risks

The various underwriting risks and processes and protections put in place in relation to these risks by the Company are as follows:

Pricing risks

Pricing is the process of determining the appropriate premium charge for the risks underwritten which involves the estimation of future claim frequency and severity, and the payment pattern associated with the ultimate claims payable.

30. Insurance risk management (continued)

(i) Underwriting risks (continued)

Pricing risks (continued)

The Company has an underwriting guideline for use by underwriters and employs senior underwriters each with considerable industry experience to determine the appropriate price of each risk accepted. Underwriters are also supported by a team of pricing actuaries. A range of pricing tools is also made available to the underwriters which further supplement their underwriting judgement, thus failure to consider the appropriate factors affecting the risk is reduced.

The Company accepts risks across eight lines of businesses and four types of reinsurance programmes, and exchange of intra-group treaties among immediate holding company and related companies. This ensures significant diversification and reduces the risk of systemic pricing error.

Selection risks

Selection risk emanates from persistently poor selection of risks. Estimation of future claims can never be perfect and involves professional judgement.

The Company has an underwriting guideline for use by underwriters. All risks are subject to a peer review process prior to acceptance. Large and complex risks are subject to referral to management.

Stochastic claims risks

The occurrence, size and payment timing of reinsurance claims are an inherently stochastic process and random adverse fluctuations pose a risk to the Company.

The Company's net exposure to any single risk or single catastrophe event is subject to a Board approved limit during the financial year thereby reducing the effect of any single random event.

The diversification of the Company's business across countries and lines of businesses also reduces the impact of any single claims.

Reserving risks

The estimation of liabilities is inherently uncertain. The uncertainties can arise from the following factors:

- Range and quality of data available
- Model error
- Parameter error
- Random volatility in future experience

30. Insurance risk management (continued)

(i) Underwriting risks (continued)

Reserving risks (continued)

Once a claim has occurred, the Company must set aside adequate reserve to meet the ultimate cost of those claims. This is known as a claims reserve. There are typically a number of component of the reserves:

- Case estimate – an estimate for a particular known claim of the amount of the ultimate claim cost taking into the particular circumstances of the claim.
- IBNER – known as “incurred but not enough reported” where this is a portfolio adjustment to all case estimates reflecting any overall inadequacy (if any) in those amounts.
- IBNR – known as “incurred but not reported” this is an estimate of claims costs that have been incurred but have not yet been reported to the Company.
- Claims expense costs – this is an amount that is set aside for the expected costs of administering claims settlement.

In addition to reserving for outstanding claims, a reserve may need to be established for any inadequacies (if any) in unearned premium. Unearned premiums should reflect the amount of future exposure remaining over other period of the underlying contract. Circumstances may have arisen since accepting a particular risk that leads the Company to re-evaluate the exposure, and as a result the unearned premium might be inadequate.

(ii) Concentration/accumulation of insurance risks

Claims can accumulate from various contracts from a single systemic cause, such as a natural catastrophe or change in liability award levels. Further concentration can occur if part of the same risks is accepted from different clients. Such accumulations can put financial strain on the resources of a company.

The Company has effected a reinsurance protection for natural catastrophes and also carries out regular analysis to monitor potential concentration of the same risk reinsured from different clients.

30. Insurance risk management (continued)

(ii) Concentration/accumulation of insurance risks (continued)

The following tables set out the Company's concentration of insurance risks in respect of gross written premiums based on the geographical location of the ceding insurer or reinsurer and by lines of business.

| | 2019 | 2018 |
|------------------------------|----------------|----------------|
| | RM'000 | RM'000 |
| Countries | | |
| Malaysia | 76,590 | 65,324 |
| Singapore | 29,045 | 50,682 |
| Thailand | 2,214 | 2,441 |
| China | (10) | 602 |
| India | 73 | 678 |
| South Korea | - | 233 |
| Philippines | (52) | 298 |
| Australia | (168) | (375) |
| Japan | 36 | 29 |
| Vietnam | 163 | 533 |
| Indonesia | 89 | 355 |
| Others | 598 | 896 |
| | <u>108,578</u> | <u>121,696</u> |
| | 2019 | 2018 |
| | RM'000 | RM'000 |
| Line of business | | |
| Fire | 70,083 | 85,733 |
| Motor | 2,991 | 2,588 |
| Marine, aviation and transit | 8,788 | 8,467 |
| Miscellaneous | 26,716 | 24,908 |
| | <u>108,578</u> | <u>121,696</u> |

30. Insurance risk management (continued)

(iii) Sensitivity analysis

The sensitivity analysis was performed on premium and claims liabilities based on the changes in assumptions that may affect the level of liabilities.

The assumption that has the greatest effect on the determination of premium and claims liabilities is the expected loss ratio (in percentage terms). The test was conducted based on a change level of +10% and -10% of the expected loss ratio on the premium liabilities, claims liabilities and profit before tax as shown below:

| | Expected loss ratio | |
|---------------------|---------------------|-----------------|
| | +10% | -10% |
| | RM'000 | RM'000 |
| 2019 | | |
| Premium liabilities | - | - |
| Claims liabilities | <u>106,011</u> | <u>(17,872)</u> |
| | <u>106,011</u> | <u>(17,872)</u> |
| 2018 | | |
| Premium liabilities | - | - |
| Claims liabilities | <u>101,986</u> | <u>(18,144)</u> |
| | <u>101,986</u> | <u>(18,144)</u> |

(iv) Claims development

The following tables shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date.

Underwriting year is defined from 1 January to 31 December of the year.

30. Insurance risk management (continued)

(iv) Claims development (continued)

(a) Analysis of claims development – gross of reinsurance

2019

Gross incurred claims

| | <i>Underwriting years</i> | | | | | | | | | | Total RM'000 |
|---------------------------------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| | 2012 and prior RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | 2019 RM'000 | 2019 RM'000 | Total RM'000 | |
| At end of first financial year | 836,296 | 125,177 | 183,027 | 127,862 | 75,950 | 65,125 | 58,952 | 37,500 | 37,500 | 37,500 | 37,500 |
| One year later | 902,824 | 311,635 | 282,757 | 231,906 | 109,837 | 89,761 | 132,848 | | | | 132,848 |
| Two years later | 917,902 | 334,036 | 256,840 | 215,630 | 92,056 | 87,257 | | | | | 87,257 |
| Three years later | 914,145 | 310,584 | 229,363 | 208,679 | 92,424 | | | | | | 92,424 |
| Four years later | 883,995 | 274,350 | 216,835 | 206,365 | | | | | | | 206,365 |
| Five years later | 873,984 | 272,365 | 217,351 | | | | | | | | 217,351 |
| Six years later | 858,517 | 239,503 | | | | | | | | | 239,503 |
| Seven years later | 848,113 | | | | | | | | | | 848,113 |
| Current estimates of loss reserves | 848,113 | 239,503 | 217,351 | 206,365 | 92,424 | 87,257 | 132,848 | 37,500 | 37,500 | 1,861,361 | 1,861,361 |
| Cumulative payments | (799,078) | (200,130) | (193,558) | (173,545) | (73,167) | (53,105) | (58,889) | 18,599 | 18,599 | (1,532,873) | (1,532,873) |
| Best estimate of loss reserves | 49,035 | 39,373 | 23,793 | 32,820 | 19,257 | 34,152 | 73,959 | 56,099 | 56,099 | 328,488 | 328,488 |

Claims handling expenses

PRAD at 75% confidence level

Gross general insurance contract liabilities per statement of financial position

2,345
66,708

Note 15(a) 397,541

30. Insurance risk management (continued)

(iv) Claims development (continued)

(a) Analysis of claims development – gross of reinsurance (continued)

2018

Gross incurred claims

| | Underwriting years | | | | | | | | | | Total RM'000 |
|---------------------------------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--|--|-----------------|
| | 2011 and prior RM'000 | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | | | |
| At end of first financial year | 643,035 | 75,268 | 125,177 | 183,027 | 127,862 | 75,950 | 65,125 | 58,952 | | | 58,952 |
| One year later | 761,028 | 118,701 | 311,635 | 282,757 | 231,906 | 109,837 | 89,761 | | | | 89,761 |
| Two years later | 784,123 | 119,954 | 334,036 | 256,840 | 215,630 | 92,056 | | | | | 92,056 |
| Three years later | 797,948 | 112,577 | 310,584 | 229,363 | 208,679 | | | | | | 208,679 |
| Four years later | 801,568 | 104,110 | 274,350 | 216,835 | | | | | | | 216,835 |
| Five years later | 779,885 | 104,399 | 272,365 | | | | | | | | 272,365 |
| Six years later | 769,585 | 99,319 | | | | | | | | | 99,319 |
| Seven years later | 759,198 | | | | | | | | | | 759,198 |
| Current estimates of loss reserves | 759,198 | 99,319 | 272,365 | 216,835 | 208,679 | 92,056 | 89,761 | 58,952 | | | 1,797,165 |
| Cumulative payments | (716,122) | (82,057) | (208,817) | (192,618) | (167,298) | (68,731) | (43,645) | 9,127 | | | (1,470,161) |
| Best estimate of loss reserves | 43,076 | 17,262 | 63,548 | 24,217 | 41,381 | 23,325 | 46,116 | 68,079 | | | 327,004 |

Claims handling expenses

PRAD at 75% confidence level

Gross general insurance contract liabilities per statement of financial position

2,358
66,767

Note 15(a) 396,129

30. Insurance risk management (continued)**(iv) Claims development (continued)****(b) Analysis of claims development – net of reinsurance**

2019

Net incurred claims

| | <i>Underwriting years</i> | | | | | | | Total RM'000 | |
|---|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|----------------|
| | 2012 and prior RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | | 2019 RM'000 |
| At end of first financial year | 556,632 | 16,725 | 24,691 | 23,537 | 20,320 | 19,108 | 15,315 | 19,967 | 19,967 |
| One year later | 619,399 | 28,530 | 35,203 | 33,386 | 22,837 | 18,143 | 18,412 | 18,412 | 18,412 |
| Two years later | 641,906 | 29,385 | 34,084 | 28,088 | 21,105 | 18,435 | | | 18,435 |
| Three years later | 645,153 | 26,364 | 27,749 | 28,449 | 19,640 | | | | 19,640 |
| Four years later | 632,607 | 20,519 | 26,022 | 28,940 | | | | | 28,940 |
| Five years later | 623,451 | 19,463 | 26,069 | | | | | | 26,069 |
| Six years later | 620,426 | 18,107 | | | | | | | 18,107 |
| Seven years later | 613,044 | | | | | | | | 613,044 |
| Current estimates of loss reserves | 613,044 | 18,107 | 26,069 | 28,940 | 19,640 | 18,435 | 18,412 | 19,967 | 762,614 |
| Cumulative payments | (569,680) | (15,480) | (20,853) | (23,434) | (14,986) | (11,323) | (7,196) | 9,375 | (653,577) |
| Best estimate of loss reserves | 43,364 | 2,627 | 5,216 | 5,506 | 4,654 | 7,112 | 11,216 | 29,342 | 109,037 |
| Claims handling expenses | | | | | | | | | 2,345 |
| PRAD at 75% confidence level | | | | | | | | | 22,266 |
| Net general insurance contract liabilities per statement of financial position | | | | | | | | | <u>133,648</u> |

Note 15(a)

30. Insurance risk management (continued)**(iv) Claims development (continued)****(b) Analysis of claims development – net of reinsurance (continued)****2018****Net incurred claims**

| | <i>Underwriting years</i> | | | | | | | | | | Total |
|---------------------------------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------|---------|--------------|
| | 2011 and prior RM'000 | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | RM'000 | | |
| At end of first financial year | 438,616 | 24,637 | 16,725 | 24,691 | 23,537 | 20,320 | 19,108 | 15,315 | 15,315 | 15,315 | |
| One year later | 531,995 | 60,634 | 28,530 | 35,203 | 33,386 | 22,837 | 18,143 | 18,143 | 18,143 | 18,143 | |
| Two years later | 558,765 | 64,147 | 29,385 | 34,084 | 28,088 | 21,105 | | | | 21,105 | |
| Three years later | 577,759 | 61,276 | 26,364 | 27,749 | 28,449 | | | | | 28,449 | |
| Four years later | 583,877 | 57,683 | 20,519 | 26,022 | | | | | | 26,022 | |
| Five years later | 574,924 | 58,509 | 19,463 | | | | | | | 19,463 | |
| Six years later | 564,942 | 55,313 | | | | | | | | 55,313 | |
| Seven years later | 565,113 | | | | | | | | | 565,113 | |
| Current estimates of loss reserves | 565,113 | 55,313 | 19,463 | 26,022 | 28,449 | 21,105 | 18,143 | 15,315 | 15,315 | 748,923 | |
| Cumulative payments | (528,927) | (42,765) | (15,177) | (21,041) | (21,975) | (13,864) | (9,373) | 3,716 | (649,406) | | |
| Best estimate of loss reserves | 36,186 | 12,548 | 4,286 | 4,981 | 6,474 | 7,241 | 8,770 | 19,031 | 19,031 | 99,517 | |

Claims handling expenses

2,358

PRAD at 75% confidence level

20,028

Net general insurance contract liabilities
per statement of financial position

Note 15(a) 121,903

31. Financial instruments

31.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables (“L&R”);
- (b) Available-for-sale financial assets (“AFS”); and,
- (c) Financial liabilities measured at amortised cost (“FL”)

| | Carrying amount RM'000 | L&R/ FL RM'000 | AFS RM'000 |
|--|------------------------------|----------------------|----------------|
| 2019 | | | |
| Financial assets | | | |
| Investments | 367,428 | - | 367,428 |
| Insurance receivables | 72,641 | 72,641 | - |
| Other receivables (excluding prepayment) | 3,430 | 3,430 | - |
| Cash and cash equivalents | 35,067 | 35,067 | - |
| | <u>478,566</u> | <u>111,138</u> | <u>367,428</u> |
| Financial liabilities | | | |
| Other payables | (11,030) | (11,030) | - |
| Insurance payables | (47,587) | (47,587) | - |
| Provision for reported claims | (233,793) | (233,793) | - |
| | <u>(292,410)</u> | <u>(292,410)</u> | <u>-</u> |
| 2018 | | | |
| Financial assets | | | |
| Investments | 329,539 | - | 329,539 |
| Insurance receivables | 34,295 | 34,295 | - |
| Other receivables (excluding prepayment) | 5,663 | 5,663 | - |
| Cash and cash equivalents | 47,497 | 47,497 | - |
| | <u>416,994</u> | <u>87,455</u> | <u>329,539</u> |
| Financial liabilities | | | |
| Other payables | (10,451) | (10,451) | - |
| Insurance payables | (43,128) | (43,128) | - |
| Provision for reported claims | (210,599) | (210,599) | - |
| | <u>(264,178)</u> | <u>(264,178)</u> | <u>-</u> |

31. Financial instruments (continued)

31.2 Net gains and losses arising from financial instruments

| | 2019 RM'000 | 2018 RM'000 |
|---|----------------|----------------|
| Net gains/(losses) on: | | |
| Available-for-sale financial assets | | |
| - recognised in other comprehensive income | 9,789 | (842) |
| - recognised in statement of profit or loss | 19,149 | 15,122 |
| Loans and receivables | 809 | 1,348 |
| | <u>29,747</u> | <u>15,628</u> |

31.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing such risks.

31.4 Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance and investment transactions failed to meet its contractual obligations.

Receivables

Risk management objectives, policies and processes for managing the risk

The Company has established counterparty and credit management policy that governs the retrocession counterparty credit selection and review process, as well as the insurance and reinsurance receivables collection and impairment assessment processes. These processes are regularly being reviewed and monitored by the counterparty and credit committee of the Company. For reinsurance transactions, the Company will give due consideration to external retrocessionaires with rating of A- and above, by either AM Best or Standard & Poor's ("S&P"), and associates of the Company. The contingent credit exposure to any single retrocessionaire is limited and dependent on a number of factors, including rating and company size.

31. Financial instruments (continued)

31.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk is normally represented by the carrying amount of each financial asset in the statement of financial position, although in the case of reinsurance receivables, it is fairly common practice for accounts to be settled on a net basis. In such cases, the maximum exposure to credit risk is expected to be limited to the extent of the amount of financial assets that has not been fully offset by financial liabilities with the same counterparty. The maximum amount recoverable from each retrocessionaire at any time is also dependent on the claims recoverable from such retrocessionaires at that point in time.

Impairment losses

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables as at end of the reporting period was:

| | Gross RM'000 | Individual impairment RM'000 | Collective impairment RM'000 | Net RM'000 |
|---------------------|-------------------------|---|---|-----------------------|
| 2019 | | | | |
| 1-3 months | 24,219 | - | - | 24,219 |
| 4-6 months | 40,533 | - | - | 40,533 |
| 7-12 months | 555 | - | - | 555 |
| More than 12 months | 7,746 | (412) | - | 7,334 |
| | <u>73,053</u> | <u>(412)</u> | <u>-</u> | <u>72,641</u> |
| 2018 | | | | |
| 1-3 months | 29,420 | - | - | 29,420 |
| 4-6 months | 3,566 | - | - | 3,566 |
| 7-12 months | 240 | - | - | 240 |
| More than 12 months | 2,242 | (1,173) | - | 1,069 |
| | <u>35,468</u> | <u>(1,173)</u> | <u>-</u> | <u>34,295</u> |

The credit period granted to insurance receivables range from 60 to 90 days. The Company deemed all insurance receivables outstanding more than 90 days as past due.

The insurance receivables are deemed past due when the counterparty has failed to make payment when the outstanding amount is contractually due.

31. Financial instruments (continued)

31.4 Credit risk (continued)

Receivables (continued)

Past due and impaired

At 31 December 2019, based on a collective and individual assessment of receivables, there are impaired insurance receivables of RM412,000 (2018: RM1,173,000). The movement in the allowance for impairment during the year are shown below:

| | 2019 RM'000 | 2018 RM'000 |
|-------------------------------------|----------------|----------------|
| Balance at 1 January | 1,173 | - |
| Net remeasurement of loss allowance | <u>(761)</u> | <u>1,173</u> |
| Balance at 31 December | <u>412</u> | <u>1,173</u> |

Investments

Risk management objectives, policies and processes for managing the risk

The Company's investment portfolio is managed following standards of diversification and an investment philosophy. It focuses on investing in high quality investment grade fixed income securities.

Exposure to credit risk, credit quality and collateral

The Company does not have investments in collateralised debt obligations, collateralised loan obligations, non-rated securities (except guaranteed by Government) and other complex structured notes which may expose the Company to significant credit risk.

The Company reviews its issuer concentration and credit quality and compliance with established credit limits on a regular basis. The Company is not exposed to any significant credit concentration risk on its investments.

31. Financial instruments (continued)

31.4 Credit risk (continued)

Credit exposure

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

| | 2019 RM'000 | 2018 RM'000 |
|--|----------------|----------------|
| Investments (Corporate and Government bonds) | 367,428 | 329,539 |
| Insurance receivables | 72,641 | 34,295 |
| Other receivables (excluding prepayment) | 3,430 | 5,663 |
| Cash and cash equivalents | 35,067 | 47,497 |
| | <u>478,566</u> | <u>416,994</u> |

Credit exposure by credit quality

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

| | Neither past-due nor impaired RM'000 | Past-due but not impaired RM'000 | Impaired RM'000 | Total RM'000 |
|--|--|---|--------------------|-----------------|
| 2019 | | | | |
| Investments: | | | | |
| Malaysian Government Incentives/ Government Investment Issues | 14,535 | - | - | 14,535 |
| Corporate debt securities | 261,401 | - | - | 261,401 |
| Unit trust in Malaysia | 91,492 | - | - | 91,492 |
| Insurance receivables | 24,219 | 48,422 | 412 | 73,053 |
| Other receivables (excluding prepayments) | 3,430 | - | - | 3,430 |
| Cash and cash equivalents | 35,067 | - | - | 35,067 |
| | <u>430,144</u> | <u>48,422</u> | <u>412</u> | <u>478,978</u> |
| Impairment allowance | - | - | (412) | (412) |
| | <u>430,144</u> | <u>48,422</u> | <u>-</u> | <u>478,566</u> |

31. Financial instruments (continued)**31.4 Credit risk (continued)****Credit exposure by credit quality (continued)**

| | Neither past-due nor impaired RM'000 | Past-due but not impaired RM'000 | Impaired RM'000 | Total RM'000 |
|--|---|---|----------------------------|-------------------------|
| 2018 | | | | |
| Investments: | | | | |
| Malaysian Government Incentives/ Government Investment Issues | 29,746 | - | - | 29,746 |
| Corporate debt securities | 267,382 | - | - | 267,382 |
| Unit trust in Malaysia | 32,411 | - | - | 32,411 |
| Insurance receivables | 29,420 | 4,875 | 1,173 | 35,468 |
| Other receivables (excluding prepayments) | 5,663 | - | - | 5,663 |
| Cash and cash equivalents | 47,497 | - | - | 47,497 |
| | 412,119 | 4,875 | 1,173 | 418,167 |
| Impairment allowance | - | - | (1,173) | (1,173) |
| | 412,119 | 4,875 | - | 416,994 |

31. Financial instruments (continued)

31.4 Credit risk (continued)

Credit exposure by credit quality (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit rating issued by RAM or MARC on the counterparties, unless indicated as rated by AM Best and S&P.

| | AAA | AA | A | BBB- B | Non- rated | Total |
|---|---------------|----------------|---------------|---------------|----------------|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2019 | | | | | | |
| Investments | | | | | | |
| Debt securities# | 52,960 | 142,956 | 19,361 | 46,124 | 14,535 | 275,936 |
| Unit trusts^ | - | - | - | - | 91,492 | 91,492 |
| Insurance receivables* | - | - | 20,134 | 8,492 | 44,015 | 72,641 |
| Other receivables (excluding prepayment) | - | - | - | - | 3,430 | 3,430 |
| Cash and cash equivalents | 35,067 | - | - | - | - | 35,067 |
| | <u>88,027</u> | <u>142,956</u> | <u>39,495</u> | <u>54,616</u> | <u>153,472</u> | <u>478,566</u> |
| 2018 | | | | | | |
| Investments | | | | | | |
| Debt securities# | 32,077 | 168,053 | 11,782 | 42,952 | 42,264 | 297,128 |
| Unit trusts | - | - | - | - | 32,411 | 32,411 |
| Insurance receivables* | - | - | 3,726 | 355 | 30,214 | 34,295 |
| Other receivables (excluding prepayment) | - | - | - | - | 5,663 | 5,663 |
| Cash and cash equivalents | 47,497 | - | - | - | - | 47,497 |
| | <u>79,574</u> | <u>168,053</u> | <u>15,508</u> | <u>43,307</u> | <u>110,552</u> | <u>416,994</u> |

Non-rated Debt Securities are Malaysian Government Securities and Government Investment Issues that are guaranteed by Government.

^ The underlying investments in unit trusts scheme are deposit placement, debt securities, Malaysian Government Securities and Government Investment Issues.

* Rating for insurance receivables are rated by international rating agency either AM Best or S&P.

31. Financial instruments (continued)

31.5 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial and insurance liabilities that are settled by delivery of cash or another financial asset. The Company has to meet its liabilities as and when they fall due, notably from claims arising from its general reinsurance contracts. Hence, there is a risk that the cash and cash equivalents held will not be sufficient to meet its liabilities when they become due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities arising from insurance claims and maturing liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's approach to managing its liquidity risk is as follows:

- Cash flow position is being reviewed, on an ongoing basis, by monitoring its overall liquidity position and funding requirements over the short, medium and long term;
- Assets purchased by the Company are required to satisfy specified marketability requirements; and
- The Company maintains cash and liquid assets to meet daily calls on its insurance and investment needs.

Given the high level of credit quality and short duration investment portfolio, the Company is able to quickly liquidate its investments in financial assets at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In addition, the Company invests in fixed deposit placements and unit trust funds which can provide liquidity for working capital requirements and payment of liabilities when the need arises. As such, no maturity profiles are provided for financial assets.

31. Financial instruments (continued)

31.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

| | Carrying value RM'000 | Contractual interest rate/ coupon RM'000 | Contractual cash flows RM'000 | Up to a year RM'000 | >1 – 3 years RM'000 | >3 – 5 years RM'000 | > 5 years RM'000 |
|-------------------------------|--------------------------|--|----------------------------------|------------------------|------------------------|------------------------|---------------------|
| | | | | | | | |
| 2019 | | | | | | | |
| Provision for reported claims | 233,793 | - | 233,793 | 110,655 | 91,658 | 26,542 | 4,938 |
| Insurance payables | 47,587 | - | 47,587 | 47,587 | - | - | - |
| Other payables | 11,030 | - | 11,030 | 11,030 | - | - | - |
| | 292,410 | | 292,410 | 169,272 | 91,658 | 26,542 | 4,938 |
| 2018 | | | | | | | |
| Provision for reported claims | 210,599 | - | 210,599 | 104,339 | 76,290 | 25,339 | 4,631 |
| Insurance payables | 43,128 | - | 43,128 | 43,128 | - | - | - |
| Other payables | 10,451 | - | 10,451 | 10,451 | - | - | - |
| | 264,178 | | 264,178 | 157,918 | 76,290 | 25,339 | 4,631 |

31. Financial instruments (continued)

31.6 Market risk

Market risk is the risk that changes in market prices that will affect the Company's income or the value of its holding of financial instruments. Market risk for the Company comprises two types of risks:

- Currency risk
- Interest rate risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing market risk have not changed significantly from the previous financial year.

For each of the major components of market risk the Company has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the Company at the reporting date to each major risk is addressed below.

31.6.1 Currency risk

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

The Company's primary transactions are carried out in RM for its local business and its exposure to foreign exchange risk arises principally with respect to US Dollar ("USD") through the intra-group treaties among immediate holding company, related companies and management of pool business.

Risk management objectives, policies and processes for managing the risk

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 shall enter into derivative transactions solely for hedging purposes.

The Company's currency risk is largely mitigated by its asset and liability management framework. Under this framework, the Company established an internally managed investment portfolio with the objective of investing into USD currency denominated fixed income securities to match its liabilities denominated in USD currencies. With the assets liabilities management process in place, the impact arising from sensitivity in foreign exchange rate is deemed minimal as the Company does not have a significant mismatch exposure. Notwithstanding this, the asset liability management framework is subject to time lag, estimates and judgments, which may affect the desired outcome.

31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.1 Currency risk (continued)

The following table sets out the Company's main exposure at the reporting date to currency risk arising from recognised assets or liabilities denominated in USD currency, other than the functional currency of the Company.

| | 2019 RM'000 | 2018 RM'000 |
|--------------------------------|------------------|------------------|
| Assets | | |
| Investments | 46,123 | 42,952 |
| Reinsurance assets | 116,296 | 105,571 |
| Insurance receivables | 40,478 | 7,213 |
| Accrued interest | 328 | 365 |
| Cash and cash equivalents | 8,188 | 23,037 |
| | <u>211,413</u> | <u>179,138</u> |
| Liabilities | | |
| Insurance contract liabilities | (141,041) | (125,866) |
| Insurance payable | (17,053) | (5,160) |
| | <u>(158,094)</u> | <u>(131,026)</u> |
| Net exposure | <u>53,319</u> | <u>48,112</u> |

Currency risk sensitivity analysis

A 10% (2018: 10%) strengthening of RM against the following currency at the reporting date would increase the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Impact on profit before tax | |
|----------------------|--------------------------------|----------------|
| | 2019 RM'000 | 2018 RM'000 |
| United States Dollar | <u>5,332</u> | <u>4,811</u> |

A 10% (2018: 10%) weakening of RM against the above currency at the end of the reporting period would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

31.6.2 Interest risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to the impact of changes in market interest rates have on interest income from cash and cash equivalents and other fixed income investments.

31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.2 Interest risk (continued)

The earnings of the Company are affected by changes in market interest rates due to the impact such changes have on interest income from cash and cash equivalents, including investments in fixed deposits.

Risk management objectives, policies and processes for managing the risk

The Company manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

The Company's investment portfolio has an average duration of around two years, significantly reducing any long term interest rate volatility within the portfolio.

Exposure to interest rate risk

The nature of the Company's exposure to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the previous financial year.

The following tables set out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

| | Within 1 year RM'000 | 1 to 5 years RM'000 | More than 5 years RM'000 | Total RM'000 |
|--|-------------------------------------|------------------------------------|---|-------------------------|
| 2019 | | | | |
| Fixed rate instruments | | | | |
| Corporate debt securities | 5,031 | 156,469 | 99,901 | 261,401 |
| Malaysian Government Securities/ Government Investment Issues | - | 8,289 | 6,246 | 14,535 |
| Unit trust in Malaysia | 91,492 | - | - | 91,492 |
| Cash and cash equivalents | 35,067 | - | - | 35,067 |
| | <u>131,590</u> | <u>164,758</u> | <u>106,147</u> | <u>402,495</u> |
| 2018 | | | | |
| Fixed rate instruments | | | | |
| Corporate debt securities | 28,552 | 141,588 | 97,242 | 267,382 |
| Malaysian Government Securities/ Government Investment Issues | - | 10,003 | 19,743 | 29,746 |
| Unit trust in Malaysia | 32,411 | - | - | 32,411 |
| Cash and cash equivalents | 47,497 | - | - | 47,497 |
| | <u>108,460</u> | <u>151,591</u> | <u>116,985</u> | <u>377,036</u> |

31. Financial instruments (continued)

31.6 Market risk (continued)

31.6.2 Interest risk (continued)

Interest rate risk sensitivity analysis

(a) *Fair value sensitivity analysis for fixed rate instruments*

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) *Cash flow sensitivity analysis for fixed rate instruments*

A change of 50 basis points ("bp") in interest rates at the reporting date would have increased/(decreased) other comprehensive income ("OCI") and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | ---- Impact on OCI and equity ---- | | | |
|--|------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2019 | | 2018 | |
| | 50 bp increase RM'000 | 50 bp decrease RM'000 | 50 bp increase RM'000 | 50 bp decrease RM'000 |
| Fixed rate instruments | | | | |
| Malaysia Government Securities, Government Investment Issues & Corporate debt securities | (5,394) | 5,394 | (4,131) | 4,131 |

31. Financial instruments (continued)

31.7 Fair value information

The carrying amounts of cash and cash equivalents, short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments. The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

| | Fair value of financial instruments carried at fair value | | | Fair value of financial instruments not carried at fair value | | | Total fair value | Carrying amount |
|--|---|-------------------|-------------------|---|-------------------|-------------------|------------------|-----------------|
| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | | |
| 2019 | | | | | | | | |
| Financial assets | | | | | | | | |
| Malaysian Government Securities/Government Investment Issues | - | 14,535 | - | - | - | - | 14,535 | 14,535 |
| Corporate debt securities | - | 261,401 | - | - | - | - | 261,401 | 261,401 |
| Unit trust in Malaysia | 28,490 | 63,002 | - | - | - | - | 91,492 | 91,492 |
| | 28,490 | 338,938 | - | - | - | - | 367,428 | 367,428 |
| 2018 | | | | | | | | |
| Financial assets | | | | | | | | |
| Malaysian Government Securities/Government Investment Issues | - | 29,746 | - | - | - | - | 29,746 | 29,746 |
| Corporate debt securities | - | 267,382 | - | - | - | - | 267,382 | 267,382 |
| Unit trust in Malaysia | 32,411 | - | - | - | - | - | 32,411 | 32,411 |
| | 32,411 | 297,128 | - | - | - | - | 329,539 | 329,539 |

31. Financial instruments (continued)

31.7 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2018: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

32. Capital management

The Company's capital management policy is to optimise the utilisation of its capital while at the same time providing an adequate level of security as determined by rating agencies and BNM.

The Company's objectives when managing capital are:

- To comply with insurance capital requirements stipulated by BNM. In this respect the Company manages its capital at an amount in excess of the minimum regulatory capital;
- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders;
- To provide an adequate return to its shareholders by pricing reinsurance contracts commensurately with the level of risk;
- To align the profile of the assets and liabilities taking into account of risks inherent in the business; and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

32. Capital management (continued)

Primary capital

The primary source of capital used by the Company is shareholders' equity. The Company also considers alternative sources of capital including retrocession, as appropriate when assessing its deployment and usage of capital.

The objective of the capital management policy is sustained and ensured through updates of forecasts as part of an annual strategic and financial planning process.

Regulatory capital

The local insurance regulator, BNM, specifies the minimum required capital that must be maintained at all times throughout the year. This minimum required capital is determined by the Capital Adequacy Ratio ("CAR") under the RBC Framework at 130%. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The calculation is based on factors deemed higher for those items with greater underlying risk. As at year end, the Company has a capital adequacy ratio in excess of the minimum requirement.

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

| | 2019 | 2018 |
|--------------------------------|-----------------------|-----------------------|
| | RM'000 | RM'000 |
| Eligible Tier 1 Capital | | |
| Share capital (paid-up) | 275,000 | 275,000 |
| Retained profit | <u>24,360</u> | <u>2,999</u> |
| | 299,360 | 277,999 |
| Tier 2 Capital | | |
| Eligible reserves | <u>9,477</u> | <u>1,470</u> |
| Total capital available | <u><u>308,837</u></u> | <u><u>279,469</u></u> |

There were no changes in the Company's approach to capital management during the financial year.

33. Significant event during the year

Change in ultimate holding corporation

On 5 December 2019, Catalina Holdings (Bermuda) Ltd. (“Catalina”), an industry leader in the legacy (re)insurance space, has reached an in principle agreement to acquire Asia Capital Reinsurance Group Pte. Ltd. (“ACRG”), the immediate holding company.

As part of the transaction, the Company will cease writing business with immediate effect and all existing policies in force will be serviced until expiry. The Company will continue to honour all valid reinsurance quotes issued to date, as well as liabilities from outstanding commitments to business partners.

On 31 March 2020, ACRG announced that Catalina has completed the acquisition of ACRG and the ultimate holding company of the Company has changed to Catalina.

COVID-19

On 11 March 2020, the World Health Organisation declared the 2019 Novel Coronavirus (“COVID-19”) outbreak a pandemic. The spread of COVID-19 has created a high level of uncertainty to the near-term global economic prospects and caused disruptions to various businesses. The Company is taking precautionary measures to deal with COVID-19 outbreak in accordance with guidelines provided by the authorities.

For the financial year ended 31 December 2019, the Coronavirus outbreak and the related impact is considered as a non-adjusting post balance sheet event. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Company cannot reasonably estimate the impact these events will have on the Company’s financial position, results of operations or cash flows in the future.

34. Changes in accounting policies

During the year, the Company adopted MFRS 16.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IC Interpretation 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under MFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

34. Changes in accounting policies (continued)

As a lessee

At 1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

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

As a lessor

The Company has reassessed the classification of a sublease previously classified as an operating lease under MFRS 117 and concluded that the sublease is an operating lease under MFRS 16.

Impacts on financial statements

Since the Company applied the requirements of MFRS 16 retrospectively with the right-of-use assets equal to lease liabilities at 1 January 2019, there are no adjustments made to the prior period presented.

The impact on statement of financial position as at 1 January 2019 is summarised below:

| | At 1.1.2019 RM'000 |
|---------------------|-----------------------------------|
| Right-of-use assets | 100 |
| Lease liabilities | <u>(100)</u> |

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))
(Incorporated in Malaysia)

**Statement by Directors pursuant to
Section 251(2) of the Companies Act 2016**

In the opinion of the Directors, the financial statements set out on pages 18 to 94 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:



.....
Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir
Director
Kuala Lumpur, Malaysia



.....
Sim Hwee Cher
Director
Singapore

Date: **15 JUN 2020**

Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 200701004295 (762294-T))

(Incorporated in Malaysia)

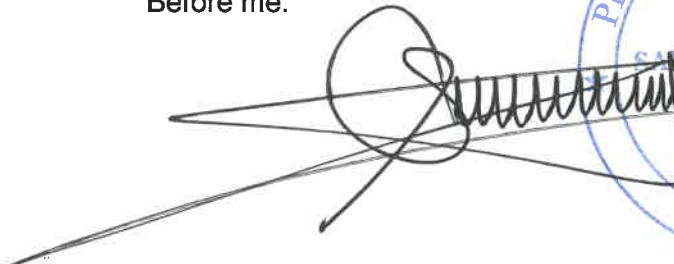

Statutory Declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Chong Soon Hing**, the officer primarily responsible for the financial management of Asia Capital Reinsurance Malaysia Sdn. Bhd., do solemnly and sincerely declare that the financial statements set out on pages 18 to 94 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Chong Soon Hing, NRIC: 771030-05-5607, MIA CA27875 at Kuala Lumpur on 15 June 2020.


.....
Chong Soon Hing

Before me:

No. 10-1, Jalan Bangsar Utama 1,
Bangsar Utama,
59000 Kuala Lumpur.



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
Level 10, KPMG Tower
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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
ASIA CAPITAL REINSURANCE MALAYSIA SDN. BHD.**

(Company No. 200701004295 (762294-T))
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Asia Capital Reinsurance Malaysia Sdn. Bhd., which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 18 to 94.

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

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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



Information Other than the Financial Statements and Auditors' Report Thereon

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

Our opinion on the financial statements of the Company does not cover the Directors' Report 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 Directors' Report and, in doing so, consider whether the Directors' Report 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 the Directors' Report, 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 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 ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

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



**Auditors' Responsibilities for the Audit of the Financial Statements
(continued)**

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

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

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 Matter

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.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Ooi Eng Siong
Approval Number: 03240/02/2022 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 15 June 2020