

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD

(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

CONTENTS	PAGE
DIRECTORS' REPORT	1 - 5
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF COMPREHENSIVE INCOME	7
STATEMENT OF CHANGES IN EQUITY	8
STATEMENT OF CASH FLOW	9 - 10
NOTES TO THE FINANCIAL STATEMENTS	11 - 76
STATEMENT BY DIRECTORS	77
STATUTORY DECLARATION	77
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RHB INSURANCE BERHAD	78 - 81

REGISTERED OFFICE

Level 9, Tower One, RHB Centre, Jalan Tun Razak
50400 Kuala Lumpur

PRINCIPAL PLACE OF BUSINESS

Level 12, West Wing, The Icon, No.1, Jalan 1/68F, Jalan Tun Razak
55000 Kuala Lumpur

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of the Company for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITY

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

FINANCIAL RESULTS

	RM'000
Profit for the financial year	108,002
Retained earnings brought forward	473,590
	<hr/>
Profits available for appropriation	581,592
Dividend paid during the financial year	(50,000)
	<hr/>
Retained earnings carried forward	531,592
	<hr/> <hr/>

DIVIDENDS

The dividends paid or declared since the end of the previous financial year were as follows:

	RM'000
In respect of the financial year ended 31 December 2019	
- Single-tier interim dividend of 150%	150,000
	<hr/> <hr/>

The Directors declared a single-tier interim dividend of 150% amounting to RM150,000,000 in respect of the financial year ended 31 December 2019. The interim dividend was approved by the Board of Directors on 28 January 2020.

The financial statements for the current financial year do not reflect this proposed interim dividend. Upon declaration, this dividend payment will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2020.

The Directors do not propose any final dividends for the financial year ended 31 December 2019.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

ISSUE OF SHARES

There were no issuances of shares in the Company during the current financial year.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

INSURANCE LIABILITIES

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

IMPAIRED DEBTS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of impaired debts and the making of allowance for impairment, and satisfied themselves that all known impaired debts had been written off and that adequate allowance had been made for impaired debts.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secure the liabilities of any other person; or
- (b) any contingent liability in respect of the Company which has arisen since the end of the financial year.

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CONTINGENT AND OTHER LIABILITIES (CONTINUED)

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

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

Tan Sri Saw Choo Boon

Jahanath Muthusamy

Wong Pek Yee

Shaifubahrim Mohd Saleh (Appointed on 1 April 2019)

Kong Shu Yin

Abdul Aziz Peru Mohamed (Retired on 18 April 2019)

In accordance with clause 79 of the Company's Constitution, Mr Jahanath Muthusamy shall retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the register of directors' shareholdings, the interest of Directors in office at the end of the financial year in the securities of the Company and its related corporations were as follows:

	Number of ordinary shares			
	As at 1.1.2019	Bought	Sold	As at 31.12.2019
Holding company				
RHB Bank Berhad				
Tan Sri Saw Choo Boon	20,000	10,000	-	30,000
- Direct				

Other than the above, none of the other Directors holding office at the end of the financial year had any interest in the securities of the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than directors' remuneration and benefits-in-kind as disclosed in Note 25 to the financial statements) by reason of a contract made by the Company or a related company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except that certain Directors received remuneration from the Company's holding company and other related corporations.

During the financial year, Directors of the Company are covered under the RHB Banking Group Directors' and Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of RHB Banking Group subject to the term of the policy. The total amount of Directors' and Officers' Liability Insurance effected for the RHB Banking Group was RM200 million (2018: RM200 million). The total amount of premium paid for the Directors' and Officers' Liability Insurance by the Group was RM828,400 (2018: RM816,000).

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

HOLDING COMPANY

The Directors regard RHB Bank Berhad, a company incorporated in Malaysia, as the immediate and ultimate holding company.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 24 to the financial statements.

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

STATEMENT ON CORPORATE GOVERNANCE

The Statement on Corporate Governance is attached in Appendix I to the Directors' Report.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 24 February 2020. Signed on behalf of the Board of Directors:

×



TAN SRI SAW CHOO BOON
CHAIRMAN



KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur

24 FEB 2020

RHB INSURANCE BERHAD
(Incorporated in Malaysia)
Registration No. 197801000983 (38000-U)

**Corporate Governance Disclosures
31 December 2019**

Introduction

The Board of Directors (“Board”) of the Company recognises that good corporate governance is and has been fundamental to the success of the Company’s business. Therefore, the Board of the Company continuously strives to ensure that highest standards of corporate governance are adopted in establishing accountability and integrity of the Board and the Management in promoting the interest of the stakeholders and in enhancing shareholders’ value. The corporate governance structure of the Company which is aligned with that of RHB Banking Group (“Group”) is principally based on BNM’s Policy On Corporate Governance.

The Board has developed a charter that sets out the key corporate governance principles adopted by the Board (“Charter”). In adhering to the responsibilities set out in the Charter, the Members of the Board are expected to perform their duties with integrity, honesty and professionalism within the ambit of the law to serve the interest of the Company’s shareholders and stakeholders.

The Board has adopted a Code of Ethics and Business Conduct for Directors (“Code of Ethics”). The Code of Ethics was formulated to enhance the standard of corporate governance and promote ethical conduct of Directors with a view of achieving the following objectives:

- to establish a uniform ethical standard for Directors emphasising conduct free from conflicts of interest; and
- to uphold the spirit of corporate responsibility and accountability in line with the governing laws, regulations and guidelines.

The Group has in place a Group Code of Ethics and Conduct that is applicable to all its employees to ensure a high standard of ethical and professional conduct is upheld by all its employees in the performance of their duties and responsibilities.

BOARD OF DIRECTORS

Composition of the Board

The Board currently comprises one (1) Non-Independent Non-Executive Chairman (“NINEC”), one (1) Senior Independent Non-Executive Director (“SINED”), two (2) Independent Non-Executive Directors (“INED”) and one (1) Managing Director (“MD”), details of which are as follows:

Name of Directors

Tan Sri Saw Choo Boon (NINEC)	
Jahanath Muthusamy (SINED)	
Wong Pek Yee (INED)	
Shaifubahrim Mohd Saleh (INED)	(Appointed on 1 April 2019)
Kong Shu Yin (MD)	
Abdul Aziz Peru Mohamed (INED)	(Retired on 18 April 2019)

Directors' Profiles

TAN SRI SAW CHOO BOON

Independent Non-Executive Chairman
73/Male/Malaysian

Tan Sri Saw Choo Boon ("Tan Sri Saw") was appointed as an Independent Non-Executive Director of RHB Insurance Berhad on 1 October 2017 and was subsequently appointed as the Chairman of RHB Insurance Berhad on 1 October 2018. On 31 March 2019, Tan Sri Saw was re-designated as Non-Independent Non-Executive Chairman. He also serves as a Member of the Board Nominating & Remuneration Committee, Board Risk Committee and Board Audit Committee.

Tan Sri Saw holds a Bachelor of Science (Chemistry) from the University of Malaya. Tan Sri Saw joined Shell in 1970 as a Refinery Technologist in Shell Refining Company (Federation of Malaya) Berhad. He then served in various capacities in manufacturing, supply, trading and planning in Malaysia, Singapore and Netherlands. In 1996, Tan Sri Saw was appointed Managing Director of Shell MDS (Malaysia) Sendirian Berhad. In 1998– 1999, he assumed the positions of Managing Director for Oil Products (Downstream) Shell Malaysia and Managing Director of Shell Refining Company (Federation of Malaya) Berhad. In 1999, with the globalisation of the Shell Oil Products business, he was appointed the Vice-President of the commercial business in the Asia-Pacific region and in 2004 he became the President of Shell Oil Product East. In 2005, he assumed the role of Vice-President Global Marine Products.

Tan Sri Saw was appointed the Chairman of Shell Malaysia on 1 March 2006. He was also the Vice President Business Development Asia Pacific responsible for developing the commercial businesses in new market entries in Asia - China, India, Indonesia and Vietnam. From 1 January 2010, Tan Sri Saw was appointed the Senior Advisor of Shell Malaysia until his retirement on 30 June 2010.

Tan Sri Saw's other directorships in public companies are Digi.Com Berhad, Wah Seong Corporation Berhad, RHB Bank Berhad and RHB Capital Berhad (in Member's Voluntary Winding Up). In addition, he is also a Council Member of Federation of Malaysian Manufacturers (FMM) and the Socio-Economic Research Centre (SERC) Board of the Associated Chinese Chambers of Commerce and Industry Malaysia.

JAHANATH MUTHUSAMY

Senior Independent Non-Executive Director
64/Male/Malaysian

Mr Jahanath Muthusamy ("Mr Jahanath") was appointed as an Independent Non-Executive Director of RHB Insurance Berhad on 1 November 2016 and was subsequently appointed as Senior Independent Non-Executive Director on 1 January 2018. He also serves as the Chairman of Investment Committee and Board Risk Committee of RHB Insurance Berhad.

Mr Jahanath has over 40 years' experience, having joined the insurance industry in 1975. During this period, he was actively involved in the Insurance Institutes and Insurance Associations of both Malaysia and Indonesia serving in various capacities. In 2002, Mr Jahanath was seconded to PT Assuransi AXA as the President and Chief Executive Officer (CEO) and a member of the Board of Directors. He returned to AXA Affin General Insurance Malaysia at the end of 2006 and assumed the role of CEO and a member of the Board of Directors until his retirement in October 2012. He remained on the board of PT Assuransi AXA until 2012. From 2013 to 2015, he was appointed as a Senior Advisor to Solution Providers Pte Ltd, a Swiss insurance solution provider/consultant based in Singapore.

Mr Jahanath is a Fellow of the Chartered Insurance Institute, United Kingdom and Malaysian Insurance Institute, Malaysia.

He does not hold any directorships in any other public companies.

WONG PEK YEE

Independent Non-Executive Director
62/Female/Malaysian

Ms Wong Pek Yee (Ms Wong) was appointed as an Independent Non-Executive Director of RHB Insurance Berhad on 1 November 2018. She also serves as a Member of the Board Risk Committee of RHB Insurance Berhad.

Ms Wong holds a Bachelor of Science in Economics & Accounting (Honours) from The University of Hull, United Kingdom. She is also a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of Malaysian Institute of Accountants.

Ms Wong has over 37 years of experience working in London and Malaysia covering a wide spectrum of industries including tax consultancy, financial services and manufacturing sectors. She started off her career as an Audit and Tax Consultant with PriceWaterhouse London and PriceWaterhouse Tax Services Sdn Bhd from 1980 to 1989. She then joined Hong Leong Group and held Senior Management positions in various industries involving in strategic business planning and decision making in areas ranging from commercial, financial, corporate restructuring, tax to legal. Her last position in Hong Leong Group was as a Group Financial Controller cum Acting Chief Executive Officer of Malaysian Newsprint Industries Sdn Bhd which was part of the Hong Leong Group. During her years in Hong Leong Group, she was also appointed as an Executive Director in some of the subsidiaries within the Hong Leong Group.

Ms Wong's other directorship in public company includes Pengurusan Aset Air Berhad.

SHAFUBAHRIM MOHD SALEH

Independent Non-Executive Director
60/Male/Malaysian

Encik Shaifubahrim Bin Mohd Saleh (Encik Shaifubahrim) was appointed as an Independent Non-Executive Director of RHB Insurance Berhad on 1 April 2019. He also serves as a Member of the Investment Committee and Board Risk Committee of RHB Insurance Berhad.

He holds a Bachelor of Science (Honours) Degree in Computer Science from Universiti Sains Malaysia.

Encik Shaifubahrim has vast knowledge and experience in information technology, investment and Small & Medium Enterprises business. He held various Senior Management positions in the information technology industry with more than 30 years. During the years in the information technology industry, he was appointed as President/Chief Executive Officer of Persatuan Industri Kumputer Malaysia (PIKOM), President/Chief Business Officer of REDtone Telecommunications Sdn Bhd and Chairman/Partner of Pritchett Rummler-Brache Malaysia. He has also held other key positions including Managing Director of Cisco Malaysia, Banyan Systems and General Data as well as Sales Director of ORACLE Systems Malaysia.

Encik Shaifubahrim is currently the Director, Chief Executive Officer International of Gamat Emas Sdn Bhd, a company specialising in health lifestyle/supplements and export business. He is also the Chairman of Frontline Resources Sdn Bhd which involves in ICT systems integration, consultancy and investments.

He is also a Council Member of Malaysian Service Providers Confederation.

KONG SHU YIN

Managing Director/Chief Executive Officer
59/Male/Malaysian

Mr Kong Shu Yin (Mr Kong) was appointed as the Managing Director (MD) of RHB Insurance Berhad on 13 March 2011.

Mr Kong holds a Bachelor of Engineering from the University of Malaya and is a Fellow of the Chartered Insurance Institute, United Kingdom and Malaysian Insurance Institute, Malaysia.

He has 30 years of experience in the insurance business. Prior to joining RHB Insurance Berhad, he was with one of the largest general insurers in Malaysia, in various capacities including Chief Executive Officer. He also has experience with the Thailand and Indonesian insurance markets.

He is currently the Chairman of ISM Insurance Services Malaysia Berhad, an organisation established by the insurance and takaful industry to provide statistical services to its members and the public. He is also a member of the Management Committee of Persatuan Insurans Am Malaysia (PIAM).

Duties and Responsibilities of the Board

The Board is responsible for governing the administration of the Company and for exercising all such power pursuant to the Company's Constitution. In general, the Board is responsible for:

- providing strategic leadership to the Company;
- reviewing, approving and monitoring the implementation of the Company's strategic business plans and policies;
- ensuring the Company maintains an effective system of internal controls and is able to identify and manage principal risks resulting in efficiency in operations and a stable financial environment;
- acting as a guardian of the Company's corporate values and ethical principles in parallel with the goal to enhance shareholders' value;
- monitoring as well as evaluating the performance of the Management to ensure that the performance criteria remains dynamic; and
- ensuring the formulation of a succession plan for the Company for the long-term business continuity.

The day-to-day management of the Company is delegated to the MD who is responsible for managing the business and operations of the Company in ensuring the successful implementation of the policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the MD and the Chairman/other Non-Executive Directors ensure the balance of power and authority towards the establishment of a fully effective Board.

Board Meetings and Access of Information

The Board meets on a monthly basis. Special meetings are held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

The Board is provided with meeting papers in advance of the meeting dates to allow the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and formulate opinion on matters to be deliberated at the meetings. Board materials/papers are circulated to Members of the Board within a reasonable timeframe prior to the scheduled Board Meeting date. At each Meeting, the Board receives updates from the respective Chairmen/representatives of the Board Audit Committee and Board Risk Management Committee on matters relating to the Company that have been deliberated at both committees, as well as on matters that require appropriate attention. The Board also reviews regular management reports and information on corporate and business issues to assess performance against business targets and objectives.

Each Member of the Board is required to apply independent judgement to decision making in their capacity as a Director. Where urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Company's Constitution.

The Board is able to seek clarification and advice as well as request for information on matters pertaining to the Company and the Group from the Senior Management and the Company Secretaries. Should the need arise, the Directors may also seek independent professional advice, at the Company's expense, when deemed necessary for the proper discharge of their duties.

The Board had adopted an internal guideline on the Standard Procedures for Directors to have access to independent advice which lays down the procedures for Directors seeking internal and/or external professional independent advice. The objectives of this guideline among others are as follows:

- to ensure consistency throughout the Group on the procedures for Directors of the Group to have access to independent professional advice; and
- to enable Directors to have an enhanced perception of issues within the Group by allowing them to obtain independent opinion/advice/consultation from leading professionals in the relevant areas.

The Board convened twelve (12) meetings for the financial year ended 31 December 2019. Details of the attendance of each Director at Board meetings held during the financial year are set out below:

<u>Name of Directors</u>	<u>Total meetings attended</u>	<u>Percentage of attendance (%)</u>
Tan Sri Saw Choo Boon (Chairman)	12/12	100
Jahanath Muthusamy	12/12	100
Wong Pek Yee	12/12	100
Shaifubahrim Mohd Saleh*	9/9	100
Kong Shu Yin	12/12	100
Abdul Aziz Peru Mohamed^	3/3	100

Notes :

* Appointed on 1 April 2019

^ Retired on 18 April 2019

Pursuant to BNM's Policy On Corporate Governance, a director must attend at least 75% of the Board meetings held in each year. For the year under review, all Directors in office at the end of the financial year had complied with the attendance requirement as stipulated by BNM.

Appointments and Re-election to the Board

The Company is governed by BNM's Policy On Corporate Governance on the appointment of new Directors and the re-appointment of its existing Directors upon the expiry of their respective tenures of office as approved by BNM.

The Board Nominating and Remuneration Committee ("BNRC") reviews and assesses the appointments/re-appointments of Directors. During such assessment, the Group BNRC also refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation ("BEE"). The recommendation of the BNRC will thereafter be presented to the Board. Upon approval by the Board, the application for the appointment/re-appointment of Directors will be submitted to BNM for approval.

Clause 79 of the Company's Constitution provides that one-third of the Directors for the time being, or, if their number is not three or a multiple of three, the number nearest one-third, shall retire from office at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are eligible for re-election by shareholders at the next Annual General Meeting held following their appointments.

Training

The Directors continuously participate in various seminars, conferences and training programmes and in-house workshops to keep themselves abreast of the relevant regulatory framework, financial sector issues as well as current and future market developments.

The Group has also adopted a guideline on the Standard Procedures on Directors' In-House Orientation and Continuing Education Programme for the Group, the objectives of which are as follows:

- to ensure consistency throughout the Group in developing an in-house orientation and Continuing Education Programme for its Directors to familiarise themselves with the industry and the Company/Group; and
- to provide Directors with a better understanding of the nature of business, corporate strategy, risks of the business, responsibilities and rights from the legal viewpoint, moral and ethical obligations as well as good corporate governance in the ever-changing economic climate.

During the financial year ended 31 December 2019, the Directors of RHB Insurance Berhad attended the following training programmes, conferences and seminars:

Name of Director(s)	Training Programme Attended	Training Scope & Description
Tan Sri Saw Choo Boon	Islamic Finance for Board of Directors Training Programme (13-14 February 2019)	<ul style="list-style-type: none"> • Enhance Director's appreciation on the dynamics of Shariah principles in shaping different offerings of Islamic banking business. • Equip Directors with practical understanding on the value propositions of Islamic finance and its specificities vis-à-vis conventional banking with the aim of enhancing business potential. • Provide Directors with diverse perspectives from within and beyond the Islamic banking community on contemporary issues in the industry.

Name of Director(s)	Training Programme Attended	Training Scope & Description
Tan Sri Saw Choo Boon (continued)	Focus Group Discussion (in preparation for the 6th BNM-FIDE FORUM Annual Dialogue with the Senior Management of BNM <i>(7 March 2019)</i>	<ul style="list-style-type: none"> • To discuss and seek clarification on key trends and developments in the domestic and international economic environment • To discuss current and future issues and challenges in the banking, Islamic banking, investment banking, development financial institution, insurance and Takaful businesses • To propose collective views on substantive matters for discussion
	Reading the Signs: The next financial crisis and its potential impact on Asia <i>(14 March 2019)</i>	<ul style="list-style-type: none"> • Global Financial Crisis of 2007/8 • Asian Financial Crisis of 1997 • Potential impact of a future financial crisis on the global financial system
	BNM Governor's Address On The Malaysian Economy & Panel Discussion <i>(28 March 2019)</i>	<ul style="list-style-type: none"> • 2018 BNM Annual Report
	Talk on "Economic Developments in the US" by Dr Mark Zandi, Chief Economist of Moody's Analytics US <i>(1 April 2019)</i>	<ul style="list-style-type: none"> • Global Businesses are Nervous • U.S. Job Market is Historically Strong • Global Commodity Prices are Firm • Currency Depreciation Indicator
	In-House Training on "Risk Management in Islamic Banks: A Shariah Perspective" <i>(6 May 2019)</i>	<ul style="list-style-type: none"> • To understand the importance of Shari'ah Compliant and Shari'ah Governance IFIs • To comprehend the impact of Shari'ah Non-Compliance risk for IFIs • To identify the key Shari'ah non-compliance risk areas in IFIs • To understand the methodology to deal with Shariah non-compliant risk events.

Name of Director(s)	Training Programme Attended	Training Scope & Description
Tan Sri Saw Choo Boon (continued)	In-House Training on “Directors’ Guide to Governance, Risk & Compliance (GRC)” (13 May 2019)	<ul style="list-style-type: none"> • Relate the relationship between Governance, Risk and Compliance • Illustrate the business drivers for an integrated approach to GRC • Describe the GRC Management Challenge • Identify the relevant GRC impact and performance issues • Design the GRC process model
	In-House Training on “AML/CFT Training for BOD & GMC Members” (18 June 2019)	<ul style="list-style-type: none"> • Macro Turbulence & Inherent Risks • Lesson learned from 1MDB affair • Lesson learned from the Danske Bank Fiasco • Implication on governance key takeaways
	IT Risk Management Training for Board Members (PIAM) (4 July 2019)	<ul style="list-style-type: none"> • IT Governance, risks and control • Understanding and Managing Outsourcing Risk • Key processes to managing the risk of third party relationship • BNM Policy Document on Outsourcing
	Understanding Fintech and Its Implications for Banks (1 August 2019)	<ul style="list-style-type: none"> • Articulate the latest fintech developments and how it affects the banking industry; • Explain the threat of fintech should financial institutions ignore these developments; • Explain the current regulatory framework for fintech under Bank Negara Malaysia; • Explain blockchain and its applications in banking; • Consider the benefits of adopting fintech or partnering with fintech providers to improve banking services or processes.

Name of Director(s)	Training Programme Attended	Training Scope & Description
Tan Sri Saw Choo Boon (continued)	In-House Training on 'Industry 4.0 and It's Impact of Malaysian Capital Market' (6 August 2019)	<ul style="list-style-type: none"> • Industry 4.0 • The Malaysian Government's Policies related to Industry 4.0 and fund Raising Options for SME • Application and impact of Industry 4.0 • The future trend of Industry 4.0
	Business Foresight Forum ('BFF') 2019 : New Business Directions 2025 Catalyst For Change (19 September 2019)	<ul style="list-style-type: none"> • Discuss and assess global economic direction and investor trends and its impact on capital markets • Consider how new tech apps act as new driving force and catalyst in the development of new business ideas • Evaluate how big data and blockchain contribute to better business decisions in capital markets • Recognise why cyber security has become the integral part of doing business in a safe and trustworthy ecosystem
	In House Training on "Islamic Banking and Finance – Case Studies on Recent Court Decisions" (3 October 2019)	<ul style="list-style-type: none"> • Legal Framework • Court Decisions • Implications of the recent decisions
	4th Distinguished Board Leadership Series: Digital To The Core (4 October 2019)	<ul style="list-style-type: none"> • Digital to the Core • Key similarities and differences between Digital and Traditional FIs • Key success factors and lessons learned • Use-case and demo of financial technology solutions

Name of Director(s)	Training Programme Attended	Training Scope & Description
Jahanath Muthusamy	A Boardroom Colloquium on Innovation Governance (13 February 2019)	<ul style="list-style-type: none"> • Brief description of the main characteristics of “Innovation Governance” as opposed to the more traditional management of innovation. • To learn the differences between the two in relation essentially to its focus, the breadth of its scope, its level in the organization and • Utilizing some examples of boards who have missed important on going-trends, and therefore have let their companies follow wrong tracks, the focus here will be on sound “board diligence” regarding innovation. • To understand why fast progress and transformative impact of digitalization will put a lot of new pressures on boards
	Focus Group Discussion (in preparation for the 6th BNM-FIDE FORUM Annual Dialogue with the Senior Management of BNM (7 March 2019)	<ul style="list-style-type: none"> • To discuss and seek clarification on key trends and developments in the domestic and international economic environment. • To discuss current and future issues and challenges in the banking, Islamic banking, investment banking, development financial institution, insurance and Takaful businesses. • To propose collective views on substantive matters for discussion.

Name of Director(s)	Training Programme Attended	Training Scope & Description
Jahanath Muthusamy (continued)	In-House Training on “Directors’ Guide to Governance, Risk & Compliance (GRC)” (13 May 2019)	<ul style="list-style-type: none"> • Relate the relationship between Governance, Risk and Compliance • Illustrate the business drivers for an integrated approach to GRC • Describe the GRC Management Challenge • Identify the relevant GRC impact and performance issues • Design the GRC process model
	In-House Training on “AML/CFT Training for BOD & GMC Members” (18 June 2019)	<ul style="list-style-type: none"> • Macro Turbulence & Inherent Risks • Lesson learned from 1MDB affair • Lesson learned from the Danske Bank Fiasco • Implication on governance key takeaways
	Inaugural Regional Conference on Climate Change: “Climate Change Risk & Opportunities: Respond, Not React” (25 – 27 September 2019)	<ul style="list-style-type: none"> • Managing Financial Risk • Realising Opportunities • Impact of Climate Change to ASEAN Countries • Understanding the Task Force on Climate-related Financial Disclosure (TCFD) Recommendations and Its Application for Financial Institutions
Wong Pek Yee	Financial Institution Directors’ Education Programme (FIDE) (Insurance) Module A (19 – 22 February 2019)	<ul style="list-style-type: none"> • Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenario

Name of Director(s)	Training Programme Attended	Training Scope & Description
Wong Pek Yee (continued)	FIDE FORUM Dinner Talk - Digital Assets: Global Trends Legal Requirements and Opportunities for Financial Institutions (26 March 2019)	<ul style="list-style-type: none"> • Cryptocurrencies • Overview of tokens, cryptocurrencies and blockchain • The accounting possibilities for digital currency • Implications of the current accounting model • Crypto Insolvency
	Talk on “Economic Developments in the US” by Dr Mark Zandi, Chief Economist of Moody’s Analytics US (1 April 2019)	<ul style="list-style-type: none"> • Global Businesses are Nervous • U.S. Job Market is Historically Strong • Global Commodity Prices are Firm • Currency Depreciation Indicator
	In-House Training on “Enhancing Corporate Brand Value” (30 April 2019)	<ul style="list-style-type: none"> • About Brand Finance • Brand Finance rankings & reports • Businesses increasingly recognise the value brands create • The Banker • Global brand value • Brand value results 2019 • Malaysia Banking results • ASEAN Banking results • Brand strength index
	In-House Orientation on “RHB Banking Group” (17 June 2019)	<ul style="list-style-type: none"> • Overview of RHB Banking Group’s Business and Activities, Strategies, Performance, Products, People and Culture
	In-House Training on “AML/CFT Training for BOD & GMC Members” (18 June 2019)	<ul style="list-style-type: none"> • Macro Turbulence & Inherent Risks • Lesson learned from 1MDB affair • Lesson learned from the Danske Bank Fiasco • Implication on governance key takeaways

Name of Director(s)	Training Programme Attended	Training Scope & Description
Wong Pek Yee (continued)	IT Risk Management Training for Board Members (PIAM) (4 July 2019)	<ul style="list-style-type: none"> • IT Governance, risks and control • Understanding and Managing Outsourcing Risk • Key processes to managing the risk of third party relationship • BNM Policy Document on Outsourcing
	Our Planet: Our Business' & an interactive dialogue on Climate change & its impact to business (8 July 2019)	<ul style="list-style-type: none"> • Our Planet. Our Business and our conversations • TCFD 2019 report and recommendations • How do we make it easier for investors to invest in Global goals? And how are you responding to the SDGs? • Measuring impact beyond financials • WEF climate change governance for boards
	FIDE FORUM Artificial Intelligence and Its Role in FIs. (24 July 2019)	<ul style="list-style-type: none"> • Artificial Intelligence: A Primer for Corporate Directors • Realizing 2030: A Divided Vision of the Future • How Boards Can Use Technology to Retain a Competitive Edge • Embracing the Promise of Fintech
	Audit Committee Institute Breakfast Roundtable 2019 (6 August 2019)	<ul style="list-style-type: none"> • Governance Revelations from Inquest Reports • Business Continuity Management (BCM), Counting the cost and benefits – A Critical Perspective
	In-House Training on 'Industry 4.0 and It's Impact of Malaysian Capital Market' (6 August 2019)	<ul style="list-style-type: none"> • Industry 4.0 • The Malaysian Government's Policies related to Industry 4.0 and fund Raising Options for SME • Application and impact of Industry 4.0 • The future trend of Industry 4.0

Name of Director(s)	Training Programme Attended	Training Scope & Description
Wong Pek Yee (continued)	Inaugural Regional Conference on Climate Change: “Climate Change Risk & Opportunities: Respond, Not React” (25 September 2019)	<ul style="list-style-type: none"> • Managing Financial Risk • Realising Opportunities • Impact of Climate Change to ASEAN Countries • Understanding the Task Force on Climate-related Financial Disclosure (TCFD) Recommendations and Its Application for Financial Institutions
	In-house Training on “The Corporate Liability Provision under Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act 2009” (16 October 2019)	<ul style="list-style-type: none"> • Individual Corporate Liability • Penalties for corruption offences • The Principles of T.R.U.S.T
	Thought Leadership Series – The ABCDs of Technology (21 October 2019)	<ul style="list-style-type: none"> • Digital disruption and the accountancy profession • The vision – delivering more value to businesses • New capabilities in data • AI in Accountancy • Managing the risk • Automation – Benefits & Barriers • Implication for the profession
	Financial Institution Directors' Education Programme (FIDE) (Insurance) Module B (22 – 25 October 2019)	<ul style="list-style-type: none"> • Board Effectiveness: The Role of Evaluations & Succession Planning • Compensation • Return on Compliance • Emerging Risks and Future Boards • Board Dynamics in Controlled Companies • Innovation Strategies for Insurance Companies
Shaifubahrim Mohd Saleh	In-House Orientation on RHB Banking Group” (17 June 2019)	<ul style="list-style-type: none"> • Overview of RHB Banking Group's Business and Activities, Strategies, Performance, Products, People and Culture

Name of Director(s)	Training Attended	Programme	Training Scope & Description
Shaifubahrim Mohd Saleh (continued)	Financial Directors' (FIDE) (Insurance) Module A <i>(2-5 July 2019)</i>	Institution Education Programme	<ul style="list-style-type: none"> • Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenario
	FIDE FORUM Artificial Intelligence and Its Role in FIs. <i>(24 July 2019)</i>		<ul style="list-style-type: none"> • Artificial Intelligence: A Primer for Corporate Directors • Realizing 2030: A Divided Vision of the Future • How Boards Can Use Technology to Retain a Competitive Edge • Embracing the Promise of Fintech
	Inaugural Regional Conference on Climate Change: "Climate Change Risk & Opportunities: Respond, Not React" <i>(25 – 27 September 2019)</i>		<ul style="list-style-type: none"> • Managing Financial Risk • Realising Opportunities • Impact of Climate Change to ASEAN Countries • Understanding the Task Force on Climate-related Financial Disclosure (TCFD) Recommendations and Its Application for Financial Institutions
	Financial Directors' (FIDE) (Insurance) Module B <i>(22 – 25 October 2019)</i>	Institution Education Programme	<ul style="list-style-type: none"> • Board Effectiveness: The Role of Evaluations & Succession Planning • Compensation • Return on Compliance • Emerging Risks and Future Boards • Board Dynamics in Controlled Companies • Innovation Strategies for Insurance Companies

Name of Director(s)	Training Programme Attended	Training Scope & Description
Kong Shu Yin	In-House Training on “Directors’ Guide to Governance, Risk & Compliance (GRC)” (13 May 2019)	<ul style="list-style-type: none"> • Relate the relationship between Governance, Risk and Compliance • Illustrate the business drivers for an integrated approach to GRC • Describe the GRC Management Challenge • Identify the relevant GRC impact and performance issues • Design the GRC process model
	In-House Training on “AML/CFT Training for BOD & GMC Members” (18 June 2019)	<ul style="list-style-type: none"> • Macro Turbulence & Inherent Risks • Lesson learned from 1MDB affair • Lesson learned from the Danske Bank Fiasco • Implication on governance key takeaways
	IT Risk Management Training for Board Members (PIAM) (4 July 2019)	<ul style="list-style-type: none"> • IT Governance, risks and control • Understanding and Managing Outsourcing Risk • Key processes to managing the risk of third party relationship • BNM Policy Document on Outsourcing
	In-house Training on “The Corporate Liability Provision under Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act 2009 (16 October 2019)	<ul style="list-style-type: none"> • Individual Corporate Liability • Penalties for corruption offences • The Principles of T.R.U.S.T
	Secrecy and Information Protection Training	<ul style="list-style-type: none"> • Mandatory E-learning
	Top Team Effectiveness Programme (TTEP) for GMC Members	<ul style="list-style-type: none"> • Mandatory E-learning
IT Security Awareness Digital Megatrends Introduction to Agile Fundamentals		<ul style="list-style-type: none"> • Mandatory E-learning
		<ul style="list-style-type: none"> • Mandatory E-learning
		<ul style="list-style-type: none"> • Mandatory E-learning

Name of Director(s)	Training Programme Attended	Training Scope & Description
Kong Shu Yin (continued)	Introduction to Data Analytics	• Mandatory E-learning
	Introduction to Customer Journey and Design Thinking	• Mandatory E-learning
	Introduction to Digital - Lean Six Sigma	• Mandatory E-learning

Board Performance Evaluation (“BEE”)

The Board had since 2006 undertaken the BEE exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual Directors. The BEE is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. The results of the BEE are presented to the BNRC as well as the Board of the Company for deliberation and adoption.

Group Board Committees

Following the Group-wide transformation exercise undertaken in late 2007, the various Board Committees within the Group were consolidated to form Group Board Committees residing either at the Company’s holding company, RHB Bank Berhad. The objective is to promote better efficiency and effectiveness in implementing holistic strategies for the benefit of the Group as a whole. The Group Board Committees currently residing at RHB Bank Berhad which are shared by the Company are as follows:

- Board Audit Committee
- Board Nominating and Remuneration Committee

The functions and terms of reference of the Group Board Committees are clearly defined and comply with the relevant governing laws, regulations and guidelines. The members of the Group Board Committees comprise the Directors of the Company and that of the operating entities within the Group to ensure a fair representation across the entities in pursuing the interests of the entities concerned.

The relevant minutes/extract of minutes of meetings of all Group Board Committees are tabled to the respective Boards for notation.

Board Audit Committee (“BAC”)

The Board Audit Committee (“BAC”) comprises two (2) INEDs and one (1) NINED, of whom one (1) INED is the Chairperson. A total of thirteen (13) meetings were held for the BAC during the financial year ended 31 December 2019. Details of the attendance of each member at the BAC’s meetings are as follows:

<u>Members of BAC</u>	<u>Total meetings attended</u>	<u>Percentage of attendance</u> (%)
Ong Ai Lin* (Chairperson)	13/13	100
Tan Sri Saw Choo Boon	13/13	100
Sharifatu Laila Syed Ali^	10/10	100
Tan Sri Dr Rebecca Fatima Sta Maria#	3/3	100

Notes:

* Re-designated as Chairperson on 31 March 2019

^ Appointed as Member on 31 March 2019

Resigned as Chairperson on 31 March 2019

The main objectives of the BAC are as follows:

- (i) To provide independent oversight of RHB Banking Group’s financial reporting and internal control system, and ensuring checks and balances for entities within the Group;
- (ii) To review the quality of the audits conducted by internal and external auditors;
- (iii) To provide a line of communication between Board and external auditors;
- (iv) To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process;
- (v) To provide emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide a forum for discussion that is, among others, independent of the Management; and
- (vi) To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Board Nominating and Remuneration Committee (“BNRC”)

BNRC comprises three (3) INEDs and one (1) NINED. A total of eleven (11) meetings were held for the BNRC during the financial year ended 31 December 2019. Details of the attendance of each member for the BNRC’s meetings are as follows:

<u>Members of BNRC</u>	<u>Total meetings attended</u>	<u>Percentage of attendance</u> (%)
Tan Sri Dr Rebecca Fatima Sta Maria (Chairperson)	11/11	100
Tan Sri Saw Choo Boon	10/11	91
Ong Ai Lin	11/11	100
Sharifatu Laila Syed Ali*	9/9	100
Tan Sri Azlan Zainol^	2/2	100
Tan Sri Ong Leong Huat @ Wong Joo Hwa^	2/2	100

Notes:

* Appointed as Member on 31 March 2019

^ Resigned as Member on 31 March 2019

The main objectives of the BNRC are to support the Boards in the following:

- (i) Review and assess the appointment/re-appointments of directors, board committee members, Shariah Committee (“SC”) members, Senior Officers, Appointed Actuary and Company Secretary (where applicable) for recommendation to the Boards of main entities and other subsidiaries (as deemed appropriate) under RHB Banking Group (“the Group”).
- (ii) Advise the Boards on optimal size and mix of skills of Boards.
- (iii) Provide oversight and direction on Human Resource (HR) matters and operations, and to recommend to the Boards for approval of remuneration and human resource strategies.

Board Committees

Board Risk Committee (“BRC”)

The Board had, on 19 March 2019, approved the establishment of the BRC for the Company which took effect on 1 April 2019 to look into the compliance and risk issues/matters arising from the insurance activities. The minutes of the BRC meetings are also tabled to the Board of RHB Insurance Berhad for notation.

The BRC comprises three (3) INEDs. A total of eight (8) meetings were held since 1 April 2019 (date of establishment) for the financial year ended 31 December 2019. Details of the attendance of each member for the BRC’s meetings are as follows:

<u>Members of BRC</u>	<u>Total meetings attended</u>	<u>Percentage of attendance</u> (%)
Jahanath Muthusamy (Chairman)	8/8	100
Wong Pek Yee	8/8	100
Shaifubahrim Mohd Saleh*	8/8	100
Abdul Aziz Peru Mohamed^	N/A	N/A

Notes:

* Appointed as Member on 18 April 2019

^ Resigned as Member on 18 April 2019

The key objectives of the BRC are to:

- (i) Provide oversight and governance of risks of RHB Insurance Berhad.
- (ii) Oversees Senior Management's activities in managing risks and ensure that the risk management process is in place and functioning.
- (iii) Promote the management of risk in accordance with a risk-return performance management framework.
- (iv) Support and provide the overall leadership to the Senior Management in driving Risk and Compliance Culture and Risk Ownership in RHB Insurance Berhad.

Investment Committee ("IC")

IC comprises three (3) INEDs. A total of four (4) meetings were held for the IC during the financial year ended 31 December 2019. Details of the attendance of each member for the IC's meetings are as follows:

<u>Members of IC</u>	<u>Total meetings attended</u>	<u>Percentage of attendance</u> (%)
Jahanath Muthusamy (Chairman)	4/4	100
Dato' Darawati Hussain	4/4	100
Shaifubahrim Mohd Saleh*	2/2	100
Abdul Aziz Peru Mohamed^	2/2	100

Notes:

* Appointed as Member on 1 April 2019

^ Resigned as Member on 18 April 2019

The main objectives of the IC are:

- (i) To assist the Board to discharge its responsibilities by reviewing and overseeing the overall investment management of the Company.
- (ii) To set targets for Management and Fund Managers to achieve satisfactory returns of investment in the form of capital appreciation, interest and dividend income.

Remuneration Governance

The Company's Managing Director/Chief Executive Officer is not paid a Director's fee nor is he entitled to receive any meeting attendance allowance for the Board meetings that he attends. As the only Executive Director on the Board of the Company, his remuneration, which includes salary and bonus, comprised short term or long term incentives, in cash or benefits-in-kind, is derived from the Company.

The Managing Director's sustainable remuneration package also includes performance bonus, in line with the Group's retention policy and risk-based approach. His Key Performance Indicators and remuneration are approved by the Board. The details on the aggregate remuneration of the Directors of the Company (comprising remuneration received and/or receivable from the Company during the financial year ended 31 December 2019) are, as follows:

Name of Company's ED	Salary and Bonus (RM'000)	Other Emoluments (RM'000)	Benefits-In-Kind (RM'000)	Total (RM'000)
Kong Shu Yin	1,758	66	7	1,831
Name of Company's NEDs	Directors' Fees* (RM'000)	Other Emoluments** (RM'000)	Benefits-in-kind (RM'000)	Total (RM'000)
Tan Sri Saw Choo Boon	170	65	31	266
Jahanath Muthusamy	135	65	-	200
Wong Pek Yee	135	36	-	171
Shaifubahrim Bin Mohd Saleh^	102	37	-	139
Abdul Aziz Peru Mohamed#	40	6	-	46
Sub Total (NEDs)	582	209	31	822
Grand Total (MD + NEDs)	2,340	275	38	2,653

Notes:

* Based on new Directors' fees.

** Include Board Committees' allowances and meeting allowance.

^ Appointed on 1 April 2019.

Retired on 18 April 2019.

The Board is mindful that fair remuneration is critical to attract, retain and motivate Directors with the relevant experience and expertise required to lead the Company. The BNRC has been entrusted with discharging the remuneration strategies (as outlined in its Terms Of Reference). The Group has also established a common reference incorporating the NED Remuneration Framework. It is aimed at applying the general principles for the remuneration of NEDs to ensure that remuneration levels are commensurate with the responsibilities, risks and time commitment of Boards/Board Committees. The level of remuneration reflects the level of responsibility undertaken by the particular NED concerned within the Company. It also takes into consideration practices within the industry and is reviewed at least once every two years.

No.	Non-Executive Directors' Remuneration Scheme	Unrestricted/Non-Deferred	Total (RM'000)	Restricted/Deferred	Total (RM'000)
A. Fixed-Type Remuneration					
i	Cash-based	<ul style="list-style-type: none"> • Fixed Fees <ul style="list-style-type: none"> • Directors' Fees¹ • Board Committees' Allowances² • Chairmen's premium³ for various Board & Board Committees • Emoluments⁴ 	667	-	Nil
ii	Shares & share-linked instruments	-	Nil	-	Nil
iii	Others	Benefits-In-Kind ⁵	31	-	Nil
B. Variable-Type Remuneration					
i	Cash-based	Meeting Attendance Allowance ⁶	119	-	Nil
ii	Shares & Share-Linked Instruments	-	Nil	-	Nil
iii	Others	Directors' & Officers' Liability Insurance ⁷	38	-	Nil

Notes:

The overall remuneration package of the NEDs of the Group/Company comprises the following components:

1. Directors' Fees

NEDs are entitled to annual Directors' fees, which are subject to shareholders' approval at the Annual General Meeting ("AGM") of the Company. As part of a periodical review to ensure the Company remains competitive against its peers and with the heightened responsibilities and accountabilities under the Companies Act 2016, the Financial Services Act 2013 and the Malaysian Code on Corporate Governance 2017. Total Directors' fees paid/payable to the Directors for financial year 2019 are RM581,287.67. The above proposal is subject to the shareholders' approval at the forthcoming 2020 Annual General Meeting of the Company.

2. Board Committee Allowances

NEDs who sit on Board Committees are entitled to receive Board Committee allowances which shall be paid on an annual basis at the end of each financial year.

3. Chairmen's Premium

The Chairmen of various Boards and Board Committees as the chairman are entitled to receive a premium above the normal respective Board and Board Committee allowances, which shall be paid on an annual basis at the end of each financial year.

4. Farewell Pot

All NEDs will be awarded with 'Farewell Pot' scheme upon his/her exit from the Group, in recognition of their services and commitments to the Group. Under the 'Farewell Pot' scheme, any NED who leaves the Group would be entitled to cash equivalent of RM2,000 for each year of his/her service in the Group or as decided by the BNRC.

5. Benefits-in-kind

Benefits are accorded to the Chairmen of the Group, consisting amongst others the provision of a company car, driver and petrol allowance.

6. Meeting attendance allowance

NEDs are also entitled to meeting attendance allowances when they attend the Board/Board Committee meetings.

7. Directors' & Officers' ("D&O") Liability Insurance

The insurance covers the Group's Directors in respect of any liabilities arising from acts committed in their capacity as D&O of RHB Banking Group. However, the insurance policy does not indemnify a Director or principal officer if he or she is proven to have acted negligently, fraudulently or dishonestly, or in breach of his or her duty of trust. The Directors are required to contribute jointly towards a portion of the premiums of the said policy.

The remuneration structure and package for the (NEDs) are approved by the shareholders at the Company's Annual General Meeting. Further information on the total remuneration of the Directors from the Company is available under **Note 25** to the Financial Statements 2019 on pages **51** to **52**.

Policies and procedures, including the nomination framework for the Directors and Senior Management are reviewed regularly to ensure the remuneration levels are:

- Commensurate with the responsibilities, risks and time commitment; and
- Market-competitive and sufficient to attract and retain quality people but yet not excessive.

RHB Total Rewards

RHB's Total Rewards Philosophy consists of four (4) key principles as follows:-

- 1) To support and promote a high performance culture to deliver the Group's vision.
- 2) To provide a balanced approach between fixed and variable compensation that reflects individual's seniority and level of accountability.
- 3) To promote a strong performance and reward linkage while incorporating risk and compliance management (to fulfill risk control objective) as part of the key performance indicators for remuneration decisions.
- 4) To be competitive with market practice; tailored to specific market i.e. Financial Industry the entity is operating in and aligned to internal philosophy.

The Total Rewards Policy was reviewed by the Board Nominating and Remuneration Committee (BNRC) and approved by the Board. The policy acts as a guide when designing and implementing remuneration programs and is applicable to all employees in Malaysia and Overseas.

The Policy is guided by RHB's Total Rewards Model that covers all aspects of work that employees value, both tangible and intangible. The components of the model are illustrated below:-



RHB's philosophy of fair remuneration is critical to attract, retain and motivate employees and is within the ambient of RHB's risk appetite. It provides the roadmap to govern our reward strategy and is aligned with the business strategies, corporate values and long-term interests of the organization. RHB's remuneration shall be in alignment with Bank Negara Malaysia's Corporate Governance.

The remuneration for Senior Management including the Managing Directors and Group Management Committee members and the Other Material Risk Takers are being reviewed on annual basis and deliberated at the BNRC and Board for approval.

Tabulated below is the remuneration summary for FY2019 for the Senior Management and Other Material Risk Takers.

Total value of remuneration awards for the financial year ended 2019	Senior Management (1 Headcount)		Other Material Risk Takers (8 Headcounts)	
	Unrestricted/Non-Deferred	Restricted/Deferred	Unrestricted/Non-Deferred	Restricted/Deferred
Fixed remuneration				
- Cash-based	1,037,568	-	3,498,397	-
- Shares and share-linked instruments	-	-	-	-
- Others	10,195		8,112	
Variable remuneration				
- Cash-based	784,000	-	1,294,102	-
- Shares and share-linked instruments	-	-	-	-
- Others	-	-	-	-

Notes:

Figures presented in the table are in Ringgit Malaysia.

RISK MANAGEMENT AND INTERNAL CONTROL

Introduction

The Directors acknowledge the importance of having effective and reliable systems of internal control and risk management. These systems cover not only financial but also operational and compliance controls as well as risk management. The system, by its nature, can only provide reasonable but not absolute assurance against misstatement, loss or fraud.

Pursuant to Guidance 22.2 of Bank Negara Malaysia's Policy Document on Corporate Governance, RHB Insurance Berhad leverages on RHB Banking Group's risk management and internal control framework and policies. As such, details of the Group's risk management and internal control framework and policies can be found within the RHB Bank Berhad's Integrated Report 2019 available at www.rhbgroup.com.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
ASSETS			
Property, plant and equipment	5	14,840	22,222
Right of use assets		2,864	-
Intangible assets - computer software	6	23,562	15,672
Investments	7	1,042,104	920,177
- Fair value through profit or loss		1,024,555	892,244
- Loans and receivables		17,549	27,933
Reinsurance assets	9	510,176	511,236
Insurance receivables	10	45,609	87,865
Other receivables	11	55,328	109,704
Tax recoverable		6,726	13,390
Cash and cash equivalents	12	119,816	97,389
Total assets		<u>1,821,025</u>	<u>1,777,655</u>
LIABILITIES			
Insurance contract liabilities	13	1,106,886	1,094,114
Insurance payables	14	14,868	44,306
Other payables	15	58,627	65,378
Lease liabilities	16	2,888	-
Deferred tax liabilities	17	6,164	197
Total liabilities		<u>1,189,433</u>	<u>1,203,995</u>
SHAREHOLDERS' FUND			
Share capital	18	100,000	100,000
Retained earnings	19	531,592	473,660
		<u>631,592</u>	<u>573,660</u>
Total liabilities and shareholders' fund		<u>1,821,025</u>	<u>1,777,655</u>

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

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

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
Gross earned premiums	20	722,660	750,587
Premiums ceded to reinsurers	20	(215,730)	(243,897)
Net earned premiums	20	<u>506,930</u>	<u>506,690</u>
Investment income	21	48,971	41,900
Realised gains/(losses)	22	1,911	(2,772)
Fair value gains/(losses)	23	11,528	(5,055)
Reinsurance commission income		42,614	46,968
Other operating income		3,912	3,358
Other income		<u>108,936</u>	<u>84,399</u>
Gross claims paid	13(a)	(374,813)	(399,004)
Claims ceded to reinsurers	13(a)	142,276	122,269
Gross change to claims liabilities	13(a)	(38,941)	(59,744)
Change in claims liabilities ceded to reinsurers	13(a)	(1,118)	34,196
Net claims		<u>(272,596)</u>	<u>(302,283)</u>
Commission expense		(85,242)	(97,685)
Management expenses	24	(116,360)	(111,065)
Other expenses		<u>(201,602)</u>	<u>(208,750)</u>
Profit before taxation		141,668	80,056
Taxation	26	(33,666)	(11,828)
Net profit for the year, representing total comprehensive income for the financial year		<u>108,002</u>	<u>68,228</u>
Basic earnings per share (sen)	27	<u>108.00</u>	<u>68.23</u>

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

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

	Issued and fully paid ordinary shares		Distributable Retained earnings RM'000	Non- distributable Available-for- sale reserve RM'000	Total RM'000
	No. of shares '000 units	Share capital RM'000			
<u>2019</u>					
At 1 January 2019	100,000	100,000	473,660	-	573,660
MFRS 16 day 1 Adjustment (Note 35)	-	-	(70)	-	(70)
At 1 January 2019 (Restated)	100,000	100,000	473,590	-	573,590
Total comprehensive income for the financial year	-	-	108,002	-	108,002
Dividends paid during the financial year (Note 28)	-	-	(50,000)	-	(50,000)
At 31 December 2019	<u>100,000</u>	<u>100,000</u>	<u>531,592</u>	<u>-</u>	<u>631,592</u>
<u>2018</u>					
At 1 January 2018	100,000	100,000	413,318	730	514,048
MFRS 9 day 1 adjustment	-	-	(7,886)	(730)	(8,616)
At 1 January 2018 (Restated)	100,000	100,000	405,432	-	505,432
Total comprehensive income for the financial year	-	-	68,228	-	68,228
At 31 December 2018	<u>100,000</u>	<u>100,000</u>	<u>473,660</u>	<u>-</u>	<u>573,660</u>

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	<u>2019</u> RM'000	<u>2018</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	108,002	68,228
Adjustment for:		
Realised (gains)/losses	(1,911)	2,772
Fair value (gains)/losses	(11,528)	5,055
Writeback on impairment loss on insurance receivables	(1,691)	(5,673)
Bad debts written off	13	94
Amortisation adjustment	1	1
Depreciation of property, plant and equipment	2,594	2,603
Depreciation of right-of-use assets	2,651	-
Amortisation of intangible assets - computer software	4,052	3,096
Investment income	(48,971)	(41,900)
Unrealised gains on foreign exchange	(74)	(594)
Taxation expense	33,666	11,828
	<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities	86,804	45,510
Purchase of fair value through profit or loss investments	(232,428)	(199,038)
Proceeds from sale of fair value through profit or loss investments	113,522	206,726
Decrease/(increase) in loans and receivables	10,386	(228)
Interest received	4,966	4,575
Dividend received	44,365	37,400
Decrease in insurance receivables	43,462	15,641
Decrease/(increase) in other receivables	48,442	(19,425)
Increase in insurance contract liabilities	12,772	95,804
Decrease/(increase) in reinsurance assets	1,060	(28,475)
Decrease in insurance payables	(29,438)	(1,988)
Decrease in other payables	(3,864)	(91,239)
	<hr/>	<hr/>
Cash generated from operations	100,049	65,263
Income taxes paid	(21,015)	(18,084)
	<hr/>	<hr/>
Net cash generated from operating activities	79,034	47,179
	<hr/>	<hr/>

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(6,927)	(7,209)
Purchase of intangible assets - computer software		(260)	(3,372)
Proceeds from sale of property, plant and equipment		35	56
Net cash used in investing activities		<u>(7,152)</u>	<u>(10,525)</u>
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid		(50,000)	-
Net cash used in financing activity		<u>(50,000)</u>	<u>-</u>
Effect on exchange rate changes on cash and cash equivalents		545	494
NET INCREASE IN CASH AND CASH EQUIVALENTS		22,427	37,148
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		<u>97,389</u>	<u>60,241</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	12	<u><u>119,816</u></u>	<u><u>97,389</u></u>

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

The Company's immediate and ultimate holding company is RHB Bank Berhad, a company incorporated in Malaysia.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income ("FVOCI"), financial assets and financial liabilities at fair value through profit or loss ("FVTPL").

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

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

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

- (i) Annual Improvements to MFRS 2015-2017 Cycle

Amendments to MFRS 112 'Income Taxes'.

The amendments clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in income statements, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in income statements when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

The adoption of the Annual Improvements to MFRS 2015-2017 Cycle did not have any material financial impact on the financial statements of the Company.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- (ii) Amendments to MFRS 9 'Prepayment Features with Negative Compensation'

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

The adoption of the amendments to MFRS 9 did not have any material financial impact on the financial statements of the Company.

- (iii) MFRS 16 'Leases'

MFRS 16 supersedes MFRS 117 'Leases' and the related interpretations.

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

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

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

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

The Company have adopted the simplified retrospective transitional approach under MFRS 16. Under the simplified retrospective transition approach, comparative information are not restated and the cumulative effects of initial application of MFRS 16 where the Company is a lessee, were recognised as an adjustment to the opening balance of retained profits as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 'Leases' and IC Interpretation 4 "Determining Whether an Arrangement Contains a Lease".

The details and the financial effects of the adoption of MFRS 16 are disclosed in Note 35 to the financial statements.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- (iv) IC Interpretation 23 'Uncertainty over Income Tax Treatments'

IC Interpretation 23 provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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

The adoption of IC Interpretation 23 did not have any material financial impact on the financial statements of the Company.

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

- (i) The Conceptual Framework for Financial Reporting (Revised 2018) - effective 1 January 2020

The Framework was revised with the primary purpose to assist the IASB to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS. The Framework is not an IFRS, and does not override any IFRSs.

Key changes to the Framework are as follows:

- Objective of general purpose financial reporting - clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship.
- Qualitative characteristics of useful financial information - reinstatement of the concepts of prudence when making judgement of uncertain conditions and 'substance over form' concept to ensure faithful representation of economic phenomenon.
- Clarification on reporting entity for financial reporting - introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

(i) The Conceptual Framework for Financial Reporting (Revised 2018) - effective 1 January 2020 (continued)

Key changes to the Framework are as follows (continued):

- Elements of financial statements - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.
- Recognition and derecognition - the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added.
- Measurement - explanation of factors to consider when selecting a measurement basis have been provided.
- Presentation and disclosure - clarification that income statements is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to income statements is required if this results in more relevant information or a more faithful representation of income statements.

Amendments to References to the Conceptual Framework in MFRS Standards

The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards ('Amendments'), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies.

The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

(ii) Amendments to MFRS 101 and MFRS 108 'Definition of Material' - effective 1 January 2020

The amendments clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

The definition of 'material' has been revised as 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

(ii) Amendments to MFRS 101 and MFRS 108 'Definition of Material' - effective 1 January 2020 (continued)

The amendments also:

- clarify that an entity assess materiality in the context of the financial statements as a whole.
- explain the concept of obscuring information in the new definition. Information is obscured if it has the effect similar as omitting or misstating of that information. For example, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information.
- clarify the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendments shall be applied prospectively.

(iii) Amendments to MFRS 3 'Definition of a Business' - effective 1 January 2020

The amendments clarify that to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

The amendments shall be applied prospectively.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

(iv) MFRS 17 'Insurance Contracts' - effective 1 January 2021

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

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

Alternative measurement models are provided for the different insurance coverages:

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

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

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

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

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

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

The adoption of the accounting standards, amendments to published standards and interpretations to existing standards are not expected to give rise to any material financial impact to the Company, except for the adoption of MFRS 17 - of which the cumulative impact upon adoption will be recognised in the retained earnings as at 1 January 2021, and with enhanced disclosures.

3 SIGNIFICANT ACCOUNTING POLICIES

- (a) Financial assets

- (i) Classification

The Company classify their financial assets into the following measurement categories:

- Those to be measured at fair value (either through other comprehensive income ('OCI'), or through profit or loss; and
- Those to be measured at amortised cost.

The classification of debt instruments depend on the Company business model for managing the financial assets and the contractual cash flow characteristics of the financial assets:

- (a) Business model assessment

The Company conduct assessment of the objective of a business model to align with how an asset held within a portfolio is being managed. Factors that are being considered include the key objectives of a portfolio whether the business strategy is to earn contractual interest revenue, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising a portfolio through sale of assets. Other factors considered also include the frequency and volume of sales in prior periods, how the asset's performance is evaluated and reported to key management personnel.

- (b) Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI')

Where the business model is to hold the financial assets to collect contractual cash flows, or to collect contractual cash flows and sell, the Company assess whether the financial assets' contractual cash flows represent solely payment of principal and interest. In applying the SPPI test, the Company consider whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets (continued)

(ii) Recognition and derecognition

A financial asset is recognised in the statement of financial position when the Company become parties to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Company commit to purchase and sell the assets.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company have transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measure a financial asset at fair value plus transaction costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(a) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Subsequent measurement of debt instruments depends on Company's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Company classify its debt instruments:

(1) Financial investments at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated as fair value through profit or loss ('FVTPL'), are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised in profit or loss. The interest income is recognised in profit or loss using the effective interest rate method. Upon derecognition, any gain or loss will be recognised in profit or loss and presented under 'other operating income'.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets (continued)

(iii) Measurement (continued)

(a) Debt instruments (continued)

(2) Financial assets through other comprehensive income ('FVOCI')

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Changes in the fair value of these assets are recognised in OCI, except for recognition of interest, foreign exchange gains or losses and expected credit losses which are recognised in profit or loss.

When these financial assets are derecognised, the cumulative gains or losses previously recognised in OCI is reclassified from equity to income statements and recognised in 'other operating income'. The interest income is recognised in profit or loss using the effective interest rate method. Foreign exchange gains or losses are recognised in 'other operating income' and impairment credit losses are presented separately under 'allowance for credit losses'.

(3) Financial assets at FVTPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the income statements within 'net gain/(loss) arising from financial assets FVTPL' in the period in which it arises. The interest income is recognised in profit or loss using the effective interest rate method.

(b) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuers' perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuers' net assets.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets (continued)

(iii) Measurement (continued)

(b) Equity instruments (continued)

The Company subsequently measure all equity instruments at FVTPL, except where the management has elected, at initial recognition, to irrevocably designate an equity instrument as FVOCI. The Company's policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statements, including on disposal. Dividend, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the Company's right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the 'net gain/(loss) arising from financial assets FVTPL' in profit or loss.

(iv) Reclassification policy

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

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

(v) Impairment

MFRS 9 requires the recognition of expected credit loss ("ECL") for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment.

The Company apply the MFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance for insurance receivables. The expected loss allowance is based on provisional matrix with the usage of forward-looking information in determining of ECL, including the use of macroeconomic information.

There are three main components to measure ECL which are probability of default ("PD"), loss given default ("LGD") and the exposure at default ("EAD"). In determining the ECL, management will evaluate a range of possible outcomes, taking into account past loss experience, current conditions/trends and economic outlook.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in profit or loss during the financial period in which they are incurred.

Freehold land, buildings in progress and renovations in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Leasehold land	Amortised over the period of the lease*
Buildings	2% to 3.33%
Motor vehicles	20%
Furniture, fixtures and fittings, office equipment	10% to 20%

* The remaining period of the lease ranges from 3 to 95 years.

The assets residual values and useful lives are reviewed and adjusted if appropriate, at end of each reporting period. There are no material adjustments arising from the review that would render disclosure in the financial statement.

From 1 January 2019, leased assets (including leasehold land) are presented as a separate line item in statement of financial position as right of use. Refer to accounting policy Note 3(d) on leases. Up to 31 December 2018, leased assets (including leasehold land) under lease arrangement classified as finance lease is amortised in equal instalments over the period of the respective leases that range from 3 to 95 years.

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

At the end of the reporting period, the Company assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to Note 3(f) on the impairment of non-financial assets.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licenses and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Company have a definite useful life. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired. Refer to Note 3(f) on impairment of non-financial assets.

(a) Computer software licenses

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licenses are subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 3 to 10 years.

(d) Leases - where the Company is the Lessee

Accounting policy from 1 January 2019

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

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

In applying MFRS 16 for the first time, the Company has applied the following practical expedients permitted by the standard to leases previously classified as operating leases under MFRS 117 : the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(a) Lease term

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

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases where the Company is the Lessee (continued)

Accounting policy from 1 January 2019 (continued)

(i) Lease term (continued)

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

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

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

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

(iii) Lease liabilities

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

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

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases where the Company is the Lessee (continued)

Accounting policy from 1 January 2019 (continued)

(iii) Lease liabilities (continued)

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

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

Variable lease payments that depend on sales are recognised in income statements in the period in which the condition that triggers those payments occurs.

The Company present the lease liabilities as a separate line item in the statements of financial position. Interest expense on the lease liability is presented within the other interest expenses in profit or loss.

(iv) Reassessment of lease liabilities

The Company is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

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

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

Accounting policy prior to 1 January 2019

(i) Operating lease

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investment income

Interest income is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Other interest income, including amortisation of premiums or accretion of discounts, is recognised on a time proportion basis that takes into account the effective yield of the asset.

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

(f) Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flows or cash-generating unit (CGU). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

The impairment loss is charged to profit or loss. Impairment losses on goodwill are not reversed. In respect of other non-financial assets, any subsequent increase in recoverable amount is recognised in profit or loss.

(g) 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.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) General insurance underwriting results

Product classification

The Company issues contracts that transfer insurance risk.

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

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

Premium income

Premium income is recognised on the date of assumption of risk. Premiums in respect of risks incepted for which policies have not been raised as of the date of statement of financial position, are accrued at the date.

Premiums, claims and other transactions of inward treaty business are accounted for in the income statement as and when the statements of account are received.

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relate.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) General insurance underwriting results (continued)

Premium liabilities

Premium liabilities refer to the higher of:

- (i) the aggregate of the unearned premium reserves,
or
- (ii) the best estimate value of the insurer's unexpired risk reserves at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and shall allow for expected future premium refunds.

Unearned premium reserves ("UPR") represent the portion of premium income not yet earned at the date of statement of financial position. UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and
- (iii) time apportionment method for non-annual policies (including long term inwards treaty business) reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Claim liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of claims liabilities is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligations at the date of statement of financial position. These include provision for claims reported, claims incurred but not reported, claims incurred but not enough reserved and direct and indirect claims-related expenses such as investigation fees, loss adjustment fees, legal fees, sue and labour charges and the expected internal costs that the insurer expects to incur when settling these claims.

Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premium is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) General insurance underwriting results (continued)

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.

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

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

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

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

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance 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.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) General insurance underwriting results (continued)

Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the date of statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial 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 or catastrophe reserves 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.

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

(i) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Income taxes

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome. Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

(k) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, and bonuses are accrued in the financial year in which the associated services are rendered by employees of the Company.

(ii) Defined contribution plan

The Company contributes to the Employees' Provident Fund, the national defined contribution plan. The Company's contributions to the defined contribution plan are charged to profit or loss in the period to which they relate. Once the contributions have been paid, the Company has no further legal or constructive obligations.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank balances and deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purposes.

(n) Dividends

Dividends on ordinary shares are recognised as liabilities when the obligation to pay is established.

(o) Fair value of financial instruments

The basis of estimation of fair values for financial instruments is as follows:

- (i) The fair values of Malaysian Government Securities and BNM Notes are based on the indicative middle prices obtained from BNM.
- (ii) The fair values of corporate debt securities are based on quotations from Bondweb.
- (iii) The fair value of wholesale unit trust fund is based on the fair value of the underlying assets in the fund.
- (iv) The carrying amounts of other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

(p) Equity instruments

All equity instruments are stated at cost on initial recognition and are not re-measured subsequently.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

The estimation of claims liabilities or equivalently, the ultimate claims liability arising from claims made under insurance contract, is the Company's most critical accounting estimate.

The value of claim liabilities consists of the best estimate value of the claim liabilities and PRAD calculated at the overall Company level. PRAD is the component of the value of the insurance liabilities that relates to the uncertainty inherent in the best estimate. PRAD is an additional component of the liability value aimed at ensuring that the value of the insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. For the purpose of this valuation basis and in compliance with the RBC Framework, the level of confidence shall be at 75% on an overall Company level.

Due to the fact that the ultimate claims liability is dependent upon the outcome of future events such as the size of court awards, the attitudes of claimants towards settlement of their claims, and social and economic inflation, there is an inherent uncertainty in any estimate of ultimate claims liability. As such, there is a limitation to the accuracy of those estimates. In fact, it is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may vary significantly from the projections.

(b) Critical judgement in applying the entity's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific accounting policy could materially affect the reported results and financial position of the Company. However, the Directors are of the view that there are currently no accounting policies which require significant judgement to be exercised in their application.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

5 PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold land</u> RM'000	<u>Buildings</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Furniture, fixtures and fittings, office equipment</u> RM'000	<u>Assets work in progress</u> RM'000	<u>Total</u> RM'000
<u>2019</u>						
<u>Net book value</u>						
At beginning of financial year	560	278	302	6,010	15,072	22,222
Additions at cost	-	-	-	1,035	5,892	6,927
Reclassifications	-	-	-	237	(11,952)	(11,715)
Depreciation charge	(8)	(7)	(91)	(2,488)	-	(2,594)
At end of financial year	<u>552</u>	<u>271</u>	<u>211</u>	<u>4,794</u>	<u>9,012</u>	<u>14,840</u>
<u>2018</u>						
<u>Net book value</u>						
At beginning of financial year	568	286	121	7,072	9,568	17,615
Additions at cost	-	-	351	1,390	5,504	7,245
Disposals	-	-	(35)	-	-	(35)
Depreciation charge	(8)	(8)	(135)	(2,452)	-	(2,603)
At end of financial year	<u>560</u>	<u>278</u>	<u>302</u>	<u>6,010</u>	<u>15,072</u>	<u>22,222</u>
<u>2019</u>						
Cost	729	422	842	30,740	9,012	41,745
Accumulated depreciation	(177)	(151)	(631)	(25,946)	-	(26,905)
Net book value	<u>552</u>	<u>271</u>	<u>211</u>	<u>4,794</u>	<u>9,012</u>	<u>14,840</u>
<u>2018</u>						
Cost	729	422	995	29,471	15,072	46,689
Accumulated depreciation	(169)	(144)	(693)	(23,461)	-	(24,467)
Net book value	<u>560</u>	<u>278</u>	<u>302</u>	<u>6,010</u>	<u>15,072</u>	<u>22,222</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

6 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Cost</u>		
At beginning of financial year	26,079	22,707
Additions	260	3,372
Reclassification from property, plant and equipment	11,682	-
	<hr/>	<hr/>
At end of financial year	38,021	26,079
	<hr/> <hr/>	<hr/> <hr/>
<u>Accumulated amortisation</u>		
At beginning of financial year	10,407	7,311
Amortisation for the financial year	4,052	3,096
	<hr/>	<hr/>
At end of financial year	14,459	10,407
	<hr/> <hr/>	<hr/> <hr/>
<u>Net book value</u>		
At end of financial year	23,562	15,672
	<hr/> <hr/>	<hr/> <hr/>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

7 INVESTMENTS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Debt securities	-	15,646
Equities securities	-	91,386
Wholesale unit trust funds	1,024,555	778,210
Property trust funds	-	7,002
Staff loans	16	18
Fixed and call deposits	17,533	27,915
	<u>1,042,104</u>	<u>920,177</u>

The Company's investments are summarised by categories as follows:

	<u>2019</u> RM'000	<u>2018</u> RM'000
Fair value through profit or loss	1,024,555	892,244
Loans and receivables	17,549	27,933
	<u>1,042,104</u>	<u>920,177</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

7 INVESTMENTS (CONTINUED)

	<u>2019</u> RM'000	<u>2018</u> RM'000
(a) Fair value through profit or loss ("FVTPL")		
<u>At fair value</u>		
Quoted in Malaysia:		
- Equities securities	-	91,386
- Property trust funds	-	7,002
Unquoted in Malaysia:		
- Debts securities	-	15,646
- Wholesale unit trust funds (Note 8)	1,024,555	778,210
	<u>1,024,555</u>	<u>892,244</u>
(b) Loans and receivables ("LAR")		
<u>At amortised cost</u>		
- Loans	16	18
- Fixed and call deposits	17,533	27,915
	<u>17,549</u>	<u>27,933</u>

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(c) Carrying value of financial instruments

	Fair value through profit or loss	Held-to- maturity	Loans and receivables	Available- for-sale	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2019	892,244	-	27,933	-	920,177
Purchases	232,428	-	-	-	232,428
Disposals	(111,463)	-	(10,384)	-	(121,847)
Fair value gains recorded in profit or loss	11,528	-	-	-	11,528
Amortisation charge	(182)	-	-	-	(182)
At 31 December 2019	<u>1,024,555</u>	<u>-</u>	<u>17,549</u>	<u>-</u>	<u>1,042,104</u>
At 1 January 2018	125,103	15,393	85,514	766,676	992,686
Effect from adoption of MFRS 9	782,716	(15,393)	-	(766,676)	647
At 1 January 2018 (restated)	907,819	-	85,514	-	993,333
Purchases	199,038	-	9,173	-	208,211
Disposals	(209,554)	-	(66,754)	-	(276,308)
Fair value gains recorded in profit or loss	(5,055)	-	-	-	(5,055)
Amortisation charge	(4)	-	-	-	(4)
At 31 December 2018	<u>892,244</u>	<u>-</u>	<u>27,933</u>	<u>-</u>	<u>920,177</u>

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(d)

	Fair value through profit or loss <u>RM'000</u>	<u>Total</u> RM'000
<u>2019</u>		
Level 1 - Quoted market price	-	-
Level 2 - Valuation techniques – market observable inputs	1,024,555	1,024,555
	<u>1,024,555</u>	<u>1,024,555</u>
<u>2018</u>		
Level 1 - Quoted market price	98,388	98,388
Level 2 - Valuation techniques – market observable inputs	793,856	793,856
	<u>892,244</u>	<u>892,244</u>

(e) Fair value measurements

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- (iii) Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Total</u> RM'000
<u>2019</u>			
Fair value through profit and loss			
Quoted equities securities	-	-	-
Debt Securities	-	-	-
Wholesale unit trust funds	-	1,024,555	1,024,555
	<u>-</u>	<u>1,024,555</u>	<u>1,024,555</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(f) Fair value measurements (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
	RM'000	RM'000	RM'000
<u>2018</u>			
Fair value through profit and loss			
Quoted equities securities	98,388	-	98,388
Debt Securities	-	15,646	15,646
Wholesale unit trust funds	-	778,210	778,210
	<u>98,388</u>	<u>793,856</u>	<u>892,244</u>

There were no transfers between levels 1 and 2 during the financial year.

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the last quoted bid prices at the end of the reporting period. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Bursa Malaysia equity investments classified as trading securities.

(ii) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

8 STRUCTURED ENTITIES

The Company has determined that its investment in wholesale unit trust funds (“investee funds”) as investment in unconsolidated structured entities. The Company invests in the investee funds whose objectives range from achieving medium to long-term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by AmInvestment Management Sdn Bhd, RHB Asset Management Sdn Bhd and Affin Hwang Asset Management Berhad and apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund’s net assets.

The Company holds 100% of units in each of its investee fund and has control over these investee funds. The Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

These investee funds are classified as fair value through profit or loss and the change in fair value of each investee fund is included in the income statement.

Although the Company has control over these investee funds which are considered wholly owned structured entities, these structured entities are not consolidated by applying the exemption under MFRS 127 ‘Consolidated and Separate Financial Statements’ whereby the Company’s ultimate holding company, which is incorporated in Malaysia, RHB Bank Berhad, is presenting a set of consolidated financial statements at group level.

The Company’s exposure to investments in the investee funds is disclosed below.

	<u>2019</u> RM’000	<u>2018</u> RM’000
Number of wholesale unit trust funds	4	3
Average net asset value per unit of wholesale unit trust funds:		
RHB Income Plus Fund 2	1.0404	1.0197
RHB Cash Management Fund 1	1.0000	1.0000
AmIncome Value	1.0221	0.9995
Affin Hwang Income Fund 1	1.0719	-
Fair value of underlying assets:		
Malaysian Government securities	170,572	151,599
Debt securities	684,050	541,569
Call deposits	170,636	67,350
Receivables	(1,165)	7,400
Cash equivalents	462	10,292
	<u>1,024,555</u>	<u>778,210</u>
Total gain incurred	<u>18,164</u>	<u>2,322</u>

The Company’s maximum exposure to loss from its interests in the investee funds is equal to the total fair value of its investments in the investee funds.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

9 REINSURANCE ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Claims liabilities (Note 13)	410,763	411,881
Premium liabilities (Note 13)	99,413	99,355
	<u>510,176</u>	<u>511,236</u>

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair value at the date of the statement of financial position.

10 INSURANCE RECEIVABLES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Due premiums including agents, brokers and co-insurers balances	50,195	89,708
Due from reinsurers and cedants	8,653	13,129
	<u>58,848</u>	<u>102,837</u>
Allowance for impairment	(13,239)	(14,972)
	<u>45,609</u>	<u>87,865</u>

	<u>Gross amounts of recognised financial Assets</u> RM'000	<u>Gross amounts of recognised financial liabilities set off in the statement of financial position</u> (Note 14) RM'000	<u>Net amounts of financial assets presented in the statement of financial position</u> RM'000
<u>2019</u>			
Insurance receivables	<u>50,542</u>	<u>(4,933)</u>	<u>45,609</u>
<u>2018</u>			
Insurance receivables	<u>92,582</u>	<u>(4,717)</u>	<u>87,865</u>

There are no financial assets subject to enforceable master netting arrangement or similar agreements and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2019 (2018: nil).

The carrying amounts disclosed above approximate the fair value as at the date of the statement of financial position.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

11 OTHER RECEIVABLES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Other receivables, deposits and prepayments	5,909	20,870
Amount due from Malaysian Motor Insurance Pool ("MMIP")		
- Cash call	16,859	21,859
- Assets held in MMIP	31,975	31,827
Amount due from stock brokers	10	34,472
Dividend income receivable	575	676
	<u>55,328</u>	<u>109,704</u>

MMIP amount as at 31 December 2019 is a net receivable of RM15,305,051 (2018: net receivable RM14,056,000) after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premium liabilities included in Note 13 to the financial statements.

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank balances and deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purposes.

13 INSURANCE CONTRACT LIABILITIES

	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
<u>2019</u>			
Claims reported	530,956	(318,277)	212,679
Incurred but not reported claims ("IBNR")	259,916	(92,486)	167,430
	<u>790,872</u>	<u>(410,763)</u>	<u>380,109</u>
Claims liabilities (Note (a))	316,014	(99,413)	216,601
Premium liabilities (Note (b))	<u>1,106,886</u>	<u>(510,176)</u>	<u>596,710</u>
<u>2018</u>			
Claims reported	496,257	(305,833)	190,424
Incurred but not reported claims ("IBNR")	255,674	(106,048)	149,626
	<u>751,931</u>	<u>(411,881)</u>	<u>340,050</u>
Claims liabilities (Note (a))	342,183	(99,355)	242,828
Premium liabilities (Note (b))	<u>1,094,114</u>	<u>(511,236)</u>	<u>582,878</u>

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Claims liabilities

	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
<u>2019</u>			
At 1 January 2019	751,931	(411,881)	340,050
Claims incurred for current accident year			
- Paid	147,500	(39,980)	107,520
- Case reserves	325,695	(149,023)	176,672
- IBNR	267,202	(86,627)	180,575
Claims incurred for prior Accident year			
- Paid	227,313	(102,296)	125,017
- Case reserves	(668,580)	278,855	(389,725)
- IBNR	(260,189)	100,189	(160,000)
At 31 December 2019	<u>790,872</u>	<u>(410,763)</u>	<u>380,109</u>
<u>2018</u>			
At 1 January 2018	692,187	(377,685)	314,502
Claims incurred for current accident year			
- Paid	185,154	(43,426)	141,728
- Case reserves	278,313	(122,538)	155,775
- IBNR	276,882	(93,486)	183,396
Claims incurred for prior accident year			
- Paid	213,850	(78,843)	135,007
- Case reserves	(663,068)	230,121	(432,947)
- IBNR	(231,387)	73,976	(157,411)
At 31 December 2018	<u>751,931</u>	<u>(411,881)</u>	<u>340,050</u>

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) Premium liabilities

	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
<u>2019</u>			
At 1 January 2019	342,183	(99,355)	242,828
Premiums written for the financial year (Note 20)	696,491	(215,788)	480,703
Premiums earned during the financial year (Note 20)	(722,660)	215,730	(506,930)
At 31 December 2019	<u>316,014</u>	<u>(99,413)</u>	<u>216,601</u>
<u>2018</u>			
At 1 January 2018	306,123	(105,075)	201,048
Premiums written for the financial year (Note 20)	786,647	(238,177)	548,470
Premiums earned during the financial year (Note 20)	(750,587)	243,897	(506,690)
At 31 December 2018	<u>342,183</u>	<u>(99,355)</u>	<u>242,828</u>

14 INSURANCE PAYABLES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Due to agents and intermediaries	13,105	16,503
Due to reinsurers and cedants	1,763	27,803
	<u>14,868</u>	<u>44,306</u>

	<u>Gross amounts of</u> <u>recognised financial</u> <u>liabilities</u> RM'000	<u>Gross amounts of</u> <u>recognised financial</u> <u>assets set off in the</u> <u>statement of financial</u> <u>position</u> (Note 10) RM'000	<u>Net amounts of</u> <u>financial liabilities</u> <u>presented in the</u> <u>statement of financial</u> <u>position</u> RM'000
<u>2019</u>			
Insurance payables	19,801	(4,933)	14,868
<u>2018</u>			
Insurance payables	49,023	(4,717)	44,306

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

14 INSURANCE PAYABLES (CONTINUED)

There are no financial liabilities subject to enforceable master netting arrangement or similar agreements and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2019 (2018: Nil).

The carrying amounts disclose above approximate the fair value as at the date of the statement of financial position.

15 OTHER PAYABLES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Other payables	14,614	11,544
Other accrued expenses	16,458	26,216
Provision for staff bonus	8,921	8,349
Provision for advertising and marketing expenses	7,816	8,002
Provision for agents' profit commission	6,738	5,741
Provision for training expenses	4,080	4,873
Amount due to fund managers	-	653
	<u>58,627</u>	<u>65,378</u>

16 LEASE LIABILITIES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Lease liabilities	2,888	-
Scheduled repayment of lease liabilities		
- Within one year	2,406	-
- One year to three years	482	-
- More than three years	-	-
At end of financial year	<u>2,888</u>	<u>-</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

17 DEFERRED TAX (LIABILITIES)/ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
At beginning of financial year	(197)	(2,567)
Effect of adoption of MFRS 9	-	2,722
Effect of adoption of MFRS 16	22	-
	<hr/>	<hr/>
At 1 January 2019 (restated)	(175)	155
Transferred to in profit or loss (Note 26)	(5,989)	(352)
	<hr/>	<hr/>
At end of financial year	<u>(6,164)</u>	<u>(197)</u>

The movements in deferred tax (liabilities)/assets during the financial year comprise the tax effects of the following:

	<u>At beginning</u> <u>of financial</u> <u>year</u> RM'000	<u>Effect of</u> <u>adoption of</u> <u>MFRS 9 & 16</u> RM'000	<u>(Debited)/</u> <u>credited to</u> <u>profit</u> <u>or loss</u> RM'000	<u>At end of</u> <u>financial</u> <u>year</u> RM'000
<u>2019</u>				
Excess of capital allowances over depreciation	(1,977)	22	141	(1,814)
Amortisation of premiums/ (accretion of discounts) – net	1	-	-	1
Impairment loss on insurance receivables	3,255	-	(3,437)	(182)
Premium liabilities	271	-	(82)	189
Fair value changes on FVTPL financial assets	(1,688)	-	(2,670)	(4,358)
Impairment loss on FVTPL financial assets	(59)	-	59	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>(197)</u>	<u>22</u>	<u>(5,989)</u>	<u>(6,164)</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

17 DEFERRED TAX (LIABILITIES)/ASSETS (CONTINUED)

	At beginning of financial year <u>RM'000</u>	Effect of adoption of MFRS 9 & 16 <u>RM'000</u>	(Debited)/ credited to profit or loss <u>RM'000</u>	At end of financial year <u>RM'000</u>
<u>2018</u>				
Excess of capital allowances over depreciation	(1,997)	-	20	(1,977)
Amortisation of premiums/ (accretion of discounts) – net	1	-	-	1
Impairment loss on insurance receivables	1,949	2,876	(1,570)	3,255
Premium liabilities	131	-	140	271
Fair value changes on FVTPL financial assets	(2,653)	(154)	1,119	(1,688)
Impairment loss on FVTPL financial assets	2	-	(61)	(59)
Total	<u>(2,567)</u>	<u>2,722</u>	<u>(352)</u>	<u>(197)</u>
			<u>2019</u> RM'000	<u>2018</u> RM'000
Reversed within 12 months			(6,164)	(197)
Utilised after 12 months			-	-
			<u>(6,164)</u>	<u>(197)</u>

18 SHARE CAPITAL

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u> RM'000	<u>Number</u> of shares	<u>Amount</u> RM'000	<u>Number</u> of shares
Ordinary shares:				
Issued and fully paid:				
At beginning and end of financial year	100,000	100,000	100,000	100,000
	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

19 RETAINED EARNINGS

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend with effect from financial year beginning 1 January 2014.

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

20 NET EARNED PREMIUMS

	<u>2019</u> RM'000	<u>2018</u> RM'000
(a) Gross earned premiums		
Gross written premiums	696,491	786,647
Change in premium liabilities	26,169	(36,060)
	<hr/>	<hr/>
Gross earned premiums	722,660	750,587
	<hr/>	<hr/>
(b) Premiums ceded		
Reinsurance	(215,788)	(238,177)
Change in premium liabilities	58	(5,720)
	<hr/>	<hr/>
Premiums ceded	(215,730)	(243,897)
	<hr/>	<hr/>
Net earned premiums	506,930	506,690
	<hr/> <hr/>	<hr/> <hr/>

21 INVESTMENT INCOME

	<u>2019</u> RM'000	<u>2018</u> RM'000
Dividend income from FVTPL investments	44,264	38,462
Interest income from loans and receivables	4,707	3,438
	<hr/>	<hr/>
	48,971	41,900
	<hr/> <hr/>	<hr/> <hr/>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

22 REALISED GAINS/(LOSSES)

	<u>2019</u> RM'000	<u>2018</u> RM'000
Proceeds from disposal of property, plant and equipment	35	56
FVTPL investments		
- Equities securities	1,876	(2,828)
	<u>1,911</u>	<u>(2,772)</u>

23 FAIR VALUE GAINS AND LOSSES - NET

	<u>2019</u> RM'000	<u>2018</u> RM'000
Fair value gains/(losses) from FVTPL investments	11,528	(5,055)

24 MANAGEMENT EXPENSES

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Personnel costs</u>		
Staff salary and bonus	47,033	48,874
Defined contribution plan	7,665	7,676
Other staff benefits	2,693	3,315
	<u>57,391</u>	<u>59,865</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

24 **MANAGEMENT EXPENSES (CONTINUED)**

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Establishment costs</u>		
Rental of offices	883	4,094
Depreciation of property, plant and equipment	2,594	2,603
Depreciation of right of use asset	2,651	-
Amortisation of intangible assets – computer software	4,052	3,096
Others	1,195	1,207
	<u>11,375</u>	<u>11,000</u>
<u>Marketing costs</u>		
Electronic printing	7,779	6,798
Advertising and marketing expenses	5,826	4,905
Others	14,404	12,859
	<u>28,009</u>	<u>24,562</u>
<u>Administrative and general expenses</u>		
Auditors' remuneration		
Statutory audit	295	277
Other audit related	21	17
Write back of impairment on insurance receivables	(1,691)	(5,673)
Bad debts written off	13	94
Bank charges	3,560	3,342
Other expenses	17,387	17,581
	<u>19,585</u>	<u>15,638</u>
	<u>116,360</u>	<u>111,065</u>

Included in the personnel costs is the Chief Executive Officer's remuneration as disclosed in Note 25 to the financial statements.

Included in the administration and general expenses are other Directors' remuneration as disclosed in Note 25 to the financial statements.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

25 DIRECTORS' REMUNERATION

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

	Salary and other remuneration, including meeting allowance RM'000	Benefits-in- kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
<u>2019</u>				
<u>Chief Executive Officer/ Managing Director</u> Kong Shu Yin	1,125	7	700	1,832
<u>2018</u>				
<u>Chief Executive Officer/ Managing Director</u> Kong Shu Yin	1,075	7	273	1,355

In addition to the above, during the financial year ended 31 December 2018, the Chief Executive Officer/Managing Director who contributed to the achievement of the RHB Group's short and long term business objectives, was awarded a sum of RM1,792,000 (inclusive of the employer's EPF contribution) under the Group's Cash Retention Scheme. The payout under this retention scheme was based on the Chief Executive Officer/Managing Director's performance over the 4-year period from 2014 to 2017.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

25 DIRECTORS' REMUNERATION (CONTINUED)

	<u>Fees</u>	Benefits-in-kind (based on an estimated monetary value)	<u>Others*</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>2019</u>				
<u>Non-executive Directors</u>				
Tan Sri Saw Choo Boon	170	31	65	266
Jahanath Muthusamy	135	-	65	200
Wong Pek Yee	135	-	36	171
Shaifubahrim Mohd Saleh	102	-	37	139
Abdul Aziz Peru Mohamed	40	-	6	46
	<u>582</u>	<u>31</u>	<u>209</u>	<u>822</u>
<u>2018</u>				
<u>Non-executive Directors</u>				
Tan Sri Saw Choo Boon	144	12	67	223
Jahanath Muthusamy	135	-	34	169
Abdul Aziz Peru Mohamed	162	-	22	184
Wong Pek Yee	23	-	3	26
	<u>464</u>	<u>12</u>	<u>126</u>	<u>602</u>

* Others comprise of Directors' committee allowance, meeting allowance and other remuneration.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

26 TAXATION

	<u>2019</u> RM'000	<u>2018</u> RM'000
Malaysian taxation:		
Current taxation	27,677	11,476
Deferred taxation (Note 17)	5,989	352
	<u>33,666</u>	<u>11,828</u>
<u>Current taxation</u>		
Current financial year	22,291	11,705
Under/(over) provision in respect of prior financial years	5,386	(229)
	<u>27,677</u>	<u>11,476</u>
<u>Deferred taxation</u>		
Origination and reversal of temporary differences	5,989	352
	<u>33,666</u>	<u>11,828</u>

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	<u>2019</u> RM'000	<u>2018</u> RM'000
Profit before taxation	141,668	80,056
Tax calculated at a tax rate of 24%	34,000	19,213
Expenses not deductible for tax purposes	4,953	1,979
Income exempted for tax purposes	(10,673)	(9,135)
Under/(over) provision in respect of prior financial years	5,386	(229)
Tax expense	<u>33,666</u>	<u>11,828</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

27 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM108,002,335 (2018: RM68,228,271) divided by the number of ordinary shares in issue of 100,000,000 (2018: 100,000,000) during the financial year.

28 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2019 are as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Net dividend per share</u>	<u>Amount of dividend net of tax</u>	<u>Net dividend per share</u>	<u>Amount of dividend net of tax</u>
	Sen	RM'000	Sen	RM'000
Interim dividend	150.00	150,000	50.00	50,000

The Directors declared a single-tier interim dividend of 150% amounting to RM150,000,000 in respect of the financial year ended 31 December 2019. The interim dividend was approved by the Board of Directors on 28 January 2020.

These financial statements do not reflect this interim dividend which will be accounted for in shareholders' equity as an appropriation of retained profit in financial year ended 31 December 2020.

The Directors do not propose any final dividends for the financial year ended 31 December 2019.

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

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

<u>Related parties</u>	<u>Relationship</u>
RHB Bank Berhad	Immediate and ultimate holding company
Employees Provident Fund ('EPF')	Substantial shareholder of RHB Bank Berhad, a fund body that is significantly influenced by the government
Subsidiaries and associate of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the immediate and ultimate holding company
Key management personnel	Key management personnel of the Company consists of: - All Directors of the Company; and - Member of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Company)	Close family members and dependents of key management personnel

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The following are the significant related party transactions and balances in respect of transactions entered into during the current financial year. The related party transactions described below were on terms and conditions agreed between the Company and its related parties.

		<u>2019</u>	<u>2018</u>
		RM'000	RM'000
<u>Related party transactions</u>	<u>Nature of transaction</u>		
With subsidiaries of immediate and ultimate holding company	Interest income	3,536	2,832
	Insurance premium earned	13,990	12,795
	Commission paid and payable	(21,151)	(21,441)
	Rental expense	(369)	(171)
With key management personnel	Insurance premium earned	203	135
	Claims incurred	120	(19)
<u>Related party balances</u>	<u>Types of balances</u>		
With subsidiaries of immediate and ultimate holding company	Bank balances	24,957	28,045
	Fixed and call deposits	112,138	80,666
	Insurance premium	78	2,612
	Investment in corporate debts securities	-	5,121
		<u> </u>	<u> </u>
<u>Key management personnel</u>			
The remuneration of key management personnel is as follows:			
Short-term employee benefits			
- Salary and other remuneration (Note (i))		1,606	2,781
- Contribution to EPF (Note (i))		218	359
- Benefits in kind		7	7
		<u> </u>	<u> </u>
		1,831	3,147
		<u> </u>	<u> </u>

(i) Inclusive of Group's Cash Retention Scheme and the related employer's contribution totalling RM1,792,000 paid in 2018. The payout under this retention scheme was based on the key management personnel's performance over the 4-year period from 2014 to 2017.

30 CAPITAL COMMITMENTS

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
Authorised and contracted for	3,023	321
	<u> </u>	<u> </u>

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK

(a) Risk Management framework

The Company operates within a defined set of principles and guidelines based on best practices that have been approved by the Board.

Risk is inherent in the Company's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides insurance risk, the Company is also exposed to a range of other risk types such as credit, market, liquidity, operational and legal, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to drive sustainable growth and shareholder value, while sustaining competitive advantage, and is thus a central part of the proactive risk management of the Company.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group inclusive of the Company, as follows:

1. It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and mitigation against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
2. It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

1. Risk Governance from the Boards of Directors of various operating entities within the Group.

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

The Board Risk Committee (BRC) is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision of the day to day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee (GCRC) comprising Senior Management of the Group and which reports to the BRC and the Group Management Committee (GMC). The Company's Investment Committee manages interest rate risk, market risk, credit risk and liquidity risk associated with Company's investments.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(a) **Risk Management Framework (continued)**

2. **Clear Understanding of Risk Management Ownership**
Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Strategic Business Units (SBUs) and Strategic Functional Units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function.
3. **Institutionalisation of a Risk-focused Organisation**
In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group.
4. **Alignment of Risk Management to Business Strategies**
The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite is set by the Board and reported through various metrics that enable the Company and the Group to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Company and the Group are prepared to accept in delivering its strategy.
5. **Optimisation of Risk-adjusted Return**
One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

(b) **Capital Management Plan**

Capital Management Plan ("CMP") has been written to set out recommendation on the action plans to be taken by the Board and management of the Company in the event of Capital Adequacy Ratio ("CAR") falling below the internal target and the minimum supervisory requirement. The CMP requires the Board and management of the Company to undertake remedial actions to improve the Company's capital position in the event of CAR falling below predetermined thresholds within defined timeframe. The CMP is aligned to the Company's vision and mission. It is intended that through the guidance of Internal Capital Adequacy Assessment Process ("ICAAP") coupled with the CMP; strong alignment will be forged between the risk profile and capital adequacy. Capital adequacy shall be assessed in relation to the Company's own risk profiles, and strategies will be put in place to maintain appropriate capital levels. Through ICAAP, comprehensive risks are identified, measured and managed while adequate capital levels consistent with the risk profiles are maintained over and above the Individual Target Capital Level ("ITCL") after incorporating the Company's current and strategic planning under base and stressed conditions.

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Capital Management Plan (continued)

With reference to the Policy Document on Stress Testing (BNM/RH/PD 029-7), the impact of the adverse scenarios on the capital position of the company is robustly assessed under several stress test scenarios by various stress magnitude.

CMP has been implemented for the Company to monitor and manage the CAR such that actions can be undertaken accordingly to prevent it from falling below ITCL.

32 INSURANCE RISK

Insurance risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company has instituted documented underwriting guidelines, underwriting authorities, risk management engineering and risk accumulation limits. Reinsurance is placed to minimise certain insurance risks within approved limits and security. Claims approval and settlement authorities are clearly defined for prudent control on financial exposure. Annual internal audit reviews are performed to ensure compliance with the Company's guidelines and standards.

(a) Key assumptions

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

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

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

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32 **INSURANCE RISK (CONTINUED)**

(b) Sensitivity analysis

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

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

	Change in <u>assumptions</u>	Impact on gross <u>liabilities</u> RM'000	Impact on net <u>liabilities</u> RM'000	Impact on profit before <u>tax</u> RM'000	Impact on equity <u>RM'000</u>
<u>2019</u>					
Average claim cost	+10%	95,930	35,030	(35,030)	(26,623)
Average number of claims	+10%	76,829	32,833	(32,833)	(24,953)
Average claim settlement period	Increased by 6 months	15,571	6,428	(6,428)	(4,885)
<u>2018</u>					
Average claim cost	+10%	76,107	30,472	(30,472)	(23,159)
Average number of claims	+10%	59,098	30,666	(30,666)	(23,306)
Average claim settlement period	Increased by 6 months	12,671	6,087	(6,087)	(4,626)

(c) Claims development table

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

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32 INSURANCE RISK INSURANCE RISK (CONTINUED)

(c) Claims development table (continued)

Gross insurance claims liabilities for 2019:

	Before <u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Accident year	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		303,820	363,486	376,174	398,549	471,308	532,463	527,252	
One year later		276,429	339,386	363,477	378,131	439,866	462,905		
Two years later		257,101	315,647	343,381	360,880	426,292			
Three years later		249,518	316,206	332,779	343,541				
Four years later		243,231	314,269	327,385					
Five years later		229,381	311,125						
Six years later		225,388							
Seven years later									
Current estimate of cumulative claims incurred		225,388	311,125	327,385	343,541	426,292	462,905	527,252	
At end of accident year		(75,616)	(91,529)	(98,970)	(108,495)	(155,795)	(185,153)	(147,497)	
One year later		(166,887)	(222,518)	(235,621)	(209,175)	(283,938)	(317,115)		
Two years later		(190,071)	(262,001)	(269,854)	(251,432)	(323,412)			
Three years later		(204,158)	(274,897)	(279,804)	(290,675)				
Four years later		(206,696)	(282,166)	(284,136)					
Five years later		(218,895)	(283,811)						
Six years later		(221,494)							
Seven years later									
Cumulative payments to-date		(221,494)	(283,811)	(284,136)	(290,675)	(323,412)	(317,115)	(147,497)	
Net insurance claims liabilities per Statement of Financial Position (note13(a))	35,124	3,894	27,314	43,249	52,866	102,880	145,790	379,755	790,872

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32 **INSURANCE RISK (CONTINUED)**

(c) **Claims development table (continued)**

Net insurance claims liabilities for 2019:

	Before <u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Accident year	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		173,678	197,440	212,416	231,669	256,432	329,794	304,953	
One year later		157,247	177,134	196,319	212,650	244,429	301,115		
Two years later		146,257	162,941	187,021	204,236	243,951			
Three years later		141,546	161,521	181,112	202,471				
Four years later		140,230	159,639	180,967					
Five years later		140,309	159,079						
Six years later		139,123							
Seven years later									
Current estimate of cumulative claims incurred		139,123	159,079	180,967	202,471	243,951	301,115	304,953	
At end of accident year		(55,721)	(65,922)	(73,052)	(80,129)	(105,430)	(141,728)	(107,518)	
One year later		(112,324)	(124,363)	(139,947)	(142,961)	(188,866)	(223,324)		
Two years later		(127,485)	(142,454)	(160,294)	(172,886)	(210,207)			
Three years later		(132,340)	(149,563)	(167,922)	(181,961)				
Four years later		(134,804)	(152,204)	(170,993)					
Five years later		(136,135)	(153,309)						
Six years later		(137,678)							
Seven years later									
Cumulative payments to-date		(137,678)	(153,309)	(170,993)	(181,961)	(210,207)	(223,324)	(107,518)	
Net insurance claims liabilities per Statement of Financial Position (note13(a))	33,440	1,445	5,770	9,974	20,510	33,744	77,791	197,435	380,109

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32 INSURANCE RISK (CONTINUED)

(c) Claims development table (continued)

Gross insurance claims liabilities for 2018:

	Before <u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2018</u> RM'000	<u>2019</u> RM'000	<u>Total</u> RM'000
Accident year									
At end of accident year		234,640	303,820	363,486	376,174	398,549	471,308	532,463	
One year later		219,458	276,429	339,386	363,477	378,131	439,866		
Two years later		210,419	257,101	315,647	343,381	360,880			
Three years later		202,835	249,518	316,206	332,779	398,549			
Four years later		204,386	243,231	314,269	376,174				
Five years later		203,450	229,381	363,486					
Six years later		201,271							
Seven years later									
Current estimate of cumulative claims incurred		201,271	229,381	314,269	332,779	360,880	439,866	532,463	
At end of accident year		(66,947)	(75,616)	(91,529)	(98,970)	(108,495)	(155,795)	(185,153)	
One year later		(154,519)	(166,887)	(222,518)	(235,621)	(209,175)	(283,938)		
Two years later		(182,102)	(190,071)	(262,001)	(269,854)	(251,432)			
Three years later		(189,908)	(204,158)	(274,897)	(279,804)				
Four years later		(196,435)	(206,696)	(282,166)					
Five years later		(197,828)	(218,895)						
Six years later		(198,802)							
Seven years later									
Cumulative payments to-date		(198,802)	(218,895)	(282,166)	(279,804)	(251,432)	(283,938)	(185,153)	
Net insurance claims liabilities per Statement of Financial Position (note13(a))	41,212	2,469	10,486	32,103	52,975	109,448	155,928	347,310	751,931

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

32 **INSURANCE RISK (CONTINUED)**

(c) **Claims development table (continued)**

Net insurance claims liabilities for 2018:

	<u>Before</u> <u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2018</u> RM'000	<u>2019</u> RM'000	<u>Total</u> RM'000
Accident year									
At end of accident year		154,367	173,678	197,440	212,416	231,669	256,432	329,794	
One year later		146,227	157,247	177,134	196,319	212,650	244,429		
Two years later		137,404	146,257	162,941	187,021	204,236			
Three years later		132,504	141,546	161,521	181,112				
Four years later		132,468	140,230	159,639					
Five years later		132,408	140,309						
Six years later		131,301							
Seven years later									
Current estimate of cumulative claims incurred		131,301	140,309	159,639	181,112	204,236	244,429	329,794	
At end of accident year		(49,146)	(55,721)	(65,922)	(73,052)	(80,129)	(105,430)	(141,728)	
One year later		(105,577)	(112,324)	(124,363)	(139,947)	(142,961)	(188,866)		
Two years later		(119,912)	(127,485)	(142,454)	(160,294)	(172,886)			
Three years later		(125,322)	(132,340)	(149,563)	(167,922)				
Four years later		(128,090)	(134,804)	(152,204)					
Five years later		(129,097)	(136,135)						
Six years later		(129,488)							
Seven years later									
Cumulative payments to-date		(129,488)	(136,135)	(152,204)	(167,922)	(172,886)	(188,866)	(141,728)	
Net insurance claims liabilities per Statement of Financial Position (note13(a))	38,459	1,813	4,174	7,435	13,190	31,350	55,563	188,066	340,050

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS

(a) Credit risk

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfill their financial and contractual obligations in accordance with the agreed terms.

The Investment Committee manages the credit risk associated with investments by setting guidelines on minimum credit ratings and prevents risk concentrations by setting maximum credit exposure for each class of investment and for any one borrower or group of borrowers.

A credit control committee has been established to manage the credit risk of receivables.

Credit exposure

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

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
Fair value through profit and loss		
Unquoted corporate debt securities	-	15,646
Loans and receivables		
Staff loans	16	18
Fixed and call deposits	17,533	27,915
Reinsurance assets - claims liabilities	410,763	411,881
Insurance receivables	45,609	87,865
Other receivables*	54,537	109,252
Cash and cash equivalents**	119,809	97,382
	<u>648,267</u>	<u>749,959</u>

* excluding prepayments amounting to RM790,475 (2018: RM452,089) which is not subject to credit risk

** excluding petty cash amounting to RM7,300 (2018: RM7,300) which is not subject to credit risk

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 **FINANCIAL RISKS (CONTINUED)**

(a) **Credit risk (continued)**

Credit exposure by credit rating

	<u>Neither past-due nor impaired</u>			<u>Not past-</u>	<u>Past-</u>	<u>Total</u>
	<u>Rated:</u>	<u>Rated:</u>	<u>Not</u>	<u>due but</u>	<u>due and</u>	
	<u>satis-</u>	<u>unsatis-</u>	<u>rated</u>	<u>impaired</u>	<u>impaired</u>	
	<u>factory</u>	<u>factory</u>	<u>rated</u>			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2019</u>						
Fair value through profit and loss						
Unquoted corporate debt securities	-	-	-	-	-	-
Loans and receivables						
Staff loans	-	-	16	-	-	16
Fixed and call deposits	17,533	-	-	-	-	17,533
Reinsurance assets - claims liabilities	280,449	-	130,314	-	-	410,763
Insurance receivables	-	-	5	45,569	13,274	58,848
Allowance for impairment	-	-	-	(1,423)	(11,816)	(13,239)
Other receivables*	-	-	54,537	-	-	54,537
Cash and cash	119,809	-	-	-	-	119,809
	<u>417,791</u>	<u>-</u>	<u>184,872</u>	<u>44,146</u>	<u>1,458</u>	<u>648,267</u>
<u>2018</u>						
Fair value through profit and loss						
Unquoted corporate debt securities	15,646	-	-	-	-	15,646
Loans and receivables						
Staff loans	-	-	18	-	-	18
Fixed and call deposits	27,915	-	-	-	-	27,915
Reinsurance assets - claims liabilities	288,756	488	122,637	-	-	411,881
Insurance receivables	-	-	5	51,818	51,014	102,837
Allowance for impairment	-	-	-	(5,986)	(8,986)	(14,972)
Other receivables*	-	-	109,252	-	-	109,252
Cash and cash equivalents**	97,382	-	-	-	-	97,382
	<u>429,699</u>	<u>488</u>	<u>231,912</u>	<u>45,832</u>	<u>42,028</u>	<u>749,959</u>

* excluding prepayments amounting to RM790,475 (2018: RM452,089) which is not subject to credit risk

** excluding petty cash amounting to RM7,300 (2018: RM7,300) which is not subject to credit risk

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 **FINANCIAL RISKS (CONTINUED)**

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the reputable rating agencies' credit ratings of counterparties. AAA is the highest possible rating.

	<u>AAA</u> RM'000	<u>AA</u> RM'000	<u>A</u> RM'000	<u>BBB</u> RM'000	<u>Not rated</u> RM'000	<u>Total</u> RM'000
<u>2019</u>						
Fair value through profit and loss						
Unquoted corporate debt securities	-	-	-	-	-	-
Loans and receivables						
Staff loans	-	-	-	-	16	16
Fixed and call deposits	-	17,533	-	-	-	17,533
Reinsurance assets - claims liabilities	-	-	280,449	-	130,314	410,763
Insurance receivables	-	-	-	-	45,609	45,609
Other receivables*	-	-	-	-	54,537	54,537
Cash and cash equivalents**	1,160	118,649	-	-	-	119,809
	<u>1,160</u>	<u>136,182</u>	<u>280,449</u>	<u>-</u>	<u>230,476</u>	<u>648,267</u>
<u>2018</u>						
Fair value through profit and loss						
Unquoted corporate debt securities	-	5,255	10,391	-	-	15,646
Loans and receivables						
Staff loans	-	-	-	-	18	18
Fixed and call deposits	-	22,405	5,510	-	-	27,915
Reinsurance assets - claims liabilities	-	26,955	261,801	488	122,637	411,881
Insurance receivables	-	-	-	-	87,865	87,865
Other receivables*	-	-	-	-	109,252	109,252
Cash and cash equivalents**	2,557	94,825	-	-	-	97,382
	<u>2,557</u>	<u>149,440</u>	<u>277,702</u>	<u>488</u>	<u>319,772</u>	<u>749,959</u>

* excluding prepayments amounting to RM790,475 (2018: RM452,089) which is not subject to credit risk

** excluding petty cash amounting to RM7,300 (2018: RM7,300) which is not subject to credit risk

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Age analysis of financial assets impaired

	<u>1 month</u> RM'000	<u>1 to 3</u> <u>months</u> RM'000	<u>More than</u> <u>3 months</u> RM'000	<u>Total</u> RM'000
<u>2019</u>				
Insurance receivables	32,189	11,958	1,462	45,609
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>2018</u>				
Insurance receivables	42,243	29,682	15,940	87,865
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Impaired financial assets

The approach for impairment model for insurance receivables are more simplified as compared to the impairment model for financial assets. MFRS 9 includes the requirement or policy choice to apply the simplified approach that does not require entities to track changes in credit risk and the practical expedient to calculate ECLs on insurance receivables using a provision matrix with the usage of forward looking information in determining of ECL, including the use of macroeconomic information.

As at 31 December 2019, the Company has provided an allowance for credit losses on a collective basis of RM13,281,109 (2018: RM14,972,334). No collateral is held as security for impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate "allowance for impairment" accounts. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	<u>2019</u> RM'000	<u>2018</u> RM'000
At 1 January	14,972	8,660
Effect of adoption MFRS 9	-	11,985
	<u> </u>	<u> </u>
At 1 January (restated)	14,972	20,645
(Write-back)/allowance made	(1,704)	(5,767)
Write off	13	94
	<u> </u>	<u> </u>
At 31 December	<u>13,281</u>	<u>14,972</u>

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk of the Company being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due without having to transact at a reasonable cost.

This is managed by monitoring the daily and monthly projected and actual cash flows, and ensuring that a reasonable quantum of financial assets is maintained in liquid instruments at all times.

The Company also sets minimum limit on liquid assets to be held at all times as well as adhering to all regulatory limits.

Maturity profiles

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

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

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

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

2019

	<u>Carrying Value</u> RM'000	<u>1 year or less</u> RM'000	<u>1 to 3 years</u> RM'000	<u>3 to 5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>Total</u> RM'000
Fair value through profit and loss						
Unquoted corporate debt securities	-	-	-	-	-	-
Loans and receivables						
- Staff loans	16	16	-	-	-	16
- Fixed and call deposits	17,533	17,533	-	-	-	17,533
Reinsurance assets – claims liabilities	410,763	92,717	212,539	96,018	9,489	410,763
Insurance receivables	45,609	45,609	-	-	-	45,609
Other receivables*	54,537	54,537	-	-	-	54,537
Cash and cash equivalents**	119,809	119,809	-	-	-	119,809
Total financial assets	648,267	330,221	212,539	96,018	9,489	648,267
Insurance contract liabilities						
- claims liabilities	790,872	224,351	409,686	136,916	19,919	790,872
Insurance payables	14,868	14,868	-	-	-	14,868
Other payables	58,627	58,627	-	-	-	58,627
Total financial liabilities	864,367	297,846	409,686	136,916	19,919	864,367

* excluding prepayments amounting to RM790,475 (2018: RM452,089) which is not subject to credit risk

** excluding petty cash amounting to RM7,300 (2018: RM7,300) which is not subject to credit risk

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

2018

	Carrying value RM'000	1 year or less RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Fair value through profit and loss						
Unquoted corporate debt securities	15,646	1,163	2,475	2,625	36,387	42,650
Loans and receivables						
- Staff loans	18	18	-	-	-	18
- Fixed and call deposits	9,965	9,965	-	-	-	9,965
Reinsurance assets – claims liabilities	411,881	109,821	233,459	27,075	41,526	411,881
Insurance receivables	87,865	87,865	-	-	-	87,865
Other receivables*	109,252	109,252	-	-	-	109,252
Cash and cash equivalents**	115,332	115,332	-	-	-	115,332
Total financial assets	749,959	433,416	235,934	29,700	77,913	776,963
Insurance contract liabilities						
- claims liabilities	751,931	245,289	399,554	59,153	47,935	751,931
Insurance payables	44,306	44,306	-	-	-	44,306
Other payables	65,378	65,378	-	-	-	65,378
Total financial liabilities	861,615	354,973	399,554	59,153	47,935	861,615

* excluding prepayments amounting to RM790,475 (2018: RM452,089) which is not subject to credit risk

** excluding petty cash amounting to RM7,300 (2018: RM7,300) which is not subject to credit risk

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

(c) **Market risk**

Market risk is the risk of loss arising from adverse movements in market indicators, such as interest rates, credit spreads, equity prices and currency exchange rates.

The Company's investments in equities, REITs and fixed income securities are outsourced to professional fund managers. The Investment Committee oversees the formulation of investment policies and strategies and meetings were held during the financial year to review and monitor the performance of the fund managers.

Foreign Exchange risk

Foreign exchange risk is the risk of holding or taking positions in foreign currencies.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM") and its exposure to foreign exchange risk arises principally with respect to Singapore Dollar ("SGD").

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act, 2013, and hence, primarily denominated in the same currency (the local RM) as its insurance contract liabilities. The Company's exposure to currency risk is confined to a current account maintained with a bank in Singapore and certain expenses denominated in foreign currency. The current account was opened to facilitate the collection of premiums from reinsurers in Singapore and the amount involved is minimal.

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

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

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

Interest rate risk

Interest rate risk is the risk of holding or taking positions in debt securities and other interest rate related instruments. The instruments covered include all fixed-rate and floating-rate debt securities and instruments that behave like them, including non-convertible preference shares.

Investment Committee has set up a guideline to manage the maturities of interest/profit-bearing financial assets and liabilities. The Company also manages its asset-liability mismatching risks within its appetites through regular monitoring of asset duration and liability duration.

The Company has no significant concentration of interest rate/profit yield risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects re-valuing fixed rate/yield available-for-sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate/profit yield risk but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	<u>Change in variables</u>	<u>2019</u> <u>Impact on equity*</u> RM'000	<u>2018</u> <u>Impact on equity*</u> RM'000
Interest rate	+100 basis points	(36,385)	(28,495)
Interest rate	-100 basis points	38,634	30,460

* impact on equity reflects adjustments for tax, where applicable.

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

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 **FINANCIAL RISKS (CONTINUED)**

(c) **Market risk (continued)**

Equity price risk

Equity price risk is the risk of holding or taking positions in instruments that exhibit market behavior similar to equities but not to non-convertible preference shares.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices. The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments and limits stipulated by BNM. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in Income Statement) and Equity (that reflects adjustments to profit before tax). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	<u>Change in variables</u>	<u>2019</u>		<u>2018</u>	
		<u>Impact on profit after tax</u> RM'000	<u>Impact on equity*</u> RM'000	<u>Impact on profit after tax</u> RM'000	<u>Impact on equity*</u> RM'000
Bursa Malaysia	+15%	-	-	13,198	10,030
Bursa Malaysia	-15%	-	-	(13,198)	(10,030)

* impact on equity reflects adjustments for tax, where applicable.

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

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT and legal risk but excludes strategic and reputation risk.

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

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

34 REGULATORY CAPITAL REQUIREMENTS

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

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Eligible Tier 1 Capital</u>			
Share capital (paid-up)	17	100,000	100,000
Retained earnings		531,592	473,660
		<u>631,592</u>	<u>573,660</u>
<u>Tier 2 Capital</u>			
Available-for-sale reserve		-	-
Amount deducted from Capital		-	-
Total Capital Available		<u><u>631,592</u></u>	<u><u>573,660</u></u>

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

35 CHANGE IN ACCOUNTING POLICIES

(a) Adoption of MFRS 16 'Leases'

The Company has adopted MFRS 16 'Leases' issued by MASB with its mandatory adoption date of 1 January 2019. MFRS 16 supersedes MFRS 117 'Leases' and the related interpretations. As permitted by MFRS 16, the Company has adopted the simplified transitional approach and will not restate comparative amounts for the financial year prior to first adoption.

Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the company's borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 for the Company was at 4.05%.

Summarised below are the effects upon adoption of MFRS 16 as at 1 January 2019:

	As Previously Reported	Effect of full Adoption of MFRS 16	As restated
	RM'000	RM'000	RM'000
Deferred tax liabilities	197	(22)	175
Rights of use assets	-	5,414	5,414
Lease liabilities	-	5,506	5,506
Reserves	473,660	(70)	473,590

The reconciliation on operating lease commitments under MFRS 117 to MFRS 16 are as follows:

	RM'000
Operating lease commitments as at 31 December 2018	5,759
Discounted using the incremental borrowing rate	(253)
Finance lease liabilities recognised under MFRS 117	5,506
Lease liability recognised as at 1 January 2019	5,506
The recognised right-of-use assets relate to the following types of assets:	
Properties - Office	5,414
	5,414

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors.

Company No.

197801000983 (38000-U)

RHB INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act 2016, we, Tan Sri Saw Choo Boon and Kong Shu Yin, two of the Directors of RHB Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 76 are drawn up so as to show a true and fair view of the financial position for the financial year ended on 31 December 2019 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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

×



TAN SRI SAW CHOO BOON
CHAIRMAN



KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur

24 FEB 2020

STATUTORY DECLARATION

Pursuant to Section 251(1) of the Companies Act 2016, I, Chong Sook Yin, being the Officer primarily responsible for the financial management of RHB Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 76 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly
declared at Kuala Lumpur
on **24 FEB 2020**

Before me,

)
)
)
)


CHONG SOOK YIN

COMMISSIONER FOR OATHS

Kuala Lumpur



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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF RHB INSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 197801000983 (38000 U))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 76.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors’ report thereon

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF RHB INSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 197801000983 (38000 U))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF RHB INSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 197801000983 (38000 U))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF RHB INSURANCE BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 197801000983 (38000 U))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

OTHER MATTERS

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

A handwritten signature in black ink, appearing to be 'Rui', written over the printed name of the firm.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Wong Hui Chern', written over the printed name of the individual.

WONG HUI CHERN
03252/05/2020 J
Chartered Accountant

Kuala Lumpur
24 February 2020