



# CUSTOMER-CENTRICITY *through* AGILE@SCALE

RHB Insurance Berhad

2018





## BRAND PROMISE

Together  
we progress



- Being your trusted partner
- Delivering simple, fast and seamless experiences
- Providing solutions that help achieve your goals
- Nurturing future generations

## VALUES



### PROFESSIONAL

We are committed to maintain a high level of proficiency, competency and reliability in all that we do.



### RESPECT

We are courteous, humble and we show empathy to everyone through our actions and interactions.



### INTEGRITY

We are honest, ethical and we uphold a high standard of governance.



### DYNAMIC

We are proactive, responsive and forward thinking.



### EXCELLENCE

We will continuously achieve high standards of performance and service deliverables.

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Online  
Version



[www.rhbgroup.com](http://www.rhbgroup.com)

Cross  
References



Tells you where you can find more information within the reports



Tells you where you can find more information online at [www.rhbgroup.com](http://www.rhbgroup.com)

# Corporate Information

as at 1 April 2019

## BOARD OF DIRECTORS

**Tan Sri Saw Choo Boon**

Non-Independent Non-Executive Chairman

**Abdul Aziz Peru Mohamed**

Independent Non-Executive Director

**Shaifubahrim Mohd Saleh**

Independent Non-Executive Director

**Jahanath Muthusamy**

Senior Independent Non-Executive Director

**Wong Pek Yee**

Independent Non-Executive Director

**Kong Shu Yin**

Managing Director

## BOARD AUDIT COMMITTEE<sup>#</sup>

**Ong Ai Lin**

(Chairperson)

**Jahanath Muthusamy**

(Chairman)

**Tan Sri Saw Choo Boon**

**Sharifatu Laila Syed Ali**

**Wong Pek Yee**

**Abdul Aziz Peru Mohamed**

## BOARD RISK COMMITTEE<sup>^</sup>

## BOARD NOMINATING & REMUNERATION COMMITTEE<sup>#</sup>

**Tan Sri Dr Rebecca Fatima Sta Maria**

(Chairperson)

**Ong Ai Lin**

**Sharifatu Laila Syed Ali**

**Tan Sri Saw Choo Boon**

## INVESTMENT COMMITTEE

**Jahanath Muthusamy**

(Chairman)

**Dato' Darawati Hussain**

**Abdul Aziz Peru Mohamed**

**Notes:**

<sup>#</sup> The Committee is shared with the relevant subsidiaries of the Group.

<sup>^</sup> The Committee was established on 1 April 2019.

## GROUP SENIOR MANAGEMENT

**Dato' Khairussaleh Ramli**  
Group Managing Director/  
Chief Executive Officer

**Syed Ahmad Taufik Albar**  
Group Chief Financial Officer

**Dato' Adissadikin Ali**  
Managing Director/Chief Executive Officer–  
RHB Islamic Bank Berhad  
Head, Group International Business

**Robert Huray**  
Chief Executive Officer,  
RHB Investment Bank Berhad/  
Head, Group Investment Banking

**Nazri Othman**  
Acting Head, Group Retail Banking

**Jeffrey Ng Eow Oo**  
Head, Group Business & Transaction Banking

**Danny Quah Boon Leng**  
Country Head, Singapore  
Chief Executive Officer  
RHB Bank Singapore

**Wendy Ting Wei Ling**  
Head, Group Corporate Banking

**Kong Shu Yin**  
Managing Director, RHB Insurance Berhad

**Mohd Rashid Mohamad**  
Group Treasurer

**Rohan Krishnalingam**  
Group Chief Operations Officer

**Gan Pai Li**  
Group Chief Strategy Officer

**Patrick Ho Kwong Hoong**  
Group Chief Risk Officer

**Jamaluddin Bakri**  
Group Chief Human Resource Officer

**Norazzah Sulaiman**  
Group Chief Communications Officer/  
Chief Executive Officer, RHB Foundation

**Abdul Sani Abdul Murad**  
Group Chief Marketing Officer

## COMPANY SECRETARIES

**Azman Shah Md Yaman**  
(LS 0006901)

**Lai Su Ming**  
(MAICSA No. 7046164)

## BUSINESS ADDRESS

Level 12, West Wing  
The Icon, No. 1, Jalan 1/68F  
Jalan Tun Razak  
55000 Kuala Lumpur  
Tel : 603 2180 3000  
Fax : 603 2161 9255

## AUDITORS

PricewaterhouseCoopers PLT  
Chartered Accountants  
Level 10, 1 Sentral  
Jalan Rakyat, Kuala Lumpur Sentral  
P. O. Box 10192  
50706 Kuala Lumpur  
Tel : 603 2173 1188  
Fax : 603 2173 1288

## REGISTERED OFFICE

Level 10, Tower One  
RHB Centre, Jalan Tun Razak  
50400 Kuala Lumpur  
Tel : 603 9287 8888  
Fax : 603 9281 9314  
Website : www.rhbgroup.com

## COMPANY NO.

38000-U

# Group Corporate Structure

as at 1 April 2019



## RHB Bank Berhad

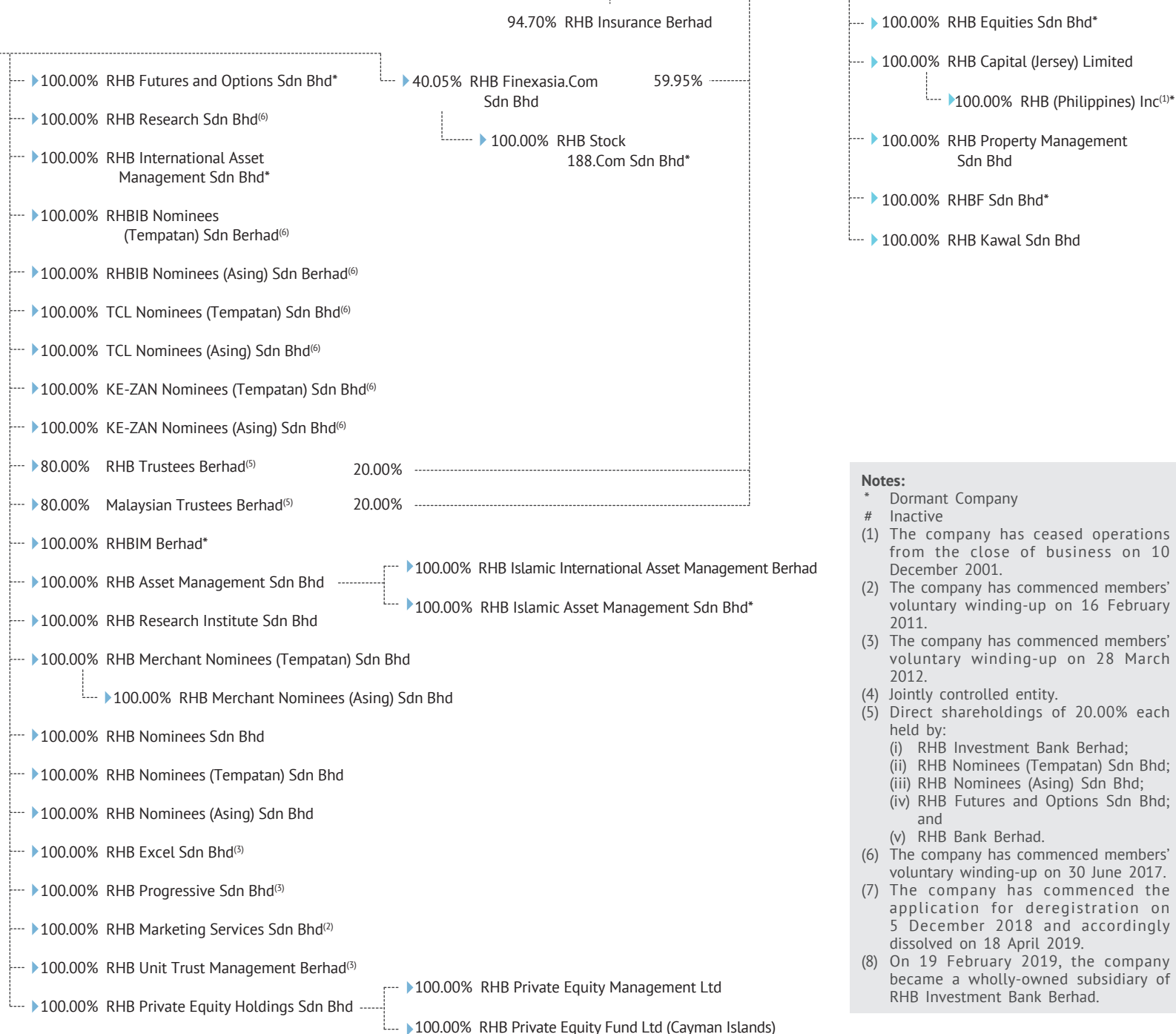
### COMMERCIAL BANKING GROUP

- ▶ 100.00% RHB Islamic Bank Berhad
- ▶ 100.00% RHB Bank (L) Ltd
  - ▶ 100.00% RHB International Trust (L) Ltd
    - ▶ 100.00% RHB Corporate Services Sdn Bhd
- ▶ 100.00% RHB Leasing Sdn Bhd
- ▶ 100.00% RHB Capital Nominees (Tempatan) Sdn Bhd
  - ▶ 100.00% RHB Capital Nominees (Asing) Sdn Bhd
- ▶ 100.00% RHB Capital Properties Sdn Bhd
- ▶ 100.00% Utama Assets Sdn Bhd
- ▶ 100.00% RHB Bank Nominees Pte Ltd (Singapore)
- ▶ 100.00% Banfora Pte Ltd (Singapore)
- ▶ 100.00% RHB Investment Ltd (Singapore)
- ▶ 100.00% Utama Gilang Sdn Bhd<sup>(2)</sup>
- ▶ 100.00% UMBC Sdn Bhd\*
- ▶ 100.00% RHB Delta Sdn Bhd<sup>(2)</sup>
- ▶ 100.00% RHB Indochina Bank Limited
- ▶ 100.00% RHB Bank Lao Limited

### INVESTMENT BANKING GROUP

- 100.00% RHB Investment Bank Berhad
  - ▶ 100.00% RHB International Investments Pte Ltd
    - ▶ 100.00% RHB Asset Management Pte Ltd
      - ▶ 40.00% RHB GC-Millennium Capital Pte Ltd<sup>(4)</sup>
  - ▶ 100.00% RHB Hong Kong Limited
    - ▶ 100.00% RHB Securities Hong Kong Limited
    - ▶ 100.00% RHB Futures Hong Kong Limited
    - ▶ 100.00% RHB Finance Hong Kong Limited
    - ▶ 100.00% RHB Capital Hong Kong Limited
    - ▶ 100.00% RHB Fundamental Capital Hong Kong Limited<sup>(7)</sup>
    - ▶ 100.00% RHB Asset Management Limited
    - ▶ 100.00% RHB Wealth Management Hong Kong Limited
    - ▶ 100.00% RHB (China) Investment Advisory Co Ltd
  - ▶ 99.00% PT RHB Sekuritas Indonesia
    - ▶ 99.62% PT RHB Asset Management Indonesia
  - ▶ 100.00% RHB Securities Singapore Pte Ltd
    - ▶ 100.00% RHB Nominees Singapore Pte Ltd<sup>#</sup>
    - ▶ 100.00% Summit Nominees Pte Ltd<sup>#</sup>
    - ▶ 100.00% RHB Research Institute Singapore Pte Ltd
  - ▶ 99.95% RHB Securities (Thailand) Public Company Limited
  - ▶ 100.00% RHB Indochina Securities Plc.
  - ▶ 100.00% RHB Securities Vietnam Company Limited  
(formerly known as Vietnam Securities Corporation)<sup>(8)</sup>

## OTHERS

**Notes:**

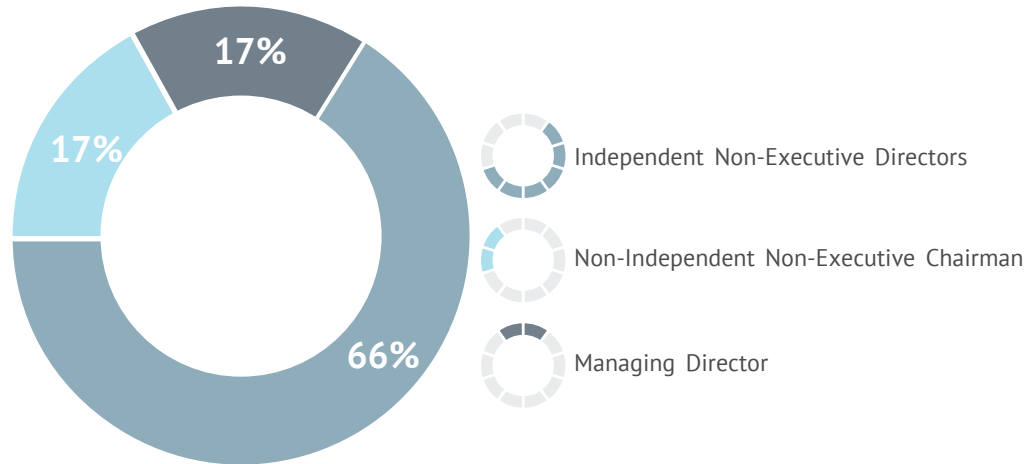
- \* Dormant Company
- # Inactive
- (1) The company has ceased operations from the close of business on 10 December 2001.
- (2) The company has commenced members' voluntary winding-up on 16 February 2011.
- (3) The company has commenced members' voluntary winding-up on 28 March 2012.
- (4) Jointly controlled entity.
- (5) Direct shareholdings of 20.00% each held by:
  - (i) RHB Investment Bank Berhad;
  - (ii) RHB Nominees (Tempatan) Sdn Bhd;
  - (iii) RHB Nominees (Asing) Sdn Bhd;
  - (iv) RHB Futures and Options Sdn Bhd; and
  - (v) RHB Bank Berhad.
- (6) The company has commenced members' voluntary winding-up on 30 June 2017.
- (7) The company has commenced the application for deregistration on 5 December 2018 and accordingly dissolved on 18 April 2019.
- (8) On 19 February 2019, the company became a wholly-owned subsidiary of RHB Investment Bank Berhad.



# Our Board at a Glance

THE DIVERSITY AND SKILLS OF THE BOARD ENSURE THAT RHB INSURANCE BERHAD IS STEERED TO DELIVER GROWTH TO ALL OUR STAKEHOLDERS.

## BOARD COMPOSITION



## KEY FEATURES OF OUR BOARD

**66%**

The Board comprises **66% Independent Directors**

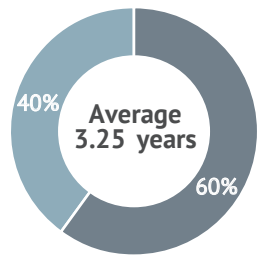


The **Chairman** is a **Non-Independent Non-Executive Director**



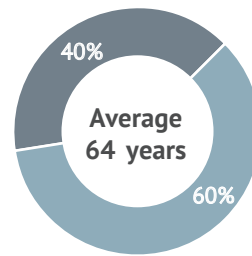
The **positions** of the **Chairman** and the **Managing Director** are held by **different individuals**

## BOARD TENURE



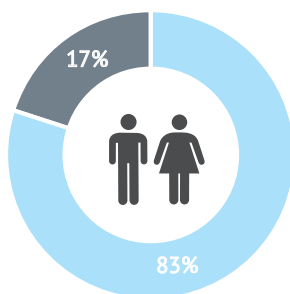
Below 5 years	4
5 years – 9 years	2

## AGE



66 years & above	2
51 years – 65 years	4

## GENDER



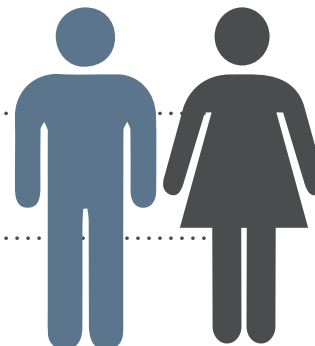
Male	5
Female	1

## ETHNICITY

Malay **2**

Chinese **3**

Indian **1**



## NATIONALITY

Malaysian **6**

# Profile of the Board of Directors

as at 1 April 2019



**TAN SRI SAW CHOO BOON**  
Non-Independent Non-Executive Chairman

**BNRC** **BAC**

## Age/Gender/Nationality

72/Male/Malaysian

## Number of Board Meetings Attended



## Date of Appointment

1 October 2017\*\*

## Length of Service

1 year 6 months

## Qualifications

- Bachelor of Science (Chemistry) from the University of Malaya

## Other Directorship(s)

### Listed Entities:

- RHB Bank Berhad
- Digi.Com Berhad
- Wah Seong Corporation Berhad

### Public Companies:

- RHB Capital Berhad (In Member's Voluntary Liquidation)

### Associations:

- Government's Public-Private Sector Special Task Force on Facilitating Business ("PEMUDAH") as the Co-Chair
- Council Member of the Federation of Malaysian Manufacturers ("FMM")
- Socio-Economic Research Centre ("SERC") Board of the Associated Chinese Chambers of Commerce and Industry Malaysia

## Skills and Experience

Tan Sri Saw Choo Boon ("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.

\* 1 October 2018 (Appointed as Independent Non-Executive Chairman)

# 31 March 2019 (Re-designated as Non-Independent Non-Executive Chairman)

Board Committees:

**BNRC** Board Nominating & Remuneration Committee

**BAC** Board Audit Committee

**BRC** Board Risk Committee

**IC** Investment Committee

**Chairman/Chairperson**

**Member**



**JAHANATH MUTHUSAMY**

Senior Independent  
Non-Executive Director

**BRC** **IC**

## Age/Gender/Nationality

63/Male/Malaysian

## Number of Board Meetings Attended



## Date of Appointment

1 November 2016

## Length of Service

2 years 5 months

## Qualifications

- Fellow, Chartered Insurance Institute, United Kingdom
- Fellow, The Malaysian Insurance Institute, Malaysia

## Other Directorship(s)

### Listed Entities:

- Nil

### Public Companies:

- Nil

## Skills and Experience

Mr Jahanath Muthusamy 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, he 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.

## Profile of the Board of Directors

as at 1 April 2019



**ABDUL AZIZ PERU MOHAMED**  
Independent Non-Executive Director

**BRC** **IC**

### Age/Gender/Nationality

70/Male/Malaysian

### Number of Board Meetings Attended



### Date of Appointment

2 March 2012\*

### Length of Service

7 years 1 Month

### Qualifications

- Harvard Business School
- Pacific Bankers Rim programmes in the United States of America

### Other Directorship(s)

#### Listed Entities:

- RHB Bank Berhad

#### Public Companies:

- RHB Islamic Bank Berhad (Chairman)
- As-Salihin Trustee Berhad
- RHB Indochina Bank Limited
- RHB Bank Lao Limited

### Skills and Experience

Abdul Aziz Peru Mohamed is currently the Chief Executive Officer/Director of As-Salihin Trustee Berhad, a trust company specialising in Islamic estate planning. He held various senior management positions in the banking industry with almost 30 years in an accomplished career track spanning management of branch network and retail banking. He spent most of his working years at Malayan Banking Berhad, where his last position was General Manager, Consumer Banking Division. He was also formerly the Senior General Manager of AmBank Berhad from 2002 to 2005. During the years in the banking industry, he was appointed as Chairman of the Rules Committee of the Association of Banks of Malaysia and has held several other key positions including as a Board Member of Mayban Property Trust and Mayban Trustees Bhd.

\* 1 October 2018 (Re-designated as Independent Non-Executive Director)



**WONG PEK YEE**  
Independent Non-Executive Director

**BRC**

### Age/Gender/Nationality

61/Female/Malaysian

### Number of Board Meetings Attended



### Date of Appointment

1 November 2018

### Length of Service

5 months

### Qualifications

- Bachelor of Science in Economics & Accounting (Honours) from The University of Hull, United Kingdom
- Fellow of The Institute of Chartered Accountants in England & Wales
- Member of the Malaysian Institute of Accountants

### Other Directorship(s)

#### Listed Entities:

- Nil

#### Public Companies:

- Nil

### Skills and Experience

Ms Wong Pek Yee 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.

### Board Committees:

**BNRC** Board Nominating & Remuneration Committee

**BAC** Board Audit Committee

**BRC** Board Risk Committee

**IC** Investment Committee

**Chairman/Chairperson**

**Member**



**SHAIFUBAHRIM MOHD SALEH**  
Independent Non-Executive Director

**Age/Gender/Nationality**

59/Male/Malaysian

**Number of Board Meetings Attended**

Not Applicable

**Date of Appointment**

1 April 2019

**Length of Service**

Not Applicable

**Qualifications**

- Bachelor of Science (Honours) Degree in Computer Science from Universiti Sains Malaysia

**Other Directorship(s)**

**Listed Entities:**

- Nil

**Public Companies:**

- Nil

**Skills and Experience**

Encik Shaifubahrim Mohd Saleh 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 Mohd Saleh 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

**Age/Gender/Nationality**

58/Male/Malaysian

**Number of Board Meetings Attended**



**Date of Appointment**

13 March 2011

**Length of Service**

8 years 0.5 month

**Qualifications**

- Bachelor of Engineering from University of Malaya
- Fellow, Chartered Insurance Institute, United Kingdom
- Fellow, The Malaysian Insurance Institute, Malaysia

**Other Directorship(s)**

**Listed Entities:**

- Nil

**Public Companies:**

- ISM Insurance Services Malaysia Berhad

**Skills and Experience**

Mr Kong Shu Yin 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).

# Statement on Corporate Governance

## PRINCIPLE A: BOARD LEADERSHIP & EFFECTIVENESS

The Board of Directors (“The Board”) of RHB Insurance Berhad (“RHBI” or the “Company”) provides unbridled support towards the adoption best corporate governance practices to protect the interests of all its stakeholders by complying with all legal and regulatory requirements and conforming to good corporate governance practices, including greater transparency and sustainable disclosure. This commitment is translated into a corporate culture that manifests itself across the Company, from the Board to Senior Management and all employees within RHBI.

RHBI, as a member of RHB Banking Group (“the Group”), continues to enhance the corporate governance practices in line with the aspiration of the parent company, RHB Bank Berhad (“RHB Bank”). This has borne significant results in the way the Group is governed and operated. The Board, as fiduciaries, is conscious of its obligation to discharge its duties and responsibilities by exercising unbridled judgement, due care and diligence to the best of its ability. The year 2018 witnessed the launch of the Group’s new strategic 5-year plan, FIT22, which succeeded its predecessor I.G.N.I.T.E, which came to an end in 2017.

**FIT22 comprises 22 initiatives that are driven by three key pillars, namely:**



During 2018, RHB Banking Group was accorded the following awards in relation to the Group’s Corporate Governance practices and reporting:

- **Top 30** of Association of Southeast Asian Nations (ASEAN) Public Listed Companies, accorded by the ASEAN Capital Market Forum (ACMF).
- **Platinum Award** winner for ‘Best Governed & Most Transparent Award’ in The Global Good Governance Awards 2018 hosted by The Pinnacle Group International (2017: **Gold Winner**).
- **Platinum Award** winner for Best Annual Report in Bahasa Malaysia accorded during the National Annual Corporate Report Awards (NACRA) 2018 ceremony, organised by The Malaysian Institute of Accountants (MIA), The Malaysian Institute of Certified Public Accountants (MICPA) and Bursa Malaysia on 6 December 2018.
- **Silver Award** winner for Best Designed Annual Report accorded during the NACRA 2018 ceremony, organised by MIA, MICPA and Bursa Malaysia on 6 December 2018.
- Continuing **constituent** of the FTSE4Good Bursa Malaysia Index for good demonstration of Environmental, Social & Governance (E.S.G.) practices as independently assessed by FTSE Russell during 2018 semi-annual reviews.

## ORGANISATIONAL CULTURE

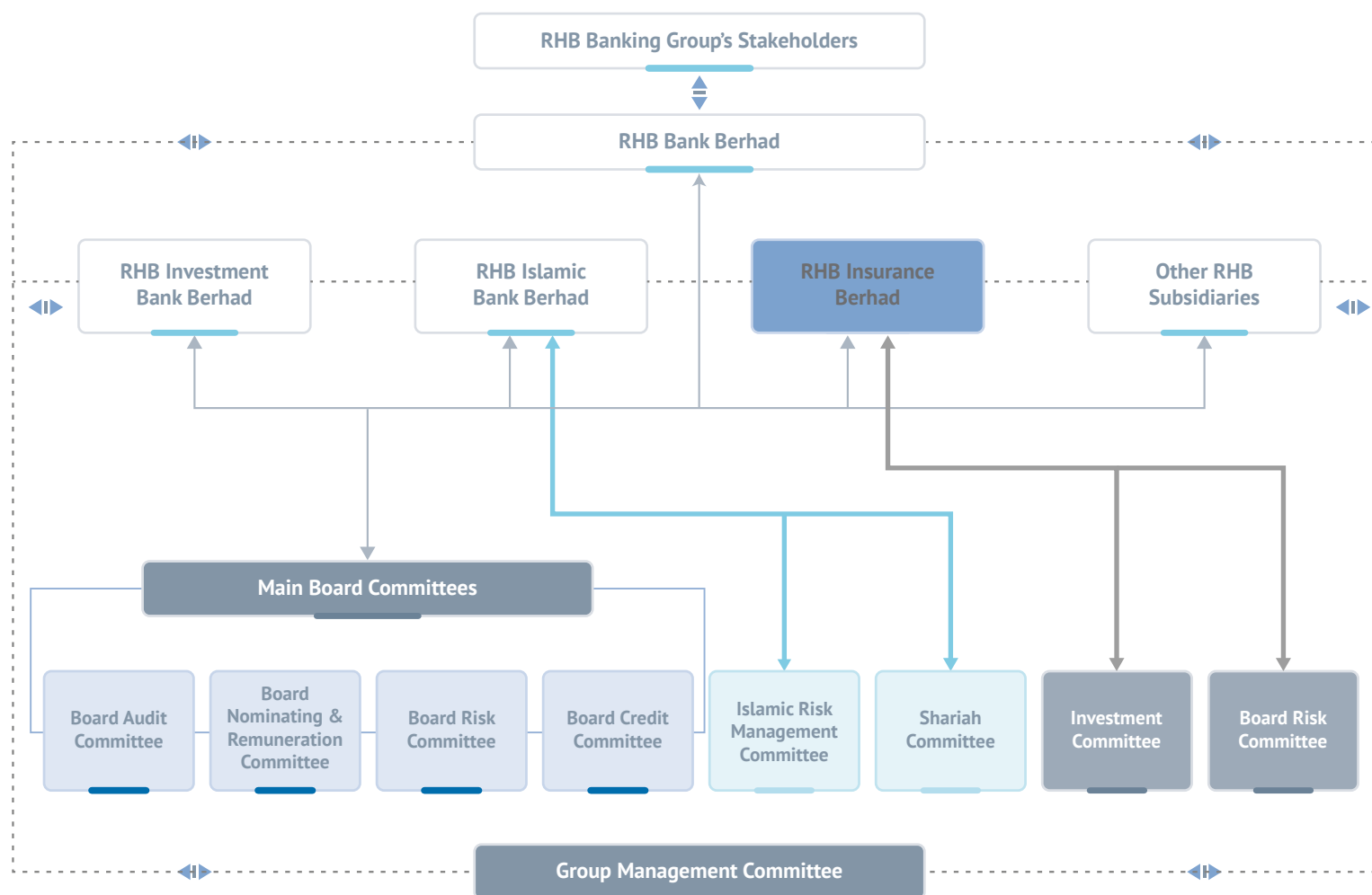
The Board continues to cultivate a corporate culture that embraces the correct behaviours to achieve a company’s objectives. The Board views this as fundamental to ensure sustainable long-term growth and success for RHBI. This is fundamental in ensuring sustainable long-term growth and success for any organisation. To further gauge the culture within the Board, the latest Board Effectiveness Evaluation (“BEE”) exercise was meticulously designed to specifically assess the tone at the top in areas such as leadership, decision-making, communication, group dynamics and mind-set of the Board as a collective unit and Board members as individuals.

Actions will then be taken to address identified gaps to enhance the performance of the Board. In leading the organisation and ensuring that all the Group’s strategic objectives and business scorecards are met within the approved risk appetites, the Board is bound by its Charter, Terms of Reference (“ToR”) for its various Board Committees, Group Code of Ethics & Business Conduct for Directors, and other internal guidelines. To complement the Charter, various policies and guidelines including the Group Manual of Authority, Power of Attorney, Delegated Lending & Financing Authority (Discretionary Powers), Group Code of Ethics & Conduct for Employees, Group Whistleblowing Policy and Group Gifts & Hospitality Guidelines were approved or endorsed by the Board to ensure good governance practice and fiduciary duties are implemented by the Senior Management and other key personnel.

### BOARD GOVERNANCE MANUAL

The main documents governing the Board are the Company’s Constitution, Board Charter and the Code of Ethics and Business Conduct for Directors. The Board is also guided by the Approval Framework on Directors’ Expenses, the Boardroom Diversity Policy, Policy on Fit and Proper for Key Responsible Persons, Guidelines on Tenure of Non-Executive Directors’ Appointment, Procedures for Independent Professional Advice and also Procedures on Directors’ In-House Orientation & Continuing Education Programme. All these frameworks, policies, procedures and processes serve as guidance to the Board in discharging their duties effectively, efficiently and responsibly.

### GOVERNANCE MODEL



## Statement on Corporate Governance

RHB Banking Group has instituted several Board Committees to support and supplement the Boards of entities within the Group in carrying out their roles and responsibilities. To date, the Board has established the following main Board Committees:

- Board Nominating & Remuneration Committee (“BNRC”)
- Board Audit Committee (“BAC”)
- Investment Committee (“IC”)

(Note: Board Risk Committee of RHBI was established on 1 April 2019)

The Board delegates some of its powers and functions to each of the Board Committees to assist in carrying out its responsibilities. However, the Board does not abdicate its responsibility over these Board Committees as it exercises collective oversight and requires each committee to adopt their own ToR setting out matters relevant to the composition, responsibilities and administration of such Board Committees, and other matters that the Board may consider appropriate.



Detailed information on the shared Board Committees can be found in RHB Bank Berhad’s Annual Report 2018 and Corporate Governance Report 2018 available on RHB Bank’s corporate website [www.rhbgroup.com](http://www.rhbgroup.com)

### BOARD TRAINING AND DEVELOPMENT

The Board emphasises the importance of continuing education and training for its Directors to ensure they keep up with the latest developments in the areas related to their duties. A budget for Directors’ training is provided each year by RHBI. The Board, as part of the BEE exercise, assesses the training needs of each Director annually. The training and development of Directors are detailed in the Group’s Standard Procedures on Directors’ In-house Orientation and Continuing Education Programme for RHB Banking Group.

The Non-Executive Directors (“NED”) of the Company and the Group are encouraged to attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme. This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that engender organisational excellence.

The Company Secretaries facilitate the organisation of internal training programmes and Directors’ attendance of external programmes, and keep a complete record of the trainings received and attended by the Directors. In addition, the new NEDs received a comprehensive Director’s induction kit to assist them in building an in-depth understanding of the Group’s operations, its longer-term direction and statutory obligations.

Apart therefrom, the new NEDs are required to complete the Financial Institutions Directors’ Education (“FIDE”) programme within one year of their respective appointment date as required by Bank Negara Malaysia. The FIDE programme aims to enhance boardroom governance within the financial sector and develop world class directors who are advocates of best practices and excellence in corporate governance.

## DIRECTOR'S TRAINING

During the financial year ended 2018, the Directors of RHBI attended the following training programmes, conferences and seminars:

Name of Director(s)	Training Program Attended	Training Scope & Description
<b>Tan Sri Saw Choo Boon (Chairman)</b>	Anti-Money Laundering (AML)/ Counter Financing of Terrorism (CFT) & Regulatory Compliance Training for Board of Directors & Senior Management by Messrs PricewaterhouseCoopers PLT (PwC)	<ul style="list-style-type: none"> <li>• Common AML/CFT challenges faced by Financial Institutions in Malaysia</li> <li>• Insights from PwC Economic Crime Survey 2016</li> <li>• Global Trends in 2017</li> </ul>
	Briefing on Malaysian Financial Reporting Standard (MFRS) 9 by Messrs Ernst & Young	<ul style="list-style-type: none"> <li>• Benefits and Challenges of implementing MFRS 9</li> <li>• Overview of Loan Impairment methodology</li> <li>• MFRS 9 Expected Credit Loss methodology</li> </ul>
	Bursa Malaysia Securities Berhad : Corporate Governance Briefing Sessions – Malaysian Code On Corporate Governance (MCCG) Reporting & Corporate Governance Guide (CG)	<ul style="list-style-type: none"> <li>• Introduction of the CG Overview Statement, the CG Report and the factors that the companies should consider when making these disclosure</li> <li>• Provide insights on the utility and application of the CG Guide with a laser-focus on topical areas</li> </ul>
	30% Club Business Leaders Roundtable Meeting - Invitation to top 200 Public Listed Companies	<ul style="list-style-type: none"> <li>• To focus on increasing the participation of women on boards, particularly the boards of the top 100 public listed companies on Bursa Malaysia</li> <li>• To provide an overview of the current state of play, share the measures in place to support the participation of women on boards, and discuss issues or challenges faced by companies in this area</li> </ul>
	Briefing on “Global Economic and Markets Outlook” by Dr Mark Zandi	<ul style="list-style-type: none"> <li>• Impact on real Gross Domestic Product (GDP) growth</li> <li>• United of States (US) Economic Growth</li> <li>• Fuel wage and price pressure</li> <li>• Higher interest rate</li> <li>• European Central Bank (ECB) and Bank of Japan (BOJ) lag the led</li> <li>• Oil production cost in equilibrium</li> </ul>
	Briefing on Singapore’s New Insolvency & Restructuring Regime by Messrs Shook Lin & Bok	<ul style="list-style-type: none"> <li>• Singapore implemented a new insolvency and restructuring regime on 23 May 2017 by adopting parts of the US Chapter 11 Bankruptcy Code. It aims to provide greater opportunities for the rehabilitation of companies that are in financial distress and position Singapore as a regional restructuring hub</li> <li>• The changes affect Singapore companies and foreign companies with a connection to Singapore</li> </ul>
	In-House Training on “Islamic Finance Beyond Banking”	<ul style="list-style-type: none"> <li>• Differences between Islamic Finance and Conventional Finance</li> <li>• Shariah Contracts and Understanding the Business Propositions</li> <li>• Understanding Shariah Risks in Islamic Banking Business</li> </ul>
	In House Training on Crypto currency, Block chain & Beyond: A Cautionary Tale	<ul style="list-style-type: none"> <li>• Understanding the features of cryptocurrency</li> <li>• Lean how the block chain concept works</li> <li>• Understand the challenges facing by the banking industry with regard to cryptocurrency</li> </ul>



## Statement on Corporate Governance

Name of Director(s)	Training Program Attended	Training Scope & Description
<b>Tan Sri Saw Choo Boon (Chairman)</b> (continued)	Briefing on Agile Leap	<ul style="list-style-type: none"> <li>• Taking the Agile Leap</li> <li>• Scaling Agile: Creating a competitive advantage</li> </ul>
	Understanding Fintech and Its Implications for Insurance Companies	<ul style="list-style-type: none"> <li>• Introduction to Fintech</li> <li>• Block chain and the Insurance Industry</li> <li>• Fintech in Insurance</li> <li>• Reimagining Insurance: Shifting from Product First to People First</li> </ul>
	In-house Training on AML/CFT Compliance	<ul style="list-style-type: none"> <li>• AML landscape</li> <li>• Culture, Conduct and Accountability</li> <li>• AML Governance</li> <li>• Sanctions</li> <li>• Transaction Monitoring</li> <li>• Industry Trends</li> </ul>
	2019 Budget: What you need to know – The Economy, Capital Market And You	<ul style="list-style-type: none"> <li>• New insights on the latest 2019 Budget proposals, its impact on the economy and capital market and the outlook for 2019</li> </ul>
<b>Jahanath Muthusamy</b>	(i) 1 <sup>st</sup> Distinguished Board Leadership Series (ii) Focus Group Discussion in Preparation for the 5th Bank Negara Malaysia – FIDE FORUM Annual Dialogue with the Governor	<ul style="list-style-type: none"> <li>• Discuss and share views on some key trends and developments in the domestic and international economic environment</li> <li>• Discuss current and future issues and challenges in the banking, Islamic banking, investment banking and development financial institution businesses and insurance and Takaful businesses</li> </ul>
	Briefing on “Global Economic and Markets Outlook” by Dr Mark Zandi	<ul style="list-style-type: none"> <li>• Impact on real GDP growth</li> <li>• US Economic Growth</li> <li>• Fuel wage and price pressure</li> <li>• Higher interest rate</li> <li>• ECB and BOJ lag the led</li> <li>• Oil production cost in equilibrium</li> </ul>
	Training on New Corporate Liability Landscape Pursuant to Malaysian Anti-Corruption Commission (Amendment) Act 2018	<ul style="list-style-type: none"> <li>• Understanding corruption and the provisions of the Malaysian Anti-Corruption Commission Act 2009</li> <li>• Overview of the latest amendments to anti-corruption laws in Malaysia</li> <li>• Unravelling the changes to the corporate liability landscape pursuant to Malaysian Anti-Corruption Commission (Amendment) Act 2018</li> </ul>
	PowerTalk ‘Effective Boards in a VUCA World’	<ul style="list-style-type: none"> <li>• Gain a broad view of just why the modern era is so challenging – covering a number of different domains</li> <li>• Take effective actions that can affect engagement, reputation and ethos issues under the increasingly bright glare of the social media spotlight in a highly interconnected and troubled world</li> </ul>

Name of Director(s)	Training Program Attended	Training Scope & Description
<b>Abdul Aziz Peru Mohamed</b>	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management by PwC	<ul style="list-style-type: none"> <li>• Common AML/CFT challenges faced by Financial Institutions in Malaysia</li> <li>• Insights from PwC Economic Crime Survey 2016</li> <li>• Global Trends in 2017</li> </ul>
	Briefing on MFRS 9 by Messrs Ernst & Young	<ul style="list-style-type: none"> <li>• Benefits and Challenges of implementing MFRS 9</li> <li>• Overview of Loan Impairment methodology</li> <li>• MFRS 9 Expected Credit Loss methodology</li> </ul>
	Briefing on “Global Economic and Markets Outlook” by Dr Mark Zandi	<ul style="list-style-type: none"> <li>• Impact on real GDP growth</li> <li>• US Economic Growth</li> <li>• Fuel wage and price pressure</li> <li>• Higher interest rate</li> <li>• ECB and BOJ lag the led</li> <li>• Oil production cost in equilibrium</li> </ul>
	Briefing on Singapore’s New Insolvency & Restructuring Regime by Messrs Shook Lin & Bok	<ul style="list-style-type: none"> <li>• Singapore implemented a new insolvency and restructuring regime on 23 May 2017 by adopting parts of the US Chapter 11 Bankruptcy Code. It aims to provide greater opportunities for the rehabilitation of companies that are in financial distress and position Singapore as a regional restructuring hub</li> <li>• The changes affect Singapore companies and foreign companies with a connection to Singapore</li> </ul>
	In-House Training on “Islamic Finance Beyond Banking”	<ul style="list-style-type: none"> <li>• Differences between Islamic Finance and Conventional Finance</li> <li>• Shariah Contracts and Understanding the Business Propositions</li> <li>• Understanding Shariah Risks in Islamic Banking Business</li> </ul>
	In House Training on Crypto currency, Block chain & Beyond: A Cautionary Tale	<ul style="list-style-type: none"> <li>• Understanding the features of cryptocurrency</li> <li>• Learn how the block chain concept works</li> <li>• Understand the challenges facing by the banking industry with regard to cryptocurrency</li> </ul>
	Training on New Corporate Liability Landscape Pursuant to Malaysian Anti-Corruption Commission (Amendment) Act 2018	<ul style="list-style-type: none"> <li>• Understanding corruption and the provisions of the Malaysian Anti-Corruption Commission Act 2009</li> <li>• Overview of the latest amendments to anti-corruption laws in Malaysia</li> <li>• Unravelling the changes to the corporate liability landscape pursuant to Malaysian Anti-Corruption Commission (Amendment) Act 2018</li> </ul>
	Global Islamic Finance Forum 2018	<ul style="list-style-type: none"> <li>• Integrating Sustainability &amp; Responsible Financing into the Financial Sector</li> <li>• Vale Based Intermediation : The Islamic Perspective</li> <li>• Pushing the Sustainable Agenda to the Board</li> <li>• Roadmap to Sustainability</li> <li>• Reporting on Sustainability</li> <li>• Technological Disruption Impacting Sustainable Finance</li> </ul>
	MALAYSIA – A New Dawn Conference 2018	<ul style="list-style-type: none"> <li>• Panel: New Malaysia : Resiliency of the Economy &amp; Credit Profile</li> <li>• Panel: Building Sustaining Infrastructure &amp; Housing</li> <li>• Panel: Improving Efficiency In Malaysia Agriculture/Commodity Sector</li> </ul>

## Statement on Corporate Governance

Name of Director(s)	Training Program Attended	Training Scope & Description
<b>Abdul Aziz Peru Mohamed</b> (continued)	In-house Training on AML/CFT Compliance	<ul style="list-style-type: none"> <li>• AML landscape</li> <li>• Culture, Conduct and Accountability</li> <li>• AML Governance</li> <li>• Sanctions</li> <li>• Transaction Monitoring</li> <li>• Industry Trends</li> </ul>
<b>Wong Pek Yee</b> (Appointed w.e.f. 1 November 2018)	In-House orientation on RHBI	<ul style="list-style-type: none"> <li>• Overview of RHBI in terms of its strategy, performance, products, people and culture</li> </ul>
<b>Datuk Haji Faisal Siraj</b> (Resigned w.e.f. 31 December 2018)	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management by PwC	<ul style="list-style-type: none"> <li>• Common AML/CFT challenges faced by Financial Institutions in Malaysia</li> <li>• Insights from PwC Economic Crime Survey 2016</li> <li>• Global Trends in 2017</li> </ul>
	Briefing on Internal Rating Based (IRB) by Group Risk, Compliance & Credit Management	<ul style="list-style-type: none"> <li>• Basel II Pillar 1 – Minimum Capital Requirements</li> <li>• Basel II Credit Risk IRB Approach</li> </ul>
<b>Kong Shu Yin</b>	In-House Training on “Islamic Finance Beyond Banking”	<ul style="list-style-type: none"> <li>• Differences between Islamic Finance and Conventional Finance</li> <li>• Shariah Contracts and Understanding the Business Propositions</li> <li>• Understanding Shariah Risks in Islamic Banking Business</li> </ul>
	In House Training on Crypto currency, Block chain & Beyond: A Cautionary Tale	<ul style="list-style-type: none"> <li>• Understanding the features of cryptocurrency</li> <li>• Learn how the block chain concept works</li> <li>• Understand the challenges facing by the banking industry with regard to cryptocurrency</li> </ul>
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	Briefing on Agile Leap	<ul style="list-style-type: none"> <li>• Taking the Agile Leap</li> <li>• Scaling Agile: Creating a competitive advantage</li> </ul>
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### BOARD COMPOSITION

The Board recognises the need to have a Board composition that imbues the practice of good governance and is also well versed in the business operations of the Company. As at 15 April 2019, there are four INEDs, one NINED and one Executive Director (“ED”) who is the Managing Director of RHB Insurance Berhad on the Board.

The Board also welcomed Ms Wong Pek Yee and Encik Shaifubahrim Mohd Saleh to the Board as INEDs on 1 November 2018 and 1 April

2019, respectively as part of its planned Board composition enhancement. The past financial year also saw the Board bid a fond farewell to YBhg Datuk Haji Faisal Siraj, who had resigned from the Board on 31 December 2018 following 10 years of service. The current Board composition ensures the Board complies with Bank Negara Malaysia’s Policy Document on Corporate Governance and the Malaysian Code on Corporate Governance, which advocate for the Board composition to encapsulate a majority of INEDs.

The Board is well pleased with the current established composition as it is an important driver of our effectiveness. The current composition allows a breadth of perspective to be shared by its members and is viewed as optimal for the company's size and intricate operations.

- For 2018, the Company's Board comprises a majority of independent directors (66%).
- There is no Independent Director who is serving for more than nine (9) years tenure on the Board.
- Generally, the Company comprises 17% women representation on the Board of the Company's Board remains vigilant in search for the right talent and suitable skill-set in enhancing the Board's diversity.
- As a very diverse Board in terms of age, educational background, ethnicity, experience, nationality and so forth, existing Board members are able to offer in-depth deliberation during Board meetings which would be beneficial for the Company's sustainable performance and operation.
- Similarly, the Company expects diversity at Senior Management level able to provide constructive debates, differing ways of deliberating same ideas and preparing a talent pipeline for future board candidacy, hence reaps the benefits arising from gender diversity agenda.

## BOARD ATTENDANCE

The Board and Board Committees met regularly to carry out their respective duties and responsibilities during the last financial year. We are pleased to report that there were no Directors who recorded an attendance lower than 75% for all Board and Board Committees meetings. The table below illustrates the meetings attendance record for all Board members of RHBI:

Board Member/CEO	Designation	Meeting Attendance			
		Board	BAC	BNRC	IC
Tan Sri Saw Choo Boon*	Non-Independent Non-Executive Chairman	12/12	11/12	9/9	
Jahanath Muthusamy <sup>&gt;</sup>	Senior Independent Non-Executive Director	11/12			4/4
Abdul Aziz Peru Mohamed <sup>^</sup>	Independent Non-Executive Director	12/12			6/6
Wong Pek Yee <sup>#</sup>	Independent Non-Executive Director	2/2			
Shaifubahrim Mohd Saleh**	Independent Non-Executive Director	N/A			
Datuk Haji Faisal Siraj <sup>^^</sup>	Non-Independent Non-Executive Director	12/12			
Kong Shu Yin	Managing Director	12/12			

**Legend:** ■ Board/Committee Chairman ■ Board/Committee Member

\* Tan Sri Saw Choo Boon was appointed as Chairman on 1 October 2018

> Jahanath Muthusamy was appointed as Chairman of IC on 24 April 2018.

^ Abdul Aziz Peru Mohamed was re-designated as Member of the Board on 1 October 2018 following the Group's re-organisation of the Board composition of RHBI

# Wong Pek Yee was appointed to the Board on 1 November 2018.

\*\* Shaifubahrim Mohd Saleh was appointed to the Board on 1 April 2019.

^^ Datuk Haji Faisal Siraj resigned from the Board on 31 December 2018.

N/A Not Applicable.

## Statement on Corporate Governance

### Board Responsibilities

Management's performance is actively monitored in executing the Board's directive and strategies in line with the Group's new 5-Year plan on top of the Board providing direction and advice to ensure Management do not divagate from their mandates. The Board has in place a Board Charter that provides clear outline on the roles and responsibilities for each member of the Board. This document was developed with great care and perseverance to guide and ensure each member is held accountable for their actions and inactions in serving the Group. The Board also assumes overall responsibility for promoting sustainable growth and financial soundness of the Company.

This includes the following:

- Governing the Company's business conduct and operations
- Risk Management
- Talent Development and Succession Planning
- Effective Communication
- Internal Control

### 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 2018) are, as follows:

Name of Company's Executive Director	Salary and Bonus (RM'000)	Other Emoluments (RM'000)	Benefits-in-kind (RM'000)	Total (RM'000)
Kong Shu Yin	1,113	2,027	7	3,147
Name of Company's Non-Executive Directors ("NEDs")	Directors' Fees* (RM'000)	Other Emoluments** (RM'000)	Benefits-in-kind (RM'000)	Total (RM'000)
Tan Sri Saw Choo Boon <sup>&gt;</sup>	144	67	12	223
Jahanath Muthusamy	135	34	-	169
Abdul Aziz Peru Mohamed <sup>^</sup>	162	22	-	184
Wong Pek Yee <sup>#</sup>	23	3	-	26
Shaifubahrim Mohd Saleh <sup>^^</sup>	N/A	N/A	N/A	N/A
Datuk Haji Faisal Siraj <sup>***</sup>	135	19	-	154
<b>Sub Total (NEDs)</b>	<b>599</b>	<b>145</b>	<b>12</b>	<b>752</b>
<b>Grand Total (MD + NEDs)</b>	<b>1,712</b>	<b>2,172</b>	<b>19</b>	<b>3,903</b>

#### Notes:

\* Based on new Directors' fees.

\*\* Include Board Committees' allowances and meeting allowance.

> Tan Sri Saw Choo Boon was appointed as Chairman on 1 October 2018.

^ Abdul Aziz Peru Mohamed was re-designated as member of the Board on 1 October 2018 following the Group's re-organisation of the Board composition of RHBI.

# Wong Pek Yee was appointed to the Board on 1 November 2018.

^^ Shaifubahrim Mohd Saleh was appointed to the Board on 1 April 2019.

\*\*\* Datuk Haji Faisal Siraj resigned from the Board on 31 December 2018.

N/A Not Applicable.

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 TOR). 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)
<b>Fixed-Type Remuneration</b>					
i	Cash-based	<ul style="list-style-type: none"> <li>• Fixed Fees</li> <li>• Directors' Fees<sup>1</sup></li> <li>• Board Committees' Allowances<sup>2</sup></li> <li>• Chairmen's premium<sup>3</sup> for various Board &amp; Board Committees</li> <li>• Emoluments</li> </ul>	655	–	Nil
ii	Shares & share-linked instruments	Nil	Nil	Nil	Nil
iii	Others	Benefits-in-kind <sup>5</sup>	12	Farewell Pot <sup>4</sup>	10
<b>B. Variable-Type Remuneration</b>					
i	Cash-based	Meeting Attendance Allowance <sup>6</sup>	94	–	Nil
ii	Shares & share-linked instruments	Nil	Nil	–	Nil
iii	Others	Directors' & Officers' Liability Insurance <sup>7</sup>	37	–	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 2018 are **RM597,561.64**. The above proposal is subject to the shareholders' approval at the forthcoming 2019 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.

## Statement on Corporate Governance

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 24 to the Financial Statements 2018 on pages 80 to 81.

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.

The Company has established a remuneration framework for key Senior Management, consisting a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with their performance and contributions to the organisation:

- Detailed remuneration package for key Senior Management is disclosed before the Board of the Company pursuant to BNM's Policy Document on Corporate Governance 2016.
- There is also incorporation of penalty in the final rating of their pay-for-performance scheme for any material non-compliance with legal and regulatory requirements.

### PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

#### Audit Committee

The Board has in place a Board Audit Committee (“BAC”) that comprises 3 members, all of whom are Non-Executive Directors with majority of INEDs. The Committee supports the Board with matters pertaining to financial reporting, external audit, internal control and internal audit process and review of related party transactions as well as conflict of interest situations. The BAC is chaired by Ms Ong Ai Lin (“Chairperson”), an Independent Non-Executive Director of RHB Bank Berhad.

All members of the BAC are financially literate and possess necessary financial background, knowledge and experience to review financial and non-financial reporting and matters put forth for deliberation before the committee. The Chairperson is an Associate of The Institute of Chartered Accountants in England & Wales and a Member of the Malaysian Institute of Accountants. She was accorded the Cyber Security Lifetime Achievement Award by Cyber Security Malaysia for her lifelong and significant contribution including excellent research towards cyber security for our national critical infrastructure.

The BAC oversees the Group Internal Audit (“GIA”) function which operates under a charter mandated by the BAC that gives unrestricted access to review all activities across the Group. The GIA reports directly to the BAC on all its activities.

The BAC reviews and approves the Group Internal Audit's annual audit plan, its staffing requirements and audit activities, including appraisal of the Group Chief Internal Auditor's performance. The audit committee is involved in deciding the remit of the internal audit function including its objectives, strategies, roles and responsibilities, scope and remuneration.

Further information on the BAC and GIA of the Group can be found under the **CG Report of RHB Bank Berhad**.

#### Risk Management and Internal Control Framework

As a Financial Institution, the Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and to safeguard shareholders' investments as well as the Company's and the Group's assets. RHB's risk management and internal control framework is designed not only to cover financial controls but also non-financial controls.

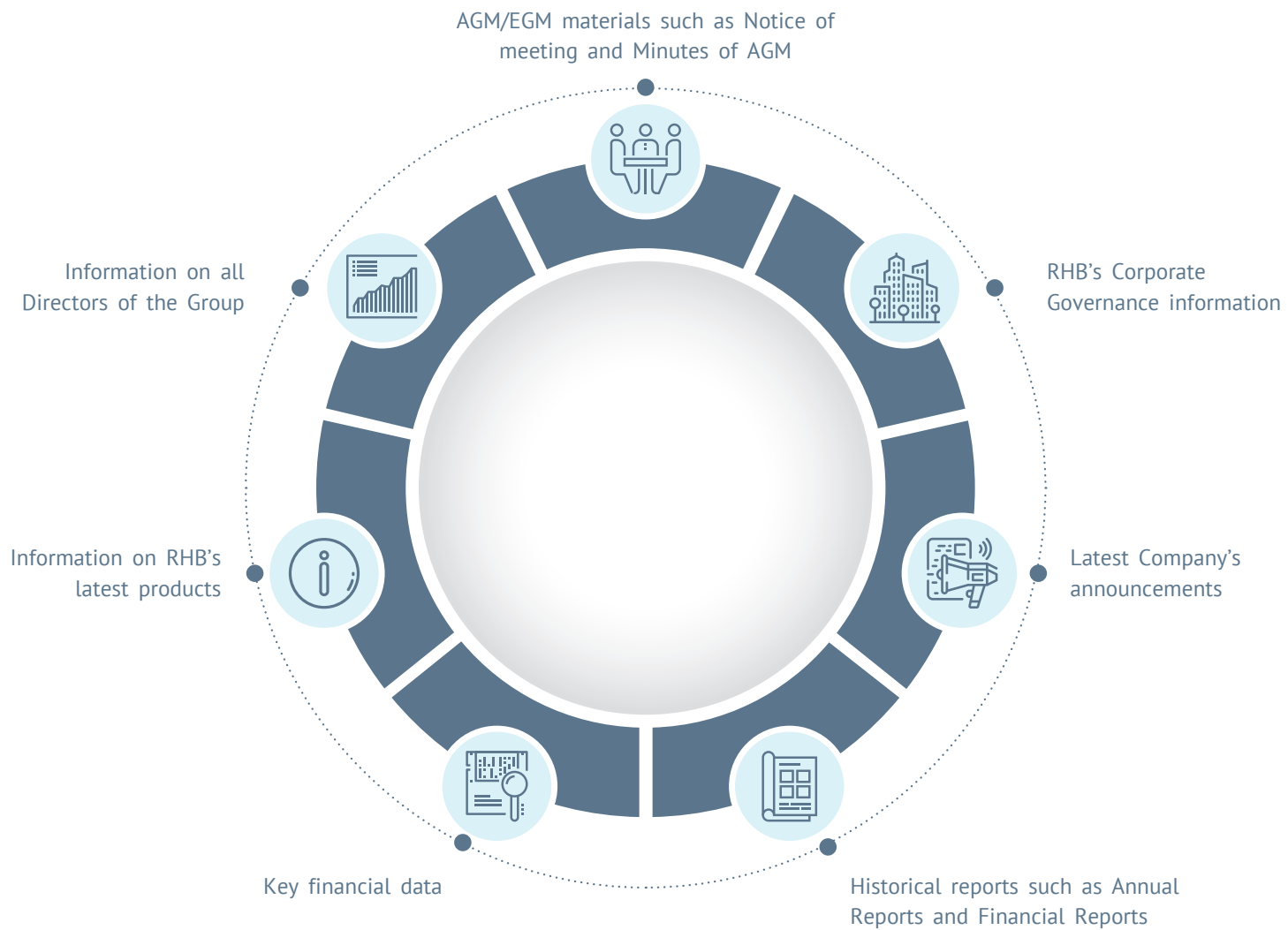
The Board Risk Committee (“BRC”) of RHBI was established on 1 April 2019 to enable more detailed discussions of significant and material risk matters of RHBI.

Detailed information on RHBI's risk management and internal control framework is available on the Statement of Risk Management and Internal Control (“SORMIC”) on page 23 of this Annual Report.

**PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS COMMUNICATION WITH STAKEHOLDERS**

The Board endeavours to continue maintaining an open and timely communication with all stakeholders. The Board currently conducts its engagement with stakeholders through various mechanisms such as the publication of Annual Reports, General Meetings, investors’ conferences, roadshows, analyst briefings, media briefings/press conferences and via electronic means such as RHB’s corporate website.

Valuing the importance of transparency, we ensure important and material information are communicated to stakeholders in a timely manner, through the RHB Bank’s website, [www.rhbgroup.com](http://www.rhbgroup.com). The website is regularly updated with the relevant information for the ease of all stakeholders. Information disclosed in the website include:





# Statement of Risk Management & Internal Control

The Board of Directors (“Board”) is pleased to provide the Statement on Risk Management and Internal Control (“Statement”) pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad. The Statement has been prepared in accordance with the guidelines as set out in the “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers” endorsed by Bursa Malaysia Securities Berhad.

The Statement outlines the key features of the risk management and internal control system of the RHB Insurance Berhad (“Company”) during the year under review.

## BOARD RESPONSIBILITY

The Board of Directors (“Board”) of RHB Insurance Berhad (“Company”) is committed to its overall responsibility in establishing a sound risk management and internal control system in the Company. The Board’s responsibility includes reviewing the adequacy and effectiveness of the risk management and internal control system in safeguarding shareholders’ investments and the Company’s assets. While total elimination of risks is not possible, the system has been designed to manage the Company’s risk appetite within the established risk tolerance set by the Board and Management to support the achievement of the Company’s business objectives. The system can therefore only provide reasonable and not absolute assurance against the occurrence of any material misstatement, loss or fraud.

In acknowledging that having a sound risk management and internal control system is imperative, the Board has established a governance structure that ensures effective oversight of risks and internal controls in the Company at all levels. To this end, the Board is assisted by the Board Risk Committee (“BRC”) and Board Audit Committee (“BAC”) which have been delegated with primary oversight responsibilities on the RHB Banking Group (“Group”)’s risk management and internal control system. The Board remains responsible for the governance of risk and for all the actions of the Board Committees with regard to the execution of the delegated oversight responsibilities.

The Board has also obtained assurance from the Managing Director and the Group Chief Financial Officer that the Company’s risk management and internal control system is operating adequately and effectively.

## MANAGEMENT RESPONSIBILITY

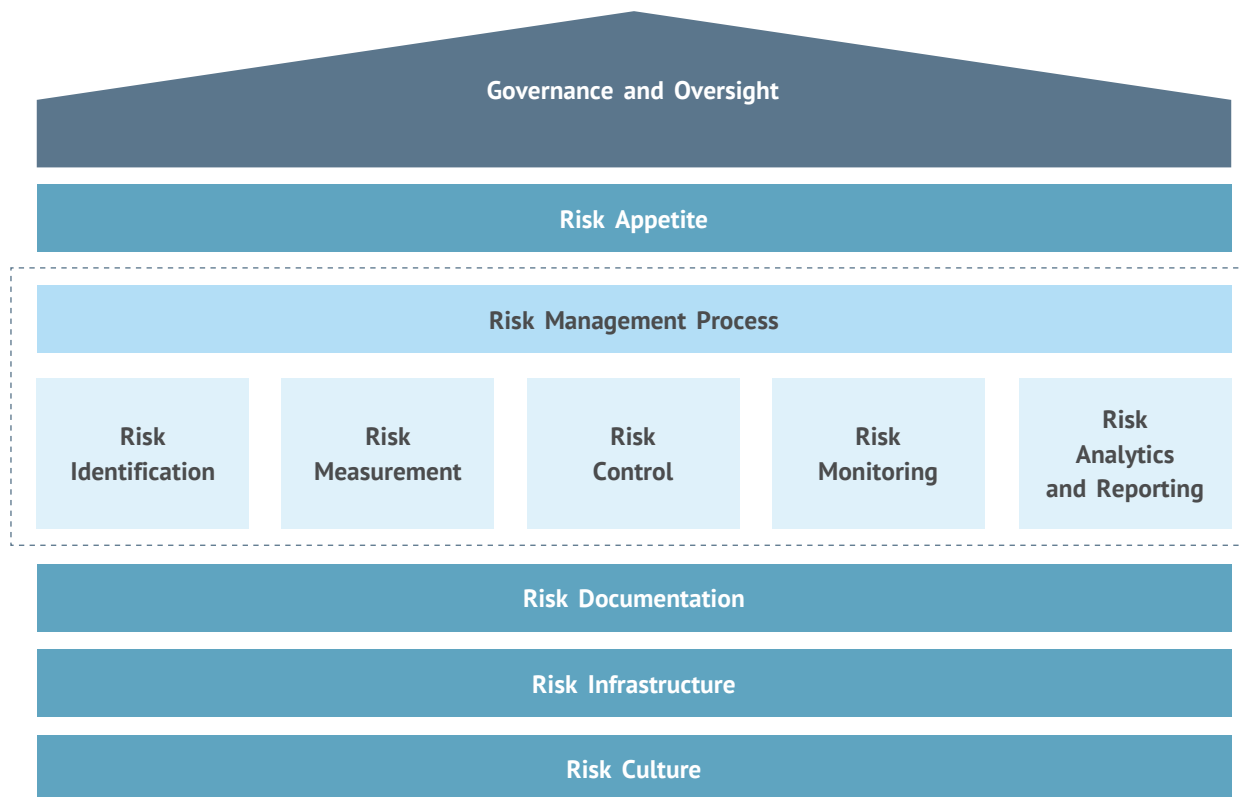
The Management is overall responsible for implementing the Company’s policies and processes to identify, evaluate, measure, monitor and report on risks as well as the effectiveness of the internal control systems, taking appropriate and timely remedial actions as required. Its roles include:

- Identifying and evaluating the risks relevant to the Company’s business and achievement of its business objectives and strategies;
- Formulating relevant policies and procedures to manage risks and the conduct of business;
- Designing and implementing the risk management framework and internal control system, and monitoring its effectiveness;
- Implementing policies approved by the Board;
- Implementing remedial actions to address compliance deficiencies as directed by the Board; and
- Reporting in a timely manner to the Board on any changes to the risks and the remedial actions taken.

Accordingly, the Management has provided assurance to the Board that the Company’s risk management and internal control system is operating adequately and effectively with the necessary processes been implemented.

## RISK MANAGEMENT FRAMEWORK

The Group, inclusive of the Company has in place a risk management framework approved by the Board for identifying, measuring, monitoring and reporting of significant risks faced by the Group in the achievement of the Group's business objectives and strategies. The Group's risk management framework ensures that there is an effective on-going process to identify, evaluate and manage risk across the Group and is represented in the following diagram:



### Risk Governance and Oversight

The Board, through the BRC, provides oversight over the risk management activities for the Group to ensure that the Group's risk management processes are functioning effectively.

The BRC also assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. In discharging its overall duties and responsibilities, the BRC is supported by the Group Capital and Risk Committee ("GCRC") and Group Risk & Credit Management function which monitors and evaluates the effectiveness of the Group's risk management system on an on-going basis. The GCRC, comprising Senior Management of the Group and chaired by the Group Managing Director, is responsible for the supervision of the management of enterprise risk and capital matters.

In addition to the risk management framework, the Group has implemented the Internal Capital Adequacy Assessment Process ("ICAAP") framework to ensure that the Group maintains adequate capital levels consistent with the risk profiles including capital buffers to support the Group's current and projected demand for capital under existing and stressed conditions. In order to ensure on-going engagement and assessment of the Group's risk profile and capital adequacy, the ICAAP report is reviewed at least annually and is presented to senior management and relevant Board committees prior to approval by the respective entities Boards.

## Statement of Risk Management & Internal Control

Amongst the other committees set up in the Group to manage specific areas of risk are the Group Asset and Liability Committee, Group Credit Committee, Investment Bank Risk Management Committee, Islamic Risk Management Committee, Board Credit Committee and Group Digital & Technology Committee with their scope of responsibility as defined in their respective terms of references.

### Risk Appetite

Risk appetite for the Group is defined as the amount and the type of risks that the Group is willing to accept in pursuit of its strategic and business objectives. Risk tolerance on the other hand, is the acceptable level of variation relative to the achievement of the Group's strategic and business objectives. It is measured in the same units as the related objectives. It translates risk appetite into operational metrics, and it can be defined at any level of the Group.

The Board, through the relevant entities' Boards and Senior Management Committees as well as the Group Risk & Credit Management function, establishes the risk appetite and risk tolerance for the Group and relevant entities.

The defined risk appetite and risk tolerance are periodically reviewed by the Management and the Board in line with the Group's business strategies and operating environment. Such review includes identifying and setting new risk appetite metrics for the business entity or removal of risk appetite metrics that are no longer applicable as well as updates on the risk appetite thresholds to be in line with the Group's business strategy and risk posture.

The main business and operations inherent risks that were considered in the risk appetite review include regulatory compliance risk, credit risk, market and liquidity risk, operational and technology risk.

### Risk Management Processes

The risk management processes within the Group seek to identify, evaluate, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- **Identification:** The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure that the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- **Measurement:** Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.

- **Controlling and Monitoring:** Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
- **Analytics and Reporting:** Risk analysis and reports prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

### Risk Documentation and Infrastructure

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group.

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested in technology, including data management, to support the Group's risk management activities.

### Risk Culture

Risk management is integral to all aspects of the Group's activities and is the responsibility of all employees across the Group. In line with regulatory requirements and industry best practices, the Group subscribes to the principle that "*Risk and Compliance is Everyone's Responsibility*" and hence, risk management is a core responsibility of the respective businesses and operating units. This has been articulated and documented in the risk management framework of the Group.

Guided by the said principle, the Group has launched a Risk Culture Awareness programme which comprises training, awareness campaigns and roadshows within the Group (including overseas branches and subsidiaries) to promote a healthy risk culture. A strong risk culture minimises the Group's exposure to financial and non-financial risks including reputational impact, over time.

In addition, the Group has implemented the Business Risk & Compliance Officer ("BRCO") programme that aims to cultivate proactive risk and compliance management and to establish a robust risk culture. The BRCO programme entails the appointment of BRCO at the respective business and functional units to provide real time advisory on risk and compliance matters.

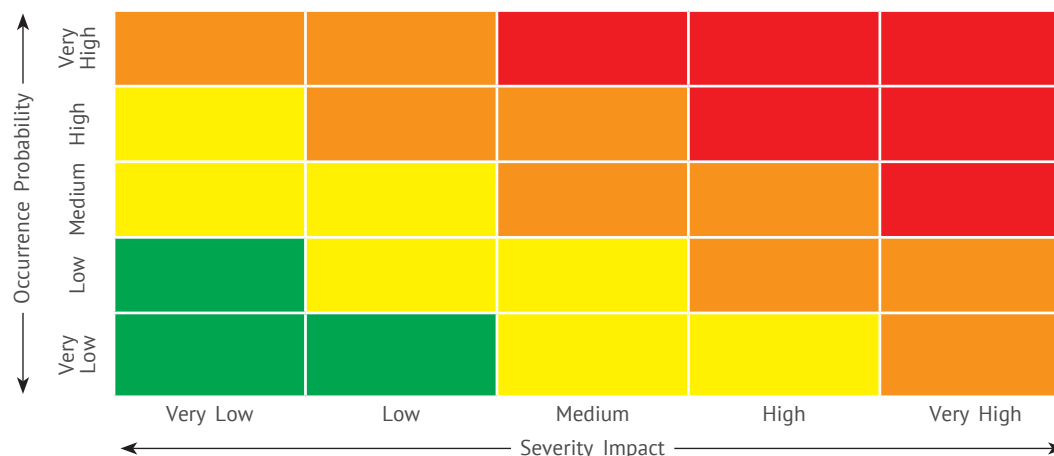
The implementation of the BRCO programme is in line with the ‘Three Lines of Defence’ model practised globally. There is clear accountability of risk ownership across the Group. The model is depicted in the diagram below:



**Risk Assessment**

The Group has an established and comprehensive process for risk identification at every stage of the risk taking activities, namely transactional, product and even at the respective entities and Group level. Risks are also identified through Operational Risk Loss Event reporting and Portfolio thematic analysis. As part of the Group’s periodic material risk assessment, the Group reviews the types and components of material risks, determines its quantum of materiality and refinement of processes taking into consideration the feedback received, including the independent reviews.

Material risk assessment is measured from the dimension of occurrence probability and severity impact. In addition, risk assessment also considers amongst others, the effectiveness of controls in place, and the impact to financial and non-financial indicators such as reputational risk. These are translated into a heat map matrix to derive the materiality of the risk as shown in the table below:



The use of the above matrix is a simple mechanism to increase visibility of risks and assist in decision making. The Group considers residual risks which fall within the Amber and Red zones are ‘Significant’ and ‘Material’, which may have severe impact to the Group’s financials and/or reputation. Significant efforts will be taken to manage and mitigate these risks events.

# Statement of Risk Management & Internal Control

## Risk and Control Self-Assessment

To further support and promote accountability and ownership of risk management, a Risk and Control Self-Assessment (“RCSA”) framework has been implemented in the business and functional units within the Group as part of the risk management process. These business and functional units are required to identify and document the controls and processes for managing the risks arising from their business activities and operations, as well as to assess the effectiveness thereof to ensure that the risks identified are adequately managed and mitigated. On completion of the RCSA exercise, all business and functional units within the Group are required to submit their respective results to Group Operational and Technology Risk Management for review prior to tabling the RCSA results to the GCRC for deliberation and further action where necessary.

## KEY INTERNAL CONTROL PROCESSES

The Group’s system of internal control is designed to manage and reduce risks that will hinder the Group from achieving its goals and objectives. It encompasses the policies, procedures, processes, organisational structures and other control aspects that are implemented for assuring the achievement of the Group’s objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and internal policies.

The key processes established by the Board that provide effective governance and oversight of internal control systems include:

### *Control Environment and Control Activities*

#### Organisation Structure

The Group has a formal organisational structure with clearly defined lines of accountability and responsibility, authority limits and reporting. The organisational structure provides the basic framework to help the Group’s operations proceed smoothly and functionally as well as depicting the span of control in ensuring effective supervision of day-to-day business conduct and accountability.

#### Policies and Procedures

Policies, procedures and processes governing the Group’s businesses and operations are documented and communicated group-wide as well as made available to employees through the Group’s intranet portal for ease of reference and compliance. These policies, procedures and processes are reviewed and updated by the business and functional units through a structured review and approval process to cater to changes in laws and regulations as well as changes to the business and operational environment.

#### Authority Limits

The Board has approved the Group Manual of Authority (“MOA”) which defines the approving authority with its approving limits delegated to the various levels of Management in the Group to ensure accountability and responsibility. The Group MOA is reviewed periodically and updated in line with changes in the organisation structure, business environment or operational needs.

#### Information Technology (IT) Security

The Group regards IT security as a very high priority to ensure the confidentiality, integrity and availability of the Group’s information assets and IT infrastructure.

IT security in the Group is achieved through the implementation of a risk based control approach which includes documented policies, standards, procedures and guidelines as well as organisational structures and, software and hardware controls.

With the increasing number of cyber threats globally as well as locally, the Group has established a Cyber Coordination and Command Centre to ensure that there is a structured process of prompt monitoring and timely response to cyber threats and incidents.

In order to strengthen and enhance the level of information security management, the Group has obtained certifications of ISO/IEC27001:2013 – Information Security Management System and ISO/IEC 20000:2011 – Information Technology Service Management, in addition to complying with various regulatory requirements on managing information technology risk holistically.

#### Budgeting Process

A robust budgeting process is established requiring all key operating entities to prepare budgets and business plans annually for approval by the respective Boards. The Group’s budget and business plans as well as strategic initiatives, taking into account the established risk appetite, are deliberated at the Board where the Group budget is presented.

#### Human Capital Management

One of the key constituents of any internal control system is its people and that our system of risk management and internal control is dependent on the responsibility, integrity and sound judgement that employees apply to their work. Hence, the Group has in place policies and procedures that govern recruitment, appointment, performance management and rewards as well as matters relating to discipline, termination and dismissal.

For sustainable growth, the Group places emphasis on human capital development, talent management and succession planning. To enhance employee competencies, structured and technical trainings as well as management and leadership workshops are provided to them based on their identified needs during the annual performance assessment. For talent management, initiatives such as Leadership Development Programme, Individual Development Plan and mentoring are implemented to develop identified talents in the Group to facilitate the continuous supply of high potentials and suitable successors for future leadership roles.

### **Group Code of Ethics and Conduct**

The Group Code of Ethics and Conduct (“the Code”) sets out the standards of good and ethical banking practices, as well as aims to maintain confidence in the security and integrity of the Group’s business practices. It is a requirement that all employees of the Group understand and observe the Code. New recruits are briefed on the Code and are required to sign the Employee Declaration of Compliance Form upon joining the Group.

The Group has also established the Gifts and Hospitality Guidelines to promote integrity and transparency for giving and receiving gifts. The Guidelines complement the Code and are designed to help the Group and its employees understand the respective parties’ obligations in upholding corporate integrity about gifting.

### **Group Anti-Money Laundering and Counter Financing of Terrorism Policy**

The Group Anti-Money Laundering and Counter Financing of Terrorism (“AML/CFT”) Policy is drawn up in accordance with the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and Bank Negara Malaysia’s standards on AML/CFT. It sets out the high level standards towards building a stronger and robust AML/CFT compliance regime within the Group, facilitates consistency in managing the AML/CFT compliance risk in the Company and sets out the Group’s policy statements in respect of the general principles and key measures to which the Group adheres to.

Pursuant to the Group AML/CFT Policy, the entities and/or employees within the Group are required to adopt Risk Based Approach (“RBA”) to customer acceptance and implement the AML/CFT Compliance Programme framework. This includes customer due diligence (“CDD”) requirements, monitoring of customer activities/transactions, reporting

of suspicious transactions, record keeping, AML/CFT training, protection of customer information, and enforcement actions for non-compliance to the requirements.

The Group AML/CFT Policy also outlines the roles and responsibilities as well as establishes clear accountability of the Board of Directors, Senior Management and all employees within the Group.

The Board has an oversight responsibility for establishing the AML/CFT policies/procedures and minimum standards while the Senior Management is accountable for the implementation and management of AML/CFT compliance programmes in accordance with the policies and procedures as approved by the Board.

### **Group Fraud Risk Management Policy**

The Group Fraud Risk Management Policy is designed to promote consistent organisational behaviour through the development, implementation, and regular review of fraud prevention, detection and response strategies. The Policy defines the core governing principles for fraud management within the Group which include leadership and ethical culture, fraud awareness and prevention, fraud control and detection, fraud reporting and escalation as well as fraud response with appropriate corrective actions.

### **Business Continuity Management**

The Group recognises and is fully committed to the need to provide uninterrupted critical services to its customers, ensure the safety of its employees, protect its assets/data and safeguard the interest of its key stakeholders that collectively ensure the viability of the organisation. Hence, the Group is aware of the importance of a sound Business Continuity Management (“BCM”) Framework and Programme to build organisational resilience and an effective response and recovery mechanism to safeguard the interest of key stakeholders, reputation and brand. The Group’s BCM Programme is based on good business continuity practices, Bank Negara Malaysia and other regulatory guidelines and international standards.

The Board has an oversight function on the Group’s BCM readiness through the BRC and GCRC. The Group Business Continuity Committee is the management committee established to oversee the Group’s business continuity framework, policies, budget and plans, and reports to GCRC.

## Statement of Risk Management & Internal Control

The Group implements a sound BCM Programme to ensure the critical business functions are recovered in a timely manner in the event of any disruption. Reviews, assessments, updates and testing of the BCM plans are conducted regularly to ensure adequacy, effectiveness and relevance of the business recoveries. Simulation exercises and drills are conducted to familiarise and equip staff with the skills and processes required to ensure that in the event of any disruption, critical business processes can continue or be recovered in a timely manner.

### *Information and Communication*

#### **Performance Review**

Regular and comprehensive information is provided by Management to monitor its performance against the strategic business plan and the annual budget approved by the Board. This information covers all key financial and operational indicators as well as key strategic initiatives undertaken by the Company during the year.

The Board and the Management Committee receive and review financial reports on the Company's monthly and quarterly financial performance against approved targets and the reasons for any significant variances as well as measures that are being put in place to meet such targets.

The heads of the core businesses and functions in the Company present their respective management reports to the Management Committee at its monthly meeting, covering areas such as financial performance, key activity results and new business proposal or process for information of and deliberation by the Management Committee.

#### **Group Whistleblowing Policy**

A Group Whistleblowing Policy ("GWBP") was established by the Group in 2007 and last updated in 2018. The GWBP provides proper mechanism and sets a minimum standard to be adhered by the Group in dealing with disclosure of questionable actions or wrongdoings by personnel within the Group. Details of the GWBP can be found under Practice 3.2 of the RHB Bank Berhad's Corporate Governance ("CG") Report, available at [www.rhbgroup.com](http://www.rhbgroup.com).

#### **Incident Management Reporting**

To complement the Group's system of internal control, a comprehensive incident management reporting system has been implemented to ensure proper escalation and management of incidents according to

the level of severity. The incident management reporting system also ensures that all incidences with material risk and losses are escalated promptly to Senior Management and the Board with necessary steps taken to mitigate any potential risks that may arise. This enables the decision makers to undertake informed decision making and be kept up to date on situations as well as manage risks effectively.

### *Monitoring*

#### **Board Committees**

The Board has in place, Board Committees that are set up to support the Board in its oversight function. The Board Committees include the BRC, BAC, Board Nominating & Remuneration Committee, Board Credit Committee and Islamic Risk Management Committee. These Board Committees have been delegated with specific duties to review and consider all matters within their scope of responsibility as defined in their respective terms of reference ("ToR"). Detailed responsibilities of these Board Committees can be found under RHB Bank Berhad's CG Report, Board Charter and their respective ToRs available at [www.rhbgroup.com](http://www.rhbgroup.com).

#### **Group Management Committee**

The Group Management Committee ("GMC") comprises the Group Managing Director as the Chairman, the Chief Executive Officers/Managing Directors of the relevant key operating subsidiaries and the key Senior Management of the Group. The GMC provides the leadership and direction in the implementation of strategies and policies approved by the Board and meets monthly to discuss and deliberate strategic matters that impact the Group's operations.

#### **Management Audit Committee**

Management Audit Committees ("MACs") are established at the key operating entities in the Group to ensure timely rectification of any audit findings and the underlying causes highlighted by the internal and external auditors, and regulators. The status of rectification of all audit findings and the mitigation actions taken by Management to adequately address the underlying causes are closely monitored by the MACs at every meeting.

The Company's MAC comprising senior level representatives from different business/functional groups is chaired by the Managing Director of the Company. The Company's MAC meets regularly and the minutes of meetings together with the relevant audit reports are subsequently tabled to the BAC for information, deliberation and direction for further action where required.

## Group Compliance

Compliance is the collective responsibility of the Board, Senior Management and every employee of the Group. The compliance function forms an integral part of the Group's risk management and internal control framework. In view that a strong compliance culture reflects a corporate culture of high integrity and ethics, everyone is expected to promote self-regulation and be accountable for their own activities while maintaining ethical principles and behaviour.

In addition to day-to-day monitoring, Group Compliance's commitment towards instilling a strong compliance culture across the Group is demonstrated through the establishment of a robust compliance monitoring framework which includes, amongst others, implementation of comprehensive compliance policies, periodic compliance risk assessment/reviews, regular engagement sessions with business and functional units and conduct of continuous training/awareness programmes across the Group to ensure that all employees are well informed of the latest regulatory requirements.

Further, the Boards and Senior Management are also apprised of the Group's state of compliance through the submission of the Group Compliance report on a periodic basis.

## INTERNAL AUDIT

Group Internal Audit ("GIA") reports functionally to the BAC and is independent of the operations and activities it audits. The main responsibility of GIA is to provide an independent appraisal on the adequacy and effectiveness of the Group's risk management, internal control and governance processes implemented by the Management.

The internal audit universe covers all key activities of the Group, including that of its branches, business centres, overseas operations, representative offices, subsidiaries as well as outsourced activities. GIA adopts a risk-based approach in determining the auditable units and frequency of audits in line with the Group's key risks, strategies and areas of focus, which are identified based on GIA's risk assessment methodology.

The areas to be audited are documented in the internal audit plan which is developed based on a risk-based approach and is approved by the BAC annually. Audit reports which include detailed audit findings, GIA's comments and recommendations, and Management's response are tabled to MAC and BAC on a monthly basis.

The established MAC is tasked to ensure that issues raised by GIA, external auditor and regulators are addressed within an appropriate and agreed timeline. Confirmation to this effect must be provided by Management to GIA for verification before the issues concerned can be closed at the MAC.

The Group Chief Internal Auditor reports functionally to the BAC and administratively to the Group Managing Director to ensure GIA's independence from Management.

Further information on the GIA function is provided in the Board Audit Committee Report of this Annual Report.

## CONCLUSION

The Board, through the BAC and BRC, confirms that it has reviewed the adequacy and effectiveness of the Company's risk management and internal control system.

Based on the monthly updates from its Board Committees and the assurance received from the Management, the Board is of the view that the Company's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this Statement.



# Board Audit Committee Report

The Board Audit Committee (“BAC”) undertakes the functions of the Audit Committee of the major operating entities within RHB Banking Group encompassing RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad.

## COMPOSITION AND ATTENDANCE OF MEETINGS

For the financial year ended 31 December 2018, a total of twelve (12) BAC meetings were held. The BAC comprises the following members who are all independent directors and the details of attendance of each member at the BAC meetings held during the year are as follows:

Composition of BAC	Attendance at Meetings
Tan Sri Dr Rebecca Fatima Sta Maria (Chairperson/Senior Independent Non-Executive Director)*	 12/12 (100%)
Tan Sri Saw Choo Boon (Member/Independent Non-Executive Director)#	 11/12 (92%)
Ms Ong Ai Lin (Member/Independent Non-Executive Director)	 12/12 (100%)

### Notes:

\* Redesignated as Senior Independent Non-Executive Director on 1 October 2018

# Redesignated as Independent Non-Executive Director on 1 October 2018

The BAC meetings were also attended by the Managing Director/Chief Financial Officer of RHB Insurance Berhad (“Company”) and the Group Chief Internal Auditor (“Group CIA”) during the deliberation of the Company’s matters while the attendance of other Senior Management is by invitation, if required.

Key matters deliberated at the BAC meetings together with the BAC’s recommendations and decisions are summarised and presented to the relevant Boards of Directors (“Boards”), in the same month, by the Chairperson or representative of the BAC. This allows the Boards to be timely apprised of significant matters deliberated by the BAC and for the Boards to provide direction, if necessary. Extracts of the minutes of the BAC meetings held were provided to the respective Boards for their information.

## AUTHORITY

The BAC is authorised by the Board to, among others, review and investigate any matters within its terms of reference; have direct communication channels with the external and internal auditors as well as regulators; obtain independent professional advice, if necessary, at the Company’s expense; and access to Management and resources to enable effective discharge of its functions. The full terms of reference, including the authority, duties and responsibilities of the BAC are available at [www.rhbgroup.com](http://www.rhbgroup.com).

## SUMMARY OF BAC ACTIVITIES IN 2018

The work carried out by the BAC in the discharge of its duties and responsibilities during the financial year are summarised as follows:

### 1. Financial Reporting

- a) Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Insurance Berhad before recommending them for the Board's approval. The review process encompassed the following:
  - Reviewed changes in accounting policy and adoption of new or updated accounting standards, and its impact to the financial statements.
  - Reviewed the financial statements and sought explanations from the Senior Management including the Company's Chief Financial Officer on any significant changes between the current and corresponding quarter/period to assess their reasonableness.
- b) Discussed with the external auditors on the matters identified during the statutory audit for the financial year ended 31 December 2018 as highlighted in their Audit Committee Report.

### 2. Internal Audit

- a) Reviewed and approved the Group Internal Audit ("GIA")'s annual audit plan for the financial year 2019 on 10 December 2018 to ensure adequacy of scope, coverage and resources for the identified auditable areas.
- b) Reviewed and approved GIA's risk assessment methodology for Audit Plan 2019 which was enhanced to incorporate the dimensions of likelihood and impact as well as the control effectiveness in assessing the risk levels of the Group's various business and functional units.
- c) Reviewed the staffing requirements of GIA including the skillsets and core competencies of the internal auditors to ensure effective discharge of GIA's duties and responsibilities.
- d) Reviewed the GIA's audit activities undertaken for the financial year covering the planned audit assignments, ad-hoc audit projects, review of policies, processes and procedures, and IT project participation.

- e) Appraised the performance of the Group CIA and approved the performance rewards for the Group CIA in accordance with the distribution matrix approved by the Board.
- f) Reviewed and deliberated on the minutes of all Management Audit Committee ("MAC") meetings, internal audit reports, audit recommendations and Management's responses to these recommendations as well as the timely mitigation actions taken by Management to improve the system of internal controls and its processes on the areas highlighted.
- g) Reviewed and deliberated on the investigation reports tabled to the BAC and provided directions, where necessary, to address and improve the internal control weaknesses highlighted.
- h) Reviewed the inspection and examination reports issued by the regulatory authorities and the Management's response as well as the remedial actions taken by Management in respect of the reported findings to ensure that all matters highlighted in these reports had been adequately and promptly addressed by Management.

### 3. External Audit

- a) Reviewed the 2018 audit plan of the external auditors for RHB Banking Group at the BAC meeting held on 23 July 2018 covering the audit strategy, risk assessment, areas of audit emphasis for the year.
- b) Reviewed with the external auditors, the results of their audit together with their recommendations and Management's response to their findings as detailed in the following reports, and provided BAC's views and directions on the areas of concern where necessary:

Report issued by External Auditors in 2018	Date tabled to BAC
Final Audit Committee Report for the financial year 2017	22 January 2018
Internal Control Report for the financial year 2017	20 April 2018

## Board Audit Committee Report

The BAC further directed the respective MACs to track the audit findings highlighted by the external auditors in their Internal Control Report to ensure timely resolution of all matters by Management.

- c) Met with the external auditors on 22 January 2018 without the presence of Management and Executive Directors to enable the external auditors to discuss on matters with the BAC privately. The 2nd private session with the external auditors scheduled in December 2018 was held on 22 January 2019 as there were no urgent matters to highlight by the external auditors to the BAC.
- d) Reviewed the appointment of the external auditors for the provision of non-audit services before recommending them for the Board's approval. Areas that are considered include the external auditors' expertise, adequacy of knowledge and experience required for the services rendered, competitiveness of fees quoted and whether its independence and objectivity would be impaired.

Reviewed on a quarterly basis, the non-audit services rendered by the external auditors and the related fees taking into consideration the fee threshold established under the Group policy to ensure that the external auditors' independence and objectivity were not compromised.

- e) Reviewed the external auditors' performance and independence before recommending them to the Board for reappointment as external auditors for the Group:
  - The external auditors have declared in their 2018 audit plan, which was tabled to the BAC in July 2018, that they have maintained their independence for the audit of the financial statements of the Group in accordance with the firm's requirements and with the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants. They have further declared that the non-audit services provided to the Group during the year have not compromised their independence as external auditors of the Group.

- The annual assessment on the external auditors covering the key areas of performance, independence and objectivity in accordance with the BNM Guidelines on External Auditor.
- The performance of the external auditors was also assessed through a survey completed by the Management personnel of the Group based on their dealings with the external auditors covering areas such as the quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness and staff continuity.
- A comprehensive review was also conducted in December 2018 prior to the reappointment of the external auditors to assess its independence and the potential risk of familiarity threat at all the entities within the Group. The comprehensive review covered three main categories, i.e. governance and independence, communication and interaction, and quality of services and resources.

The comprehensive review was conducted by Group Finance and independently verified by GIA prior to tabling to the BAC for deliberation.

#### 4. Related Party Transactions and Conflict of Interest

- a) Reviewed the reports of related party transactions ("RPTs") on a quarterly basis covering the nature and amount of the transactions including any possible conflict of interest ("COI") situations in ensuring that the terms and conditions of the transactions are commercially based and at arm's length.
- b) The review covered the aggregate consideration of Recurrent RPTs ("RRPTs") which are individually tracked and monitored against the ceiling set to ensure proper reporting and disclosures in accordance with the regulatory requirements.
- c) The Group has in place an approved policy on RPTs which governs the process of identifying, evaluating, approving, reporting and monitoring of RPTs, RRPTs and potential COI situations as well as outlining the duties and responsibilities of the relevant parties involved in the RPT process.

## TRAINING

During the year, the BAC members have attended various training programmes, conferences and seminars to keep abreast of latest developments within the banking industry as well as to enhance their knowledge for the discharge of their duties and responsibilities.

The detailed information of mandatory and professional development programmes attended by BAC members are disclosed in Section B of the Corporate Governance Report available at [www.rhbgroup.com](http://www.rhbgroup.com).

## INTERNAL AUDIT FUNCTION

RHB Banking Group has an in-house internal audit function, which is guided by its Internal Audit Charter approved by the Board, Bank Negara Malaysia (“BNM”) Guidelines on Internal Audit Function of Licensed Institutions (BNM/RH/GL 013-4) and the Institute of Internal Auditors’ latest International Professional Practices Framework. GIA’s main responsibility is to provide an independent assessment on the adequacy and effectiveness of the Group’s risk management, internal control and governance processes implemented by the Management.

The Group CIA reports functionally to the BAC and administratively to the Group Managing Director. To further preserve the independence of the GIA function, the Group CIA’s appointment and performance appraisal, as well as the GIA’s scope of work and resources, are approved by the BAC.

### Internal Audit Charter

The Internal Audit Charter (“Audit Charter”) defines the purpose, authority and responsibility of the internal audit function and is approved by the Board. The approved Audit Charter is published in the Group’s intranet portal, which can be viewed by all employees of the Group.

The Audit Charter is reviewed by the Group CIA every two years or as and when necessary to assess whether the GIA’s purpose, authority and responsibility, as defined in the Audit Charter, continue to be adequate and relevant to enable the audit function to accomplish its objectives.

## Summary of GIA’s Activities

The main activities undertaken by GIA during the financial year are summarised as follows:

- a) Prepared the annual risk-based audit plan for RHB Banking Group which includes the audit objectives and scope, and manpower requirements for each planned auditable unit.
- b) Conducted audits as per the approved audit plan as well as ad hoc reviews and investigations requested by Management or regulators during the year.
- c) Audited key areas of the Company during the financial year which included the Head Office functions of Underwriting, Claims, Reinsurance, Central Processing, Credit Control, Broking Business, Agency Business, Bancassurance Business, Security & Control of Application Systems and Branches.

Other key areas of RHB Banking Group audited by GIA during the financial year encompassed the Bank Branches, Credit Underwriting, Business Centres, Treasury Operations, IT Security, Head Office functions, Shariah Business, Investment Banking Business, Asset Management, Offshore Banking Business and Overseas Operations.

- d) Conducted audits as per regulatory requirements such as compliance with BNM’s Guidelines on Disclosure of Customer Documents or Information, Outsourcing, Product Transparency & Disclosure and Risk Based Capital Framework for Actuarial Valuations.

Other audits performed by GIA as per regulatory requirements for RHB Banking Group comprised of compliance with BNM’s Guidelines on Statistical Reporting, Anti-Money Laundering and Counter Financing of Terrorism, Disclosure of Customer Documents or Information, Single Counterparty Exposure Limit, Outsourcing, Product Transparency & Disclosure and PayNet’s applicable rules, procedures and manual for payment and debt securities systems.

- e) Carried out ad-hoc compliance and validation reviews as requested by regulators.
- f) Monitored and followed up through the respective MACs on the timely rectification of any reported audit findings and the underlying causes highlighted by the internal and external auditors, and regulators. The status of any outstanding audit findings is summarised and reported to the BAC on a monthly basis.

## Board Audit Committee Report

- g) Reviewed new or updated policies, procedures and processes as requested by Management to provide feedback on the adequacy of internal controls to address the relevant risks.
- h) Participated in system or product development activities to provide recommendations upfront on the relevant control features to be considered by Management.
- i) Assisted the BAC in the annual exercise on the reappointment of external auditors by assessing its independence and potential risk of familiarity threat at all the banking entities within the Group.
- j) Attended Management meetings as permanent invitee on a consultative and advisory capacity to provide independent feedback where necessary on internal control related matters.
- k) Organised MACs meetings, preparing meeting materials as well as preparing minutes of meetings for submission to BAC.
- l) Prepared the BAC Report and the Statement on Risk Management and Internal Control for inclusion in the Annual Report 2018 of RHB Bank and the major operating entities in the Group (inclusive of RHB Insurance Berhad).

### Internal Audit Resources

The Group CIA, in consultation with the BAC and the Group Managing Director, decides on the appropriate resources required for the GIA taking into consideration the size and complexity of operations of the Group. The primary organisation chart/structure of GIA is reviewed and approved by the BAC annually.

As at 31 December 2018, GIA has 153 internal auditors with relevant academic/professional qualifications and experience to carry out the activities of the internal audit function.

### Professional Proficiency

The Group CIA ensures that the internal auditors are suitably qualified and provided with the necessary trainings and continuous professional development for the purpose of enhancing their audit and relevant technical skills to perform their duties and responsibilities.

The internal auditors are further guided by the GIA Learning Development Framework to pursue the relevant certification programmes such as those offered by the Institute of Internal Auditors and Asian Institute of Chartered Banker in order for them to be proficient and competent in the relevant disciplines.

Based on each staff's Individual Development Plan for the year 2018, the internal auditors attended the relevant technical as well as leadership and management programmes offered by RHB Academy, the Group's Learning and Development Centre, and external programmes. For the year 2018, the internal auditors attended a total of 1,548 days of training, which translates to approximately 10 days per auditor.

### Internal Audit Quality Assurance Review

To ensure effectiveness of the internal audit function, the Group CIA has developed and maintained a quality assurance and improvement programme that covers all aspects of the internal audit activities. The quality assurance programme assesses the effectiveness of processes within the internal audit function and identifies opportunities for improvement through both internal and external assessments.

The internal assessment is performed according to the approved annual Quality Assurance Review ("QAR") plan by a QAR team within GIA. The Head of QAR function reports directly to the Group CIA to maintain its independence of the internal audit activities within GIA.

In addition to the internal assessment, external quality assessment is conducted every three years by qualified professionals. The appointment of independent reviewer is subject to the Group's established procurement process and endorsed by the BAC.

The external quality assessment covered a broad scope that includes conformance with the Definition of Internal Auditing, the Standards and the Code of Ethics, and the internal audit charter, audit plan, policies and procedures in line with the requirements of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors ("IIA"), BNM guidelines and industry best practices. The results of review by the independent reviewer are documented in a report which is tabled to the BAC.

# STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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# Directors' Report

The Directors hereby submit their report and the audited financial statements of the Company for the financial year ended 31 December 2018.

## 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

	<b>RM'000</b>
Profit for the financial year	68,228
Retained earnings brought forward	405,432
Profits available for appropriation	473,660
Dividend paid during the financial year	–
Retained earnings carried forward	473,660

## DIVIDENDS

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

	<b>RM'000</b>
In respect of the financial year ended 31 December 2018 – Single-tier interim dividend of 50%	50,000

The Directors declared a single-tier interim dividend of 50% amounting to RM50,000,000 in respect of the financial year ended 31 December 2018. The interim dividend was approved by the Board of Directors on 22 January 2019.

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 2019.

The Directors do not propose any final dividends for the financial year ended 31 December 2018.

## 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.

# Directors' Report

## 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.

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.



# Directors' Report

## 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

Abdul Aziz Peru Mohamed

Wong Pek Yee

(Appointed on 1 November 2018)

Kong Shu Yin

Datuk Haji Faisal Siraj

(Resigned on 31 December 2018)

In accordance with Article 74 of the Company's Constitution, Encik Abdul Aziz Peru Mohamed shall retire at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

In accordance with Article 80 of the Company's Constitution, Ms Wong Pek Yee shall retire at the forthcoming Annual General Meeting and being eligible, offers herself for re-election.

## 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 31.12.2018
	As at 1.1.2018	Bought	Sold	
<b>Holding company</b>				
RHB Bank Berhad				
Tan Sri Saw Choo Boon	–	30,000	10,000	<b>20,000</b>
– 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' Report

## 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 24 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 (2017: RM200 million). The total amount of premium paid for the Directors' and Officers' Liability Insurance by the Group was RM816,000 (2017: 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.

## 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 23 to the financial statements.

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

## AUDITORS

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

This report was approved by the Board of Directors on 26 February 2019. Signed on behalf of the Board of Directors:

**TAN SRI SAW CHOO BOON**  
CHAIRMAN

**KONG SHU YIN**  
MANAGING DIRECTOR

Kuala Lumpur  
27 February 2019

# Statement of Financial Position

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
<b>ASSETS</b>			
Property, plant and equipment	5	22,222	17,615
Intangible assets – computer software	6	15,672	15,396
Investments	7	986,931	992,686
– Held-to-maturity		–	15,393
– Fair value through profit or loss		892,244	125,103
– Available-for-sale		–	766,676
– Loans and receivables		94,687	85,514
Reinsurance assets	9	511,236	482,760
Insurance receivables	10	87,865	109,816
Other receivables	11	109,704	90,351
Tax recoverable		13,390	6,779
Cash and cash equivalents	12	30,635	2,434
<b>TOTAL ASSETS</b>		<b>1,777,655</b>	<b>1,717,837</b>
<b>LIABILITIES</b>			
Insurance contract liabilities	13	1,094,114	998,310
Insurance payables	14	44,306	46,294
Other payables	15	65,378	156,618
Deferred tax liabilities	16	197	2,567
<b>TOTAL LIABILITIES</b>		<b>1,203,995</b>	<b>1,203,789</b>
<b>SHAREHOLDERS' FUND</b>			
Share capital	17	100,000	100,000
Retained earnings	18	473,660	413,318
Available-for-sale reserve		–	730
		<b>573,660</b>	<b>514,048</b>
<b>Total liabilities and shareholders' fund</b>		<b>1,777,655</b>	<b>1,717,837</b>

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

# Income Statement

for the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Gross earned premiums	19	750,587	668,491
Premiums ceded to reinsurers	19	(243,897)	(217,010)
Net earned premiums	19	506,690	451,481
Investment income	20	41,900	39,335
Realised (losses)/gains	21	(2,772)	7,426
Fair value (losses)/gains	22	(5,055)	7,815
Reinsurance commission income		46,968	45,195
Other operating income		3,358	2,723
Other income		84,399	102,494
Gross claims paid	13(a)	(399,004)	(319,365)
Claims ceded to reinsurers	13(a)	122,269	108,472
Gross change to claims liabilities	13(a)	(59,744)	(102,995)
Change in claims liabilities ceded to reinsurers	13(a)	34,196	89,870
Net claims		(302,283)	(224,018)
Commission expense		(97,685)	(85,538)
Management expenses	23	(111,065)	(111,471)
Other expenses		(208,750)	(197,009)
Profit before taxation		80,056	132,948
Taxation	25	(11,828)	(19,685)
Profit for the financial year		68,228	113,263
Basic earnings per share (sen)	26	68.23	113.26

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

# Statement of Comprehensive Income

for the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Profit for the financial year		68,228	113,263
Other comprehensive income/(loss):			
<u>Items that may be subsequently reclassified to the income statements</u>			
Available-for-sale reserve			
– Net gain arising during the financial year	7(e)	–	2,945
– Income tax relating to components of other comprehensive income		–	(707)
		–	2,238
<b>Total comprehensive income for the financial year</b>		<b>68,228</b>	<b>115,501</b>

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

# Statement of Changes in Equity

for the financial year ended 31 December 2018

	Issued and fully paid ← ordinary shares →		Distributable Retained earnings RM'000	Non-distributable Available-for-sale reserve RM'000	Total RM'000
	No. of share '000 units	Nominal value RM'000			
<b>2018</b>					
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	100,000	100,000	473,660	-	573,660
<b>2017</b>					
At 1 January 2017	100,000	100,000	400,055	(1,508)	498,547
Total comprehensive income for the financial year	-	-	113,263	2,238	115,501
Dividends paid during the financial year (Note 27)	-	-	(100,000)	-	(100,000)
At 31 December 2017	100,000	100,000	413,318	730	514,048

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

# Statement of Cash Flow

for the financial year ended 31 December 2018

	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the financial year	68,228	113,263
Adjustment for:		
Realised losses/(gains)	2,772	(7,426)
Fair value gains/(losses)	5,055	(7,815)
(Reversal of impairment)/impairment loss on insurance receivables	(5,673)	1,210
Bad debts written off	94	159
Amortisation/(accretion) adjustment	1	(1)
Depreciation of property, plant and equipment	2,603	2,480
Amortisation of intangible assets – computer software	3,096	2,247
Investment income	(41,900)	(39,335)
Unrealised gains on foreign exchange	(594)	(82)
Taxation expense	11,828	19,685
Operating profit before changes in operating assets and liabilities	45,510	84,385
Purchase of fair value through profit or loss investments	(199,038)	(121,293)
Proceeds from sale of fair value through profit or loss investments	206,726	101,697
Increase in loans and receivables	(9,173)	(41,562)
Purchase of available-for-sale investments	–	(64,399)
Interest received	4,575	3,569
Dividend received	37,400	35,582
Decrease/(increase) in insurance receivables	15,641	(9,126)
(Increase)/decrease in other receivables	(19,425)	73
Increase in insurance contract liabilities	95,804	125,401
Increase in reinsurance assets	(28,475)	(103,760)
(Decrease)/increase in insurance payables	(1,988)	16,633
(Decrease)/increase in other payables	(91,239)	105,789
Cash generated from operations	56,318	132,989
Income taxes paid	(18,086)	(27,356)
Net cash generated from operating activities	38,232	105,633

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

## Statement of Cash Flow

for the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(7,209)	(14,895)
Purchase of intangible assets - computer software		(3,372)	(1,921)
Proceeds from sale of property, plant and equipment		56	-
Net cash used in investing activities		(10,525)	(16,816)
<b>CASH FLOW FROM FINANCING ACTIVITY</b>			
Dividends paid		-	(100,000)
Net cash used in financing activity		-	(100,000)
Effect on exchange rate changes on cash and cash equivalents		494	(288)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>28,201</b>	<b>(11,471)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		<b>2,434</b>	<b>13,905</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	12	<b>30,635</b>	<b>2,434</b>

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



# Notes to the Financial Statements

– 31 December 2018

## 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 2018 are as follows:

(i) Amendments to MFRS 4 'Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts'

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 'Financial Instruments' before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for entities:

- a temporary exemption from MFRS 9 for entities that meet specific requirements; and
- the overlay approach.

Both approaches are optional.

The Company has adopted MFRS 9 in line with the Group's accounting policies effective 1 January 2018.

# Notes to the Financial Statements

– 31 December 2018

## 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 2018 are as follows (continued):

- (ii) MFRS 9 'Financial Instruments'

This complete version of MFRS 9 replaces the entire MFRS 139. It amends the requirements on classification and measurement of financial assets and includes an expected credit losses model that replaces the incurred loss impairment model used under MFRS 139. It also includes the new hedging guidance that was issued in February 2014.

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

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

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

The Company has applied MFRS 9 retrospectively with date of initial application of 1 January 2018.

As permitted by the transitional provisions of MFRS 9, the Company elected not to restate comparative figures and continued to be reported under the previous accounting policies governed under MFRS 139. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current financial year.

The details and the financial effects of the adoption of MFRS 9 are disclosed in Note 34.

# Notes to the Financial Statements

– 31 December 2018

## 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 2018 are as follows (continued):

- (iii) MFRS 15 'Revenue from Contracts with Customers'

MFRS 15 replaces the guidance in MFRS 111 'Construction Contracts', MFRS 118 'Revenue', IC Interpretation 13 'Customer Loyalty Programmes', IC Interpretation 15 'Agreements for Construction of Real Estate', IC Interpretation 18 'Transfers of Assets from Customers' and IC Interpretation 131 'Revenue – Barter Transactions Involving Advertising Services'. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risk and rewards.

The adoption of these amendments does not have any material impact on the current period or any prior period financial statements of the Company as the Company's main source of revenue stream is arising from insurance contracts and investment related revenues that are scoped out of the Standard.

MFRS 15 permits either a full retrospective or a modified approach for the adoption. The Company have adopted the modified approach under MFRS 15.

Under the modified retrospective transition method, the Company apply the new policy retrospectively only to contracts that are not completed contracts at the date of initial application. Accordingly, the 2017 comparative information was not restated as the financial impact is not material to the Company and cumulative effects of initial application of MFRS 15 were not recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118.

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

- (i) Annual Improvements to MFRS 2015-2017 Cycle - effective 1 January 2019

- Amendments to MFRS 112 'Income Taxes' 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.

- (ii) Amendments to MFRS 9 'Prepayment Features with Negative Compensation' - effective 1 January 2019

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 amendments will be applied retrospectively.

# Notes to the Financial Statements

– 31 December 2018

## 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)

- (iii) MFRS 16 'Leases' – effective 1 January 2019

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.

- (iv) IC Interpretation 23 'Uncertainty over Income Tax Treatments' - effective 1 January 2019

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.

IC Interpretation 23 will be applied retrospectively.

- (v) 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.

# Notes to the Financial Statements

– 31 December 2018

## 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)

(v) MFRS 17 'Insurance Contracts' – effective 1 January 2021 (continued)

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 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 and measurement of financial assets

With effect from 1 January 2018, the Company have applied MFRS 9 and classify its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ("FVOCI")
- Fair value through profit or loss ("FVTPL")

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 the income statements.

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

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Financial Assets (continued)

#### (i) Classification and measurement of financial assets (continued)

The classification requirements for debt and equity instruments are described as below:

##### (1) 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.

Classification and subsequent measurement of debt instruments depend on the following factors:

- The Company's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Company classify their debt instruments into one of the following three measurement categories:

##### (a) Financial assets at amortised cost

Financial assets where the contractual cash flows represent solely payments of principal and interest, and that are not designated as FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into income statements. The interest income is recognised into income statements using the effective interest rate method. Upon derecognition, any gain or loss will be recognised in income statements and presented under 'other operating income'.

##### (b) Financial assets at FVOCI

Financial assets that are held for collection for contractual cash flow where those cash flows represent SPPI and held in a business model whose objective is achieved by both collecting the contractual cash flows and selling the financial assets, and that are not designated as FVTPL, are measured at FVOCI. Changes in the fair value of these assets are recognised in other comprehensive income, except for recognition of interest, dividend, foreign exchange gains or losses and expected credit losses which are recognised in income statements.

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 into income statements using the effective interest rate method. Dividend and foreign exchange gains or losses are recognised in 'other operating income' and impairment credit losses are presented separately under 'allowance for credit losses'.

##### (c) 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 into income statements using the effective interest rate method.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Financial Assets (continued)

#### (i) Classification and measurement of financial assets (continued)

##### (2) 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.

The Company subsequently measure all equity instruments at FVTPL, except where the management has elected, at initial recognition, to irrevocably designate an equity instrument at 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 income statements as other 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 the income statements.

#### (ii) 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.

#### (iii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade date on which the Company committed to purchase or sell the assets at trade-date.

#### (iv) Impairment

MFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ("ECL"), replacing the incurred loss methodology model under MFRS 139, 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.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Financial Assets (continued)

(v) Accounting policies prior to 1 January 2018

#### (1) Classification

The Company classifies its investments into financial assets at fair value through profit or loss, held-to-maturity, loans and receivables or available-for-sale. The classification of the financial assets is determined at initial recognition.

#### (a) Fair value through profit or loss

The Company classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

#### (b) Held-to-maturity

Held-to-maturity financial assets are non-derivative quoted financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

#### (c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

#### (d) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### (2) Derecognition

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

Receivables that are factored out to banks and other financial institutions with recourse to the Company are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred.

The corresponding cash received from the financial institutions is recorded as borrowings.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to income statement.



# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Financial Assets (continued)

#### (v) Accounting policies prior to 1 January 2018 (continued)

##### (3) Impairment of financial assets

The Company assesses at each date of statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

##### (a) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on held-to-maturity financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

##### (b) Financial assets carried at cost

If there is objective evidence that an impairment loss on securities carried at cost (e.g. equity instruments or which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

##### (c) Financial assets carried at fair value

In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the assets are impaired. If any such evidence exists for financial asset held at available-for-sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment losses previously recognised in the income statement on equity instruments are not reversed through the income statement.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Financial Assets (continued)

(v) Accounting policies prior to 1 January 2018 (continued)

(3) Impairment of financial assets (continued)

(d) Insurance receivables

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

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

If, in subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, to the extent that the insurance receivables' carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

### (b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets 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. All other repairs and maintenance costs are charged to during the financial period in which they are incurred.

Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

Property, plant and equipment are depreciated on the straight line method to write off the cost of the property, plant and equipment to their residual values over their estimated useful lives as follows:

Leasehold land	range from 80 to 95 years
Buildings	50 years
Motor vehicles	5 years
Furniture, fixtures and fittings, office equipment	3 – 5 years

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Property, plant and equipment (continued)

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.

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

At the end of the reporting period, the Company assesses whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down to the recoverable amount is made if the carrying amount exceeds the recoverable amount. See Note 3(e) to the financial statements on the impairment of non-financial assets.

### (c) Intangible assets – computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- (i) it is technically feasible to complete the software product so that it will be available for use;
- (ii) management intends to complete the software product and use or sell it;
- (iii) there is an ability to use or sell the software product;
- (iv) it can be demonstrated how the software product will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (vi) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised from the point at which the asset is ready for use over their estimated useful lives, which does not exceed 5 years.

### (d) 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.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Investment income (continued)

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.

### (e) Impairment of non-financial assets

The carrying values of assets that are subject to amortisation are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the fair value less cost to sell and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss is charged to the income statement immediately.

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

### (f) 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.

### (g) 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.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) General insurance underwriting results (continued)

#### 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.

#### 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.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) General insurance underwriting results (continued)

#### 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.

#### 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.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) 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.

### (h) 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 the income statement.

# Notes to the Financial Statements

– 31 December 2018

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) 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.

### (j) 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 the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further legal or constructive obligations.

### (k) 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 the income statement 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.



# Notes to the Financial Statements

– 31 December 2018

## 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 values of quoted shares, warrants, loan stocks and Real Estate Investment Trusts (“REITs”) are based on the quoted market price.
- (iv) The fair values of loans are based on the discounted cash flows by using the interest rates at valuation date for similar loans.
- (v) The fair value of wholesale unit trust fund is based on the fair value of the underlying assets in the fund.
- (vi) 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.

# Notes to the Financial Statements

– 31 December 2018

## 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.

## Notes to the Financial Statements

– 31 December 2018

## 5 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Furniture, fixtures and fittings, office equipment RM'000	Assets work in progress RM'000	Total RM'000
<b>2018</b>						
<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	560	278	302	6,010	15,072	22,222
<b>2017</b>						
<u>Net book value</u>						
At beginning of financial year	576	293	299	3,120	11,898	16,186
Additions at cost	–	–	–	1,725	13,170	14,895
Reclassification from/(to) assets work in progress (Note 6)	–	–	–	4,514	(15,500)	(10,986)
Depreciation charge	(8)	(7)	(178)	(2,287)	–	(2,480)
At end of financial year	568	286	121	7,072	9,568	17,615
<b>2018</b>						
Cost	729	422	995	29,471	15,072	46,689
Accumulated depreciation	(169)	(144)	(693)	(23,461)	–	(24,467)
Net book value	560	278	302	6,010	15,072	22,222
<b>2017</b>						
Cost	730	423	998	28,081	9,568	39,800
Accumulated depreciation	(162)	(137)	(877)	(21,009)	–	(22,185)
Net book value	568	286	121	7,072	9,568	17,615

# Notes to the Financial Statements

– 31 December 2018

## 6 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2018 RM'000	2017 RM'000
<b>Cost</b>		
At beginning of financial year	22,707	9,800
Additions	3,372	1,921
Reclassification from property, plant and equipment (Note 5)	–	10,986
At end of financial year	26,079	22,707
<b>Accumulated amortisation</b>		
At beginning of financial year	7,311	5,064
Amortisation for the financial year	3,096	2,247
At end of financial year	10,407	7,311
<b>Net book value</b>		
At end of financial year	15,672	15,396

## 7 INVESTMENTS

	2018 RM'000	2017 RM'000
Debt securities	15,646	15,393
Equities securities	91,386	108,114
Wholesale unit trust funds	778,210	766,676
Property trust funds	7,002	16,989
Staff loans	18	20
Fixed and call deposits	94,669	85,494
	986,931	992,686

# Notes to the Financial Statements

– 31 December 2018

## 7 INVESTMENTS (CONTINUED)

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

	2018 RM'000	2017 RM'000
Held-to-maturity	–	15,393
Fair value through profit or loss	892,244	125,103
Available-for-sale	–	766,676
Loans and receivables	94,687	85,514
	<b>986,931</b>	992,686

The following investments mature after 12 months:

	2018 RM'000	2017 RM'000
Held-to-maturity	–	15,393

(a) Held-to-maturity (“HTM”)

	2018 RM'000	2017 RM'000
<u>At amortised cost</u>		
Unquoted in Malaysia:		
– Debt securities	–	15,393

(b) Fair value through profit or loss (“FVTPL”)

	2018 RM'000	2017 RM'000
<u>At fair value</u>		
Quoted in Malaysia:		
– Equities securities	91,386	108,114
– Property trust funds	7,002	16,989
Unquoted in Malaysia:		
– Debts securities	15,646	–
– Wholesale unit trust funds (Note 8)	778,210	–
	<b>892,244</b>	125,103

# Notes to the Financial Statements

– 31 December 2018

## 7 INVESTMENTS (CONTINUED)

### (c) Available-for-sale (“AFS”)

	2018 RM'000	2017 RM'000
<u>At fair value</u>		
Unquoted in Malaysia:		
– Wholesale unit trust funds (Note 8)	–	766,676

### (d) Loans and receivables (“LAR”)

	2018 RM'000	2017 RM'000
<u>At amortised cost</u>		
– Loans	18	20
– Fixed and call deposits	94,669	85,494
	<b>94,687</b>	<b>85,514</b>

### (e) Carrying value of financial instruments

	Fair value through profit or loss RM'000	Held-to- maturity RM'000	Loans and receivables RM'000	Available- for-sale RM'000	Total RM'000
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)	–	–	–	(209,554)
Fair value gains recorded in income statement	(5,055)	–	–	–	(5,055)
Amortisation charge	(4)	–	–	–	(4)
At 31 December 2018	<b>892,244</b>	<b>–</b>	<b>94,687</b>	<b>–</b>	<b>986,931</b>
At 1 January 2017	90,266	15,392	43,952	699,332	848,942
Purchases	121,293	–	41,562	64,399	227,254
Disposals	(94,271)	–	–	–	(94,271)
Fair value gains recorded in income statement	7,815	–	–	–	7,815
Fair value gains recorded in other comprehensive income	–	–	–	2,945	2,945
Accretion of discounts	–	1	–	–	1
At 31 December 2017	125,103	15,393	85,514	766,676	992,686

## Notes to the Financial Statements

– 31 December 2018

**7 INVESTMENTS (CONTINUED)**

## (f) Fair value investments

	Fair value through profit or loss RM'000	Available- for-sale RM'000	Total RM'000
<b>2018</b>			
Level 1 – Quoted market price	98,388	–	98,388
Level 2 – Valuation techniques – market observable inputs	793,856	–	793,856
	<b>892,244</b>	<b>–</b>	<b>892,244</b>
<b>2017</b>			
Level 1 – Quoted market price	125,103	–	125,103
Level 2 – Valuation techniques – market observable inputs	–	766,676	766,676
	125,103	766,676	891,779

## (g) 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).

	Level 1 RM'000	Level 2 RM'000	Total RM'000
<b>2018</b>			
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
	<b>98,388</b>	<b>793,856</b>	<b>892,244</b>
<b>2017</b>			
Fair value through profit and loss			
– Quoted equities securities	125,103	–	125,103
Available-for-sale			
– Wholesale unit trust funds	–	766,676	766,676
	125,103	766,676	891,779

# Notes to the Financial Statements

– 31 December 2018

## 7 INVESTMENTS (CONTINUED)

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.

## 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 AmlInvestment Management Sdn Bhd and RHB Asset Management Sdn Bhd 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.



# Notes to the Financial Statements

– 31 December 2018

## 8 STRUCTURED ENTITIES (CONTINUED)

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

	2018 RM'000	2017 RM'000
Number of wholesale unit trust funds	3	3
Average net asset value per unit of wholesale unit trust funds:		
RHB Income Plus Fund 2	1.0197	1.0178
RHB Cash Management Fund 1	1.0205	1.0000
AmIncome Value	0.9995	0.9974
Fair value of underlying assets:		
Malaysian Government securities	151,599	90,773
Debt securities	541,569	518,899
Call deposits	67,350	150,845
Receivables	7,400	5,873
Cash equivalents	10,292	286
	<b>778,210</b>	<b>766,676</b>
Total gain incurred	<b>2,322</b>	<b>961</b>

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.

## 9 REINSURANCE ASSETS

	2018 RM'000	2017 RM'000
Claims liabilities (Note 13)	411,881	377,685
Premium liabilities (Note 13)	99,355	105,075
	<b>511,236</b>	<b>482,760</b>

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.

# Notes to the Financial Statements

– 31 December 2018

## 10 INSURANCE RECEIVABLES

	2018 RM'000	2017 RM'000
Due premiums including agents, brokers and co-insurers balances	89,708	106,695
Due from reinsurers and cedants	13,129	11,781
	<b>102,837</b>	118,476
Allowance for impairment	<b>(14,972)</b>	(8,660)
	<b>87,865</b>	109,816

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 14) RM'000	Net amounts of financial assets presented in the statement of financial position RM'000
<b>2018</b>			
Insurance receivables	92,582	(4,717)	87,865
<b>2017</b>			
Insurance receivables	114,091	(4,275)	109,816

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 2018 (2017: Nil).

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

# Notes to the Financial Statements

– 31 December 2018

## 11 OTHER RECEIVABLES

	2018 RM'000	2017 RM'000
Other receivables, deposits and prepayments	20,870	20,597
Amount due from Malaysian Motor Insurance Pool (“MMIP”)		
– Cash call	21,859	25,359
– Assets held in MMIP	31,827	31,162
Amount due from stock brokers	34,472	12,458
Dividend income receivable	676	775
	<b>109,704</b>	<b>90,351</b>

MMIP amount as at 31 December 2018 is a net receivable of RM14,056,000 (2017: net receivable RM10,819,173) 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

	Gross RM'000	Reinsurance RM'000	Net RM'000
<b>2018</b>			
Claims reported	496,257	(305,833)	190,424
Incurred but not reported claims (“IBNR”)	255,674	(106,048)	149,626
Claims liabilities (Note (a))	751,931	(411,881)	340,050
Premium liabilities (Note (b))	342,183	(99,355)	242,828
	<b>1,094,114</b>	<b>(511,236)</b>	<b>582,878</b>
<b>2017</b>			
Claims reported	481,109	(291,147)	189,962
Incurred but not reported claims (“IBNR”)	211,078	(86,538)	124,540
Claims liabilities (Note (a))	692,187	(377,685)	314,502
Premium liabilities (Note (b))	306,123	(105,075)	201,048
	<b>998,310</b>	<b>(482,760)</b>	<b>515,550</b>

# Notes to the Financial Statements

– 31 December 2018

## 13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

### (a) Claims liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
<b>2018</b>			
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	<b>751,931</b>	<b>(411,881)</b>	<b>340,050</b>
<b>2017</b>			
At 1 January 2017	589,192	(287,815)	301,377
Claims incurred for current accident Year			
– Paid	155,796	(50,365)	105,431
– Case reserves	191,634	(112,334)	79,300
– IBNR	123,880	(52,178)	71,702
Claims incurred for prior accident Year			
– Paid	163,569	(58,107)	105,462
– Case reserves	(427,920)	139,757	(288,163)
– IBNR	(103,964)	43,357	(60,607)
At 31 December 2017	692,187	(377,685)	314,502

# Notes to the Financial Statements

– 31 December 2018

## 13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

### (b) Premium liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
<b>2018</b>			
At 1 January 2018	306,123	(105,075)	201,048
Premiums written for the financial year (Note 19)	786,647	(238,177)	548,470
Premiums earned during the financial year (Note 19)	(750,587)	243,897	(506,690)
At 31 December 2018	<b>342,183</b>	<b>(99,355)</b>	<b>242,828</b>
<b>2017</b>			
At 1 January 2017	283,717	(91,185)	192,532
Premiums written for the financial year (Note 19)	690,897	(230,900)	459,997
Premiums earned during the financial year (Note 19)	(668,491)	217,010	(451,481)
At 31 December 2017	306,123	(105,075)	201,048

## 14 INSURANCE PAYABLES

	2018 RM'000	2017 RM'000
Due to agents and intermediaries	16,503	25,327
Due to reinsurers and cedants	27,803	20,967
	<b>44,306</b>	46,294

# Notes to the Financial Statements

– 31 December 2018

## 14 INSURANCE PAYABLES (CONTINUED)

	Gross amounts of recognised financial liabilities  RM'000	Gross amounts of recognised financial assets set off in the statement of financial position (Note 10) RM'000	Net amounts of financial liabilities presented in the statement of financial position  RM'000
<b>2018</b>			
Insurance payables	49,023	(4,717)	44,306
<b>2017</b>			
Insurance payables	50,569	(4,275)	46,294

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 2018 (2017: Nil).

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

## 15 OTHER PAYABLES

	2018 RM'000	2017 RM'000
Other payables	11,544	7,189
Dividend payable	–	100,000
Other accrued expenses	26,216	25,571
Provision for staff bonus	8,349	7,235
Provision for advertising and marketing expenses	8,002	8,460
Provision for agents' profit commission	5,741	4,000
Provision for training expenses	4,873	4,163
Amount due to fund managers	653	–
	<b>65,378</b>	<b>156,618</b>

## Notes to the Financial Statements

– 31 December 2018

**16 DEFERRED TAX (LIABILITIES)/ASSETS**

	2018 RM'000	2017 RM'000
At beginning of financial year	(2,567)	1,198
Effect of adoption of MFRS 9	2,722	–
At 1 January 2018 (Restated)	155	1,198
Transferred to Income Statement (Note 25)	(352)	(3,058)
Transferred to Other Comprehensive Income	–	(707)
At end of financial year	(197)	(2,567)

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

	At beginning of financial year RM'000	Effect of adoption of MFRS 9 RM'000	(Debited)/ credited to income statement RM'000	Credited to other comprehensive income RM'000	At end of financial year RM'000
<b>2018</b>					
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	(2,567)	2,722	(352)	–	(197)

	At beginning of financial year RM'000	(Debited)/ credited to income statement RM'000	Credited to other comprehensive income RM'000	At end of financial year RM'000
<b>2017</b>				
Excess of capital allowances over depreciation		(534)	(1,463)	(1,997)
Amortisation of premiums/(accretion of discounts) – net		1	–	1
Impairment loss on insurance receivables		1,619	330	1,949
Premium liabilities		179	(48)	131
Fair value change on FVTPL financial assets		(544)	(1,877)	(2,421)
Impairment loss on AFS financial assets		2	–	2
Fair value changes on AFS financial assets		475	–	(707)
Total		1,198	(3,058)	(2,567)

## Notes to the Financial Statements

– 31 December 2018

### 16 DEFERRED TAX (LIABILITIES)/ASSETS (CONTINUED)

	2018 RM'000	2017 RM'000
Utilised/(reversed) within 12 months	(197)	(2,567)
Utilised/(reversed) after 12 months	-	-
	<b>(197)</b>	<b>(2,567)</b>

### 17 SHARE CAPITAL

	2018		2017	
	Amount RM'000	Number of shares	Amount RM'000	Number of shares
Ordinary shares:				
Issued and fully paid:				
At beginning and end of financial year	<b>100,000</b>	<b>100,000</b>	100,000	100,000

The new Companies Act 2016 which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

### 18 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.



## Notes to the Financial Statements

- 31 December 2018

**19 NET EARNED PREMIUMS**

	2018 RM'000	2017 RM'000
(a) Gross earned premiums		
Gross written premiums	786,647	690,897
Change in premium liabilities	(36,060)	(22,406)
Gross earned premiums	750,587	668,491
(b) Premiums ceded		
Reinsurance	(238,177)	(230,900)
Change in premium liabilities	(5,720)	13,890
Premiums ceded	(243,897)	(217,010)
Net earned premiums	506,690	451,481

**20 INVESTMENT INCOME**

	2018 RM'000	2017 RM'000
Dividend income from FVTPL investments	38,462	4,347
Interest income from HTM investments	-	1,161
Interest income from loans and receivables	3,438	2,526
Dividend income from AFS investments	-	31,301
	41,900	39,335

**21 REALISED GAINS AND LOSSES**

	2018 RM'000	2017 RM'000
Proceed from disposal of property, plant and equipment	56	-
FVTPL investments		
- Equities securities	(2,828)	7,426
	(2,772)	7,426

**22 FAIR VALUE GAINS AND LOSSES - NET**

	2018 RM'000	2017 RM'000
Fair value (losses)/gains from FVTPL investments	(5,055)	7,815

# Notes to the Financial Statements

– 31 December 2018

## 23 MANAGEMENT EXPENSES

	2018 RM'000	2017 RM'000
<u>Personnel costs</u>		
Staff salary and bonus	48,874	40,516
Defined contribution plan	7,676	6,490
Other staff benefits	3,315	3,308
	<b>59,865</b>	50,314
<u>Establishment costs</u>		
Rental of offices	4,094	3,747
Depreciation of property, plant and equipment	2,603	2,480
Amortisation of intangible assets – computer software	3,096	2,247
Others	1,207	1,258
	<b>11,000</b>	9,732
<u>Marketing costs</u>		
Electronic printing	6,798	15,636
Advertising and marketing expenses	4,905	6,367
Others	12,859	10,906
	<b>24,562</b>	32,909
<u>Administrative and general expenses</u>		
Auditors' remuneration		
Statutory audit	277	200
Other audit related	17	17
(Write back)/allowance for impairment on insurance receivables	(5,673)	1,210
Bad debts written off	94	159
Bank charges	3,342	2,843
Other expenses	17,581	14,087
	<b>15,638</b>	18,516
	<b>111,065</b>	111,471

Included in the personnel costs is the Chief Executive Officer's remuneration as disclosed in Note 24.

Included in the administration and general expenses are other Directors' remuneration as disclosed in Note 24.

# Notes to the Financial Statements

– 31 December 2018

## 24 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
<b>2018</b>				
<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.

### 2017

<u>Chief Executive Officer/Managing Director</u> Kong Shu Yin	1,022	7	857	1,886
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# Notes to the Financial Statements

– 31 December 2018

## 24 DIRECTORS' REMUNERATION (CONTINUED)

	Fees RM'000	Benefits- in-kind (based on an estimated monetary value) RM'000	Others* RM'000	Total RM'000
<b>2018</b>				
<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 (Appointed w.e.f. 1 November 2018)	23	–	3	26
Datuk Haji Faisal Siraj (Resigned on 31 December 2018)	135	–	19	154
	<b>599</b>	<b>12</b>	<b>145</b>	<b>756</b>
<b>2017</b>				
<u>Non-executive Directors</u>				
Tan Sri Saw Choo Boon (Appointed w.e.f. 1 October 2017)	34	–	17	51
Jahanath Muthusamy	135	–	21	156
Abdul Aziz Peru Mohamed	139	–	25	164
Datuk Haji Faisal Siraj	135	–	22	157
Ong Seng Pheow (Resigned on 19 November 2017)	150	31	84	265
Tuan Haji Md Ja'far Abdul Carrim (Demised on 19 October 2017)	108	–	15	123
	<b>701</b>	<b>31</b>	<b>184</b>	<b>916</b>

\* Others comprise of Directors' committee allowance and meeting allowance.

# Notes to the Financial Statements

- 31 December 2018

## 25 TAXATION

	2018 RM'000	2017 RM'000
Malaysian taxation:		
Current taxation	11,476	16,627
Deferred taxation (Note 16)	352	3,058
	<b>11,828</b>	19,685
<u>Current taxation</u>		
Current financial year	11,705	23,466
(Over) provision in respect of prior financial years	(229)	(6,839)
	<b>11,476</b>	16,627
<u>Deferred taxation</u>		
Origination and reversal of temporary differences	352	3,058
	<b>11,828</b>	19,685

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:

	2018 RM'000	2017 RM'000
Profit before taxation	80,056	132,948
Tax calculated at a tax rate of 24%	19,213	31,908
Expenses not deductible for tax purposes	1,979	2,318
Income exempted for tax purposes	(9,135)	(7,702)
(Over) provision in respect of prior financial years	(229)	(6,839)
Tax expense	<b>11,828</b>	19,685

# Notes to the Financial Statements

– 31 December 2018

## 26 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM68,228,271 (2017: RM113,263,284) divided by the number of ordinary shares in issue of 100,000,000 (2017: 100,000,000) during the financial year.

## 27 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2018 are as follows:

	2018		2017	
	Net dividend per share Sen	Amount of dividend net of tax	Net dividend per share Sen	Amount of dividend net of tax
Interim dividend	50.00	50,000	100.00	100,000

The Directors declared a single-tier interim dividend of 50% amounting to RM50,000,000 in respect of the financial year ended 31 December 2018. The interim dividend was approved by the Board of Directors on 22 January 2019.

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 2019.

The Directors do not propose any final dividends for the financial year ended 31 December 2018.

## 28 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

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

Related parties	Relationship
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: <ul style="list-style-type: none"> <li>– All Directors of the Company; and</li> <li>– Member of the Group Management Committee ('GMC')</li> </ul>
Related parties of key management personnel (deemed as related to the Company)	Close family members and dependents of key management personnel

# Notes to the Financial Statements

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## 28 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.

		2018 RM'000	2017 RM'000
<u>Related party transactions</u>	<u>Nature of transaction</u>		
With subsidiaries of immediate and ultimate holding company	Interest income	2,832	2,271
	Insurance premium earned	12,795	12,427
	Commission paid and payable	(21,441)	(18,797)
	Rental expense	(171)	(170)
With key management personnel	Insurance premium earned	135	150
	Claims incurred	(19)	(65)
<u>Related party balances</u>	<u>Types of balances</u>		
With subsidiaries of immediate and ultimate holding company	Bank balances	28,045	(149)
	Fixed and call deposits	80,666	71,255
	Insurance premium	2,612	1,019
	Investment in corporate debts securities	5,121	5,013
	Dividend payable	–	(94,700)
	Others	–	4,872
<u>Key management personnel</u>			
The remuneration of key management personnel is as follows:			
Short-term employee benefits			
– Salary and other remuneration (Note (i))		2,781	1,655
– Contribution to EPF (Note (i))		359	224
– Benefits in kind		7	7
		<b>3,147</b>	<b>1,886</b>

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

## 29 CAPITAL COMMITMENTS

	2018 RM'000	2017 RM'000
Authorised and contracted for	321	399

# Notes to the Financial Statements

– 31 December 2018

## 30 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.



# Notes to the Financial Statements

– 31 December 2018

## 30 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.

# Notes to the Financial Statements

– 31 December 2018

## 30 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.

## 31 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.

# Notes to the Financial Statements

– 31 December 2018

## 31 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 assumptions RM'000	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
<b>2018</b>					
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)
<b>2017</b>					
Average claim cost	+10%	72,488	27,369	(27,369)	(20,800)
Average number of claims	+10%	54,860	25,968	(25,968)	(19,736)
Average claim settlement period	Increased by 6 months	11,196	5,697	(5,697)	(4,329)

### (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.

# Notes to the Financial Statements

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## 31 INSURANCE RISK (CONTINUED)

### (c) Claims development table (continued)

Gross insurance claims liabilities for 2018:

Accident year	Before								
	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
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									
<b>Current estimate of cumulative claims incurred</b>		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									
<b>Cumulative payments to-date</b>		(198,802)	(218,895)	(282,166)	(279,804)	(251,432)	(283,938)	(185,153)	
<b>Net insurance claims liabilities per Statement of Financial Position (note 13(a))</b>	41,212	2,469	10,486	32,103	52,975	109,448	155,928	347,310	751,931

## Notes to the Financial Statements

– 31 December 2018

**31 INSURANCE RISK (CONTINUED)****(c) Claims development table (continued)**

Net insurance claims liabilities for 2018:

Accident year	Before								
	2011	2012	2013	2014	2015	2016	2017	2018	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
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									
<b>Current estimate of cumulative claims incurred</b>		<b>131,301</b>	<b>140,309</b>	<b>159,639</b>	<b>181,112</b>	<b>204,236</b>	<b>244,429</b>	<b>329,794</b>	
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									
<b>Cumulative payments to-date</b>		<b>(129,488)</b>	<b>(136,135)</b>	<b>(152,204)</b>	<b>(167,922)</b>	<b>(172,886)</b>	<b>(188,866)</b>	<b>(141,728)</b>	
<b>Net insurance claims liabilities per Statement of Financial Position (note 13(a))</b>	<b>38,459</b>	<b>1,813</b>	<b>4,174</b>	<b>7,435</b>	<b>13,190</b>	<b>31,350</b>	<b>55,563</b>	<b>188,066</b>	<b>340,050</b>

# Notes to the Financial Statements

– 31 December 2018

## 31 INSURANCE RISK (CONTINUED)

### (c) Claims development table (continued)

Gross insurance claims liabilities for 2017:

Accident year	Before								
	2010	2011	2012	2013	2014	2015	2016	2017	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		197,050	234,640	303,820	363,486	376,174	398,549	471,308	
One year later		188,105	219,458	276,429	339,386	363,477	378,131		
Two years later		183,227	210,419	257,101	315,647	343,381			
Three years later		173,787	202,835	249,518	316,206				
Four years later		172,041	204,386	243,231					
Five years later		171,748	203,450						
Six years later		170,462							
Seven years later									
<b>Current estimate of cumulative claims incurred</b>		170,462	203,450	243,231	316,206	343,381	378,131	471,308	
At end of accident year		(57,313)	(66,947)	(75,616)	(91,529)	(98,970)	(108,495)	(155,795)	
One year later		(129,615)	(154,519)	(166,887)	(222,518)	(235,621)	(209,175)		
Two years later		(149,304)	(182,102)	(190,071)	(262,001)	(269,854)			
Three years later		(160,502)	(189,908)	(204,158)	(274,897)				
Four years later		(164,000)	(196,435)	(206,696)					
Five years later		(164,438)	(197,828)						
Six years later		(164,925)							
Seven years later									
<b>Cumulative payments to-date</b>		(164,925)	(197,828)	(206,696)	(274,897)	(269,854)	(209,175)	(155,795)	
<b>Net insurance claims liabilities per Statement of Financial Position (note 13(a))</b>	45,188	5,537	5,622	36,535	41,309	73,527	168,956	315,513	692,187

## Notes to the Financial Statements

– 31 December 2018

**31 INSURANCE RISK (CONTINUED)****(d) Claims development table (continued)**

Net insurance claims liabilities for 2017:

Accident year	Before								
	2010	2011	2012	2013	2014	2015	2016	2017	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year		136,749	154,367	173,678	197,440	212,416	231,669	256,432	
One year later		126,585	146,227	157,247	177,134	196,319	212,650		
Two years later		121,799	137,404	146,257	162,941	187,021			
Three years later		118,122	132,504	141,546	161,521				
Four years later		117,028	132,468	140,230					
Five years later		114,291	132,408						
Six years later		113,507							
Seven years later									
<b>Current estimate of cumulative claims incurred</b>		113,507	132,408	140,230	161,521	187,021	212,650	256,432	
At end of accident year		(47,677)	(49,146)	(55,721)	(65,922)	(73,052)	(80,129)	(105,430)	
One year later		(95,770)	(105,577)	(112,324)	(124,363)	(139,947)	(142,961)		
Two years later		(106,108)	(119,912)	(127,485)	(142,454)	(160,294)			
Three years later		(112,076)	(125,322)	(132,340)	(149,563)				
Four years later		(113,829)	(128,090)	(134,804)					
Five years later		(111,161)	(129,097)						
Six years later		(111,500)							
Seven years later									
<b>Cumulative payments to-date</b>		(111,500)	(129,097)	(134,804)	(149,563)	(160,294)	(142,961)	(105,430)	
<b>Net insurance claims liabilities per Statement of Financial Position (note 13(a))</b>	44,382	2,007	3,311	5,426	11,958	26,727	69,689	151,002	314,502

# Notes to the Financial Statements

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## 32 FINANCIAL RISKS

### (a) Credit risk

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil 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.

	2018 RM'000	2017 RM'000
Fair value through profit and loss		
Unquoted corporate debt securities	15,646	–
Investments held-to-maturity		
Unquoted corporate debt securities	–	15,393
Loans and receivables		
Staff loans	18	20
Fixed and call deposits	94,669	85,494
Reinsurance assets - claims liabilities	411,881	377,685
Insurance receivables	87,865	109,816
Other receivables*	109,252	89,691
Cash and cash equivalents**	30,628	2,427
	<b>749,959</b>	<b>680,526</b>

\* excluding prepayments amounting to RM452,089 (2017: RM659,971) which is not subject to credit risk

\*\* excluding petty cash amounting to RM7,300 (2017: RM7,106) which is not subject to credit risk



## Notes to the Financial Statements

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**32 FINANCIAL RISKS (CONTINUED)****(a) Credit risk (continued)**Credit exposure by credit rating

	← Neither past-due nor impaired →					
	Rated: satisfactory RM'000	Rated: unsatis- factory RM'000	Not rated RM'000	Not past-due but impaired RM'000	Past-due and impaired RM'000	Total RM'000
<b>2018</b>						
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	94,669	-	-	-	-	94,669
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**	30,628	-	-	-	-	30,628
	429,699	488	231,912	45,832	42,028	749,959
<b>2017</b>						
Investments held-to-maturity						
Unquoted corporate debt securities	15,393	-	-	-	-	15,393
Loans and receivables						
Staff loans	-	-	20	-	-	20
Fixed and call deposits	85,494	-	-	-	-	85,494
Reinsurance assets - claims liabilities	257,084	478	120,123	-	-	377,685
Insurance receivables	-	-	5	47,245	71,226	118,476
Allowance for impairment	-	-	-	(3,038)	(5,622)	(8,660)
Other receivables*	-	-	89,691	-	-	89,691
Cash and cash equivalents**	2,427	-	-	-	-	2,427
	360,398	478	209,839	44,207	65,604	680,526

\* excluding prepayments amounting to RM452,089 (2017: RM659,971) which is not subject to credit risk

\*\* excluding petty cash amounting to RM7,300 (2017: RM7,106) which is not subject to credit risk

# Notes to the Financial Statements

– 31 December 2018

## 32 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.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
<b>2018</b>						
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	–	89,159	5,510	–	–	94,669
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	28,071	–	–	–	30,628
	<b>2,557</b>	<b>149,440</b>	<b>277,702</b>	<b>488</b>	<b>319,772</b>	<b>749,959</b>
<b>2017</b>						
Investments held-to-maturity						
Unquoted corporate debt securities	–	5,227	10,166	–	–	15,393
Loans and receivables						
Staff loans	–	–	–	–	20	20
Fixed and call deposits	–	82,736	2,758	–	–	85,494
Reinsurance assets - claims liabilities		27,160	229,924	478	120,123	377,685
Insurance receivables	–	–	–	–	109,816	109,816
Other receivables*	–	–	–	–	89,691	89,691
Cash and cash equivalents**	2,571	(144)	–	–	–	2,427
	<b>2,571</b>	<b>114,979</b>	<b>242,848</b>	<b>478</b>	<b>319,650</b>	<b>680,526</b>

\* excluding prepayments amounting to RM452,089 (2017: RM659,971) which is not subject to credit risk

\*\* excluding petty cash amounting to RM7,300 (2017: RM7,106) which is not subject to credit risk

# Notes to the Financial Statements

– 31 December 2018

## 32 FINANCIAL RISKS (CONTINUED)

### (a) Credit risk (continued)

#### Age analysis of financial assets impaired

	Less than 3 months RM'000	3 to 6 months RM'000	More than 6 months RM'000	Total RM'000
<b>2018</b>				
Insurance receivables	58,204	20,955	8,706	87,865
<b>2017</b>				
Insurance receivables	67,866	27,203	14,747	109,816

#### 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 2018, the Company has provided an allowance for credit losses on a collective basis of RM14,972,334 (2017: RM8,659,914). 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:

	2018 RM'000	2017 RM'000
At 1 January	8,660	7,450
Effect of adoption MFRS 9	11,985	–
At 1 January (Restated)	20,645	7,450
(Write-back)/allowance made	(5,767)	1,048
Write off	94	162
At 31 December	14,972	8,660

# Notes to the Financial Statements

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## 32 FINANCIAL RISKS (CONTINUED)

### (a) Credit risk (continued)

An investment in debt security is considered as individually impaired when the management is of opinion that the counterparty is unable to meet the payment obligation as scheduled. A reconciliation of the allowance for impairment losses for investment in debt securities is as follows:

#### Available-for-sale Investments

	2018 RM'000	2017 RM'000
At 1 January/31 December	–	6

### (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.

## Notes to the Financial Statements

– 31 December 2018

**32 FINANCIAL RISKS (CONTINUED)****(b) Liquidity risk (continued)**Maturity profiles (continued)

	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
<b>2018</b>						
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	94,669	94,669	–	–	–	94,669
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**	30,628	30,628	–	–	–	30,628
<b>Total financial assets</b>	<b>749,959</b>	<b>433,416</b>	<b>235,934</b>	<b>29,700</b>	<b>77,913</b>	<b>776,963</b>
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
<b>Total financial liabilities</b>	<b>861,615</b>	<b>354,973</b>	<b>399,554</b>	<b>59,153</b>	<b>47,935</b>	<b>861,615</b>
<b>2017</b>						
Investments held-to-maturity						
Unquoted corporate debt securities	15,393	1,163	2,475	2,625	37,312	43,575
Loans and receivables						
– Staff loans	20	20	–	–	–	20
– Fixed and call deposits	85,494	85,494	–	–	–	85,494
Reinsurance assets – claims liabilities	377,685	130,964	207,794	32,188	6,739	377,685
Insurance receivables	109,816	109,816	–	–	–	109,816
Other receivables*	89,691	89,691	–	–	–	89,691
Cash and cash equivalents**	2,427	2,427	–	–	–	2,427
<b>Total financial assets</b>	<b>680,526</b>	<b>419,575</b>	<b>210,269</b>	<b>34,813</b>	<b>44,051</b>	<b>708,708</b>
Insurance contract liabilities						
– claims liabilities	692,187	267,761	357,305	57,671	9,450	692,187
Insurance payables	46,294	46,294	–	–	–	46,294
Other payables	156,618	156,618	–	–	–	156,618
<b>Total financial liabilities</b>	<b>895,099</b>	<b>470,673</b>	<b>357,305</b>	<b>57,671</b>	<b>9,450</b>	<b>895,099</b>

\* excluding prepayments amounting to RM452,089 (2017: RM659,971) which is not subject to credit risk

\*\* excluding petty cash amounting to RM7,300 (2017: RM7,106) which is not subject to credit risk

# Notes to the Financial Statements

– 31 December 2018

## 32 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.

#### 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.

# Notes to the Financial Statements

– 31 December 2018

## 32 FINANCIAL RISKS (CONTINUED)

### (c) Market risk (continued)

#### Interest rate risk (continued)

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.

	Change in variables	2018 Impact on equity* RM'000	2017 Impact on equity* RM'000
Interest rate	+100 basis points	(28,495)	(22,168)
Interest rate	-100 basis points	30,460	23,532

\* 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.

#### Equity price risk

Equity price risk is the risk of holding or taking positions in instruments that exhibit market behaviour 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.

	Change in variables	2018		2017	
		Impact on profit before tax RM'000	Impact on equity* RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
Bursa Malaysia	+15%	13,198	10,030	15,334	11,654
Bursa Malaysia	-15%	(13,198)	(10,030)	(15,334)	(11,654)

\* 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.

# Notes to the Financial Statements

– 31 December 2018

## 32 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.

## 33 REGULATORY CAPITAL REQUIREMENTS

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

	Note	2018 RM'000	2017 RM'000
<u>Eligible Tier 1 Capital</u>			
Share capital (paid-up)	17	100,000	100,000
Retained earnings		473,660	413,318
		<b>573,660</b>	513,318
<u>Tier 2 Capital</u>			
Available-for-sale reserve		–	730
Amount deducted from Capital		–	–
<b>Total Capital Available</b>		<b>573,660</b>	514,048

## 34 CHANGE IN ACCOUNTING POLICIES

### (a) Adoption of MFRS 9 'Financial Instruments'

Effective 1 January 2018, the Company has adopted MFRS 9 'Financial Instruments', which is the comprehensive standard to replace MFRS 139 'Financial Instruments: Recognition and Measurement'.

As permitted by MFRS 9, the Company has not restated comparatives on initial application of MFRS 9.



# Notes to the Financial Statements

– 31 December 2018

## 34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### (a) Adoption of MFRS 9 'Financial Instruments' (continued)

The adoption of MFRS 9 has resulted in the following changes to the accounting policies of the Company:

#### (i) Financial assets

The Company classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- (1) It is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- (2) The contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

The following summarises the key changes:

- (1) The financial instruments available for sale ("AFS") and held to maturity ("HTM") categories were removed;
- (2) A new asset category measured at fair value through other comprehensive income ("FVOCI") was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A significant portion of the AFS debt instruments of the Company held through its wholesale unit trust funds did not pass the 'solely payment for principal and interest' ("SPPI") test and will be classified to FVTPL; and
- (3) A new asset category for non-traded equity investments measured at FVOCI was introduced. The Company currently does not have any AFS equity instruments to be classified in this category.

#### (ii) Financial liabilities

Classification of financial liabilities remained unchanged for the Company. Financial liabilities continue to be measured at either amortised cost or FVTPL.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company do not have any such liabilities.

#### (iii) Changes to impairment of financial assets

As a result of the changes in basis of determining the level of allowances for credit losses as explained under the accounting policies, the total ECL allowances computed under MFRS9 is higher by RM11,985,032 than the total allowance for impairment on financial assets under MFRS 139.

The financial effects of the adoption of the revised policy are presented in Note 34(b) to the financial statements.

# Notes to the Financial Statements

– 31 December 2018

## 34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### (b) Financial effects

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Company upon adoption of MFRS 9 as at 31 December 2017 and 1 January 2018 are as follows:

	MFRS 139 Measurement category RM'000	MFRS 139 Measurement category RM'000	MFRS 139 carrying amount at 31 December 2017 RM'000	← Reclassification →		Carrying amount post reclassification RM'000	MFRS 9 remeasurement including expected credit Loss RM'000	MFRS 9 Carrying Amount at 1 January 2018 RM'000
				Fair value through profit and loss RM'000	Fair value through other comprehensive Income RM'000			
<b>ASSETS</b>								
Cash and short-term funds	Loans and receivables	Amortised costs	2,434	-	-	2,434	-	2,434
Deposit and placements with Banks and other financial institution	Loans and receivables	Amortised costs	85,514	-	-	85,514	-	85,514
Financial assets at FVTPL	FVTPL	FVTPL	125,103	782,716	-	907,819	-	907,819
Financial assets at FVOCI:								
- Debt instrument	Financial investment AFS	FVOCI	766,676	(766,676)	-	-	-	-
- Debt instrument	Financial investment HTM	FVOCI	15,393	(15,393)	-	-	-	-
Reinsurance assets	Loans and receivables	Amortised costs	482,760	-	-	482,760	-	482,760
Insurance receivables	Loans and receivables	Amortised costs	109,816	-	-	109,816	(11,985)	97,831
Other receivables	Loans and receivables	Amortised costs	90,351	-	-	90,351	-	90,351
Tax recoverable	NA	NA	6,779	-	-	6,779	-	6,779
Deferred tax assets	NA	NA	-	-	-	-	2,876	2,876
Property, plant and equipment	NA	NA	17,615	-	-	17,615	-	17,615
Intangible assets	NA	NA	15,396	-	-	15,396	-	15,396
<b>Total Assets</b>			<b>1,717,837</b>	<b>647</b>	<b>-</b>	<b>1,718,484</b>	<b>(9,109)</b>	<b>1,709,375</b>

## Notes to the Financial Statements

– 31 December 2018

**34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)****(b) Financial effects (continued)**

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Company upon adoption of MFRS 9 as at 31 December 2017 and 1 January 2018 are as follows (continued):

	MFRS 139 Measurement category RM'000	MFRS 139 Measurement category RM'000	MFRS 139 carrying amount at 31 December 2017 RM'000	← Reclassification →		Carrying amount post reclassification RM'000	MFRS 9 remeasurement including expected credit Loss RM'000	MFRS 9 Carrying Amount at 1 January 2018 RM'000
				Fair value through profit and loss RM'000	Fair value through other comprehensive Income RM'000			
Liabilities								
General insurance contract liabilities	Amortised costs	Amortised costs	998,310	-		998,310	-	998,310
Other liabilities and provisions	Amortised costs	Amortised costs	202,912	-		202,912	-	202,912
Deferred tax liabilities	NA	NA	2,567	155		2,722	-	2,722
<b>Total Liabilities</b>			<b>1,203,789</b>	<b>155</b>		<b>1,203,944</b>	<b>-</b>	<b>1,203,944</b>
Equity								
Share capital			100,000	-		100,000	-	100,000
Reserves			414,048	492		414,540	(9,109)	405,431
Equity attributable to Shareholders			514,048	492		514,540	(9,109)	505,431
NCI			-	-		-	-	-
<b>Total Equity</b>			<b>514,048</b>	<b>492</b>		<b>514,540</b>	<b>(9,109)</b>	<b>505,431</b>
<b>Total Liabilities and Equity</b>			<b>1,717,837</b>	<b>647</b>		<b>1,718,484</b>	<b>(9,109)</b>	<b>1,709,375</b>

# Notes to the Financial Statements

– 31 December 2018

## 34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### (b) Financial effects (continued)

The following table shows the effects of the reclassification of financial assets and financial liabilities from MFRS 139 categories into the amortised cost category under MFRS 9 as at 31 December 2017 and 1 January 2018:

	2018 RM'000
<u>AFS Reserve</u>	
Closing balance under MFRS 139 as at 31 December 2017	730
Reclassification of investment securities (debt) from AFS to FVTPL	(730)
Opening balance under MFRS 9 as at 1 January 2018	–
<u>Retained earnings</u>	
Closing balance under MFRS 139 as at 31 December 2017	413,318
Effects of MFRS 9:	
Recognition of ECL under MFRS 9	(11,985)
Effect of taxation	2,722
Effect of reclassification of financial investment AFS to FVTPL	730
Effect of reclassification of financial investment at amortised costs to FVTPL	647
Opening balance under MFRS 9 as at 1 January 2018	405,431

The following table reconciles the prior year's closing impairment allowance measured in accordance with MFRS 139 incurred loss model to the new impairment allowance measured in accordance with MFRS ECL as at 1 January 2018:

	MFRS 139 allowance as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 allowance as at 1 January 2018 RM'000
Cash and short-term funds	2,434	–	–	2,434
Deposits and placements with banks and other financial institutions	85,514	(85,514)	–	–
Financial assets at FVTPL	125,103	100,907	647	226,657
Financial assets at FVOCI	766,676	–	–	766,676
Financial assets at amortised costs	15,393	(15,393)	–	–
Reinsurance assets	482,760	–	–	482,760
Insurance receivables	109,816	–	(11,985)	97,831
Other receivables	90,350	–	–	90,350
	1,678,046	–	(11,338)	1,666,708

## 35 APPROVAL OF FINANCIAL STATEMENTS

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

## 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 40 to 105 are drawn up so as to show a true and fair view of the financial position for the financial year ended on 31 December 2018 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

Kuala Lumpur  
27 February 2019

**KONG SHU YIN**  
MANAGING DIRECTOR

## 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 40 to 105 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 27 February 2019 )  
)  
Before me, )

**CHONG SOOK YIN**

**COMMISSIONER FOR OATHS**  
Kuala Lumpur

# Independent Auditors' Report

to the members of RHB Insurance Berhad

## 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 2018, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2018, and income statement, 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 40 to 105.

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

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

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

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

# Independent Auditors' Report

to the members of RHB Insurance Berhad

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### 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.

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

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

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

## OTHER MATTERS

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

### **PRICEWATERHOUSECOOPERS PLT**

LLP0014401-LCA & AF 1146

Chartered Accountants

Kuala Lumpur

27 February 2019

### **WONG HUI CHERN**

03252/05/2020 (J)

Chartered Accountant



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