

**Company No.**  
**198201011878 (91603-K)**

**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATUTORY FINANCIAL STATEMENTS**

**31 DECEMBER 2020**

**Company No.**  
**198201011878 (91603-K)**

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

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**DIRECTORS' REPORT**

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

**PRINCIPAL ACTIVITY**

The principal activity of the Group and Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

**FINANCIAL RESULTS**

|                                   | <u>Group</u><br>RM | <u>Company</u><br>RM |
|-----------------------------------|--------------------|----------------------|
| Net profit for the financial year | <u>35,329,647</u>  | <u>35,266,792</u>    |

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

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

**DIVIDENDS**

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2020.

**DIRECTORS**

The Directors of the Company in office since the beginning of the financial year to the date of this report are:

Dato' Khalid bin Abdol Rahman

(appointed as Director on 19 May 2020 and as Chairman effective 28 January 2021)

Ajit Nair

Dato' Chan Choy Lin (appointed effective 18 March 2020)

Dr. Arumugam a/l Saminathan

Sammy Chan Sum Yu

Datuk Abu Hassan bin Kendut (Chairman effective 24 March 2020 until resignation effective 28 January 2021)

Hashim bin Harun (resignation effective 1 December 2020)

Dato' Huang Sin Cheng (Chairman, until retirement on 23 March 2020)

In accordance with Article 62 (ii) of the Company's Constitution, Dr. Arumugam a/l Saminathan will retire at the forthcoming Annual General Meeting and separate resolution will be proposed for his re-appointment as Director to hold office until the conclusion of the next Annual General Meeting of the Company.

In accordance with Article 65 of the Company's Constitution, Ajit Nair will retire at the forthcoming Annual General Meeting and he being eligible, offers himself for re-election.

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' BENEFITS**

Neither at the end of the financial year, nor at any time during that financial year, did there subsist any arrangement, to which the Company was a party, whereby the Directors might acquire benefits by means of acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Notes 24 and 29 to the financial statements and the financial statements of its related corporations or the fixed salary and benefits of a full-time employee of the holding company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

**DIRECTORS' INTERESTS**

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, the interest of a Director in office at the end of the financial year in shares and options in the Company and its related corporations during the financial year was as follows:

|                                      | <u>Holdings registered in name of a Director</u> |                 |                  |                   |
|--------------------------------------|--|-----------------|------------------|-------------------|
|                                      | <u>01.01.2020</u>                                | <u>Acquired</u> | <u>Exercised</u> | <u>31.12.2020</u> |
| <u>Ultimate Holding Company</u>      |  |                 |                  |                   |
| - Fairfax Financial Holdings Limited |  |                 |                  |                   |
| ("FFHL")                             |  |                 |                  |                   |
| <i>(Common or Subordinate voting</i> |  |                 |                  |                   |
| <i>shares of no par value each)</i>  |  |                 |                  |                   |
| Sammy Chan Sum Yu                    | 26,532   | 282             | -                | 26,814            |

Other than as disclosed, none of the Directors in office at the end of the financial year had any interest in shares and in options in the Company or its related corporations during the financial year.

**DIRECTORS' REMUNERATION**

|                               | <u>Group</u> | <u>Company</u> |
|-------------------------------|--------------|----------------|
|                               | <u>RM</u>    | <u>RM</u>      |
| Total Directors' remuneration | 607,331      | 607,331        |

Details of Directors' remuneration are set out in Note 24(b) to the financial statements.

**INDEMNIFICATION OF DIRECTORS**

The Directors and Officers of the Company are covered by a Directors' and Officers' Liability insurance maintained by the ultimate holding company, Fairfax Financial Holdings Limited ("FFHL"). The insurance covers the Malaysian subsidiaries of FFHL up to an aggregate limit of RM40,934,950 (USD10 million) against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Directors and Officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. The premium for the insurance is RM23,552.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE**

**(a) Board Responsibility and Oversight**

**Board Responsibility**

The Board is committed to ensure that the highest standards of corporate governance are observed in the Company so that the affairs of the Company are conducted with professionalism, accountability and integrity with the objective of enhancing shareholders' value as well as safeguarding the interests of other stakeholders.

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines, BNM Policy Document ("PD") on Corporate Governance issued on 3 August 2016. The Company has complied with the standards and adopted management practices that are consistent with these guidelines and PD.

The Board has overall responsibility for the strategic direction and development plans in furthering the achievements of the Company. The Board meets regularly and has a formal schedule of matters specifically reserved for its consideration and approval, which includes the annual business and strategic plans, business operations, financial performance, risk management, investment, as well as compliance requirements under the Risk-Based Capital Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers. The Board's approval is also sought for transactions by the Company on outsourcing of certain business functions, major acquisition and disposal of assets, as well as material related party transactions. In addition, the Board reviews the Company's investment risk management and reinsurance practices and approves the authority levels for the Company's core functions, including expenditure approving, risk acceptance and claims approval.

On an ongoing basis, the Directors are kept informed through relevant training programmes and briefings to assist them to keep abreast with developments in the market place. The Directors are also updated with the policy and administrative changes as well as new guidelines issued by BNM and relevant professional bodies.

**Board Composition and Meetings**

On a yearly basis, the Directors are subject to an internal declaration to review their status of compliance with BNM/RH/GL 018-5 on Fit and Proper Criteria, BNM Policy Document on Corporate Governance issued on 3 August 2016 and Section 60 of the Financial Services Act, 2013 on the fulfilment of the minimum criteria of a "fit and proper person". In accordance with Section 54 of the Financial Services Act, 2013, all Directors are appointed and reappointed to the Board after prior approval has been obtained from BNM. None of the Directors are active politicians.

The Directors are persons of calibre, credibility and integrity. Collectively they bring with them a wide range of business and management experience, skills and specialised knowledge that are required to lead and oversee the affairs of the Company.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Board Composition and Meetings (continued)**

As at reporting date, the Company's Board of Directors consists of five (5) Directors as set out below:

| <u>Members:</u>  | <u>Status of Directorship</u>                |
|--|--|
| Dato' Khalid bin Abdol Rahman<br>(appointed as Director on 19 May 2020 and as<br>Chairman effective 28 January 2021) | Independent Non-Executive Director, Chairman |
| Ajit Nair  | Independent Non-Executive Director           |
| Dato' Chan Choy Lin (appointed effective 18 March 2020)  | Independent Non-Executive Director           |
| Dr. Arumugam a/l Saminathan  | Non-Independent Non-Executive Director       |
| Sammy Chan Sum Yu  | Executive Director                           |
| Datuk Abu Hassan bin Kendut<br>(Chairman effective 24 March 2020 until resignation<br>effective 28 January 2021)     | Independent Non-Executive Director           |
| Hashim bin Harun<br>(resignation effective 1 December 2020)  | Independent Non-Executive Director           |
| Dato' Huang Sin Cheng<br>(Chairman, until retirement on 23 March 2020)   | Independent Non-Executive Director           |

The Board met fifteen (15) times during the financial year and the details of the Directors' attendance are as follows:

| <u>Name</u>   | <u>Number of<br/>Board Meetings</u> |                       |
|---|-------------------------------------|-----------------------|
|   | <u>Attended</u>                     | <u>Percentage (%)</u> |
| Dato' Khalid bin Abdol Rahman (appointed effective 19 May 2020)     | 12/12                               | 100                   |
| Ajit Nair   | 15/15                               | 100                   |
| Dato' Chan Choy Lin (appointed effective 18 March 2020)             | 13/13                               | 100                   |
| Dr. Arumugam a/l Saminathan   | 13/15                               | 87                    |
| Sammy Chan Sum Yu   | 15/15                               | 100                   |
| Datuk Abu Hassan bin Kendut (resignation effective 28 January 2021) | 15/15                               | 100                   |
| Hashim bin Harun (resignation effective 1 December 2020)            | 11/12                               | 92                    |
| Dato' Huang Sin Cheng (retired on 23 March 2020)                    | 3/3                                 | 100                   |

The Board members are provided with adequate and timely information and reports, including background explanatory information, on matters brought before the Board. All the Directors have full and unrestricted access to all information and records of the Company as well as services and advice of the Company Secretary and the senior management of the Company to assist them in discharging their duties and responsibilities.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Directors' Profile**

**Dato' Khalid bin Abdol Rahman**  
**Chairman / Independent Non-Executive Director**

Dato' Khalid bin Abdol Rahman ("Dato' Khalid") was appointed to the Board on 19 May 2020 as an Independent Non-Executive Director and he was subsequently appointed as Chairman of the Board on 28 January 2021. He is also a member of the Board Audit Committee, the Board Risk Management Committee, the Board Nomination Committee and the Board Remuneration Committee.

Dato' Khalid holds a Diploma in Accountancy from University Institute of Technology (MARU) in Selangor. He then went on to obtain a Bachelor of Science degree in Finance from Indiana State University, Indiana, United States, and a Master of Business Administration degree in Marketing from University of New Haven, Connecticut, United States.

Dato' Khalid has more than 30 years of experience in the fields of corporate planning, business development, mergers and acquisitions, corporate finance and corporate advisory services.

Dato' Khalid is currently the Deputy CEO of SRT - EON Security Services Sdn. Bhd.

**Sammy Chan Sum Yu**  
**Executive Director**

Mr. Sammy Chan Sum Yu was first appointed to the Board on 24 March 2011. He is also a member of the Board Nomination Committee.

Mr. Sammy Chan graduated from the University of Waterloo with a Bachelor of Mathematics (major in Actuarial Science).

Mr. Sammy Chan has over 40 years of experience in property and casualty insurance companies. Currently, he is the President of Fairfax Asia Limited and a key member of the due diligence team on mergers and acquisition. He is also a member of the Board of Directors of Falcon Insurance Co. (Hong Kong) Ltd., Hong Kong; Falcon (1998) Co. Limited, Hong Kong; The Falcon Insurance Public Co. Ltd., Thailand; as well as Alltrust Insurance Co. Ltd., China.

**Dr. Arumugam a/l Saminathan**  
**Non-Independent Non-Executive Director**

Dr. Arumugam a/l Saminathan was appointed to the Board on 19 March 2019 as a Non-Independent Non-Executive Director. He is also a member of the Board Audit Committee and of the Board Remuneration Committee.

Dr. Arumugam graduated with a Diploma in Business Administration from Wales University, UK in 1988. He also obtained a Certificate in Finance from COADY Institute St. Francis University Canada in 1989 and a Diploma in Social Studies Rural Leadership from Xavier University, Philippines in 1993. He later obtained his Master of Business Administration from Southern Pacific University, USA in 2005, and was conferred an Honorable Doctorate from University California.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Directors' Profile (continued)**

**Dr. Arumugam a/l Saminathan (continued)**  
**Non-Independent Non-Executive Director (continued)**

Dr. Arumugam is currently the Chairman of two (2) cooperatives namely, Koperasi MCIS Berhad and Koperasi Kredit Pekerja Berhad. He is also the Director of Koperasi Konsumer Berhad and MCIS Travel & Tours Sdn. Bhd.

**Ajit Nair**  
**Independent Non-Executive Director**

Mr. Ajit Nair was appointed to the Board on 18 December 2019 as an Independent Non-Executive Director. He was appointed the Chairman of the Board Risk Management Committee on 19 December 2019, and the Chairman of the Board Nomination Committee effective from 20 December 2020. He is also a member of the Board Audit Committee.

Mr. Ajit graduated with a Bachelor of Arts in Economics from the National University of Singapore in 1982. In his 30+ years career at IBM, he had held several roles in various divisions including System and Technology, Industry Business Units and Channel and Partner Management at regional and global levels. He has domain expertise in financial services and was the first person in Asia Pacific to be certified as an IBM client executive for his in-depth knowledge of banking.

Mr. Ajit is currently an independent board member of MS First Capital Insurance Limited where he sits on its various board committees including as Chairman of its Risk Committee and Nominating Committee.

**Dato' Chan Choy Lin**  
**Independent Non-Executive Director**

Dato' Chan Choy Lin (also known as "Dato' Carol Chan") was appointed to the Board on 18 March 2020 as an Independent Non-Executive Director. She was appointed the Chairman of the Board Audit Committee effective from 24 March 2020, and the Chairman of the Board Remuneration Committee effective from 20 December 2020. She is also a member of the Board Nomination Committee and the Board Risk Management Committee.

Dato' Carol Chan is a member of The Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants ("MIA").

Dato' Carol Chan has more than 30 years' experience with public listed companies that engaged in the businesses of banking and insurance, automotive manufacturing and distribution, trading and services, property and construction, plantation, hospitality and education. Dato' Carol Chan's senior management experience covers the areas of mergers, acquisitions and divestments, finance, treasury, corporate social responsibilities, corporate secretarial and legal, including corporate governance, risk management and internal control. Over the years, Dato' Carol Chan had held several key management positions. She was a key member of various group committees and she also served as a nominee director on the boards of various group companies of a public listed conglomerate.



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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Directors' Profile (continued)**

**Dato' Chan Choy Lin (continued)**  
**Independent Non-Executive Director (continued)**

Dato' Carol Chan is currently an Independent Non-Executive Director of Ann Joo Resources Berhad, APM Automotive Holdings Berhad and GHL Systems Berhad.

**Training attended by Board of Directors**

The following are the trainings attended by the Directors:

- (i) In-house Orientation and Education Programme
- (ii) "BNM-FIDE FORUM Annual Dialogue with Governor of Bank Negara Malaysia", organised by FIDE FORUM and attended by Dato' Khalid bin Abdul Rahman, Mr. Hashim bin Harun, Mr. Ajit Nair and Dr. Arumugam a/l Saminathan
- (iii) "Green Fintech: Ping An's journey to becoming a top ESG-performing Financial Institution", organised by FIDE FORUM and attended by Dato' Chan Choy Lin, Mr. Ajit Nair and Mr. Sammy Chan Sum Yu
- (iv) Raising Defences – Section 17A, MACC Act (Insurance) organised by Iclif and attended by Dato' Chan Choy Lin
- (v) The Financial Institutions Directors' Education (FIDE) Core Program Module B: Insurance [Board Simulation] organised by Iclif and attended by Mr. Ajit Nair
- (vi) "Bank Negara Malaysia Annual Report 2019, Economic and Monetary Review 2019, and Financial Stability Review Second Half 2019" virtual Press Conference organised by Bank Negara Malaysia and attended by Mr. Ajit Nair
- (vii) "Risks, The Future Board and Return on Compliance" organised by Iclif and attended by Dato' Chan Choy Lin
- (viii) "Climate Action: The Board's Leadership in Greening the Financial Sector" organised by FIDE FORUM, attended by Dato' Chan Choy Lin
- (ix) FIDE Core Programme (Module A&B) attended by Mr. Ajit Nair

**Board Committees**

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees namely, the Board Audit Committee, the Board Risk Management Committee and the Board Nomination Committee as well as the Board Remuneration Committee which operate within clearly defined terms of reference. The Board Committees report to the Board on matters discussed at their meetings and make recommendations on items that require the Board's approval.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Board Committees (continued)**

The memberships, roles and terms of reference of the Audit, Risk Management, Nomination and Remuneration Committees of the Board during the financial year are as follows:

**(i) Board Audit Committee**

As at reporting date, the Board Audit Committee ("BAC") comprises three (3) members who are Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The composition of the BAC is as follows:

| <u>Members:</u>   | <u>Status of Directorship</u>                |
|---|--|
| Dato' Chan Choy Lin<br>(appointed as Member on 18 March 2020 and as Chairman effective 24 March 2020)   | Independent Non-Executive Director, Chairman |
| Ajit Nair   | Independent Non-Executive Director           |
| Dato' Khalid bin Abdol Rahman<br>(appointed effective 20 December 2020)   | Independent Non-Executive Director           |
| Dr. Arumugam a/l Saminathan   | Non-Independent Non-Executive Director       |
| Datuk Abu Hassan bin Kendut<br>(Chairman, until 23 March 2020 and redesignated as Member effective 24 March 2020 until resignation effective 28 January 2021) | Independent Non-Executive Director           |
| Hashim bin Harun<br>(resignation effective 1 December 2020)   | Independent Non-Executive Director           |

The BAC met six (6) times during the financial year and the details of the members' attendance are as follows:

| <u>Name</u>   | <u>Number of Meetings</u> |                       |
|---|---------------------------|-----------------------|
|   | <u>Attended</u>           | <u>Percentage (%)</u> |
| Dato' Chan Choy Lin (appointed effective 18 March 2020)                 | 6/6                       | 100                   |
| Ajit Nair   | 6/6                       | 100                   |
| Dato' Khalid bin Abdol Rahman<br>(appointed effective 20 December 2020) | 0/0                       | -                     |
| Dr. Arumugam a/l Saminathan   | 6/6                       | 100                   |
| Datuk Abu Hassan bin Kendut<br>(resignation effective 28 January 2021)  | 6/6                       | 100                   |
| Hashim bin Harun (resignation effective 1 December 2020)                | 5/5                       | 100                   |

The BAC's terms of reference are in compliance with BNM PD on Corporate Governance. The BAC has independent access to the Company's internal auditors, external auditors and management so as to enable it to discharge its functions, which include the reinforcement of the independence and objectivity of the internal and external audit functions and their scope of work and results.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Board Committees (continued)**

**(i) Board Audit Committee (continued)**

The BAC reviewed the findings of the internal/external auditors and those of the examiners from BNM, as well as management's responses and actions taken to address the findings. The BAC also reviewed, inter-alia, the Company's financial statements, the impact of new or proposed changes in accounting standards and policies on the financial statements and the maintenance of a sound system of internal controls to safeguard shareholders' investment and the Company's assets. Besides reviewing and approving the Annual Audit Plan, the BAC also evaluated the independence, objectivity and effectiveness of the external auditors before recommending to the Board for onwards recommendation to the shareholders on their appointment or reappointment.

**(ii) Board Risk Management Committee**

The Board Risk Management Committee ("BRMC") supports the Board in the overall risk management oversight of the Company. As at reporting date, the BRMC comprises three (3) members who are Independent Non-Executive Directors. The composition of the BRMC is as follows:

| <u>Members:</u>  | <u>Status of Directorship</u>                |
|--|--|
| Ajit Nair  | Independent Non-Executive Director, Chairman |
| Dato' Chan Choy Lin<br>(appointed effective 18 March 2020)         | Independent Non-Executive Director           |
| Dato' Khalid bin Abdol Rahman<br>(appointed effective 19 May 2020) | Independent Non-Executive Director           |
| Hashim bin Harun<br>(resignation effective 1 December 2020)        | Independent Non-Executive Director           |
| Dato' Huang Sin Cheng (retired on 23 March 2020)                   | Independent Non-Executive Director           |

The BRMC met four (4) times during the financial year and the details of the members' attendance are as follows:

| <u>Name</u>   | <u>Number of Meetings</u> |                       |
|---|---------------------------|-----------------------|
|   | <u>Attended</u>           | <u>Percentage (%)</u> |
| Ajit Nair   | 4/4                       | 100                   |
| Dato' Chan Choy Lin (appointed effective 18 March 2020)         | 4/4                       | 100                   |
| Dato' Khalid bin Abdol Rahman (appointed effective 19 May 2020) | 3/3                       | 100                   |
| Hashim bin Harun (resignation effective 1 December 2020)        | 3/3                       | 100                   |
| Dato' Huang Sin Cheng (retired on 23 March 2020)                | 1/1                       | 100                   |

BNM's Guidelines BNM/RH/GL 013-5 on Risk Governance requires the Board to ensure that the Company's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Board Committees (continued)**

**(ii) Board Risk Management Committee (continued)**

The Board must also provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework.

During the financial year 2020, the BRMC reviewed periodic management reports on risk exposure, risk portfolio and management strategies, mitigation plans and control measures ensuring adequacy of infrastructure, resources and systems for effective risk management, assessing adequacy of policies and framework for identifying, measuring, monitoring and controlling risks, as well as reviewing the extent to which these are operating effectively.

The role and responsibilities for BRMC is to support the Board in meeting the expectations on risk management as set out in the BNM PDs, which include amongst others, the PDs on Corporate Governance, Risk Governance, Operational Risk Management and Risk-Based Capital Framework for Insurers ("RBC").

**(iii) Board Nomination and Board Remuneration Committees**

The terms of reference of both Board Nomination Committee ("BNC") and Board Remuneration Committee ("BRC") are in compliance with the guidelines on the functions and responsibilities of the committees for insurers issued under BNM's PD on Corporate Governance.

**Board Nomination Committee**

As at reporting date, the BNC comprises three (3) members who are Independent Non-Executive Directors and one (1) member who is an Executive Director. The composition of the BNC is as follows:

| <u><b>Members:</b></u>   | <u><b>Status of Directorship</b></u>         |
|--|--|
| Ajit Nair (appointed as Chairman effective 20 December 2020)             | Independent Non-Executive Director, Chairman |
| Dato' Chan Choy Lin<br>(appointed effective 18 March 2020)               | Independent Non-Executive Director           |
| Dato' Khalid bin Abdol Rahman<br>(appointed effective 19 May 2020)       | Independent Non-Executive Director           |
| Sammy Chan Sum Yu  | Executive Director                           |
| Hashim bin Harun (Chairman, until resignation effective 1 December 2020) | Independent Non-Executive Director           |
| Dato' Huang Sin Cheng (retired on 23 March 2020)                         | Independent Non-Executive Director           |

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Board Committees (continued)**

**(iii) Board Nomination and Board Remuneration Committees (continued)**

Board Nomination Committee (continued)

The BNC met eight (8) times during the financial year and the details of the members' attendance are as follows:

| <u>Name</u>   | <u>Number of</u> |                       |
|---|------------------|-----------------------|
|   | <u>Meetings</u>  | <u>Percentage (%)</u> |
|   | <u>Attended</u>  |                       |
| Ajit Nair   | 8/8              | 100                   |
| Dato' Chan Choy Lin (appointed effective 18 March 2020)         | 6/6              | 100                   |
| Dato' Khalid bin Abdol Rahman (appointed effective 19 May 2020) | 5/5              | 100                   |
| Sammy Chan Sum Yu   | 8/8              | 100                   |
| Hashim bin Harun (resignation effective 1 December 2020)        | 6/6              | 100                   |
| Dato' Huang Sin Cheng (retired on 23 March 2020)                | 3/3              | 100                   |

The BNC is entrusted with the responsibility to consider and evaluate the appointment of new Directors and existing Directors to sit on the Board Committees of the Company and to recommend candidates to the Board for appointment and reappointment or re-election. The committee is also responsible to recommend to the Board the appointment of the Chief Executive Officer and key senior officers of the Company.

With regard to retiring directors, the BNC reviews the suitability and competencies and contributions of Directors for re-election and reappointment before recommending them to the Board for approval and subsequently to the shareholders for approval at the Annual General Meeting.

The BNC also annually reviews the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. It also assesses on an annual basis, the effectiveness of the Board as a whole and the Board Committees and the contributions of each individual Director. In addition, the BNC deliberates on Board succession plans as and when appropriate.

Board Remuneration Committee

As at reporting date, the BRC comprises two (2) members who are Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The composition of the BRC is as follows:

| <u>Members:</u>  | <u>Status of Directorship</u>                |
|--|--|
| Dato' Chan Choy Lin (appointed effective 20 December 2020 as Chairman) | Independent Non-Executive Director, Chairman |
| Dato' Khalid bin Abdol Rahman (appointed effective 19 May 2020)        | Independent Non-Executive Director           |

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(a) Board Responsibility and Oversight (continued)**

**Board Committees (continued)**

**(iii) Board Nomination and Board Remuneration Committees (continued)**

Board Remuneration Committee (continued)

As at reporting date, the BRC comprises two (2) members who are Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The composition of the BRC is as follows (continued):

| <u>Members:</u>   | <u>Status of Directorship</u>          |
|---|--|
| Dr. Arumugam a/l Saminathan   | Non-Independent Non-Executive Director |
| Datuk Abu Hassan bin Kendut<br>(Chairman, until 23 March 2020 and redesignated<br>as Member effective 24 March 2020 until<br>resignation effective 28 January 2021) | Independent Non-Executive Director     |
| Hashim bin Harun (appointed as Chairman effective<br>24 March 2020 until resignation effective<br>1 December 2020)  | Independent Non-Executive Director     |
| Dato' Huang Sin Cheng (retired on 23 March 2020)  | Independent Non-Executive Director     |

The BRC met one (1) time during the financial year and the details of the members' attendance are as follows:

| <u>Name</u>  | <u>Number of Meetings</u> |                       |
|--|---------------------------|-----------------------|
|  | <u>Attended</u>           | <u>Percentage (%)</u> |
| Dato' Chan Choy Lin (appointed effective 20 December 2020)             | 0/0                       | -                     |
| Dato' Khalid bin Abdol Rahman (appointed effective 19 May 2020)        | 0/0                       | -                     |
| Dr. Arumugam a/l Saminathan  | 1/1                       | 100                   |
| Datuk Abu Hassan bin Kendut<br>(resignation effective 28 January 2021) | 1/1                       | 100                   |
| Hashim bin Harun (resignation effective 1 December 2020)               | 0/0                       | -                     |
| Dato' Huang Sin Cheng (retired on 23 March 2020)                       | 1/1                       | 100                   |

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate the Directors, Chief Executive Officer and key senior officers of the quality required to manage the Company. In this respect, the BRC reviews and approves the remuneration packages of the Directors, Chief Executive Officer and key senior officers of the Company.

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(b) Management Accountability**

The Company has an organisational structure with clearly communicated defined lines of accountability and delegated authority to ensure proper identification of responsibilities and segregation of duties. The operational authority limits covering all aspects of operations which include underwriting, claims and finance are reviewed and updated as appropriate. Clearly documented job descriptions for all management and executive employees are maintained while formal appraisals of performance are conducted at least once annually. Any changes to the organisational structure are communicated to all staff. The Directors who hold office or possess property do not have any direct or indirect interest, which is in conflict with their duty or interest as Directors, as referred to in Section 58 of the Financial Services Act, 2013.

**(c) Remuneration Policy**

The Remuneration Policy ("Policy") is one of the key components of the Human Resources strategy to fully support the overall business strategy.

The main functions of the Policy are to:

- support the Company's strategy to build a healthy and high performance based culture that attracts, retains, motivates and rewards employees based on merit.
- promote the achievement of strategic objectives within the Company's risk appetite.

**Scope of Coverage**

The policy is applicable to all permanent and contract employees of the Company. We believe the long term success of the Company is directly linked to the positive attitude and caliber of employees that we employ and the working environment that we create.

**Remuneration Philosophy**

The Company's remuneration philosophy is to:

- recruit, motivate, reward and retain employees who believe in, and live by, the Company's culture and values.
- maintain a healthy working environment that motivates high performance so that all employees can positively contribute to the strategy, vision, goals and values of the Company.
- set employees' total remuneration package at a competitive level by benchmarking to the market and providing incentives geared to agreed performance outcomes, where appropriate.

**Key Remuneration Principles**

The Remuneration Policy is based fundamentally on the following principles:

- The Policy is aligned to the overall business strategy, objectives and values of the Company without being detrimental to the interests of its policy holders.
- The Policy contains arrangements for ensuring that executive remuneration is fair and responsible in the context of overall company remuneration.
- The remuneration includes fixed, variable, short and long-term as well as intangible rewards (in line with market practice), or any other rewards the Company may deem fit from time to time.
- The Policy encourages employees to be prudent risk takers and to act in the interest of the Company.
- Incentives aimed at encouraging retention are clearly distinguished from those relating to rewarding performance.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(c) Remuneration Policy (continued)**

**Key Remuneration Principles (continued)**

The Remuneration Policy is based fundamentally on the following principles (continued):

- Bonus is at the discretion of the Board, subject to the performance of the Company.
- The Policy ensures compliance with the regulatory requirements and law.
- Performance measures take into account both quantitative as well as qualitative factors consistent with Company's culture.

**Remuneration Guiding Principle**

Base Principle

- The key objective is to provide the base element of remuneration that reflects the person's role/position in the Company and is payable for doing the expected job.
- Base Salary is determined generally by job at a competitive and fair market rate.
- Base Salary should exclude Fixed Allowances.
- Base Salary is targeted at market median (P50) in general, but can be targeted at between market P50 to P75 for critical positions, key talents and high-value specialists.
- External competitiveness and internal equity should be well balanced.

Market Benchmarking & Positioning

- Comparisons of reward programs are primarily made against major companies that the Company competes with for business and talents in the markets where we operate in.
- Pay positioning is benchmarked to both local and foreign companies in the market.
- Participation in the remuneration survey of the financial services industry.
- Internal salary structure should be market competitive and reviewed as and when necessary.

Benefits

- Risk and non-risk benefits are market driven whilst always maintaining a balance between benefits to employees and costs to / long term interest of the Company.
- Cope with emerging benefits trends.
- Comply with local regulations.
- Long term cost containment.

**Elements of the Remuneration Plan**

The remuneration plan includes, but is not limited to, the following elements:

| Remuneration Element  | Purpose  |
|-----------------------|--|
| Guaranteed package    | <ul style="list-style-type: none"><li>- Pays based on overall job requirements, accountability, complexity / variety of tasks.</li><li>- Ensures that the Company attracts and retains high-performing people by paying market based guaranteed package.</li></ul> |
| Short-term incentives | <ul style="list-style-type: none"><li>- Focuses on attaining results in both the short and medium term, whilst at the same time ensuring successful execution of the Company's strategic plan.</li></ul>   |
| - Performance Bonus   | <ul style="list-style-type: none"><li>- Variable component that rewards contributions based on performance and prudent risk taking behavior.</li></ul>   |



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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(c) Remuneration Policy (continued)**

**Elements of the Remuneration Plan (continued)**

The remuneration plan includes, but is not limited to, the following elements (continued):

| Remuneration Element | Purpose  |
|----------------------|--|
| Long-term incentives | - Crucial in retaining dedication and committed employees.<br>- Rewards sustainable performance.   |
| Recognition          | - Supports and reinforces innovation and entrepreneurship.<br>- Recognises employees living the values of the Company and contributing towards an entrepreneurial culture. |

**Communication**

- Email communication to the Head of Departments ("HODs") on the annual appraisal exercise and the requirements.
- Communicate the key elements and process to managers.

**Interpretation**

The Chief Executive Officer is authorised to resolve any issues which may arise in the course of administering the Compensation Schemes/Plans.

**Policy Review**

The Policy shall be reviewed from time to time, as necessary and appropriate. Any revision to the Policy shall be reviewed by the Remuneration Committee to recommend to the Board for approval.

**Material Risk Takers**

Material Risk Takers are also the key management personnel and the remuneration structure is as disclosed in Note 29 to the financial statements.

**(d) Corporate Independence**

The Company has met all the requirements of BNM's Guidelines BNM/RH/GL 018-6 on Related Party Transactions and BNM Circular on Intercompany Charges paid to Related Entities. Other than the provision of financial services which are on normal commercial terms and in the ordinary course of business, all material related party transactions have been disclosed in the audited financial statements in accordance with MFRS124 *Related Party Disclosures*.

**(e) Internal Controls and Operational Risk Management**

The Board must oversee the design and development of the risk management framework and ensure that the framework is effective for controlling risk-taking activities of the Company in line with its risk appetite and has taken into account changes in the business environment. In doing so, the Board should provide constructive challenge to management on the credibility and robustness of the framework to ensure that there are no material gaps or weaknesses.

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**(Incorporated in Malaysia)**

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(e) Internal Controls and Operational Risk Management (continued)**

The risk management framework must enable the identification, measurement, and continuous monitoring of all relevant and material risks on a group and company-wide basis, supported by robust management information systems that facilitate the timely and reliable reporting of risks and the integration of information across the Company. The sophistication of the Company's risk management framework must keep pace with any changes in the Company's risk profile (including its business growth and complexity) and the external risk environment.

The Board has the overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company in order to provide reasonable assurance for effective and efficient operations, internal financial controls and compliance with laws and regulations.

There is a continuous process present for identifying, evaluating and managing the key risks of the Company. This process is periodically reviewed by the RMC and the Board. A formal risk management framework has been maintained in the Company by the Risk Management Department ("RMD") which is headed by the Head of Risk Management. The RMD reports directly and independently to the RMC of the Company.

During the financial year, the RMD identified and assessed the Company's keys risks on an annual basis. The key risks of the Company comprised of strategic risks, insurance risks (i.e. product risks and underwriting risks), financial risks, operational risks, and emerging risks. All the key risks were reflected in the Company's Risk Profile. RMD will review and monitor the Company's key risks and controls/ action on a quarterly basis.

The disclosure of the Company's risk management policies are set out under Notes 30, 31 and 32 to the financial statements.

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company:

- (i) The Executive Risk Management Committee, which was established on 8 November 2018, is an executive-led management committee accountable to the BRMC. The purpose of the Committee is to assist the BRMC in fulfilling its oversight responsibilities relating to risk management, legal and regulatory compliance, business continuity management, capital management and related matters as well as risks and opportunities relating to strategic decisions undertaken by the Company.
- (ii) The Business Continuity Management Committee is tasked to prepare, review and periodically test the effectiveness of the Company's business continuity plan ("BCP") to support critical business functions in the event of a disruption to the operations. It also has in place an IT Disaster Recovery Plan ("ITDRP") which aims to ensure that disruptions to IT operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had tested the BCP and the ITDRP last year, with observation by the internal audit team.
- (iii) The Information Technology Steering Committee is an executive-led management committee accountable to monitor the overall efficiency, performance and effectiveness of IT services. The purpose of the Committee is to assist senior management in fulfilling its oversight responsibilities relating to the Company's Information Technology matters, risks and opportunities relating to IT strategies and strategic decisions to fulfill the Company's long-term goals.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(e) Internal Controls and Operational Risk Management (continued)**

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company (continued):

- (iv) The Pricing Steering Committee addresses the challenges of the detariffication for motor and fire. In 2017, the Company increased the scope of the Pricing Steering Committee to a Product Development and Pricing Steering Committee to include the review of existing products and undertake the planning, design and development of new products, to meet the prevailing BNM guidelines, e.g. BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators and BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure. The Committee has hence been renamed to Product Development and Pricing Steering Committee. All newly developed products within the scope of the policy document are submitted to the Board for notation or approval and where appropriate to BNM for approval.
- (v) The Occupational Safety and Health Management Committee is committed to provide a working environment that emphasises on the safety and health of the employees. The Committee develops and adopts relevant policies and applicable best practices to improve the standard of safety and health environment of the Company.

The Company operates in a highly regulated business environment that is subject to prudential and supervisory review by BNM and Persatuan Insuran Am Malaysia ("PIAM"). The Company Secretary and Management keep the Board apprised of new laws and guidelines and changes thereof as well as new accounting and insurance standards to be adopted by the Company. To address compliance risks, the Company has a designated Compliance Officer who is responsible for implementing a compliance framework to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines. The Compliance Department submits a compliance statement to the Board on a quarterly basis.

The Internal Audit department is headed by the Chief Internal Auditor. The Internal Audit department reports directly to the BAC.

The roles and responsibilities of the BAC with respect to Internal Audit functions are in accordance with BNM's PD on Corporate Governance issued on 3 August 2016.

Internal Audit function adopts a systematic and disciplined, risk-based audit methodology, and prepares its audit strategy and annual plan based on the risk profiles of the business and functional departments of the Company, identified through an audit risk management process. Internal Audit independently reviews the risk exposures and control processes of governance, operations and information systems implemented by Management. Internal Audit activities are guided by the annual audit plan approved by the BAC, with its status of achievement reported at every BAC meeting.

Internal Audit reports are tabled at the BAC meetings, after audit findings have been addressed by Management. Follow-up procedures are carried out by Internal Audit to ensure that agreed action plans to improve controls are implemented by Management on a timely basis. The BAC meets with the external auditors at least once annually without the presence of management to discuss any problems, issues and concerns arising from the interim and final statutory audits, as well as any other relevant matters.

**THE PACIFIC INSURANCE BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(e) Internal Controls and Operational Risk Management (continued)**

These initiatives, together with the implementation of the external auditors' recommendations for improvement on internal controls, provide reasonable assurance that necessary control procedures are in place.

The other key elements of the Company's system of internal control are stated below:

**(i) Corporate culture**

The Board and Management of the Company set the requirements for an effective control culture in the organisation through the Company's core corporate values i.e. professionalism, integrity, excellent customer service, teamwork and governance.

**(ii) Organisation structure**

The Company has an organisational structure showing clearly defined lines of accountability and delegated authority levels to ensure effectiveness of the internal control system. Any changes to organisational structure are communicated to all staff to ensure proper identification of responsibilities and segregation of duties.

**(iii) Communication**

Regular Management meetings are held in the Company to discuss the financial performance, operational performance, business issues, implications of new risks and any other relevant matters.

**(iv) Staff competency and succession planning**

The professionalism and competency of staff are enhanced through continuous training and development programmes and a structured recruitment process. A performance planning and appraisal system of staff is in place with established key performance indicators and competencies subject to annual review. The Company has a Code of Ethics that guides all staff in their work performance and in upholding their ethical standards.

The Board is cognisant of its responsibilities to identify and develop viable candidates for long term succession planning of the senior management. The senior management has identified key staff for critical functions to ensure a smooth succession plan is in place.

**(v) Whistleblowing program**

Whistleblowing is considered an effective safeguard against fraud, corruption or other malpractice that undermines the internal control system and organisational reporting lines. Hence, the Company has implemented a whistleblowing program to encourage its staff and any external parties to report, in good faith, any suspicion of fraud, irregularity or misdemeanour, without fear of reprisals by any party. The Board shall review concerns, including anonymous complaints, which staff or external parties may, in confidence, raise about possible misconduct or improprieties within the Company and shall have the concerns independently investigated by the internal audit department and/or external service providers whom the Board may think fit.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

**(e) Internal Controls and Operational Risk Management (continued)**

**(vi) Independence of external auditors**

The Company has adopted a policy on the provision of non-audit services to be rendered by the external auditors. The Company ensures that the external auditors' ability to conduct audits objectively and independently is not impaired, or perceived to be impaired. Unless specifically allowed by the Board, the Company only engages the services of the external auditors for audit assurance. The Board also reviews the total fees earned by the external auditors from non-audit services rendered to the Company for assurance that the independence of the external auditors is not impaired.

**(f) Public Accountability and Fair Practices**

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company has taken the appropriate steps to ensure that all insurance policies issued or delivered to all policyholders contain the necessary information to alert them of the existence of the Ombudsman for Financial Services and BNM LINK, in compliance with the requirements of BNM's BNM/RH/GL 003-9 Guidelines on Claims Settlement Practices (Consolidated) and BNM/RH/GL 000-3 Guidelines on Product Transparency and Disclosure. The Ombudsman for Financial Services and BNM LINK were set up with the view to provide alternative avenues for the policyholders/claimants to seek redress if the complaint/appeal is not resolved by the Financial Service Provider.

The Company has also taken the necessary measures to comply with the requirements pursuant to BNM's BNM/RH/STD 029-10 on Introduction of New Products by Insurers and Takaful Operators, BNM/RH/GL 000-3 on Guidelines on Product Transparency and Disclosure, BNM/RH/PD 029-8 Phased Liberalisation of Motor and Fire Tariffs and BNM/RH/GL/003-20 Guidelines on Medical and Health Insurance Business (Revised).

In line with the Bank Negara Malaysia Financial Sector Blueprint 2012-2020, the Company has taken the necessary actions to migrate payment to e-payment, as a means to improve payment efficiency to the insuring public and the prevention of fraud.

**(g) Financial Reporting**

The Board has overall oversight responsibility for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the provisions of the Companies Act 2016 in Malaysia and relevant regulatory requirements.

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**THE PACIFIC INSURANCE BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**OTHER STATUTORY INFORMATION**

- (a) Before the financial statements of the Group and the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing-off of impaired debts and the making of impairment allowance for impaired debts, and had satisfied themselves that all known impaired debts had been written off and that adequate impairment allowance had been made for impaired debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for impairment of the Group and the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report of financial statements of the Group and the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group and the Company which has arisen since the end of the financial year other than as disclosed in Note 34.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability other than as disclosed in Note 34 has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Company to meet its obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and the Company for the financial year in which this report is made.

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

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**THE PACIFIC INSURANCE BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**OTHER STATUTORY INFORMATION (CONTINUED)**

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

**IMMEDIATE AND ULTIMATE HOLDING COMPANIES**

Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77, is the immediate holding company. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.

**SIGNIFICANT EVENT DURING THE YEAR**

The World Health Organisation ("WHO") had on 11 March 2020 declared COVID-19 as a pandemic and it has caused one of the most severe economic and financial market turmoil.

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

In 2020, the Government of Malaysia put in place several phases of movement control orders, comprising the Movement Control Order ("MCO"), Conditional Movement Control Order ("CMCO") and Recovery Movement Control Order ("RMCO") to curb the spread of COVID-19 infections. On 13 January 2021, the Government of Malaysia put in place the second MCO, known as MCO 2.0 and on 5 March 2021, replaced the MCO with the CMCO. The Group and the Company are closely monitoring the developing situation and the impact of COVID-19 on their operation and financial position.

While the results of the Group and the Company for the year have remained resilient, the Group and the Company remain cautious in maintaining the same level of profitability amid ongoing uncertainties to the economy arising from the COVID-19 pandemic.

**SUBSEQUENT EVENT**

There were no material events subsequent to the end of the current financial year that have not been reported in the financial statements for the financial year ended 31 December 2020.

**AUDITORS' REMUNERATION**

|                        | <u>Group</u> | <u>Company</u> |
|------------------------|--------------|----------------|
|                        | RM           | RM             |
| Auditors' remuneration | 383,290      | 363,900        |

The auditors' remuneration is disclosed in Note 24 to the financial statements. The auditors were not granted indemnity or insurance by the Group and the Company.

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**THE PACIFIC INSURANCE BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**AUDITORS**

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 18 March 2021.



**DATO' KHALID BIN ABDOL RAHMAN**  
**DIRECTOR**



**DATO' CHAN CHOY LIN**  
**DIRECTOR**



**THE PACIFIC INSURANCE BERHAD**  
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**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

|  | Note  | 2020                 |                      | 2019                 |                      |
|--|-------|----------------------|----------------------|----------------------|----------------------|
|  |       | <u>Group</u>         | <u>Company</u>       | <u>Group</u>         | <u>Company</u>       |
|  |       | RM                   | RM                   | RM                   | RM                   |
| Gross earned premiums  | 19(a) | 523,355,710          | 523,355,710          | 551,210,998          | 551,210,998          |
| Earned premiums ceded to reinsurers  | 19(b) | (280,290,243)        | (280,290,243)        | (292,809,391)        | (292,809,391)        |
| <b>Net earned premiums</b>   | 19    | <u>243,065,467</u>   | <u>243,065,467</u>   | <u>258,401,607</u>   | <u>258,401,607</u>   |
| Investment income  | 20    | 22,978,417           | 31,712,493           | 25,814,546           | 32,593,515           |
| Realised gains/(losses)  | 21    | 15,717,335           | 5,818,720            | 8,450,184            | 257,010              |
| Fee and commission income  | 23    | 46,926,541           | 46,926,541           | 47,490,655           | 47,490,655           |
| Other operating revenue  |       | 2,533,205            | 2,533,205            | 2,016,098            | 2,016,098            |
| <b>Other revenue</b>   |       | <u>88,155,498</u>    | <u>86,990,959</u>    | <u>83,771,483</u>    | <u>82,357,278</u>    |
| <b>Total revenue</b>   |       | <u>331,220,965</u>   | <u>330,056,426</u>   | <u>349,468,534</u>   | <u>348,601,305</u>   |
| Gross benefits and claims paid   | 14(i) | (376,163,044)        | (376,163,044)        | (311,387,516)        | (311,387,516)        |
| Claims ceded to reinsurers   | 14(i) | 210,067,429          | 210,067,429          | 150,850,109          | 150,850,109          |
| Gross change to claims liabilities   |       | 109,191,260          | 109,191,260          | (80,911,033)         | (80,911,033)         |
| Change to claims liabilities ceded to reinsurers   |       | (79,138,020)         | (79,138,020)         | 102,678,070          | 102,678,070          |
| <b>Net benefits and claims</b>   |       | <u>(136,042,375)</u> | <u>(136,042,375)</u> | <u>(138,770,370)</u> | <u>(138,770,370)</u> |
| Fee and commission expenses  |       | (63,405,521)         | (63,405,521)         | (64,434,536)         | (64,434,536)         |
| Management expenses  | 24    | (88,141,588)         | (87,235,198)         | (93,986,536)         | (93,147,917)         |
| Fair value (losses)/gains  | 22    | (3,699,525)          | (3,504,231)          | 7,295,444            | 7,842,420            |
| <b>Other expenses</b>  |       | <u>(155,246,634)</u> | <u>(154,144,950)</u> | <u>(151,125,628)</u> | <u>(149,740,033)</u> |
| <b>Finance cost</b>  |       | <u>(2,015,878)</u>   | <u>(2,015,878)</u>   | <u>(2,142,519)</u>   | <u>(2,142,519)</u>   |
| <b>Profit before taxation</b>  |       | <u>37,916,078</u>    | <u>37,853,223</u>    | <u>50,134,573</u>    | <u>50,105,963</u>    |
| Taxation   | 25    | (2,586,431)          | (2,586,431)          | (6,987,655)          | (6,987,655)          |
| <b>Net profit for the financial year</b>   |       | <u>35,329,647</u>    | <u>35,266,792</u>    | <u>43,146,918</u>    | <u>43,118,308</u>    |
| <b>Net profit and total comprehensive income for the financial year</b>                  |       | <u>35,329,647</u>    | <u>35,266,792</u>    | <u>43,146,918</u>    | <u>43,118,308</u>    |
| <b>Net profit and total comprehensive income for the financial year attributable to:</b> |       |                      |                      |                      |                      |
| Owner of the Company   |       | 35,307,922           | 35,266,792           | 43,112,967           | 43,118,308           |
| Unitholders  |       | 21,725               | -                    | 33,951               | -                    |
|  |       | <u>35,329,647</u>    | <u>35,266,792</u>    | <u>43,146,918</u>    | <u>43,118,308</u>    |
| Earnings per share attributable to owner of the Company (sen)                            |       |                      |                      |                      |                      |
| Basic  | 26    | <u>16.1</u>          | <u>16.0</u>          | <u>19.6</u>          | <u>19.6</u>          |

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

**THE PACIFIC INSURANCE BERHAD**  
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**STATEMENTS OF FINANCIAL POSITION**  
**AS At 31 DECEMBER 2020**

|   | Note | 2020                 |                      | 2019                 |                      |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | <u>Group</u>         | <u>Company</u>       | <u>Group</u>         | <u>Company</u>       |
|   |      | RM                   | RM                   | RM                   | RM                   |
| <b>ASSETS</b>                                       |      |                      |                      |                      |                      |
| Property and equipment                              | 3    | 43,995,855           | 43,995,855           | 45,145,011           | 45,145,011           |
| Investment properties                               | 4    | 16,427,465           | 16,427,465           | 16,796,723           | 16,796,723           |
| Intangible assets                                   | 5    | 49,097,494           | 49,097,494           | 41,708,843           | 41,708,843           |
| Investments:  |      |                      |                      |                      |                      |
| Fair value through profit or loss financial assets  | 6    | 527,230,131          | 536,835,270          | 501,510,211          | 512,812,741          |
| Amortised cost                                      | 6    | 43,687,131           | 43,687,131           | 55,774,229           | 55,774,229           |
| Reinsurance assets                                  | 8    | 533,863,904          | 533,863,904          | 634,146,422          | 634,146,422          |
| Insurance and other receivables                     | 9    | 156,251,723          | 157,397,137          | 116,135,916          | 116,135,916          |
| Right-of-use assets                                 | 10   | 4,664,169            | 4,664,169            | 7,094,059            | 7,094,059            |
| Loans   | 11   | 624,221              | 624,221              | 914,083              | 914,083              |
| Deferred tax asset                                  | 15   | 2,510,844            | 2,510,844            | 3,011,853            | 3,011,853            |
| Tax recoverable                                     |      | 4,607,007            | 4,607,007            | 6,051,210            | 6,051,210            |
| Cash and cash equivalents                           |      | 122,253,649          | 110,979,159          | 182,915,615          | 170,764,379          |
| <b>Total assets</b>                                 |      | <u>1,505,213,593</u> | <u>1,504,689,656</u> | <u>1,611,204,175</u> | <u>1,610,355,469</u> |
| <b>EQUITY AND LIABILITIES</b>                       |      |                      |                      |                      |                      |
| <b>Equity attributable to owners of the Company</b> |      |                      |                      |                      |                      |
| Share capital                                       | 12   | 219,875,038          | 219,875,038          | 219,875,038          | 219,875,038          |
| Retained profits                                    |      | 216,569,743          | 216,545,795          | 181,261,821          | 181,279,003          |
| <b>Total equity</b>                                 |      | <u>436,444,781</u>   | <u>436,420,833</u>   | <u>401,136,859</u>   | <u>401,154,041</u>   |
| <b>Liabilities</b>                                  |      |                      |                      |                      |                      |
| Insurance contract liabilities                      | 14   | 908,293,690          | 908,293,690          | 1,018,274,660        | 1,018,274,660        |
| Subordinated loans                                  | 17   | 34,195,181           | 34,195,181           | 32,486,891           | 32,486,891           |
| Insurance and other payables                        | 16   | 121,445,730          | 120,945,741          | 152,060,270          | 151,194,382          |
| Lease liability                                     | 18   | 4,834,211            | 4,834,211            | 7,245,495            | 7,245,495            |
| <b>Total liabilities</b>                            |      | <u>1,068,768,812</u> | <u>1,068,268,823</u> | <u>1,210,067,316</u> | <u>1,209,201,428</u> |
| <b>Total equity and liabilities</b>                 |      | <u>1,505,213,593</u> | <u>1,504,689,656</u> | <u>1,611,204,175</u> | <u>1,610,355,469</u> |

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

Company No.  
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD  
(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

|                                   | <u>Attributable to owners of the Company</u> |  |                                |                           |
|-----------------------------------|--|--|--------------------------------|---------------------------|
|                                   | <u>Share capital</u><br>RM                   | <u>Available for-sale reserves</u><br>RM | <u>Retained earnings</u><br>RM | <u>Total equity</u><br>RM |
| <b>Group</b>                      |  |  |                                |                           |
| At 31 December 2018               | 219,875,038                                  | 3,387,028                                | 138,104,163                    | 361,366,229               |
| Effects of adoption of MFRS 9     | -  | (3,387,028)                              | 44,691                         | (3,342,337)               |
| At 1 January 2019 (Restated)      | 219,875,038                                  | -  | 138,148,854                    | 358,023,892               |
| Net profit for the financial year | -  | -  | 43,112,967                     | 43,112,967                |
| At 31 December 2019               | 219,875,038                                  | -  | 181,261,821                    | 401,136,859               |
| At 1 January 2020                 | 219,875,038                                  | -  | 181,261,821                    | 401,136,859               |
| Net profit for the financial year | -  | -  | 35,307,922                     | 35,307,922                |
| At 31 December 2020               | 219,875,038                                  | -  | 216,569,743                    | 436,444,781               |

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

Company No.  
198201011878 (91603-K)

THE PACIFIC INSURANCE BERHAD  
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

|                                   | <u>Share<br/>capital</u><br>RM | <u>Non-distributable<br/>Available-<br/>for-sale<br/>reserves</u><br>RM | <u>Distributable<br/>Retained<br/>earnings</u><br>RM | <u>Total<br/>equity</u><br>RM |
|-----------------------------------|--------------------------------|---|--|-------------------------------|
| <u>Company</u>                    |                                |   |  |                               |
| At 31 December 2018               | 219,875,038                    | 3,671,784   | 137,831,248  | 361,378,070                   |
| Effects of adoption of MFRS 9     | -                              | (3,671,784)   | 329,447  | (3,342,337)                   |
| At 1 January 2019 (Restated)      | 219,875,038                    | -   | 138,160,695  | 358,035,733                   |
| Net profit for the financial year | -                              | -   | 43,118,308   | 43,118,308                    |
| At 31 December 2019               | 219,875,038                    | -   | 181,279,003  | 401,154,041                   |
| At 1 January 2020                 | 219,875,038                    | -   | 181,279,003  | 401,154,041                   |
| Net profit for the financial year | -                              | -   | 35,266,792   | 35,266,792                    |
| At 31 December 2020               | 219,875,038                    | -   | 216,545,795  | 436,420,833                   |

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

**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

|  | 2020          |                | 2019          |                |
|--|---------------|----------------|---------------|----------------|
|  | <u>Group</u>  | <u>Company</u> | <u>Group</u>  | <u>Company</u> |
|  | RM            | RM             | RM            | RM             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |               |                |               |                |
| Profit/(Loss) before taxation  | 37,916,078    | 37,853,223     | 50,134,573    | 50,105,963     |
| <b>Adjustment for:</b>   |               |                |               |                |
| Depreciation of property and equipment   | 2,377,311     | 2,377,311      | 2,307,812     | 2,307,812      |
| Gain on disposal of property and equipment                                       | (27,389)      | (27,389)       | (143,026)     | (143,026)      |
| Property and equipment written-off   | 42,149        | 42,149         | 32,622        | 32,622         |
| Intangible assets written-off  | -             | -              | 2,555         | 2,555          |
| Finance cost on subordinated loans   | 1,708,290     | 1,708,290      | 1,703,626     | 1,703,626      |
| Finance cost on lease liability  | 307,588       | 307,588        | 438,894       | 438,894        |
| Change in fair value of FVTPL financial assets                                   | 3,012,848     | 2,817,554      | (7,327,022)   | (7,873,999)    |
| Foreign currency translation differences   | 686,677       | 686,677        | 31,579        | 31,579         |
| Depreciation of investment properties  | 369,258       | 369,258        | 359,896       | 359,896        |
| Amortisation of intangible assets  | 808,068       | 808,068        | 357,234       | 357,234        |
| Depreciation of right-of-use assets  | 3,877,134     | 3,877,134      | 4,075,429     | 4,075,429      |
| Net gain on disposal of:   |               |                |               |                |
| FVTPL financial assets   | (15,732,095)  | (5,833,480)    | (8,342,334)   | (149,160)      |
| Investment income  | (19,079,420)  | (28,141,775)   | (19,310,129)  | (26,590,989)   |
| Bad debts (recovery)/written-off   | (3,277,254)   | (3,277,254)    | (165,399)     | (165,399)      |
| (Write-back of)/Provision for allowance for impairment losses:                   |               |                |               |                |
| Insurance receivables and reinsurance recoverables                               | 543,968       | 543,968        | (4,428,328)   | (4,428,328)    |
| Reinsurance assets   | (127,023)     | (127,023)      | (374,124)     | (374,124)      |
| Other income   | -             | -              | (5,505)       | (5,505)        |
| Rent concession  | (10,839)      | (10,839)       | -             | -              |
| Profit/(Loss) from operations before changes in operating assets and liabilities | 13,395,349    | 13,973,460     | 19,348,353    | 19,685,080     |
| <b>Changes in working capital:</b>   |               |                |               |                |
| Purchase of investments  | (477,578,209) | (208,297,350)  | (598,808,060) | (112,062,068)  |
| Proceeds from disposal/ maturity of investments                                  | 474,841,744   | 198,176,617    | 583,335,708   | 88,543,539     |
| Increase in loans and receivables  | 289,862       | 289,862        | 29,474        | 29,474         |
| Decrease in reinsurance assets   | 100,409,541   | 100,409,541    | (106,065,262) | (106,065,262)  |
| Increase in insurance and other receivables                                      | (37,382,766)  | (38,528,180)   | 11,981,182    | 12,236,086     |

**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

|   | <b>2020</b>         |                     | <b>2019</b>         |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | <b>Group</b>        | <b>Company</b>      | <b>Group</b>        | <b>Company</b>      |
|   | <b>RM</b>           | <b>RM</b>           | <b>RM</b>           | <b>RM</b>           |
| Increase in insurance contract liabilities                      | (109,980,970)       | (109,980,970)       | 79,381,654          | 79,381,654          |
| (Decrease)/Increase in insurance and other payables             | (30,657,991)        | (30,248,641)        | (20,531,556)        | (20,756,083)        |
| <b>Net (decrease)/increase in working capital</b>               | <b>(66,663,440)</b> | <b>(74,205,661)</b> | <b>(31,328,507)</b> | <b>(39,007,580)</b> |
| Investment income received                                      | 20,215,634          | 28,656,326          | 19,604,061          | 26,716,172          |
| Interest paid on lease liabilities                              | (307,588)           | (307,588)           | (438,894)           | (438,894)           |
| Income tax paid   | (641,230)           | (641,230)           | (3,983,182)         | (3,983,182)         |
| Income tax refund   | -                   | -                   | 7,303,988           | 7,303,988           |
| Tax penalty paid  | -                   | -                   | (289,943)           | (289,943)           |
| <b>Net cash (used in)/generated from operating activities</b>   | <b>(47,396,624)</b> | <b>(46,498,153)</b> | <b>(9,132,477)</b>  | <b>(9,699,439)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                     |                     |                     |                     |
| Purchase of property and equipment                              | (1,291,845)         | (1,291,845)         | (2,691,950)         | (2,691,950)         |
| Purchase of intangible assets                                   | (8,177,520)         | (8,177,520)         | (742,721)           | (742,721)           |
| Purchase of investment property                                 | -                   | -                   | (662,396)           | (662,396)           |
| Proceeds from disposal of property and equipment                | 29,729              | 29,729              | 154,130             | 154,130             |
| Distribution to unitholders                                     | 21,725              | -                   | 33,951              | -                   |
| <b>Net cash used in investing activities</b>                    | <b>(9,417,911)</b>  | <b>(9,439,636)</b>  | <b>(3,908,986)</b>  | <b>(3,942,937)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITY</b>                       |                     |                     |                     |                     |
| Repayment of lease liabilities                                  | (3,847,431)         | (3,847,431)         | (3,918,487)         | (3,918,487)         |
| <b>Net cash used in financing activity</b>                      | <b>(3,847,431)</b>  | <b>(3,847,431)</b>  | <b>(3,918,487)</b>  | <b>(3,918,487)</b>  |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>     | <b>(60,661,966)</b> | <b>(59,785,220)</b> | <b>(16,959,950)</b> | <b>(17,560,863)</b> |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b> | <b>182,915,615</b>  | <b>170,764,379</b>  | <b>199,875,565</b>  | <b>188,325,242</b>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>       | <b>122,253,649</b>  | <b>110,979,159</b>  | <b>182,915,615</b>  | <b>170,764,379</b>  |

Company No.  
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**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

|  | <b>2020</b>        |                    | <b>2019</b>        |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | <b>Group</b>       | <b>Company</b>     | <b>Group</b>       | <b>Company</b>     |
|  | <b>RM</b>          | <b>RM</b>          | <b>RM</b>          | <b>RM</b>          |
| <b>Cash and cash equivalents comprise:</b>                   |                    |                    |                    |                    |
| Fixed and call deposits with licensed financial institutions | 105,131,811        | 93,996,233         | 157,921,567        | 145,971,175        |
| Cash and cash equivalents                                    | 17,121,838         | 16,982,926         | 24,994,048         | 24,793,204         |
|  | <u>122,253,649</u> | <u>110,979,159</u> | <u>182,915,615</u> | <u>170,764,379</u> |

**Reconciliation of liabilities arising from financing activities**

|                           | <b>2020</b>       |                         | <b>2019</b>       |                         |
|---------------------------|-------------------|-------------------------|-------------------|-------------------------|
|                           | <b>Principal</b>  | <b>Interest payable</b> | <b>Principal</b>  | <b>Interest payable</b> |
|                           | <b>RM</b>         | <b>RM</b>               | <b>RM</b>         | <b>RM</b>               |
| <u>Group and Company</u>  |                   |                         |                   |                         |
| <b>Subordinated Loans</b> |                   |                         |                   |                         |
| At 1 January              | 24,337,504        | 8,149,387               | 24,337,504        | 6,445,761               |
| Interest charge           | -                 | 1,708,290               | -                 | 1,703,626               |
| At 31 December            | <u>24,337,504</u> | <u>9,857,677</u>        | <u>24,337,504</u> | <u>8,149,387</u>        |

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
|   | <b>RM</b>        | <b>RM</b>        |
| <b>Lease Liability</b>                      |                  |                  |
| At 31 December 2018, as previously reported | -                | -                |
| Effects of adoption of MFRS 16              | -                | 9,311,758        |
| At 1 January                                | <u>7,245,495</u> | <u>9,311,758</u> |
| Cash flows                                  | (4,155,019)      | (4,357,381)      |
| Interest charge                             | 307,588          | 438,894          |
| Lease additions                             | 1,513,110        | 1,971,481        |
| Modification of lease term                  | (5,544)          | (65,438)         |
| Change in consideration                     | (60,580)         | (53,819)         |
| Rent concession                             | (10,839)         | -                |
| At 31 December                              | <u>4,834,211</u> | <u>7,245,495</u> |

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

**Company No.**  
**198201011878 (91603-K)**

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020**

**1. CORPORATE INFORMATION**

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity of the Company during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 40-1, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur, 50470 Kuala Lumpur.

The Company is a subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited, a company incorporated in Canada.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 18 March 2021.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The financial statements of the Group and the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The Company has met the minimum capital requirements as prescribed by the RBC Framework and the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers as at the date of the statements of financial position.

The preparation of financial statements in conformity with MFRSs 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 statements of financial position and the reported amounts of revenues and expenses during the reported financial year. It also requires the Directors to exercise their judgement in the process of applying the Group's and 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 2.3 to the financial statements.



**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.1 Basis of preparation (continued)

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

On 1 January 2020, the Group and the Company adopted the following new and amended standards and interpretation mandatory for annual financial periods beginning on or after 1 January 2020.

- Amendments to MFRS 3 *Business Combinations* - Definition of a Business
- Amendments to MFRS 9, MFRS 139 and MFRS 7 - Interest Rate Benchmark Reform
- Amendments to MFRS 101 *Presentation of Financial Statements* - Definition of Material
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* - Definition of Material
- The Conceptual Framework for Financial Reporting (Revised 2018)

The application of the above new and amended standards issued by Malaysian Accounting Standards Board ("MASB") do not have any material impact to the current and prior periods financial statements upon their initial adoption.

- (b) Standards early adopted by the Group and the Company

The Group and the Company have elected to early adopt Amendments to MFRS 16 *Leases: COVID-19-Related Rent Concessions* for the first time in the 2020 financial statements; with the date of initial application of 1 January 2020, which resulted in changes in accounting policies.

Amendments to MFRS 16: COVID-19-Related Rent Concessions

On adoption of the MFRS 16 amendment, the Group and the Company are not required to assess whether a rent concession that occurs as a direct consequence of the COVID-19 pandemic and meet specified conditions is a lease modification.

The Group and the Company account for such COVID-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.

In accordance with the transitional provisions provided in the MFRS 16 amendment, the comparative information for 2019 was not restated and continued to be reported under the previous accounting policies in accordance with the lease modification principles in MFRS 16. These amendments had no impact to the retained earnings on 1 January 2020.

**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.1 Basis of preparation (continued)

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

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

- Amendments to MFRS 116 *Property, Plant and Equipment* - Proceeds before Intended Use
- Amendments to MFRS 3 *Business Combinations* - Reference to Conceptual Framework
- Amendments to MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* - Onerous Contracts-Cost of Fulfilling a Contract
- Annual improvement to MFRSs 2018 - 2022 Cycle

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023:

- Amendments to MFRS 101 *Presentation of Financial Statements* - Classification of Liabilities as Current or Non-current
- MFRS 17 Insurance Contracts

These standards are not expected to have a material impact on the Group and the Company in the current or future reporting periods and on foreseeable future transactions except as discussed below:

MFRS 17 Insurance Contracts

MFRS 17 "Insurance Contracts" replaces MFRS 4 "Insurance Contracts" for reporting periods beginning on or after 1 January 2023.

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.

**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.1 Basis of preparation (continued)

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

MFRS 17 Insurance Contracts (continued)

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

Alternative measurement models are provided for the different insurance coverages:

- (i) Simplified Premium Allocation Approach if the insurance coverage period is a year or less.
- (ii) 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. Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

The Group and the Company plan to adopt MFRS 17 on the required effective date and a Project Steering Committee has been formed to oversee the implementation of MFRS 17. The Group and the Company expect MFRS 17 to result in important changes to accounting policies for insurance contract liabilities of the Group and the Company and is likely to have a material impact on financial performance and position together with the Group's and the Company's financial statements' presentation and disclosures.

**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. See accounting policy Note 5 to the financial statements on goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the gain is recognised directly in the statements of comprehensive income. Acquisition related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. This may indicate an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary which is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the statements of comprehensive income attributable to the parent.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statements of comprehensive income, statements of changes in equity and statements of financial position respectively.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Investment in subsidiaries

In the Group's separate financial statements, investment in a subsidiary is stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 2.2(i) to the financial statements on impairment of financial assets. The amount due from subsidiary of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in the subsidiary.

(iii) Change in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost with change in carrying amount recognised in statement of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture, or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of income.

(b) Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries (including structured entities) are carried at fair value in accordance with MFRS 9 *Financial Instruments*: Recognition and Measurement. On disposal of investment in subsidiaries, the difference between the disposal proceeds and the carrying amounts of the investment is recognised in the statements of comprehensive income.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(c) Property and equipment

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

The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable for operating in the manner intended by management.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Depreciation is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

|                                  |  |
|----------------------------------|--|
| Leasehold land and building      | Over the remaining period of the lease<br>or 50 years whichever is shorter |
| Office renovation                | 33 <sup>1</sup> /3%  |
| Motor vehicles                   | 20%  |
| Furniture, fixtures and fittings | 10%  |
| Office equipment                 | 10%  |
| Computer equipment               | 20% - 50%  |

A depreciation rate of 50% is applied to computer notebooks on loan to agents of the Company.

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the statements of comprehensive income.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(d) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both are classified as investment properties.

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

Depreciation is provided for on a straight-line basis over the estimated useful life of 50 years for the investment properties. The residual values and useful lives of the investment properties are reviewed, and adjusted if appropriate, at the end of each reporting period.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal is recognised in the statements of comprehensive income in the year in which it arises.

(e) Intangible assets

Intangible assets of the Group and the Company consist of computer software, acquired licence and goodwill.

Computer software

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(f) to the financial statements.

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.

The computer software is amortised on a straight-line basis over the estimated economic useful life of 5 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(e) Intangible assets (continued)

Acquired licence

Acquired licence is shown at a historical cost. The licence has a finite useful life and is carried at cost less accumulated amortisation and accumulated losses. Licence is amortised on a declining balance method. The declining balance method allocates a greater amount of amortisation in the earlier years of an intangible assets's life than in the later years.

Acquired computer software licence is capitalised on the basis of the costs incurred to acquire and bring to use the specific software, which includes import duties and non-refundable purchase taxes. This cost is amortised over their estimated useful lives of 7 years.

Goodwill

Goodwill arising on acquisition of general insurance business represents the excess of the cost of acquisition of the general insurance business over the fair value of the identifiable net assets recognised at the date of acquisition. Goodwill on acquisition of general insurance business is included in the statements of financial position as intangible assets. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

Goodwill on acquisition of general insurance business is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment loss on goodwill on acquisition of general insurance business is recognised immediately as an expenses and is not subsequently reversed as set out in Note 2.2(f) on the accounting policy for impairment for non-financial assets.

Goodwill is allocated to cash-generating unit ("CGU") for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. The Group and the Company allocate goodwill to the combined general insurance business as a whole, which has been identified as a CGU.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(f) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. The Group and the Company also assess goodwill that is subject to amortisation for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

(g) Investments and other financial assets

i. Classification

The Group and the Company classify their financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

ii. Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group and the Company commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Company have transferred substantially all the risks and rewards of ownership.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

iii. Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Company's business model for managing the asset and the cash flow characteristics of the asset. The Group and the Company reclassify debt investments when and only when its business model for managing those assets changes.

There are two measurement categories into which the Group and the Company classify its debt instruments:

a. Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. The gain or loss arising on derecognition is recognised directly in statements of comprehensive income and presented in realised gains/(losses) whereas foreign exchange gains and losses are presented in other operating revenue. Impairment losses are presented as separate line item in the statements of comprehensive income.

b. FVTPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Group and the Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in statements of comprehensive income and presented in fair value gains/(losses) whereas foreign exchange gains and losses are presented in other operating revenue.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(g) Investments and other financial assets (continued)

iii. Measurement (continued)

Equity instruments

Equity instruments are instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuers' net assets.

The Group and the Company subsequently measure all equity instruments at FVTPL. Dividend will be recognised in income statements as investment income when the Group's and the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in fair value gains/(losses) in the statements of comprehensive income.

iv. Reclassification

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

However, it will be inappropriate to reclassify financial assets that have been designated at FVTPL, or equity instruments that have been designated as at FVOCI even when there is a change in business model. Such designations are irrevocable.

(h) Fair value of financial instruments

All financial instruments are recognised initially at the transacted price, which is the best indicator of fair value. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For financial instruments where there is no active market such as unquoted securities, fair value is determined based on quotes from independent brokers.

(i) Impairment of financial assets

The Group and the Company recognise an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVTPL. The Group and the Company assess on a forward looking basis the ECL associated with their debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Group and the Company expect to receive, over the remaining life of the financial instrument.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

The Group and the Company have two types of financial instruments that are subject to the ECL model:

- Insurance receivables and reinsurance recoverables
- Other receivables

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

i. General 3-stage approach for other receivables

At each reporting date, the Group and the Company measure ECL through loss allowance at an amount equal to 12 months ECL if credit risk on other receivables has not increased significantly since initial recognition. For all other receivables, a loss allowance at an amount equal to lifetime ECL is required.

ii. Simplified approach for insurance receivables and reinsurance recoverables

The Group and the Company apply the MFRS 9 simplified approach to measure ECL which use a lifetime ECL for insurance receivables and reinsurance recoverables. 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.

Definition of default and credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

Write-off

The Group and the Company write off financial assets, in whole or in part, when they have exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Group and the Company may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in gains recognised in statements of comprehensive income.

(j) Derecognition of financial assets

Financial assets are derecognised when the Group's and the Company's contractual rights to the cash flows from the financial assets expires or when the Group and the Company transfer the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(l) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(l) Non-current assets (or disposal groups) held for sale (continued)**

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statements of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statements of financial position.

**(m) Equity instruments**

Ordinary shares are classified as equity on the statements of financial position.

Dividends on ordinary shares are recognised and reflected in the statements of changes in equity when they are approved by the Group's and the Company's shareholders. Interim dividends are deducted from equity when they are paid.

**(n) Product classification**

The Group and the Company issue contracts that transfer insurance risk only.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Group and the Company (the insurer) have 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 Group and the Company determine whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

**(o) Reinsurance**

The Group and the Company cede insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amount 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 Group and the Company from their obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(o) Reinsurance (continued)**

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group and 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 Group and the Company will receive from the reinsurer. The impairment loss is recorded in the statements of comprehensive income.

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

The Group and the Company also assume 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 have expired or when the contract is transferred to another party.

**(p) Underwriting results**

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

**(i) Premium income**

Premiums from direct business are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted before the end of the reporting period for which policies are issued subsequent to the end of the reporting period are accrued at the end of the reporting period.

Inward treaty reinsurance premiums are recognised on the basis of available periodic advices received from ceding insurers.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(p) Underwriting results (continued)

(ii) Premium liabilities

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year, and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level 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 at the end of the financial year including allowance for insurer's expenses.

(a) Unexpired risk reserves

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year and also includes allowance for expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

(b) Unearned premium reserves

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

In determining the UPR at reporting date, the method that most accurately reflects the actual liability is used, as follows:

- 25% method for marine cargo, aviation cargo and transit business.
- 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower:

|   |          |
|---|----------|
| - Motor and bonds                             | 10%      |
| - Fire, engineering, aviation and marine hull | 15%      |
| - Medical                                     | 10 - 15% |
| - Other classes                               | 25%      |
- non-annual policies are time-apportioned over the period of the risks.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(p) Underwriting results (continued)

(iii) Claim liabilities

Claim liabilities are recognised as the obligation to make future payments in relation to all claims that have been incurred as at the end of the financial year. They are recognised in respect of both direct insurance and inward reinsurance. The value is the best estimate value of claim liabilities which include provision for claims reported, claims incurred but not enough reserved ("IBNER"), claims incurred but not reported ("IBNR") and direct and indirect claim-related expenses as well as PRAD at a 75% confidence level calculated at the overall Company level. These estimates are based on an actuarial valuation performed by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development patterns.

(iv) Acquisition costs

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

(q) Insurance receivables and reinsurance recoverable

Insurance receivables and reinsurance recoverables are recognised when due and measured at the fair value of the consideration received and receivable.

If there is objective evidence that the insurance receivables and reinsurance recoverables is impaired, the Group and the Company reduce the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statements of comprehensive income. The Group and the Company gather the objective evidence that an insurance receivable is impaired using the same process and method as described in Note 2.2(i) to the financial statements.

(r) Insurance contract liabilities

Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the end of the reporting period.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(r) Insurance contract liabilities (continued)

The liability is calculated at the end of the reporting period 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 unearned premiums reserves represent 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 Group and the Company review their 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 the statements of comprehensive income by setting up a provision for liability adequacy.

(s) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Gross dividend/distribution income from unit trust funds

Gross dividend/distribution income from unit trust funds is recognised on a declared basis when the shareholder's/ unitholders' right to receive payment is established.

(iv) Net realised gain/loss on investment

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the statements of comprehensive income.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(t) Income tax**

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 statements of comprehensive income.

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

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted at the end of the reporting period. Deferred tax is recognised as an income or an expense and included in the statements of comprehensive income for the period. 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.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(u) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences.

Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group and the Company pay fixed contributions into a separate entity and will have no legal or constructive obligation. The Group and the Company make statutory and voluntary contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the statements of comprehensive income as incurred.

(iii) Employee share ownership plan

Employee share ownership plan ("ESOP") is a long term investment plan for the employees within the Fairfax group to invest in the shares of Fairfax Financial Holdings Ltd through the employees' salary deduction. The Company makes contributions to the plan and such contributions are recognised as an expense in the statements of comprehensive income as incurred.

(v) Foreign currencies

The financial statements are presented in Ringgit Malaysia ("RM") which is also the functional currency and presentation currency of the Group and the Company.

Foreign currency transactions are translated into RM using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 statements of comprehensive income and presented within other operating revenue.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(w) Other financial liabilities and insurance payables

Other liabilities and payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

(x) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash and bank balances and fixed and call deposits with financial institutions with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

The statements of cash flows have been prepared using the indirect method.

(y) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Recognition method

The particular recognition method adopted for financial instruments recognised on the statements of financial position is disclosed in the individual accounting policy note associated with each item.

Fair value estimation

The Group's and the Company's basis of estimation of fair values for financial instruments is as follow:

- the fair values of Malaysian Government Securities and Government investment issues are based on the indicative market prices;
- the fair values of unquoted corporate debt securities are based on the indicative market yield obtained from dealers and brokers;
- the fair values of quoted equity securities and Real Estate Investment Trusts ("REITs") are based on quoted prices;

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(y) Financial instruments (continued)

Fair value estimation (continued)

The Group's and the Company's basis of estimation of fair values for financial instruments is as follow (continued):

- the fair values of the unit trust funds are based on the fair value of the underlying assets of the fund; and
- the carrying amounts for other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

(z) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statements of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statements of comprehensive income within.

Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(aa) Leases in which the Group and the Company are lessee

Leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Group and the Company (i.e. the commencement date).

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

(i) Lease term

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

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

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(aa) Leases in which the Group and the Company are lessee (continued)

(ii) ROU assets (continued)

ROU assets are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group and the Company are reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2.2(f) Impairment of non-financial assets.

(iii) Lease liabilities

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

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

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

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

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(aa) Leases in which the Group and the Company are lessee (continued)

(iii) Lease liabilities (continued)

The Group and the Company present the lease liabilities as a separate line item in the statements of financial position. Interest expense on the lease liability is presented within the finance cost in the statements of comprehensive income.

(iv) Reassessment of lease liabilities

A reassessment of the lease liability takes place if the cash flows change based on the original terms and conditions, for example:

- (a) A change in lease term due to the Group and the Company exercise an option (purchase / termination / extension) in a different way than the entity had previously determined was reasonably certain;
- (b) A change in lease term due to an event occurs that contractually obliged / prohibits the Group and the Company from exercise the option;
- (c) A change in the amounts expected to be payable under a residual value guarantee; or
- (d) A change in future lease payments resulting from a change in an index or rate used to determine those payments

(v) Accounting policies applied from 1 January 2020

During the financial year, the Group and the Company elect to account for a COVID-19-related rent concession that meets all of the following conditions in the same way as they would if they were not lease modification:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

The Group and the Company account for such COVID-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The Group and the Company present the impacts of rent concessions within operating expenses. The amount recognised in statements of comprehensive income for the reporting period to reflect changes in lease payments arising from rent concession to which the Group and the Company have applied the practical expedient for COVID-19-related rent concessions is RM10,840 (2019: NIL).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(aa) Leases in which the Group and the Company are lessee (continued)

(vi) Accounting policies applied until 31 December 2019

Until 31 December 2019, a change in lease payments (including rent concession), other than those arising from a change in amounts expected to be payable under residual value guarantees or in an index or rate used to determine lease payments, is accounted for as a lease modification if it is not part of the original terms and conditions of the lease. The lease modification is accounted for as either a new lease or as a remeasurement of an existing lease liability, depending on the criteria set in MFRS 16.

(v) Short-term leases asset

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases of equipment are recognised on a straight-line basis as an expense in profit or loss.

2.3 Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. These are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

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

(a) Critical judgements made in applying the Group's and the Company's accounting policies

In the process of applying the Group's and the Company's accounting policies, management is of the opinion that there are no instances of judgement which are expected to have a significant financial impact on the amounts and balances recognised in the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.3 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty and assumptions

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom 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 discussed below:

(i) Valuation of insurance contract liabilities

For insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims IBNR reserves at the end of the reporting period.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the claim liabilities. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Link Ratio and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratio. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, level of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.3 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(ii) Impairment of goodwill

The Group and the Company assess the impairment of goodwill on an annual basis in accordance with its accounting policy in Note 2.2(f) to the financial statements. The recoverable amount of the goodwill has been determined based on the value of expected future new business, taking into account of expected future expense overruns. The key assumptions used in the assessment are disclosed in Note 5 to the financial statements.

(iii) Provision for sliding scale commission

The Group and the Company recognise commission income on certain proportional reinsurance ceded that is subjected to commission adjustment based on incurred loss ratio of the ceded portfolio. Adjustments made for each financial period are based on the Group's and the Company's best estimate of ultimate incurred loss ratio for the ceded portfolio as it can take a significant period of time before the ultimate claims cost can be established with certainty.

The main assumption underlying the estimation are past claims development experience and claims incurred up to the date. The impact to financial performance and position on the possible change in commission rate is disclosed in Note 31 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**3. PROPERTY AND EQUIPMENT**

|  | <u>Office<br/>renovations</u><br>RM | <u>Motor<br/>vehicles</u><br>RM | <u>Furniture,<br/>fixtures, office<br/>equipment and<br/>computers</u><br>RM | <u>Building</u><br>RM | <u>Capital<br/>work-in<br/>progress</u><br>RM | <u>Total</u><br>RM |
|--|-------------------------------------|---------------------------------|--|-----------------------|---|--------------------|
| <u>Group/Company</u>                     |                                     |                                 |  |                       |   |                    |
| <u>2020</u>                              |                                     |                                 |  |                       |   |                    |
| <u>Cost</u>                              |                                     |                                 |  |                       |   |                    |
| At 1 January 2020                        | 1,295,038                           | 537,919                         | 9,660,414  | 43,620,525            | 19,199  | 55,133,095         |
| Additions                                | 39,596                              | -                               | 1,245,888  | -                     | 6,361   | 1,291,845          |
| Disposals                                | -                                   | (3,745)                         | (814,296)  | -                     | -   | (818,041)          |
| Write-offs                               | (98,875)                            | -                               | (311,892)  | -                     | -   | (410,767)          |
| Reclassification to intangible<br>assets | -                                   | -                               | -  | -                     | (19,199)                                      | (19,199)           |
| At 31 December 2020                      | 1,235,759                           | 534,174                         | 9,780,114  | 43,620,525            | 6,361   | 55,176,933         |
| <u>Accumulated depreciation</u>          |                                     |                                 |  |                       |   |                    |
| At 1 January 2020                        | 952,515                             | 108,526                         | 5,199,660  | 3,727,383             | -   | 9,988,084          |
| Charge for the financial year            | 206,719                             | 106,835                         | 1,186,984  | 876,773               | -   | 2,377,311          |
| Disposals                                | -                                   | (3,370)                         | (812,329)  | -                     | -   | (815,699)          |
| Write-offs                               | (98,875)                            | -                               | (269,743)  | -                     | -   | (368,618)          |
| At 31 December 2020                      | 1,060,359                           | 211,991                         | 5,304,572  | 4,604,156             | -   | 11,181,078         |
| Net book value                           | 175,400                             | 322,183                         | 4,475,542  | 39,016,369            | 6,361   | 43,995,855         |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**3. PROPERTY AND EQUIPMENT (CONTINUED)**

|  | <u>Office<br/>renovations</u><br>RM | <u>Motor<br/>vehicles</u><br>RM | <u>Furniture,<br/>fixtures, office<br/>equipment and<br/>computers</u><br>RM | <u>Building</u><br>RM | <u>Capital<br/>work-in<br/>progress</u><br>RM | <u>Total</u><br>RM |
|--|-------------------------------------|---------------------------------|--|-----------------------|---|--------------------|
| <u>Group/Company</u>                     |                                     |                                 |  |                       |   |                    |
| <u>2019</u>                              |                                     |                                 |  |                       |   |                    |
| <u>Cost</u>                              |                                     |                                 |  |                       |   |                    |
| At 1 January 2019                        | 1,492,885                           | 533,032                         | 9,741,949  | 41,993,293            | 172,479                                       | 53,933,638         |
| Additions                                | 28,140                              | 390,750                         | 488,048  | 1,627,232             | 157,780                                       | 2,691,950          |
| Disposals                                | -                                   | (385,863)                       | (267,580)  | -                     | -   | (653,443)          |
| Write-offs                               | (266,949)                           | -                               | (418,821)  | -                     | -   | (685,770)          |
| Reclassification                         | 40,962                              | -                               | 116,818  | -                     | (157,780)                                     | -                  |
| Reclassification to intangible<br>assets | -                                   | -                               | -  | -                     | (153,280)                                     | (153,280)          |
| At 31 December 2019                      | 1,295,038                           | 537,919                         | 9,660,414  | 43,620,525            | 19,199  | 55,133,095         |
| <u>Accumulated depreciation</u>          |                                     |                                 |  |                       |   |                    |
| At 1 January 2019                        | 945,447                             | 381,611                         | 4,771,413  | 2,877,288             | -   | 8,975,759          |
| Charge for the financial year            | 274,017                             | 106,346                         | 1,077,354  | 850,095               | -   | 2,307,812          |
| Disposals                                | -                                   | (379,431)                       | (261,919)  | -                     | -   | (641,350)          |
| Write-offs                               | (266,949)                           | -                               | (387,188)  | -                     | -   | (654,137)          |
| At 31 December 2019                      | 952,515                             | 108,526                         | 5,199,660  | 3,727,383             | -   | 9,988,084          |
| Net book value                           | 342,523                             | 429,393                         | 4,460,754  | 39,893,142            | 19,199  | 45,145,011         |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**4. INVESTMENT PROPERTIES**

|                                 | <u>2020</u><br>RM | <u>2019</u><br>RM |
|---------------------------------|-------------------|-------------------|
| <u>Group/Company</u>            |                   |                   |
| <u>Cost</u>                     |                   |                   |
| At 1 January                    | 18,496,596        | 17,834,200        |
| Additions                       | -                 | 662,396           |
| At 31 December                  | <u>18,496,596</u> | <u>18,496,596</u> |
| <u>Accumulated depreciation</u> |                   |                   |
| At 1 January                    | 1,699,873         | 1,339,977         |
| Charge for the financial year   | 369,258           | 359,896           |
| 31 December                     | <u>2,069,131</u>  | <u>1,699,873</u>  |
| Net book value                  | <u>16,427,465</u> | <u>16,796,723</u> |
| Fair value                      | <u>18,850,000</u> | <u>18,850,000</u> |

The fair value of the properties are estimated at RM18,850,000 based on valuations performed by an independent professionally qualified valuer. The fair value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**4. INVESTMENT PROPERTIES (CONTINUED)**

The fair value of investment properties are categorized at Level 2 of the fair value hierarchy. Fair value of the investment properties are measured in whole by reference to inputs other than the quoted price included within Level 1 that are observable for the investment properties, either directly or indirectly. The investment properties are valued using the Comparison Method.

There were no transfers between Level 1 and 2 fair value measurements during the financial year.

As at 31 December 2020, two commercial investment properties held by the Company are leased to third parties. Rental income from the properties is included in Note 20 to the financial statements.

**5. INTANGIBLE ASSETS**

|   | <u>Goodwill</u><br>RM | Computer<br>Software and<br><u>Licence</u><br>RM | Capital<br>work-in<br><u>progress</u><br>RM | <u>Total</u><br>RM |
|---|-----------------------|--|---|--------------------|
| <u>Group/Company</u>                                  |                       |  |   |                    |
| <u>2020</u>   |                       |  |   |                    |
| <u>Cost</u>   |                       |  |   |                    |
| At 1 January 2020                                     | 40,103,501            | 1,900,473  | 1,124,665                                   | 43,128,639         |
| Additions   | -                     | 8,075,897  | 101,623                                     | 8,177,520          |
| Written Off   | -                     | (13,819)   | -   | (13,819)           |
| Reclassification                                      | -                     | 1,124,665  | (1,124,665)                                 | -                  |
| Reclassification from property and equipment (Note 3) | -                     | 19,199   | -   | 19,199             |
| At 31 December 2020                                   | <u>40,103,501</u>     | <u>11,106,415</u>                                | <u>101,623</u>                              | <u>51,311,539</u>  |



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**5. INTANGIBLE ASSETS (CONTINUED)**

|   | <u>Goodwill</u><br>RM | Computer<br>Software and<br><u>Licence</u><br>RM | Capital<br>work-in<br><u>progress</u><br>RM | <u>Total</u><br>RM |
|---|-----------------------|--|---|--------------------|
| <u>Accumulated Amortisation</u>                       |                       |  |   |                    |
| At 1 January 2020                                     | -                     | 1,419,796  | -   | 1,419,796          |
| Charge for the financial year                         | -                     | 808,068  | -   | 808,068            |
| Written Off   | -                     | (13,819)   | -   | (13,819)           |
| At 31 December 2020                                   | -                     | 2,214,045  | -   | 2,214,045          |
| Net book value  | 40,103,501            | 8,892,370  | 101,623                                     | 49,097,494         |
| <u>Group/Company</u>                                  |                       |  |   |                    |
| <u>2019</u>   |                       |  |   |                    |
| <u>Cost</u>   |                       |  |   |                    |
| At 1 January 2019                                     | 40,103,501            | 1,612,356  | 542,543                                     | 42,258,400         |
| Additions   | -                     | 160,599  | 582,122                                     | 742,721            |
| Written Off   | -                     | (25,762)   | -   | (25,762)           |
| Reclassification from property and equipment (Note 3) | -                     | 153,280  | -   | 153,280            |
| At 31 December 2019                                   | 40,103,501            | 1,900,473  | 1,124,665                                   | 43,128,639         |

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)

5. INTANGIBLE ASSETS (CONTINUED)

|                                 | <u>Goodwill</u><br>RM | <u>Computer<br/>Software and<br/>Licence</u><br>RM | <u>Capital<br/>work-in<br/>progress</u><br>RM | <u>Total</u><br>RM |
|---------------------------------|-----------------------|--|---|--------------------|
| <u>Accumulated Amortisation</u> |                       |  |   |                    |
| At 1 January 2019               | -                     | 1,085,769  | -   | 1,085,769          |
| Charge for the financial year   | -                     | 357,234  | -   | 357,234            |
| Written Off                     | -                     | (23,207)   | -   | (23,207)           |
| At 31 December 2019             | -                     | 1,419,796  | -   | 1,419,796          |
| Net book value                  | 40,103,501            | 480,677  | 1,124,665                                     | 41,708,843         |

(a) The Company tests goodwill on acquisition of general insurance business for impairment annually in accordance with its accounting policy as stated in Note 2.2(e). More regular reviews will be performed if events indicate that this is necessary. This was not the case in the current financial year.

(b) Goodwill is allocated to cash-generating units ("CGU"), being the combined general business as a whole, for the purpose of impairment testing.

In testing whether impairment is necessary, the recoverable amount of the goodwill has been determined based on future new business. Management's judgement is involved in estimating the value of expected future new business. The following key assumptions used in cash flow projections in respect of Goodwill have taken into account COVID-19 impact:

- (i) The growth is projected based on expected future new business at a growth rate ranging from 5.0% to 10.7% p.a (2019: ranging from 5.0% p.a. to 7.1% p.a.).
- (ii) Loss ratio are projected based on the management's expectation of claims experience ranging from 65.3% to 64.0% (2019: ranging from 60.3% to 61.0%).
- (iii) Pre tax discount rate at 9.8% (2019: 10.4%).
- (iv) Other assumption used include expense ratio, commission ratio and investment return.

At 31 December 2020, the recoverable amount exceeds the carrying value of goodwill.

A reasonably possible change in any key assumption is not expected to cause the recoverable amount of the CGU to fall below its carrying amount.

**THE PACIFIC INSURANCE BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**6. INVESTMENTS**

|   | 2020               |                    | 2019               |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | <u>Group</u>       | <u>Company</u>     | <u>Group</u>       | <u>Company</u>     |
|   | RM                 | RM                 | RM                 | RM                 |
| Malaysian Government Securities               | 84,548,498         | -                  | 55,155,902         | -                  |
| Government Investment Issues                  | 105,574,500        | -                  | 108,921,976        | -                  |
| Corporate Bonds                               | 126,040,585        | -                  | 131,725,569        | -                  |
| Unit Trust Investments                        | 137,349,418        | 463,118,140        | 172,228,508        | 479,334,485        |
| Equity securities                             | 70,807,130         | 70,807,130         | 30,122,056         | 30,122,056         |
| Real Estate Investment Trusts ("REITs")       | 2,910,000          | 2,910,000          | 3,356,200          | 3,356,200          |
| Deposits with Licensed Financial Institutions | 43,687,131         | 43,687,131         | 55,774,229         | 55,774,229         |
|   | <u>570,917,262</u> | <u>580,522,401</u> | <u>557,284,440</u> | <u>568,586,970</u> |

The financial investments are summarised by categories as follows:

|                        |                    |                    |                    |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
| FVTPL financial assets | 527,230,131        | 536,835,270        | 501,510,211        | 512,812,741        |
| AC                     | 43,687,131         | 43,687,131         | 55,774,229         | 55,774,229         |
|                        | <u>570,917,262</u> | <u>580,522,401</u> | <u>557,284,440</u> | <u>568,586,970</u> |

The following investments mature after 12 months:

|                        |                    |          |                    |          |
|------------------------|--------------------|----------|--------------------|----------|
| FVTPL financial assets | <u>314,638,789</u> | <u>-</u> | <u>277,572,945</u> | <u>-</u> |
|------------------------|--------------------|----------|--------------------|----------|

(a) FVTPL financial assets

At fair value:

|                                 |                    |                    |                    |                    |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| Malaysian Government Securities | 84,548,498         | -                  | 55,155,902         | -                  |
| Government Investment Issues    | 105,574,500        | -                  | 108,921,976        | -                  |
| Unit Trust Investments:         |                    |                    |                    |                    |
| - Quoted in Malaysia            | 137,349,418        | 137,349,418        | 172,228,508        | 172,228,508        |
| - Unquoted in Malaysia          | -                  | 325,768,722        | -                  | 307,105,977        |
| Corporate bonds                 | 126,040,585        | -                  | 131,725,569        | -                  |
| Equity securities               | 70,807,130         | 70,807,130         | 30,122,056         | 30,122,056         |
| REITs                           | 2,910,000          | 2,910,000          | 3,356,200          | 3,356,200          |
|                                 | <u>527,230,131</u> | <u>536,835,270</u> | <u>501,510,211</u> | <u>512,812,741</u> |

(b) AC

At amortised cost:

|                                |                   |                   |                   |                   |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Deposits with Commercial Banks | <u>43,687,131</u> | <u>43,687,131</u> | <u>55,774,229</u> | <u>55,774,229</u> |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|

Deposits with Commercial Banks have interest rates which range from 1.85% to 3.55% (2019: 3.45% to 4.10%) per annum with an average maturity period of 348 days (2019: 365 days).

**THE PACIFIC INSURANCE BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**6. INVESTMENTS (CONTINUED)**

(c) Carrying values of financial investments

|  | <u>AFS</u><br><u>RM</u> | <u>FVTPL</u><br><u>RM</u> | <u>AC</u><br><u>RM</u> | <u>Total</u><br><u>RM</u> |
|--|-------------------------|---------------------------|------------------------|---------------------------|
| <u>2020</u>  |                         |                           |                        |                           |
| <u>Group</u>   |                         |                           |                        |                           |
| At 1 January 2020  | -                       | 501,510,211               | 55,774,229             | 557,284,440               |
| Purchases  | -                       | 434,372,543               | 43,205,666             | 477,578,209               |
| Maturities   | -                       | (37,554,600)              | (54,778,213)           | (92,332,813)              |
| Disposals  | -                       | (366,776,836)             | -                      | (366,776,836)             |
| Fair value losses recorded in<br>Statements of Comprehensive<br>Income | -                       | (3,012,848)               | -                      | (3,012,848)               |
| Currency translations differences                                      | -                       | (686,677)                 | -                      | (686,677)                 |
| Movement in accrued interest   | -                       | 129,123                   | (514,551)              | (385,428)                 |
| Amortisation of premiums   | -                       | (750,785)                 | -                      | (750,785)                 |
| At 31 December 2020  | -                       | 527,230,131               | 43,687,131             | 570,917,262               |
| <u>2019</u>  |                         |                           |                        |                           |
| <u>Group</u>   |                         |                           |                        |                           |
| At 1 January 2019  | 442,729,936             | 31,426,016                | 52,312,288             | 526,468,240               |
| Effects of adoption of MFRS 9  | (442,729,936)           | 442,729,936               | -                      | -                         |
| At 1 January 2019 (Restated)   | -                       | 474,155,952               | 52,312,288             | 526,468,240               |
| Purchases  | -                       | 544,029,847               | 54,778,213             | 598,808,060               |
| Maturities   | -                       | (34,953,300)              | (51,394,379)           | (86,347,679)              |
| Disposals  | -                       | (488,645,695)             | -                      | (488,645,695)             |
| Fair value gains recorded in<br>Statements of Comprehensive<br>Income  | -                       | 7,327,022                 | -                      | 7,327,022                 |
| Currency translations differences                                      | -                       | (31,579)                  | -                      | (31,579)                  |
| Movement in accrued interest   | -                       | (48,370)                  | 78,107                 | 29,737                    |
| Dividend received  | -                       | (84,196)                  | -                      | (84,196)                  |
| Amortisation of premiums   | -                       | (239,470)                 | -                      | (239,470)                 |
| At 31 December 2019  | -                       | 501,510,211               | 55,774,229             | 557,284,440               |
| <u>2020</u>  |                         |                           |                        |                           |
| <u>Company</u>   |                         |                           |                        |                           |
| At 1 January 2020  | -                       | 512,812,741               | 55,774,229             | 568,586,970               |
| Purchases  | -                       | 165,091,684               | 43,205,666             | 208,297,350               |
| Maturities   | -                       | -                         | (54,778,213)           | (54,778,213)              |
| Disposals  | -                       | (137,564,924)             | -                      | (137,564,924)             |
| Fair value losses recorded in<br>Statements of Comprehensive<br>Income | -                       | (2,817,554)               | -                      | (2,817,554)               |
| Currency translations differences                                      | -                       | (686,677)                 | -                      | (686,677)                 |
| Movement in accrued interest   | -                       | -                         | (514,551)              | (514,551)                 |
| At 31 December 2020  | -                       | 536,835,270               | 43,687,131             | 580,522,401               |

**THE PACIFIC INSURANCE BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**6. INVESTMENTS (CONTINUED)**

(c) Carrying values of financial investments (continued)

|   | <u>AFS</u><br>RM | <u>FVTPL</u><br>RM | <u>AC</u><br>RM | <u>Total</u><br>RM |
|---|------------------|--------------------|-----------------|--------------------|
| <u>2019</u>   |                  |                    |                 |                    |
| <u>Company</u>  |                  |                    |                 |                    |
| At 1 January 2019   | 453,463,740      | 31,426,016         | 52,312,288      | 537,202,044        |
| Effects of adoption of MFRS 9   | (453,463,740)    | 453,463,740        | -               | -                  |
| At 1 January 2019 (Restated)  | -                | 484,889,756        | 52,312,288      | 537,202,044        |
| Purchases   | -                | 57,283,855         | 54,778,213      | 112,062,068        |
| Maturities  | -                | (30,000,000)       | (51,394,379)    | (81,394,379)       |
| Disposals   | -                | (7,000,000)        | -               | (7,000,000)        |
| Fair value gains recorded in<br>Statements of Comprehensive<br>Income | -                | 7,873,999          | -               | 7,873,999          |
| Currency translations differences                                     | -                | (31,579)           | -               | (31,579)           |
| Movement in accrued interest  | -                | (119,094)          | 78,107          | (40,987)           |
| Dividend received   | -                | (84,196)           | -               | (84,196)           |
| At 31 December 2019   | -                | 512,812,741        | 55,774,229      | 568,586,970        |

(d) Fair values of financial investments

The following tables show financial investments recorded at fair value analysed by the different basis of fair values and valuation methods as follows:

| <u>Group</u>                             | <u>Level 1</u><br>RM | <u>Level 2</u><br>RM |
|--|----------------------|----------------------|
| <u>2020</u>                              |                      |                      |
| <u>Recurring fair value measurements</u> |                      |                      |
| <u>FVTPL</u>                             |                      |                      |
| - Malaysian Government Securities        | -                    | 84,548,498           |
| - Government Investment Issues           | -                    | 105,574,500          |
| - Corporate Bonds                        | -                    | 126,040,585          |
| - Unit Trust Investments                 | 137,349,418          | -                    |
| - Equity Securities                      | 70,807,130           | -                    |
| - REITs                                  | 2,910,000            | -                    |
|  | <u>211,066,548</u>   | <u>316,163,583</u>   |

**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**6. INVESTMENTS (CONTINUED)**

(d) Fair values of financial investments (continued)

|  | <u>Level 1</u><br>RM | <u>Level 2</u><br>RM |
|--|----------------------|----------------------|
| <u>2019</u>                              |                      |                      |
| <u>Recurring fair value measurements</u> |                      |                      |
| FVTPL                                    |                      |                      |
| - Malaysian Government Securities        | -                    | 55,155,902           |
| - Government Investment Issues           | -                    | 108,921,976          |
| - Corporate Bonds                        | -                    | 131,725,569          |
| - Unit Trust Investments                 | 172,228,508          |                      |
| - Equity Securities                      | 30,122,056           | -                    |
| - REITs                                  | 3,356,200            | -                    |
|  | <u>205,706,764</u>   | <u>295,803,447</u>   |

Company

2020

Recurring fair value measurements

|                          |                    |                    |
|--------------------------|--------------------|--------------------|
| FVTPL                    |                    |                    |
| - Unit Trust Investments | 137,349,418        | 325,768,722        |
| - Equity Securities      | 70,807,130         | -                  |
| - REITs                  | 2,910,000          | -                  |
|                          | <u>211,066,548</u> | <u>325,768,722</u> |

2019

Recurring fair value measurements

|   |                    |                    |
|---|--------------------|--------------------|
| FVTPL                                     |                    |                    |
| - Unit Trust Investments                  | 172,228,508        | 307,105,977        |
| - Equity Securities                       | 30,122,056         | -                  |
| - Real Estate Investment Trusts ("REITs") | 3,356,200          | -                  |
|   | <u>205,706,764</u> | <u>307,105,977</u> |

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**6. INVESTMENTS (CONTINUED)**

(d) Fair values of financial investments (continued)

Financial instruments that are valued not based on observable market data are categorised as Level 3. There are no financial instruments categorised as Level 3.

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

**7. STRUCTURED ENTITIES**

The Group and the Company have determined that its investment in wholesale unit trust funds amounting to RM325,768,722 (2019: RM307,105,977) as disclosed in Note 6 to the financial statements as investment in structured entities ("investee funds"). The Group and the Company invest 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 approved asset management companies 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 investee funds are classified as fair value through profit or loss and the changes in the fair value of financial assets at FVTPL are recognised in gains/(losses) in the statements of comprehensive income as applicable. The Company's exposure to investments in the investee funds is disclosed below.

|   | <u>2020</u><br>RM  | <u>2019</u><br>RM  |
|---|--------------------|--------------------|
| Number of wholesale unit trust fund                             | 3                  | 3                  |
| Average net asset value per unit of wholesale unit trust funds: |                    |                    |
| Opus Enhanced Income Fund                                       | 1.0511             | 1.0518             |
| Affin Hwang Wholesale Fund 1                                    | 0.3611             | 0.3662             |
| AmlIncome Select  | 1.0252             | 1.0194             |
| Fair value of underlying assets:                                |                    |                    |
| Corporate bonds   | 124,460,555        | 129,920,315        |
| Malaysian Government Securities                                 | 83,796,835         | 54,758,311         |
| Government Investment Securities                                | 104,419,820        | 107,703,245        |
| Deposits with licensed financial institutions                   | 11,116,942         | 11,932,294         |
| Receivables   | 3,103,148          | 2,973,443          |
| Cash equivalents  | 138,858            | 200,639            |
| Other payables  | (1,267,436)        | (382,270)          |
|   | <u>325,768,722</u> | <u>307,105,977</u> |
| Total realised gain/(loss) for the financial year               | <u>9,892,335</u>   | <u>8,184,309</u>   |

As the Company has control over these investee funds which are considered wholly owned structured entities, these structured entities are consolidated in the Group's financial statements. The underlying assets of these structured entities have been duly consolidated as shown in Note 6 to the financial statements.

The investee funds for Opus Enhanced Income Fund, Affin Hwang Wholesale Fund 1 and AmlIncome Select Fund are audited by Crowe Horwath, PricewaterhouseCoopers PLT and Ernst & Young respectively.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**8. REINSURANCE ASSETS**

|  | <u>2020</u><br>RM  | <u>2019</u><br>RM  |
|--|--------------------|--------------------|
| <u>Group/Company</u>                         |                    |                    |
| Reinsurance of insurance contracts (Note 14) | <u>533,863,904</u> | <u>634,146,422</u> |

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

**9. INSURANCE AND OTHER RECEIVABLES**

|   | <u>2020</u>        |                    | <u>2019</u>        |
|---|--------------------|--------------------|--------------------|
|   | <u>Group</u>       | <u>Company</u>     | <u>Group</u>       |
|   | RM                 | RM                 | RM                 |
| Due premiums including agents<br>/brokers and co-insurers<br>balances | 54,879,124         | 54,879,124         | 39,321,373         |
| Allowance for impairment  | (1,240,775)        | (1,240,775)        | (1,001,336)        |
|   | <u>53,638,349</u>  | <u>53,638,349</u>  | <u>38,320,037</u>  |
| Amounts due from reinsurers/<br>ceding companies                      | 57,231,759         | 57,231,759         | 26,361,557         |
| Allowance for impairment  | (5,002,783)        | (5,002,783)        | (4,698,254)        |
|   | <u>52,228,976</u>  | <u>52,228,976</u>  | <u>21,663,303</u>  |
| Total insurance receivables and<br>reinsurance recoverables           | <u>105,867,325</u> | <u>105,867,325</u> | <u>59,983,340</u>  |
| Other receivables:  |                    |                    |                    |
| Other receivables, deposits and<br>prepayments                        | 3,140,714          | 3,140,714          | 6,897,756          |
| Malaysian Motor Insurance Pool<br>("MMIP")                            |                    |                    |                    |
| - Cash call made  | 13,859,477         | 13,859,477         | 16,859,477         |
| - Other assets held in MMIP   | 33,384,207         | 33,384,207         | 32,029,403         |
| Income due and accrued  | -                  | 1,145,414          | 365,940            |
| Total other receivables   | <u>50,384,398</u>  | <u>51,529,812</u>  | <u>56,152,576</u>  |
| Total insurance and other receivables                                 | <u>156,251,723</u> | <u>157,397,137</u> | <u>116,135,916</u> |
| Receivable within 12 months   | <u>156,251,723</u> | <u>157,397,137</u> | <u>116,135,916</u> |

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

MMIP as at 31 December 2020 is a net receivable of RM17,484,014 (2019: RM14,535,624) after setting-off the amount payable from MMIP against the Company's share of claims and premium liabilities amounting to RM29,759,670 (2019: RM34,353,176) included in Note 14 to the financial statements.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**9. INSURANCE AND OTHER RECEIVABLES (CONTINUED)**

**Financial assets**

There is no netting off of the gross amount of recognised financial assets against the gross amount of financial liabilities in the statements of financial position.

There are no financial assets that are subject to enforceable master netting arrangements or similar arrangements to financial instruments received as collateral or any cash collateral pledged or received (2019: Nil).

**10. RIGHT-OF-USE ASSETS**

|                                 | <u>Properties</u> | <u>Equipment</u> | <u>Total</u>      |
|---------------------------------|-------------------|------------------|-------------------|
|                                 | RM                | RM               | RM                |
| <u>Group/Company</u>            |                   |                  |                   |
| <u>Cost</u>                     |                   |                  |                   |
| 1 January 2020                  | 2,454,869         | 8,714,619        | 11,169,488        |
| Additions                       | 307,296           | 1,205,814        | 1,513,110         |
| Modification of lease term      | (5,286)           | -                | (5,286)           |
| Change in consideration         | (2,624)           | (57,956)         | (60,580)          |
| Derecognition of expired leases | (460,226)         | (1,290,219)      | (1,750,445)       |
| At 31 December 2020             | <u>2,294,029</u>  | <u>8,572,258</u> | <u>10,866,287</u> |
| <u>Accumulated depreciation</u> |                   |                  |                   |
| 1 January 2020                  | 949,692           | 3,125,737        | 4,075,429         |
| Depreciation for the year       | 959,610           | 2,917,524        | 3,877,134         |
| Derecognition of expired leases | (460,226)         | (1,290,219)      | (1,750,445)       |
| At 31 December 2020             | <u>1,449,076</u>  | <u>4,753,042</u> | <u>6,202,118</u>  |
| Net book value                  | <u>844,953</u>    | <u>3,819,216</u> | <u>4,664,169</u>  |
| <u>Group/Company</u>            |                   |                  |                   |
| <u>Cost</u>                     |                   |                  |                   |
| 31 December 2018                | -                 | -                | -                 |
| Effects of adoption of MFRS 16  | 1,862,899         | 7,448,859        | 9,311,758         |
| 1 January 2019                  | 1,862,899         | 7,448,859        | 9,311,758         |
| Additions                       | 591,970           | 1,379,511        | 1,971,481         |
| Modification of lease term      | -                 | (59,933)         | (59,933)          |
| Change in consideration         | -                 | (53,818)         | (53,818)          |
| At 31 December 2019             | <u>2,454,869</u>  | <u>8,714,619</u> | <u>11,169,488</u> |
| <u>Accumulated depreciation</u> |                   |                  |                   |
| 1 January 2029                  | -                 | -                | -                 |
| Depreciation for the year       | 949,692           | 3,125,737        | 4,075,429         |
| At 31 December 2019             | <u>949,692</u>    | <u>3,125,737</u> | <u>4,075,429</u>  |
| Net book value                  | <u>1,505,177</u>  | <u>5,588,882</u> | <u>7,094,059</u>  |

Company No.  
198201011878 (91603-K)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**10. RIGHT-OF-USE ASSETS (CONTINUED)**

The leases typically run for a period of 1 to 3 years (2019: 1 to 4 years), but may have extension options. Total cash outflow for leases amounted to RM4,155,019 (2019: RM4,357,381).

**11. LOANS**

|                            | <u>2020</u><br>RM | <u>2019</u><br>RM |
|----------------------------|-------------------|-------------------|
| <u>Group/Company</u>       |                   |                   |
| Staff loans:               |                   |                   |
| Secured                    | 611,931           | 901,606           |
| Unsecured                  | 12,290            | 12,477            |
|                            | <u>624,221</u>    | <u>914,083</u>    |
| Receivable after 12 months | <u>502,952</u>    | <u>736,251</u>    |

The weighted average effective interest rate for staff loans as at 31 December 2020 was 2.63% (2019: 2.41%) per annum on the basis of monthly rest.

**12. SHARE CAPITAL**

|  | <u>Number of ordinary shares</u> |                     | <u>Amount</u>      |                    |
|--|----------------------------------|---------------------|--------------------|--------------------|
|  | <u>2020</u><br>Unit              | <u>2019</u><br>Unit | <u>2020</u><br>RM  | <u>2019</u><br>RM  |
| <u>Group/Company</u>                   |                                  |                     |                    |                    |
| Issued and paid up:                    |                                  |                     |                    |                    |
| At beginning and end of financial year | <u>219,875,038</u>               | <u>219,875,038</u>  | <u>219,875,038</u> | <u>219,875,038</u> |

**13. RESERVES**

The Company may distribute single-tier tax exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend. Pursuant to the Risk-Based Capital 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 dividends would impair its Capital Adequacy Ratio position to below its internal target.

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**14. INSURANCE CONTRACT LIABILITIES**

| Group/Company                                    | Note | 2020               |                          |                  | 2019               |                          |                  |
|--|------|--------------------|--------------------------|------------------|--------------------|--------------------------|------------------|
|  |      | <u>Gross</u><br>RM | <u>Reinsurance</u><br>RM | <u>Net</u><br>RM | <u>Gross</u><br>RM | <u>Reinsurance</u><br>RM | <u>Net</u><br>RM |
| Provision for claims reported by policyholders   |      | 415,648,970        | (263,188,424)            | 152,460,546      | 541,989,132        | (354,494,607)            | 187,494,525      |
| Provision for incurred but not reported ("IBNR") |      | 235,445,513        | (150,879,651)            | 84,565,862       | 218,296,611        | (138,711,488)            | 79,585,123       |
|  |      | 651,094,483        | (414,068,075)            | 237,026,408      | 760,285,743        | (493,206,095)            | 267,079,648      |
| Less: impairment loss on reinsurance assets      |      | -                  | 229,310                  | 229,310          | -                  | 356,333                  | 356,333          |
| Claim liabilities (i)                            |      | 651,094,483        | (413,838,765)            | 237,255,718      | 760,285,743        | (492,849,762)            | 267,435,981      |
| Premium liabilities (ii)                         |      | 257,199,207        | (120,025,139)            | 137,174,068      | 257,988,917        | (141,296,660)            | 116,692,257      |
|  |      | 908,293,690        | (533,863,904)            | 374,429,786      | 1,018,274,660      | (634,146,422)            | 384,128,238      |

**(i) Claim liabilities**

|   |               |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| At 1 January  | 760,285,743   | (493,206,095) | 267,079,648   | 679,374,710   | (390,528,025) | 288,846,685   |
| Claims incurred in the current accident year                  | 360,347,387   | (203,077,825) | 157,269,562   | 440,585,764   | (263,171,704) | 177,414,060   |
| Claims incurred in prior accident years                       | (84,075,544)  | 66,805,435    | (17,270,109)  | (52,789,206)  | 21,227,391    | (31,561,815)  |
| Movement in PRAD of claim liabilities at 75% confidence level | (8,017,064)   | 5,342,981     | (2,674,083)   | 4,471,949     | (11,583,866)  | (7,111,917)   |
| Movement in claims handling expenses                          | (1,282,995)   | -             | (1,282,995)   | 30,042        | -             | 30,042        |
| Claims paid during the financial year                         | (376,163,044) | 210,067,429   | (166,095,615) | (311,387,516) | 150,850,109   | (160,537,407) |
|   | 651,094,483   | (414,068,075) | 237,026,408   | 760,285,743   | (493,206,095) | 267,079,648   |
| Less: Impairment loss on reinsurance assets                   | -             | 229,310       | 229,310       | -             | 356,333       | 356,333       |
| At 31 December  | 651,094,483   | (413,838,765) | 237,255,718   | 760,285,743   | (492,849,762) | 267,435,981   |

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**14. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(ii) Premium liabilities**

|  | Note | 2020               |                          |                    | 2019               |                          |                    |
|--|------|--------------------|--------------------------|--------------------|--------------------|--------------------------|--------------------|
|  |      | <u>Gross</u><br>RM | <u>Reinsurance</u><br>RM | <u>Net</u><br>RM   | <u>Gross</u><br>RM | <u>Reinsurance</u><br>RM | <u>Net</u><br>RM   |
| At 1 January                               |      | 257,988,917        | (141,296,660)            | 116,692,257        | 259,518,296        | (137,909,468)            | 121,608,828        |
| Premiums written during the financial year | 19   | 522,566,000        | (259,018,722)            | 263,547,278        | 549,681,619        | (296,196,583)            | 253,485,036        |
| Premiums earned during the financial year  | 19   | (523,355,710)      | 280,290,243              | (243,065,467)      | (551,210,998)      | 292,809,391              | (258,401,607)      |
| At 31 December                             |      | <u>257,199,207</u> | <u>(120,025,139)</u>     | <u>137,174,068</u> | <u>257,988,917</u> | <u>(141,296,660)</u>     | <u>116,692,257</u> |

**15. DEFERRED TAX ASSET**

| <u>Group/Company</u>                             | <u>2020</u><br>RM | <u>2019</u><br>RM |
|--|-------------------|-------------------|
| At 1 January                                     | 3,011,853         | 6,997,899         |
| Effects of adoption of MFRS 9                    | -                 | 1,055,475         |
| At 1 January (Restated)                          | <u>3,011,853</u>  | <u>8,053,374</u>  |
| Recognised in statements of comprehensive income | (501,009)         | (5,041,521)       |
| At 31 December                                   | <u>2,510,844</u>  | <u>3,011,853</u>  |

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**15. DEFERRED TAX ASSET (CONTINUED)**

2020

Deferred tax asset

At 1 January 2020  
Recognised in statements of comprehensive income  
At 31 December 2020 (before offsetting)  
Offsetting  
  
Net deferred tax assets (after offsetting)

| <u>Premium liabilities</u> | <u>Receivables</u> | <u>Others</u>    | <u>Total</u>     |
|----------------------------|--------------------|------------------|------------------|
| RM                         | RM                 | RM               | RM               |
| 446,231                    | 1,453,422          | 2,404,239        | 4,303,892        |
| (80,480)                   | 130,552            | (797,531)        | (747,459)        |
| <u>365,751</u>             | <u>1,583,974</u>   | <u>1,606,708</u> | <u>3,556,433</u> |
|                            |                    |                  | (1,045,589)      |
|                            |                    |                  | <u>2,510,844</u> |

2020

Deferred tax liabilities

At 1 January 2020  
Recognised in statements of comprehensive income  
At 31 December 2020 (before offsetting)  
Offsetting  
  
Net deferred tax liabilities (after offsetting)

| <u>Fair value changes on investments</u> | <u>Property, equipment and intangible assets</u> | <u>Total</u>     |
|--|--|------------------|
| RM                                       | RM   | RM               |
| 687,422                                  | 604,617  | 1,292,039        |
| (677,817)                                | 431,367  | (246,450)        |
| <u>9,605</u>                             | <u>1,035,984</u>                                 | <u>1,045,589</u> |
|  |  | (1,045,589)      |
|  |  | <u>-</u>         |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**15. DEFERRED TAX ASSET (CONTINUED)**

|  | <u>Receivables</u> | <u>Fair value changes on investments</u> | <u>Premium liabilities</u> | <u>Unutilised tax loss</u> | <u>Others</u>    | <u>Total</u>     |
|--|--------------------|--|----------------------------|----------------------------|------------------|------------------|
|  | RM                 | RM                                       | RM                         | RM                         | RM               | RM               |
| <u>2019</u>                                      |                    |  |                            |                            |                  |                  |
| <u>Deferred tax asset</u>                        |                    |  |                            |                            |                  |                  |
| At 31 December 2018                              | 1,525,003          | 2,660,874                                | 453,384                    | 2,595,246                  | 1,619,939        | 8,854,446        |
| Effects of adoption of MFRS 9                    | 1,055,475          | -  | -                          | -                          | -                | 1,055,475        |
| At 1 January 2019 (Restated)                     | 2,580,478          | 2,660,874                                | 453,384                    | 2,595,246                  | 1,619,939        | 9,909,921        |
| Recognised in statements of comprehensive income | (1,127,056)        | -  | (7,153)                    | (2,595,246)                | 784,300          | (2,945,155)      |
| Reclassification to deferred tax liability       | -                  | (2,660,874)                              | -                          | -                          | -                | (2,660,874)      |
| At 31 December 2019 (before offsetting)          | <u>1,453,422</u>   | <u>-</u>                                 | <u>446,231</u>             | <u>-</u>                   | <u>2,404,239</u> | <u>4,303,892</u> |
| Offsetting                                       |                    |  |                            |                            |                  | (1,292,039)      |
| Net deferred tax assets (after offsetting)       |                    |  |                            |                            |                  | <u>3,011,853</u> |

|  | <u>Fair value changes on investments</u> | <u>Property, equipment and intangible assets</u> | <u>Total</u>     |
|--|--|--|------------------|
|  | RM                                       | RM   | RM               |
| <u>2019</u>                                      |  |  |                  |
| <u>Deferred tax liabilities</u>                  |  |  |                  |
| At 1 January 2019                                | 1,159,511                                | 697,036  | 1,856,547        |
| Recognised in statements of comprehensive income | 2,188,785                                | (92,419)   | 2,096,366        |
| Reclassification from deferred tax asset         | (2,660,874)                              | -  | (2,660,874)      |
| At 31 December 2019 (before offsetting)          | <u>687,422</u>                           | <u>604,617</u>                                   | <u>1,292,039</u> |
| Offsetting                                       |  |  | (1,292,039)      |
| Net deferred tax assets (after offsetting)       |  |  | <u>-</u>         |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**15. DEFERRED TAX ASSET (CONTINUED)**

|             | <u>2020</u><br>RM | <u>2019</u><br>RM |
|-------------|-------------------|-------------------|
| Current     | 3,546,828         | 3,616,470         |
| Non-current | (1,035,984)       | (604,617)         |

**16. INSURANCE AND OTHER PAYABLES**

|  | <u>2020</u>        |                      | <u>2019</u>        |                      |
|--|--------------------|----------------------|--------------------|----------------------|
|  | <u>Group</u><br>RM | <u>Company</u><br>RM | <u>Group</u><br>RM | <u>Company</u><br>RM |
| Trade payables:                                    |                    |                      |                    |                      |
| Amount due to reinsurers/<br>ceding companies      | 42,333,701         | 42,333,701           | 76,161,265         | 76,161,265           |
| Amount due to brokers, co-insurers<br>and insureds | 24,184,968         | 24,184,968           | 11,957,625         | 11,957,625           |
|  | <u>66,518,669</u>  | <u>66,518,669</u>    | <u>88,118,890</u>  | <u>88,118,890</u>    |
| Other payables:                                    |                    |                      |                    |                      |
| Accrual for agents' profit commission              | 2,738,051          | 2,738,051            | 2,640,406          | 2,640,406            |
| Accrual for bonus (including EPF<br>for bonus)     | 6,048,200          | 6,048,200            | 6,900,000          | 6,900,000            |
| Cash collateral held for bond<br>business          | 647,804            | 647,804              | 1,004,020          | 1,004,020            |
| Premium funds withheld                             | 29,179,430         | 29,179,430           | 33,775,420         | 33,775,420           |
| Other payables and accrued liabilities             | 16,313,576         | 15,813,587           | 19,621,534         | 18,755,646           |
|  | <u>54,927,061</u>  | <u>54,427,072</u>    | <u>63,941,380</u>  | <u>63,075,492</u>    |
| Total insurance and other payables                 | <u>121,445,730</u> | <u>120,945,741</u>   | <u>152,060,270</u> | <u>151,194,382</u>   |
| Payable within 12 months                           | <u>121,438,430</u> | <u>120,938,441</u>   | <u>118,125,843</u> | <u>117,259,955</u>   |
| Payable after 12 months                            | <u>7,300</u>       | <u>7,300</u>         | <u>33,934,427</u>  | <u>33,934,427</u>    |

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

**Financial liabilities**

There is no netting off of gross amount of recognised financial liabilities against the gross amount of financial assets in the statements of financial position.

There are no financial liabilities that are subject to enforceable master netting arrangements or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2019: Nil).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**17. SUBORDINATED LOANS**

|                          | <u>2020</u>       | <u>2019</u>       |
|--------------------------|-------------------|-------------------|
|                          | RM                | RM                |
| <u>Group/Company</u>     |                   |                   |
| Subordinated Loans       | 24,337,504        | 24,337,504        |
| Add: Interest Payable    | 9,857,677         | 8,149,387         |
|                          | <u>34,195,181</u> | <u>32,486,891</u> |
| Payable within 12 months | <u>9,857,677</u>  | <u>8,149,387</u>  |
| Payable after 12 months  | <u>24,337,504</u> | <u>24,337,504</u> |

The fair value of the subordinated loans as at 31 December 2020 amounted to RM24.3 million (2019: RM24.3 million). The fair value is estimated based on discounted cash flow model for the remaining term of maturity and is within level 2 of the fair value hierarchy.

**18. LEASE LIABILITY**

|                               | <u>2020</u>      | <u>2019</u>      |
|-------------------------------|------------------|------------------|
|                               | RM               | RM               |
| <u>Group/Company</u>          |                  |                  |
| Current lease liabilities     | 3,091,690        | 3,749,832        |
| Non-current lease liabilities | 1,742,521        | 3,495,663        |
|                               | <u>4,834,211</u> | <u>7,245,495</u> |

**19. NET EARNED PREMIUMS**

|                                     | <u>2020</u>          | <u>2019</u>          |
|-------------------------------------|----------------------|----------------------|
|                                     | RM                   | RM                   |
| <u>Group/Company</u>                |                      |                      |
| (a) Gross premiums written          | 522,566,000          | 549,681,619          |
| Change in premium liabilities       | 789,710              | 1,529,379            |
| Gross earned premiums               | <u>523,355,710</u>   | <u>551,210,998</u>   |
| (b) Premium ceded to reinsurers     |                      |                      |
| Ceded premiums (Note 14(ii))        | (259,018,722)        | (296,196,583)        |
| Change in premium liabilities       | (21,271,521)         | 3,387,192            |
| Earned premiums ceded to reinsurers | <u>(280,290,243)</u> | <u>(292,809,391)</u> |
| Net earned premiums                 | <u>243,065,467</u>   | <u>258,401,607</u>   |



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**20. INVESTMENT INCOME**

|  | 2020              |                   | 2019              |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <u>Group</u>      | <u>Company</u>    | <u>Group</u>      | <u>Company</u>    |
|  | RM                | RM                | RM                | RM                |
| Rental income from operating lease:                        |                   |                   |                   |                   |
| Investment properties                                      | 1,227,826         | 1,227,826         | 1,212,826         | 1,212,826         |
| Financial assets at FVTPL                                  |                   |                   |                   |                   |
| Interest income - debt securities                          | 12,506,412        | -                 | 12,723,832        | 438,197           |
| Dividend income - REITs                                    | 252,974           | 252,974           | 171,496           | 171,496           |
| Dividend income – unit trusts                              | 4,551,256         | 25,369,237        | 4,540,782         | 23,867,804        |
| Dividend income – equity securities                        | 983,740           | 983,740           | -                 | -                 |
| Interest income from AC                                    | 1,535,824         | 1,535,824         | 2,113,492         | 2,113,492         |
| Profit and interest income from cash<br>& cash equivalents | 2,671,171         | 2,342,892         | 5,291,591         | 4,789,700         |
| Amortisation of premiums, net<br>of accretion of discounts | (750,786)         | -                 | (239,473)         | -                 |
|  | <u>22,978,417</u> | <u>31,712,493</u> | <u>25,814,546</u> | <u>32,593,515</u> |

**21. REALISED GAINS/(LOSSES)**

|  | 2020              |                  | 2019             |                |
|--|-------------------|------------------|------------------|----------------|
|  | <u>Group</u>      | <u>Company</u>   | <u>Group</u>     | <u>Company</u> |
|  | RM                | RM               | RM               | RM             |
| <u>Financial assets at FVTPL</u>                 |                   |                  |                  |                |
| Realised gains/(losses):                         |                   |                  |                  |                |
| Equity securities                                | 4,893,338         | 4,893,338        | -                | -              |
| Corporate bonds                                  | 1,964,744         | -                | 2,690,416        | 149,160        |
| Malaysian Government Securities                  | 3,548,642         | -                | 5,651,918        | -              |
| Government Investment Issues                     | 4,385,228         | -                | -                | -              |
| Unit trusts                                      | 855,499           | 855,498          | -                | -              |
| REITS  | 84,644            | 84,644           | -                | -              |
|  | <u>15,732,095</u> | <u>5,833,480</u> | <u>8,342,334</u> | <u>149,160</u> |
| <u>Property, equipment and intangible assets</u> |                   |                  |                  |                |
| Realised gains                                   | 27,389            | 27,389           | 143,027          | 143,027        |
| Realised losses                                  | (42,149)          | (42,149)         | (35,177)         | (35,177)       |
|  | <u>(14,760)</u>   | <u>(14,760)</u>  | <u>107,850</u>   | <u>107,850</u> |
|  | <u>15,717,335</u> | <u>5,818,720</u> | <u>8,450,184</u> | <u>257,010</u> |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**22. FAIR VALUE GAINS/(LOSSES)**

|  | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
|  | RM          | RM          |

Group

|                           |                    |                  |
|---------------------------|--------------------|------------------|
| Financial assets at FVTPL | <u>(3,699,525)</u> | <u>7,295,444</u> |
|---------------------------|--------------------|------------------|

Company

|                           |                    |                  |
|---------------------------|--------------------|------------------|
| Financial assets at FVTPL | <u>(3,504,231)</u> | <u>7,842,420</u> |
|---------------------------|--------------------|------------------|

**23. FEES AND COMMISSION INCOME**

|  | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
|  | RM          | RM          |

Group/Company

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Reinsurance commission income | <u>46,926,541</u> | <u>47,490,655</u> |
|-------------------------------|-------------------|-------------------|

**24. MANAGEMENT EXPENSES**

|  |             | <u>2020</u>  |                | <u>2019</u>  |                |
|--|-------------|--------------|----------------|--------------|----------------|
|  | <u>Note</u> | <u>Group</u> | <u>Company</u> | <u>Group</u> | <u>Company</u> |
|  |             | RM           | RM             | RM           | RM             |
| Employee benefits expenses                         | 24(a)       | 52,069,069   | 52,069,069     | 53,686,599   | 53,686,599     |
| Directors' remuneration                            | 24(b)       | 607,331      | 607,331        | 420,438      | 420,438        |
| Auditors' remuneration                             |             |              |                |              |                |
| - Audit related services                           |             | 382,290      | 362,900        | 368,485      | 349,100        |
| - Non-audit related services                       |             | 1,000        | 1,000          | 73,500       | 73,500         |
| Depreciation of property and equipment             | 3           | 2,377,311    | 2,377,311      | 2,307,812    | 2,307,812      |
| Depreciation of investment properties              | 4           | 369,258      | 369,258        | 359,896      | 359,896        |
| Depreciation of ROU assets                         | 10          | 3,877,134    | 3,877,134      | 4,075,429    | 4,075,429      |
| Direct operating expenses of investment properties |             | 160,372      | 160,372        | 237,567      | 237,567        |
| Amortisation of intangible assets                  | 5           | 808,068      | 808,068        | 357,234      | 357,234        |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**24. MANAGEMENT EXPENSES (CONTINUED)**

|  |      | 2020              |                   | 2019              |                   |
|--|------|-------------------|-------------------|-------------------|-------------------|
|  | Note | Group             | Company           | Group             | Company           |
|  |      | RM                | RM                | RM                | RM                |
| Bad debts (recovery)/written-off Allowance/ (Write-back) for impairment losses |      | (3,277,254)       | (3,277,254)       | (165,399)         | (165,399)         |
| - insurance receivables and reinsurance recoverables                           |      | 543,968           | 543,968           | (4,428,328)       | (4,428,328)       |
| - reinsurance assets   |      | (127,023)         | (127,023)         | (374,124)         | (374,124)         |
| Safeguard and carpark rental   |      | 81,053            | 81,053            | 66,064            | 66,064            |
| Office equipment rental  |      | 213,496           | 213,496           | 327,836           | 327,836           |
| Computer maintenance   |      | 3,257,806         | 3,257,806         | 1,851,563         | 1,851,563         |
| Entertainment  |      | 663,406           | 663,406           | 1,084,325         | 1,084,325         |
| Investment advisory fees   |      | 2,125,419         | 2,125,419         | 2,143,226         | 2,143,226         |
| Fund managers' fees  |      | 579               | 579               | 85,832            | 85,832            |
| Professional fees  |      | 1,169,997         | 1,169,997         | 935,698           | 935,698           |
| Networking charges   |      | 16,262            | 16,262            | 16,320            | 16,320            |
| Management fees to holding company   |      | 2,928,104         | 2,928,104         | 2,960,562         | 2,960,562         |
| Stamp duties   |      | 8,111             | 8,111             | 15,558            | 15,558            |
| Credit card and bank charges   |      | 3,156,660         | 3,156,660         | 3,572,493         | 3,572,493         |
| Training costs   |      | (1,480,012)       | (1,480,012)       | 2,004,445         | 2,004,445         |
| Advertising and Marketing expenses   |      | 3,840,789         | 3,840,789         | 6,008,104         | 6,008,104         |
| Third Party Administrator fees   |      | 718,559           | 718,559           | 884,208           | 884,208           |
| Policy printing fees   |      | 2,827,674         | 2,827,674         | 3,749,307         | 3,749,307         |
| Transport and travelling   |      | 704,697           | 704,697           | 1,238,047         | 1,238,047         |
| Printing and stationery  |      | 228,456           | 228,456           | 377,467           | 377,467           |
| E-JPJ cover note charges   |      | 545,814           | 545,814           | 833,044           | 833,044           |
| Road assistance programme  |      | 2,468,873         | 2,468,873         | 2,346,903         | 2,346,903         |
| Other expenses   |      | 6,874,321         | 5,987,321         | 6,566,425         | 5,747,191         |
|  |      | <u>88,141,588</u> | <u>87,235,198</u> | <u>93,986,536</u> | <u>93,147,917</u> |

(a) Employee benefits expenses

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Wages and salaries                              | 42,569,099 | 42,569,099 | 43,676,402 | 43,676,402 |
| Social security contributions                   | 360,514    | 360,514    | 358,728    | 358,728    |
| Contributions to defined contribution plan, EPF | 6,011,868  | 6,011,868  | 6,198,990  | 6,198,990  |
| Employee share ownership plan ("ESOP")          | 322,322    | 322,322    | 208,195    | 208,195    |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**24. MANAGEMENT EXPENSES (CONTINUED)**

(a) Employee benefits expenses (continued)

|                 | <b>2020</b>       |                   | <b>2019</b>       |                   |
|-----------------|-------------------|-------------------|-------------------|-------------------|
|                 | <u>Group</u>      | <u>Company</u>    | <u>Group</u>      | <u>Company</u>    |
|                 | RM                | RM                | RM                | RM                |
| Staff insurance | 1,652,128         | 1,652,128         | 1,665,160         | 1,665,160         |
| Other benefits  | 1,153,138         | 1,153,138         | 1,579,124         | 1,579,124         |
|                 | <u>52,069,069</u> | <u>52,069,069</u> | <u>53,686,599</u> | <u>53,686,599</u> |

(b) Directors' remuneration

The details of remuneration received and receivable by Directors of the Company during the financial year are as follows:

|                                      | <b>2020</b>    | <b>2019</b>    |
|--------------------------------------|----------------|----------------|
|                                      | RM             | RM             |
| <u>Group/Company</u>                 |                |                |
| <u>Total Directors' remuneration</u> |                |                |
| Dato' Khalid bin Abdol Rahman        | 68,471         | -              |
| Dr. Arumugam a/l Saminathan          | 83,000         | 54,139         |
| Ajit Nair                            | 109,889        | 5,990          |
| Dato' Chan Choy Lin                  | 106,162        | -              |
| Datuk Abu Hassan bin Kendut          | 107,821        | 96,000         |
| Hashim bin Harun                     | 103,431        | 85,904         |
| Dato' Huang Sin Cheng                | 28,557         | 103,200        |
| Zainul Abidin bin Mohamed Rasheed    | -              | 75,205         |
|                                      | <u>607,331</u> | <u>420,438</u> |

**25. TAXATION**

|  | <b>2020</b>      | <b>2019</b>      |
|--|------------------|------------------|
|  | RM               | RM               |
| <u>Group/Company</u>   |                  |                  |
| Income tax:  |                  |                  |
| Malaysian income tax   | 2,005,517        | 190,489          |
| Underprovision of income tax in respect of prior year                                | 79,905           | 1,755,645        |
|  | <u>2,085,422</u> | <u>1,946,134</u> |
| Deferred tax relating to origination and reversal of temporary differences (Note 15) | 501,009          | 5,041,521        |
| Tax expense for the financial year   | <u>2,586,431</u> | <u>6,987,655</u> |

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% on the estimated assessable profit for the financial year.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**25. TAXATION (CONTINUED)**

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

|   | <u>2020</u><br>RM | <u>2019</u><br>RM |
|---|-------------------|-------------------|
| <u>Group</u>  |                   |                   |
| Profit/(Loss) before taxation                                 | 37,916,078        | 50,134,573        |
| Taxation at Malaysian statutory income tax rate of 24%        | 9,099,859         | 12,032,298        |
| Expenses not deductible for tax purposes                      | 1,260,573         | 1,748,818         |
| Income not subject to tax                                     | (7,854,084)       | (7,965,882)       |
| Underprovision of income tax in prior year                    | 79,905            | 1,755,645         |
| Temporary differences not recognised in prior year            | 178               | (583,224)         |
| Tax expense for the financial year                            | <u>2,586,431</u>  | <u>6,987,655</u>  |
| <u>Company</u>  |                   |                   |
| Profit/(Loss) before taxation                                 | 37,853,223        | 50,105,963        |
| Taxation at Malaysian statutory income tax rate of 24%        | 9,084,774         | 12,025,431        |
| Expenses not deductible for tax purposes                      | 1,275,658         | 1,755,685         |
| Income not subject to tax                                     | (7,854,084)       | (7,965,882)       |
| Underprovision of income tax in prior year                    | 79,905            | 1,755,645         |
| Temporary differences recognised/(unrecognised) in prior year | 178               | (583,224)         |
| Tax expense for the financial year                            | <u>2,586,431</u>  | <u>6,987,655</u>  |

**26. EARNINGS PER SHARE**

The calculation of basic earnings per ordinary share is based on the profit after taxation for the financial year over the number of shares in issue during the financial year of 219,875,038 (2019: 219,875,038).

|  | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| <u>Group</u>                               |             |             |
| Profit attributable to shareholders (RM)   | 35,307,922  | 43,112,967  |
| Weighted average number of shares in issue | 219,875,038 | 219,875,038 |
| Basic earnings per ordinary share (sen)    | 16.1        | 19.6        |
| <u>Company</u>                             |             |             |
| Profit attributable to shareholders (RM)   | 35,266,792  | 43,112,967  |
| Weighted average number of shares in issue | 219,875,038 | 219,875,038 |
| Basic earnings per ordinary share (sen)    | 16.0        | 19.6        |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**27. DIVIDENDS**

No dividends were paid or declared since the date of the last report.

The Directors do not propose the payment of any dividend for the financial year ended 31 December 2020.

**28. CAPITAL COMMITMENTS**

|                                  | <u>2020</u>   | <u>2019</u>      |
|----------------------------------|---------------|------------------|
|                                  | RM            | RM               |
| <u>Group/Company</u>             |               |                  |
| Approved and contracted for:     |               |                  |
| Intangible asset                 | -             | 6,382,129        |
| Computers                        | 36,434        | 894,004          |
| Furniture and fittings           | 2,173         | 482              |
|                                  | <u>38,607</u> | <u>7,276,615</u> |
| Approved and not contracted for: |               |                  |
| Computers                        | -             | 7,950            |
|                                  | <u>-</u>      | <u>7,950</u>     |

**29. SIGNIFICANT RELATED PARTY DISCLOSURES**

- (a) The Company is a subsidiary of Fairfax Asia Limited, a company incorporated under the Barbados Companies Act and licensed under the International Business Companies Act, Cap 77. The ultimate holding company is Fairfax Financial Holdings Limited ("FFHL"), a company incorporated in Canada.
- (b) In addition to related party disclosures detailed elsewhere in the financial statements, the Group and the Company had the following significant transactions and balances with their related parties:

| <u>Significant transactions</u>                 | <u>2020</u>      | <u>2019</u>      |
|---|------------------|------------------|
|   | RM               | RM               |
| <u>Group/Company</u>                            |                  |                  |
| Corporate shareholder:                          |                  |                  |
| - Koperasi MCIS Berhad                          |                  |                  |
| <u>Expense</u>                                  |                  |                  |
| Rental of premise                               | 269,106          | 269,106          |
| Parking   | 8,179            | 2,205            |
| Fellow subsidiaries within FFHL Group:          |                  |                  |
| <u>Income</u>                                   |                  |                  |
| Claim recovery                                  |                  |                  |
| - Wentworth Insurance Company Limited (Labuan)  | 8,672,056        | 7,648,057        |
| - Allied World Assurance Company, Ltd. (Labuan) | 13,164           | 3,447            |
| - CRC Reinsurance Limited (Barbados)            | 24,055           | 48,810           |
|   | <u>8,709,275</u> | <u>7,700,314</u> |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

- (b) In addition to related party disclosures detailed elsewhere in the financial statements, the Group and the Company had the following significant transactions and balances with their related parties (continued):

| <u>Significant transactions</u>                    | <u>2020</u><br>RM | <u>2019</u><br>RM |
|--|-------------------|-------------------|
| <u>Group/Company (continued)</u>                   |                   |                   |
| Fellow subsidiaries within FFHL Group (continued): |                   |                   |
| Commission Income                                  |                   |                   |
| - CRC Reinsurance Limited (Barbados)               | 3,381             | 4,767             |
| - Wentworth Insurance Company Limited (Labuan)     | 2,055,111         | 3,620,304         |
| - Allied World Assurance Company, Ltd. (Labuan)    | 433,430           | 402,855           |
| - Newline Malaysia Limited                         | 197,156           | 154,209           |
| - PT Asuransi Multi Artha Guna TBK                 | 2,651             | 3,640             |
|  | <u>2,691,729</u>  | <u>4,185,775</u>  |
| <u>Expense</u>                                     |                   |                   |
| Reinsurance premium ceded                          |                   |                   |
| - CRC Reinsurance Limited (Barbados)               | 13,554            | 19,003            |
| - Wentworth Insurance Company Limited (Labuan)     | 25,225,833        | 27,211,407        |
| - Allied World Assurance Company, Ltd. (Labuan)    | 2,379,269         | 2,567,939         |
| - Newline Malaysia Limited                         | 1,102,204         | 981,752           |
| - PT Asuransi Multi Artha Guna TBK                 | 26,409            | 36,301            |
|  | <u>28,747,269</u> | <u>30,816,402</u> |
| Interest expense on premium withheld               |                   |                   |
| - Wentworth Insurance Company Limited (Labuan)     | 67,618            | 128,723           |
| Investment management fees                         |                   |                   |
| - Hamblin Watsa Investment Counsel Ltd.            | 2,125,419         | 2,143,226         |
| Management fees                                    |                   |                   |
| - Fairfax Asia Limited                             | 2,928,104         | 2,960,562         |
| Finance cost                                       |                   |                   |
| - Fairfax Asia Limited                             | 1,708,290         | 1,703,626         |
| Information Technology maintenance service         |                   |                   |
| - FFH Management Service Ltd.                      | 374,450           | -                 |
| Professional service - MFRS 17                     |                   |                   |
| - Fairfax Financial Holdings Limited               | 40,944            | -                 |
| Associate company within FFHL Group:               |                   |                   |
| <u>Income</u>                                      |                   |                   |
| Commission income                                  |                   |                   |
| - Singapore Reinsurance Corporation Limited        | 27,276,378        | 38,824,750        |
| Claim recovery                                     |                   |                   |
| - Singapore Reinsurance Corporation Limited        | 119,624,240       | 95,940,679        |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

- (b) In addition to related party disclosures detailed elsewhere in the financial statements, the Group and the Company had the following significant transactions and balances with their related parties (continued):

| <u>Significant transactions</u>                  | <u>2020</u><br>RM | <u>2019</u><br>RM |
|--|-------------------|-------------------|
| <u>Group/Company (continued)</u>                 |                   |                   |
| Associate company within FFHL Group (continued): |                   |                   |
| <u>Expense</u>                                   |                   |                   |
| Reinsurance premium ceded                        |                   |                   |
| - Singapore Reinsurance Corporation Limited      | 140,492,887       | 181,498,428       |
| Interest expense on premium withheld             |                   |                   |
| - Singapore Reinsurance Corporation Limited      | 140,494           | 395,404           |
| Consultancy fee                                  |                   |                   |
| - QuessGlobal (Malaysia) Sdn. Bhd.               | 262,810           | 26,628            |
| Recruitment cost                                 |                   |                   |
| - QuessGlobal (Malaysia) Sdn. Bhd.               | 16,410            | 3,498             |
| Acquisition of intangible assets                 |                   |                   |
| - QuessGlobal (Malaysia) Sdn. Bhd.               | 40,408            | 156,633           |
| <u>Payables/(Receivables)</u>                    |                   |                   |
| Other balances due to/(due from)                 |                   |                   |
| - CRC Reinsurance Limited (Barbados)             | 58,782            | 218,471           |
| - Wentworth Insurance Company Limited (Labuan)   | 3,896,596         | (1,316,939)       |
| - Fairfax Asia Limited                           | 37,117,400        | 37,444,550        |
| - Hamblin Watsa Investment Counsel Ltd.          | (7,892)           | 8,580             |
| - Allied World Assurance Company, Ltd. (Labuan)  | 570,671           | 925,119           |
| - PT Asuransi Multi Artha Guna TBK               | (23,223)          | (14,337)          |
| - Newline Malaysia Limited                       | 292,230           | 353,356           |
| - Newline Asia Services Pte. Ltd.                | 21,161            | -                 |
| - Fairfax Financial Holdings Limited             | 40,944            | -                 |
| - Koperasi MCIS Berhad                           | (93,072)          | (100,961)         |
| - Singapore Reinsurance Corporation Limited      | (23,157,001)      | 42,439,810        |
|  | <u>18,716,596</u> | <u>79,957,649</u> |

- (c) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year was as follows:

|                              | <u>2020</u><br>RM | <u>2019</u><br>RM |
|------------------------------|-------------------|-------------------|
| Short-term employee benefits | 5,459,324         | 4,139,878         |
| Defined contribution plan    | 304,550           | 292,453           |
|                              | <u>5,763,874</u>  | <u>4,432,331</u>  |



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

(c) Compensation of key management personnel (continued)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company, directly or indirectly. The key management personnel of the Group and the Company includes the Directors, Chief Executive Officer, Senior Executive Vice President and other personnel with corporate ranking General Manager and above.

The details of remuneration received and receivable by the CEO during the financial year are as follows :

|   | <u>2020</u>      | <u>2019</u>      |
|---|------------------|------------------|
|   | RM               | RM               |
| <u>Group/Company</u>                      |                  |                  |
| Salary and other emoluments               | 639,636          | 666,268          |
| Bonus                                     | 159,908          | 103,500          |
| Contribution to defined contribution plan | 31,889           | 19,049           |
| Estimated money value of benefits-in-kind | 327,713          | 345,966          |
|   | <u>1,159,146</u> | <u>1,134,783</u> |

**30. RISK MANAGEMENT FRAMEWORK**

(a) Risk management framework

The Group and Company's Risk Management Framework ("RMF") sets out a framework of principles on risk management to guide the Board and senior management in performing their risk oversight function, and sets forth the principles and guidelines of the Group and Company's risk management strategy.

The RMF is designed to:

- Provide the Board and senior management reasonable assurance that the Group and Company's business objectives will be achieved by aligning risk appetite and strategy, proactively responding to risks, reducing operational surprises and losses, and identifying and managing cross-enterprise risks.
- Improve deployment of capital.
- Enhance corporate governance and successfully respond to a changing business environment.
- Assist management in implementing a sound and risk-based internal control system and provide the risk reporting tools to be used to identify significant control lapses/ weaknesses and monitor corrective action.
- Guide staff in understanding the risk assessment methodology and strengthen their risk awareness and capability to identify, manage and control business risks.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**30. RISK MANAGEMENT FRAMEWORK (CONTINUED)**

**(a) Risk management framework (continued)**

The RMF has the following core components:

1. A risk appetite framework which sets out the type and amount of risk the Group and the Company are able and willing to accept;
2. A risk management system that is used to identify, assess and manage the risks in accordance with the risk appetite framework; and
3. A risk governance culture which encourages all employees to engage actively in risk management through the operation of risk policies, standards and procedures.

**(b) Regulatory framework**

Insurers have to comply with the Financial Services Act, 2013 and circulars and guidelines issued by BNM, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policies rests with the Board. The Board exercises oversight on the investments to safeguard the interests of the policyholders and shareholders.

**(c) Capital management**

The Group and Company's capital management policy is to deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth. The RBC Framework and Guidelines on ICAAP for the insurance industry came into effect on 1 January 2009 and 1 September 2012 respectively. Under these requirements, the Company has to maintain a capital adequacy ratio (CAR) that commensurate with its risk profile. The minimum Statutory Target Capital Level requirement under the Risk-Based Capital Framework for insurers is 130%. Throughout the financial year, the Company maintained a CAR higher than the minimum requirement set by the Authority.

**(d) Anti-Money Laundering Anti-Terrorism Financing and Proceeds of Unlawful Activities (AMLATFPUA)**

Following the Anti-Money Laundering Anti-Terrorism Financing and Proceeds of Unlawful Activities (AMLATFPUA) (Amendment of First Schedule) Order 2014, whereby general insurers are no longer defined as Reporting Institutions under the AMLATFPUA Act 2001 with effect from 5 November 2014, and the BNM Policy Document on AML, CFT and TFS for FIs reissued by BNM on 1 September 2020, the scope of AML/CFT risk monitoring under the AMLATFPUA Act 2001 for general insurers had been significantly scaled down. Based on the development, the Company has in place a CFT and TFS Policy (Version 7.0) and a SOP on Ultimate Beneficial Owner Identification and Verification (Version 1.0) in accordance with the relevant BNM policy document and the AMLATFPUA Act 2001 to mitigate the risk of the Company from being used as a channel for financing of terrorism. Towards this end, the Company is leveraging on IT program to facilitate the screening of the Company's customers name against the database of specified individuals and entities published in the relevant United Nations Security Council Resolutions (UNSCRs) and Ministry of Home Affairs Orders.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**31. INSURANCE RISK**

In designing and pricing the general insurance products, the Company make several assumptions about the expected number of claims, the average cost of each claim, and the average premium that will be received (together these risks are defined as premium risk). The Company also assesses each year, the expected level of claims that must be paid based on events which have already occurred but where claim settlement remains outstanding (reserve risk). In setting the assumptions, the Company has also taken into consideration the impact and development trend of large insurance claims (large loss risk); as well as the potential exposure to claims arising from natural catastrophe events (natural catastrophe risk). In all the above instances the risk to the Company arises from the fact that the actual outcome will be different from our assumptions.

Hence, the key risk here is the variability of the claim events which may differ from the assumptions made during the acceptance of the business and also during the assessment of the expected level of claims after an event occurs.

The variability of the claim events is reduced through writing a more diversified portfolio of insurance contracts and also through the use of proper reinsurance arrangements. In addition, selection of risks appropriate implementation of underwriting strategy and guidelines, good claims management and adequate control systems aid to ensure a robust insurance risk management.

The objective of the Company is to control and manage insurance risk to reduce volatility of operating profits has been achieved and has done it through the following:

- The Company's underwriting approach is governed by an underwriting policy and guidelines which sets out a control framework for risk acceptance and referrals, underwriting capacity and authority limits granted to the various operations.
- The Company's claims philosophy which provides the framework for claims management, regular claims review and claims handling procedures with the objective to minimise the uncertainty of claims development and inflationary costs as well as to mitigate dubious or fraudulent claims whilst ensuring fair claims
- Reinsurance is used to limit the Company's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.

The key assumptions made when setting the premiums and valuation of technical provisions are that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of the possibility and magnitude of future claims development and also the expenses involved in handling claims. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example isolated occurrence of large claims as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. The Group and the Company have also taken into account the COVID-19 impact when setting the assumptions.

The risk inherent in general insurance contracts is reflected in the technical provisions which include the premium and claim liabilities, as set out under Note 14 of the financial statements. The premium liabilities comprise reserve for unexpired risks, while the claim liabilities comprise the loss reserves which include both provision for outstanding claims notified and IBNR. This is currently done at the 75% sufficiency level, according to the requirement set by Bank Negara under the RBC Framework.

Estimates of an insurance company's premium and claim liabilities are affected by future events, which can be unpredictable. Hence, the assumptions made may well vary from actual experience. In order for the management to understand the impact of these assumption difference, a Stress Testing exercise is performed annually to test the solvency of the company under various scenarios, simulating changes in major parameters such as new business volume, claims experience, expenses and investment environment, according to regulatory guidelines. This will help inform the management of the key areas with significant impact to the business and to manage the Company more effectively.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**31. INSURANCE RISK (CONTINUED)**

| <u>Group/Company</u>         | <b>2020</b>        |                          |                    | <b>2019</b>        |                          |                    |
|------------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------------|--------------------|
|                              | <u>Gross</u><br>RM | <u>Reinsurance</u><br>RM | <u>Net</u><br>RM   | <u>Gross</u><br>RM | <u>Reinsurance</u><br>RM | <u>Net</u><br>RM   |
| <u>Claim liabilities</u>     |                    |                          |                    |                    |                          |                    |
| Motor                        | 319,175,225        | (153,426,378)            | 165,748,847        | 379,798,657        | (201,088,471)            | 178,710,186        |
| Fire                         | 77,409,565         | (65,946,576)             | 11,462,989         | 73,131,951         | (60,439,439)             | 12,692,512         |
| Marine, Aviation and Transit | 83,216,275         | (74,600,476)             | 8,615,799          | 82,301,210         | (70,430,385)             | 11,870,825         |
| Medical and Health           | 14,588,538         | (364,363)                | 14,224,175         | 18,379,869         | (638,222)                | 17,741,647         |
| Miscellaneous                | 156,704,880        | (119,730,282)            | 36,974,598         | 206,674,056        | (160,609,578)            | 46,064,478         |
|                              | <u>651,094,483</u> | <u>(414,068,075)</u>     | <u>237,026,408</u> | <u>760,285,743</u> | <u>(493,206,095)</u>     | <u>267,079,648</u> |
| <u>Premium liabilities</u>   |                    |                          |                    |                    |                          |                    |
| Motor                        | 100,125,232        | (14,685,950)             | 85,439,282         | 138,716,274        | (75,306,242)             | 63,410,032         |
| Fire                         | 34,987,403         | (26,823,065)             | 8,164,338          | 29,876,610         | (21,097,321)             | 8,779,289          |
| Marine, Aviation and Transit | 16,935,439         | (13,740,270)             | 3,195,169          | 23,144,689         | (19,754,819)             | 3,389,870          |
| Medical and Health           | 24,279,760         | (1,041,247)              | 23,238,513         | 26,114,669         | (710,442)                | 25,404,227         |
| Miscellaneous                | 80,871,373         | (63,734,607)             | 17,136,766         | 40,136,675         | (24,427,836)             | 15,708,839         |
|                              | <u>257,199,207</u> | <u>(120,025,139)</u>     | <u>137,174,068</u> | <u>257,988,917</u> | <u>(141,296,660)</u>     | <u>116,692,257</u> |

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Group's and 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 judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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**31. INSURANCE RISK (CONTINUED)**

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

Sensitivities

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

The following analysis 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 claim liabilities, but to demonstrate the impact due to changes in assumptions, these assumptions are illustrated on an individual basis. It should be noted that movements in these assumptions are non-linear.

| <u>Group/Company</u>                                     | <u>Change in assumptions</u> | <u>Impact on gross liabilities</u><br>RM | <u>Impact on net liabilities</u><br>RM | <u>Impact on profit before tax</u><br>RM | <u>Impact on equity</u><br>RM |
|--|------------------------------|--|--|--|-------------------------------|
| <u>2020</u>  |                              |  |  |  |                               |
| Provision for Risk Margin for Adverse Deviation ("PRAD") | +5%                          | 2,277,106                                | 411,072                                | (411,072)                                | (312,415)                     |
| Loss ratio   | +5%                          | 124,174,803                              | 55,823,148                             | (55,823,148)                             | (42,425,592)                  |
| Claim handling expenses                                  | +5%                          | 562,723                                  | 562,723                                | (562,723)                                | (427,669)                     |
| <u>2019</u>  |                              |  |  |  |                               |
| PRAD   | +5%                          | 2,633,815                                | 589,972                                | (589,972)                                | (448,379)                     |
| Loss ratio   | +5%                          | 121,966,349                              | 58,190,141                             | (58,190,141)                             | (44,224,507)                  |
| Claim handling expenses                                  | +5%                          | 631,529                                  | 631,529                                | (631,529)                                | (479,962)                     |

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**31. INSURANCE RISK (CONTINUED)**

Sensitivities (continued)

The following analysis is performed for reasonably possible movements in the key assumption used in determining sliding scale commission, showing the impact on Profit before Tax and Equity.

| <u>Group/Company</u>          | <u>Change in<br/>assumptions</u> | <u>Impact on<br/>gross/net<br/>liabilities<br/>RM</u> | <u>Impact on<br/>profit<br/>before tax<br/>RM</u> | <u>Impact on<br/>equity<br/>RM</u> |
|-------------------------------|----------------------------------|---|---|------------------------------------|
| <u>2020</u>                   |                                  |   |   |                                    |
| Sliding scale commission rate | +0.5%                            | (2,813,814)   | 2,813,814   | 2,138,499                          |
| Sliding scale commission rate | -0.5%                            | 1,777,676   | (1,777,676)                                       | (1,351,033)                        |
| <u>2019</u>                   |                                  |   |   |                                    |
| Sliding scale commission rate | +0.5%                            | (2,566,410)   | 2,566,410   | 1,950,471                          |
| Sliding scale commission rate | -0.5%                            | 1,521,875   | (1,521,875)                                       | (1,156,625)                        |

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**32. INSURANCE RISK (CONTINUED)**

Claims development table

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

In setting provisions for claims, the Group and the Company give 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.

Three separate tables have been shown to account for claim developments for Pacific Insurance Berhad (PIB) ongoing business, MCIS Insurance Berhad run-off (ex-MCIS) business, Prudential Assurance Berhad run-off (ex-PAMB) respectively with the reasons of :

- Ex-MCIS table consists of cohort of claims from existing risks of MCIS up to the point of acquisition 28 February 2016. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.
- Ex-PAMB table consists of cohort of claims from existing risks of PAMB up to the point of acquisition 30 August 2017. Therefore, this is a run-off claim development and the liabilities are expected to decrease in size overtime.

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**31. INSURANCE RISK (CONTINUED)**

**Gross general insurance claims liabilities in 2020 (PIB):**

| Accident year  | Prior to 2015<br>RM | 2015<br>RM    | 2016<br>RM    | 2017<br>RM    | 2018<br>RM    | 2019<br>RM    | 2020<br>RM   |
|--|---------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| <u>Group/Company</u>                                 |                     |               |               |               |               |               |              |
| At end of accident year                              |                     | 203,716,816   | 317,146,705   | 335,408,814   | 412,875,380   | 435,946,140   | 356,139,876  |
| One year later                                       |                     | 208,908,915   | 295,572,540   | 319,931,530   | 398,191,832   | 387,058,133   |              |
| Two years later                                      |                     | 190,026,570   | 274,896,467   | 311,531,610   | 394,789,947   |               |              |
| Three years later                                    |                     | 173,811,064   | 274,210,516   | 308,849,426   |               |               |              |
| Four years later                                     |                     | 171,364,004   | 265,418,887   |               |               |               |              |
| Five years later                                     |                     | 170,423,050   |               |               |               |               |              |
| Current estimate of<br>cumulative claims<br>incurred |                     | 170,423,050   | 265,418,887   | 308,849,426   | 394,789,947   | 387,058,133   | 356,139,876  |
| At end of accident year                              |                     | (51,264,771)  | (84,733,806)  | (93,494,069)  | (105,157,920) | (111,114,310) | (86,780,437) |
| One year later                                       |                     | (124,567,293) | (178,156,018) | (195,921,333) | (228,260,824) | (247,877,304) |              |
| Two years later                                      |                     | (150,468,251) | (214,883,707) | (238,771,795) | (318,588,863) |               |              |
| Three years later                                    |                     | (158,450,240) | (232,806,522) | (280,660,975) |               |               |              |
| Four years later                                     |                     | (161,942,575) | (239,438,343) |               |               |               |              |
| Five years later                                     |                     | (163,020,305) |               |               |               |               |              |
| Cumulative payments<br>to-date                       |                     | (163,020,305) | (239,438,343) | (280,660,975) | (318,588,863) | (247,877,304) | (86,780,437) |



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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2020 (PIB) (continued):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM  | 2020<br>RM  | Total<br>RM |
|--|---------------------|------------|------------|------------|------------|-------------|-------------|-------------|
| <u>Group/Company</u>   |                     |            |            |            |            |             |             |             |
| Gross general insurance<br>outstanding liabilities<br>(direct and facultative)             | 9,108,709           | 7,402,745  | 25,980,544 | 28,188,451 | 76,201,084 | 139,180,829 | 269,359,438 | 555,421,800 |
| Gross general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |             |             | 23,729,289  |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |             |             | 579,151,089 |
| Claims handling<br>expenses  |                     |            |            |            |            |             |             | 10,537,929  |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |             |             | 48,753,867  |
| Gross general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |             |             | 638,442,885 |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2020 (MCIS general insurance business run-off):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM   | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | 2020<br>RM |
|--|---------------------|--------------|------------|------------|------------|------------|------------|
| <u>Group/Company</u>                                 |                     |              |            |            |            |            |            |
| At end of accident year                              |                     | 18,695,705   | 167,828    | -          | -          | -          | -          |
| One year later                                       |                     | 21,626,874   | 287,700    | -          | -          | -          |            |
| Two years later                                      |                     | 19,916,415   | 331,340    | -          | -          |            |            |
| Three years later                                    |                     | 18,587,448   | 482,995    | -          |            |            |            |
| Four years later                                     |                     | 17,938,550   | 502,240    |            |            |            |            |
| Five years later                                     |                     | 17,532,359   |            |            |            |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 17,532,359   | 502,240    | -          | -          | -          | -          |
| At end of accident year                              |                     | (3,073,991)  | 0          | -          | -          | -          | -          |
| One year later                                       |                     | (8,496,081)  | (19,769)   | -          | -          | -          |            |
| Two years later                                      |                     | (14,298,513) | (76,166)   | -          | -          |            |            |
| Three years later                                    |                     | (15,784,130) | (159,335)  | -          |            |            |            |
| Four years later                                     |                     | (16,677,357) | (262,509)  |            |            |            |            |
| Five years later                                     |                     | (16,925,940) |            |            |            |            |            |
| Cumulative payments<br>to-date                       |                     | (16,925,940) | (262,509)  | -          | -          | -          | -          |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2020 (MCIS general insurance business run-off) (continued):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | 2020<br>RM | Total<br>RM |
|--|---------------------|------------|------------|------------|------------|------------|------------|-------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |             |
| Gross general insurance<br>outstanding liabilities<br>(direct and facultative)             | 7,717,520           | 606,419    | 239,731    | -          | -          | -          | -          | 8,563,670   |
| Gross general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | 197,963     |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 8,761,633   |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 124,173     |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 636,065     |
| Gross general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | 9,521,871   |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2020 (Prudential general insurance business run-off):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM  | 2016<br>RM  | 2017<br>RM  | 2018<br>RM | 2019<br>RM | 2020<br>RM |
|--|---------------------|-------------|-------------|-------------|------------|------------|------------|
| <u>Group/Company</u>                                 |                     |             |             |             |            |            |            |
| At end of accident year                              |                     | -           | -           | 5,748,141   | 1,157,937  | -          | -          |
| One year later                                       |                     | -           | 6,207,659   | 6,155,823   | 764,665    | -          |            |
| Two years later                                      |                     | 7,847,268   | 6,226,732   | 5,202,769   | 718,763    |            |            |
| Three years later                                    |                     | 7,830,286   | 6,378,643   | 5,397,165   |            |            |            |
| Four years later                                     |                     | 7,754,753   | 6,213,207   |             |            |            |            |
| Five years later                                     |                     | 7,753,826   |             |             |            |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 7,753,826   | 6,213,207   | 5,397,165   | 718,763    | -          | -          |
| At end of accident year                              |                     | -           | (2,656,448) | (3,450,422) | (483,694)  | -          | -          |
| One year later                                       |                     | (5,801,310) | (4,195,671) | (4,435,109) | (594,358)  | -          |            |
| Two years later                                      |                     | (6,168,223) | (5,022,474) | (5,079,972) | (675,838)  |            |            |
| Three years later                                    |                     | (6,184,841) | (5,434,496) | (5,085,222) |            |            |            |
| Four years later                                     |                     | (6,207,630) | (5,488,702) |             |            |            |            |
| Five years later                                     |                     | (6,221,018) |             |             |            |            |            |
| Cumulative payments<br>to-date                       |                     | (6,221,018) | (5,488,702) | (5,085,222) | (675,838)  | -          | -          |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2020 (Prudential general insurance business run-off) (continued):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | 2020<br>RM | Total<br>RM      |
|--|---------------------|------------|------------|------------|------------|------------|------------|------------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |                  |
| Gross general insurance<br>outstanding liabilities<br>(direct and facultative)             | 97,946              | 1,532,808  | 724,506    | 311,943    | 42,925     | -          | -          | 2,710,127        |
| Gross general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | -                |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 2,710,127        |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 39,294           |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 380,305          |
| Gross general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | <u>3,129,727</u> |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2020 (PIB):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM    | 2016<br>RM    | 2017<br>RM    | 2018<br>RM    | 2019<br>RM    | 2020<br>RM   |
|--|---------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| <u>Group/Company</u>                                 |                     |               |               |               |               |               |              |
| At end of accident year                              |                     | 121,532,796   | 150,715,647   | 163,233,359   | 194,471,543   | 172,774,434   | 153,062,052  |
| One year later                                       |                     | 121,955,485   | 142,324,732   | 157,952,520   | 178,523,366   | 166,591,291   |              |
| Two years later                                      |                     | 115,029,552   | 135,606,014   | 156,115,914   | 177,278,386   |               |              |
| Three years later                                    |                     | 108,271,022   | 133,712,532   | 156,264,867   |               |               |              |
| Four years later                                     |                     | 106,939,976   | 130,763,122   |               |               |               |              |
| Five years later                                     |                     | 106,380,851   |               |               |               |               |              |
| Current estimate of<br>cumulative claims<br>incurred |                     | 106,380,851   | 130,763,122   | 156,264,867   | 177,278,386   | 166,591,291   | 153,062,052  |
| At end of accident year                              |                     | (42,780,549)  | (57,094,912)  | (60,684,046)  | (68,271,450)  | (71,167,728)  | (59,422,634) |
| One year later                                       |                     | (82,033,698)  | (96,246,726)  | (111,036,463) | (122,478,865) | (132,596,559) |              |
| Two years later                                      |                     | (95,997,486)  | (114,319,389) | (130,070,933) | (150,424,288) |               |              |
| Three years later                                    |                     | (99,383,175)  | (122,112,268) | (143,911,298) |               |               |              |
| Four years later                                     |                     | (100,974,430) | (123,986,516) |               |               |               |              |
| Five years later                                     |                     | (101,548,558) |               |               |               |               |              |
| Cumulative payments<br>to-date                       |                     | (101,548,558) | (123,986,516) | (143,911,298) | (150,424,288) | (132,596,559) | (59,422,634) |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2020 (PIB) (continued):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | 2020<br>RM | Total<br>RM        |
|--|---------------------|------------|------------|------------|------------|------------|------------|--------------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |                    |
| Net general insurance<br>outstanding liabilities<br>(direct and facultative)             | 2,583,966           | 4,832,294  | 6,776,606  | 12,353,569 | 26,854,098 | 33,994,732 | 93,639,417 | 181,034,682        |
| Net general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | 23,729,289         |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 204,763,972        |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 10,537,929         |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 13,717,289         |
| Net general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | <u>229,019,189</u> |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2020 (MCIS general insurance business run-off):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM   | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | 2020<br>RM |
|--|---------------------|--------------|------------|------------|------------|------------|------------|
| <u>Group/Company</u>                                 |                     |              |            |            |            |            |            |
| At end of accident year                              |                     | 14,530,459   | 23,937     | -          | -          | -          | -          |
| One year later                                       |                     | 14,557,068   | 39,688     | -          | -          | -          |            |
| Two years later                                      |                     | 13,431,149   | 38,977     | -          | -          |            |            |
| Three years later                                    |                     | 12,345,946   | 47,058     | -          |            |            |            |
| Four years later                                     |                     | 11,865,519   | 49,784     |            |            |            |            |
| Five years later                                     |                     | 11,536,690   |            |            |            |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 11,536,690   | 49,784     | -          | -          | -          | -          |
| At end of accident year                              |                     | (2,922,588)  | 0          | -          | -          | -          | -          |
| One year later                                       |                     | (7,614,617)  | (5,387)    | -          | -          | -          |            |
| Two years later                                      |                     | (10,212,208) | (14,557)   | -          | -          |            |            |
| Three years later                                    |                     | (10,594,819) | (20,596)   | -          |            |            |            |
| Four years later                                     |                     | (10,809,612) | (28,009)   |            |            |            |            |
| Five years later                                     |                     | (11,050,416) |            |            |            |            |            |
| Cumulative payments<br>to-date                       |                     | (11,050,416) | (28,009)   | -          | -          | -          | -          |



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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2020 (MCIS general insurance business run-off) (continued):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | 2020<br>RM | Total<br>RM |
|--|---------------------|------------|------------|------------|------------|------------|------------|-------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |             |
| Net general insurance<br>outstanding liabilities<br>(direct and facultative)             | 5,193,094           | 486,274    | 21,776     | -          | -          | -          | -          | 5,701,144   |
| Net general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | 197,963     |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 5,899,107   |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 124,173     |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 333,932     |
| Net general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | 6,357,212   |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2020 (Prudential general insurance business run-off):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM  | 2016<br>RM  | 2017<br>RM  | 2018<br>RM | 2019<br>RM | 2020<br>RM |
|--|---------------------|-------------|-------------|-------------|------------|------------|------------|
| <u>Group/Company</u>                                 |                     |             |             |             |            |            |            |
| At end of accident year                              |                     | 6,248,605   | 6,190,620   | 5,292,896   | 1,122,934  | -          | -          |
| One year later                                       |                     | 6,765,166   | 5,637,703   | 5,394,646   | 739,426    | -          |            |
| Two years later                                      |                     | 6,388,061   | 5,633,741   | 4,510,864   | 694,671    |            |            |
| Three years later                                    |                     | 6,367,969   | 5,711,020   | 4,637,851   |            |            |            |
| Four years later                                     |                     | 6,302,394   | 5,547,660   |             |            |            |            |
| Five years later                                     |                     | 6,301,491   |             |             |            |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 6,301,491   | 5,547,660   | 4,637,851   | 694,671    | -          | -          |
| At end of accident year                              |                     | (3,456,977) | (2,490,530) | (3,124,049) | (466,517)  | -          | -          |
| One year later                                       |                     | (5,476,125) | (3,978,040) | (4,079,538) | (573,376)  | -          |            |
| Two years later                                      |                     | (5,833,496) | (4,629,029) | (4,391,137) | (652,819)  |            |            |
| Three years later                                    |                     | (5,848,981) | (4,865,427) | (4,396,256) |            |            |            |
| Four years later                                     |                     | (5,871,200) | (4,918,277) |             |            |            |            |
| Five years later                                     |                     | (5,884,253) |             |             |            |            |            |
| Cumulative payments<br>to-date                       |                     | (5,884,253) | (4,918,277) | (4,396,256) | (652,819)  | -          | -          |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2020 (Prudential general insurance business run-off) (continued):

| Accident year  | Prior to 2015<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | 2020<br>RM | Total<br>RM      |
|--|---------------------|------------|------------|------------|------------|------------|------------|------------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |                  |
| Net general insurance<br>outstanding liabilities<br>(direct and facultative)             | 95,498              | 417,238    | 629,382    | 241,594    | 41,852     | -          | -          | 1,425,564        |
| Net general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | -                |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 1,425,564        |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 39,296           |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 185,147          |
| Net general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | <u>1,650,006</u> |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2019 (PIB):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM    | 2015<br>RM    | 2016<br>RM    | 2017<br>RM    | 2018<br>RM    | 2019<br>RM    |
|--|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <u>Group/Company</u>                                 |                     |               |               |               |               |               |               |
| At end of accident year                              |                     | 123,760,119   | 203,716,816   | 317,146,705   | 335,408,814   | 412,875,380   | 435,946,140   |
| One year later                                       |                     | 114,975,495   | 208,908,915   | 295,572,540   | 319,931,530   | 398,191,832   |               |
| Two years later                                      |                     | 111,045,828   | 190,026,570   | 274,896,467   | 311,531,610   |               |               |
| Three years later                                    |                     | 109,759,689   | 173,811,064   | 274,210,516   |               |               |               |
| Four years later                                     |                     | 110,560,974   | 171,364,004   |               |               |               |               |
| Five years later                                     |                     | 110,354,986   |               |               |               |               |               |
| Current estimate of<br>cumulative claims<br>incurred |                     | 110,354,986   | 171,364,004   | 274,210,516   | 311,531,610   | 398,191,832   | 435,946,140   |
| At end of accident year                              |                     | (39,174,817)  | (51,264,771)  | (84,733,806)  | (93,494,069)  | (105,157,920) | (111,114,310) |
| One year later                                       |                     | (73,691,410)  | (124,567,293) | (178,156,018) | (195,921,333) | (228,260,824) |               |
| Two years later                                      |                     | (87,747,029)  | (150,468,251) | (214,883,707) | (238,771,795) |               |               |
| Three years later                                    |                     | (95,024,687)  | (158,450,240) | (232,806,522) |               |               |               |
| Four years later                                     |                     | (98,751,059)  | (161,942,575) |               |               |               |               |
| Five years later                                     |                     | (100,356,740) |               |               |               |               |               |
| Cumulative payments<br>to-date                       |                     | (100,356,740) | (161,942,575) | (232,806,522) | (238,771,795) | (228,260,824) | (111,114,310) |

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**31. INSURANCE RISK (CONTINUED)**

**Gross general insurance claims liabilities in 2019 (PIB) (continued):**

| Accident year  | Prior to 2014<br>RM | 2014<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM  | 2019<br>RM  | Total<br>RM        |
|--|---------------------|------------|------------|------------|------------|-------------|-------------|--------------------|
| <u>Group/Company</u>   |                     |            |            |            |            |             |             |                    |
| Gross general insurance<br>outstanding liabilities<br>(direct and facultative)             | 4,201,963           | 9,998,246  | 9,421,429  | 41,403,994 | 72,759,815 | 169,931,008 | 324,831,830 | 632,548,285        |
| Gross general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |             |             | 26,736,561         |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |             |             | 659,284,846        |
| Claims handling<br>expenses  |                     |            |            |            |            |             |             | 11,535,066         |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |             |             | 53,947,926         |
| Gross general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |             |             | <u>724,767,838</u> |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2019 (MCIS general insurance business run-off):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM   | 2015<br>RM   | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM |
|--|---------------------|--------------|--------------|------------|------------|------------|------------|
| <u>Group/Company</u>                                 |                     |              |              |            |            |            |            |
| At end of accident year                              |                     | 86,623,384   | 18,695,705   | 167,828    | -          | -          | -          |
| One year later                                       |                     | 86,840,507   | 21,626,874   | 287,700    | -          | -          |            |
| Two years later                                      |                     | 83,113,690   | 19,916,415   | 331,340    | -          |            |            |
| Three years later                                    |                     | 79,206,629   | 18,587,448   | 482,995    |            |            |            |
| Four years later                                     |                     | 75,705,886   | 17,938,550   |            |            |            |            |
| Five years later                                     |                     | 74,418,707   |              |            |            |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 74,418,707   | 17,938,550   | 482,995    | -          | -          | -          |
| At end of accident year                              |                     | (23,780,956) | (3,073,991)  | -          | -          | -          | -          |
| One year later                                       |                     | (38,329,500) | (8,496,081)  | (19,769)   | -          | -          |            |
| Two years later                                      |                     | (55,233,080) | (14,298,513) | (76,166)   | -          |            |            |
| Three years later                                    |                     | (62,316,541) | (15,784,130) | (159,335)  |            |            |            |
| Four years later                                     |                     | (67,585,119) | (16,677,357) |            |            |            |            |
| Five years later                                     |                     | (68,549,794) |              |            |            |            |            |
| Cumulative payments<br>to-date                       |                     | (68,549,794) | (16,677,357) | (159,335)  | -          | -          | -          |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2019 (MCIS general insurance business run-off) (continued):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | Total<br>RM |
|--|---------------------|------------|------------|------------|------------|------------|------------|-------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |             |
| Gross general insurance<br>outstanding liabilities<br>(direct and facultative)             | 20,399,787          | 5,868,913  | 1,261,193  | 323,660    | -          | -          | -          | 27,853,553  |
| Gross general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | 241,088     |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 28,094,641  |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 403,877     |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 3,416,497   |
| Gross general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | 31,915,015  |

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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2019 (Prudential general insurance business run-off):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM  | 2015<br>RM  | 2016<br>RM  | 2017<br>RM  | 2018<br>RM | 2019<br>RM |
|--|---------------------|-------------|-------------|-------------|-------------|------------|------------|
| <u>Group/Company</u>                                 |                     |             |             |             |             |            |            |
| At end of accident year                              |                     | -           | -           | -           | 5,748,141   | 1,157,937  | -          |
| One year later                                       |                     | -           | -           | 6,207,659   | 6,155,823   | 764,665    |            |
| Two years later                                      |                     | -           | 7,847,268   | 6,226,732   | 5,202,769   |            |            |
| Three years later                                    |                     | 9,196,681   | 7,830,286   | 6,378,643   |             |            |            |
| Four years later                                     |                     | 9,215,493   | 7,754,753   |             |             |            |            |
| Five years later                                     |                     | 9,280,767   |             |             |             |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 9,280,767   | 7,754,753   | 6,378,643   | 5,202,769   | 764,665    | -          |
| At end of accident year                              |                     | -           | -           | (2,656,448) | (3,450,422) | (483,694)  | -          |
| One year later                                       |                     | -           | (5,801,310) | (4,195,671) | (4,435,109) | (594,358)  |            |
| Two years later                                      |                     | (8,967,075) | (6,168,223) | (5,022,474) | (5,079,972) |            |            |
| Three years later                                    |                     | (9,065,935) | (6,184,841) | (5,434,496) |             |            |            |
| Four years later                                     |                     | (9,084,327) | (6,207,630) |             |             |            |            |
| Five years later                                     |                     | (9,171,301) |             |             |             |            |            |
| Cumulative payments<br>to-date                       |                     | (9,171,301) | (6,207,630) | (5,434,496) | (5,079,972) | (594,358)  | -          |



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**31. INSURANCE RISK (CONTINUED)**

Gross general insurance claims liabilities in 2019 (Prudential general insurance business run-off) (continued):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | Total<br>RM      |
|--|---------------------|------------|------------|------------|------------|------------|------------|------------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |                  |
| Gross general insurance<br>outstanding liabilities<br>(direct and facultative)             | 240,722             | 109,466    | 1,547,123  | 944,147    | 122,797    | 170,307    | -          | 3,134,562        |
| Gross general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | -                |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 3,134,562        |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 45,451           |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 422,877          |
| Gross general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | <u>3,602,890</u> |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2019 (PIB):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM   | 2015<br>RM    | 2016<br>RM    | 2017<br>RM    | 2018<br>RM    | 2019<br>RM   |
|--|---------------------|--------------|---------------|---------------|---------------|---------------|--------------|
| <u>Group/Company</u>                                 |                     |              |               |               |               |               |              |
| At end of accident year                              |                     | 82,907,814   | 121,532,796   | 150,715,647   | 163,233,359   | 194,471,543   | 172,774,434  |
| One year later                                       |                     | 64,204,183   | 121,955,485   | 142,324,732   | 157,952,520   | 178,523,366   |              |
| Two years later                                      |                     | 60,252,225   | 115,029,552   | 135,606,014   | 156,115,914   |               |              |
| Three years later                                    |                     | 59,043,708   | 108,271,022   | 133,712,532   |               |               |              |
| Four years later                                     |                     | 58,632,769   | 106,939,976   |               |               |               |              |
| Five years later                                     |                     | 58,523,082   |               |               |               |               |              |
| Current estimate of<br>cumulative claims<br>incurred |                     | 58,523,082   | 106,939,976   | 133,712,532   | 156,115,914   | 178,523,366   | 172,774,434  |
| At end of accident year                              |                     | (34,893,870) | (42,780,549)  | (57,094,912)  | (60,684,046)  | (68,271,450)  | (71,167,728) |
| One year later                                       |                     | (51,160,371) | (82,033,698)  | (96,246,726)  | (111,036,463) | (122,478,865) |              |
| Two years later                                      |                     | (54,989,373) | (95,997,486)  | (114,319,389) | (130,070,933) |               |              |
| Three years later                                    |                     | (56,268,953) | (99,383,175)  | (122,112,268) |               |               |              |
| Four years later                                     |                     | (57,341,537) | (100,974,430) |               |               |               |              |
| Five years later                                     |                     | (57,465,380) |               |               |               |               |              |
| Cumulative payments<br>to-date                       |                     | (57,465,380) | (100,974,430) | (122,112,268) | (130,070,933) | (122,478,865) | (71,167,728) |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2019 (PIB) (continued):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM  | Total<br>RM        |
|--|---------------------|------------|------------|------------|------------|------------|-------------|--------------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |             |                    |
| Net general insurance<br>outstanding liabilities<br>(direct and facultative)             | 513,274             | 1,057,702  | 5,965,546  | 11,600,264 | 26,044,981 | 56,044,501 | 101,606,706 | 202,832,974        |
| Net general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |             | 26,736,561         |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |             | 229,569,535        |
| Claims handling<br>expenses  |                     |            |            |            |            |            |             | 11,535,066         |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |             | 16,167,791         |
| Net general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |             | <u>257,272,392</u> |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2019 (MCIS general insurance business run-off):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM   | 2015<br>RM   | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM |
|--|---------------------|--------------|--------------|------------|------------|------------|------------|
| <u>Group/Company</u>                                 |                     |              |              |            |            |            |            |
| At end of accident year                              |                     | 69,675,872   | 14,530,459   | 23,937     | -          | -          | -          |
| One year later                                       |                     | 71,475,987   | 14,557,068   | 39,688     | -          | -          |            |
| Two years later                                      |                     | 43,832,305   | 13,431,149   | 38,977     | -          |            |            |
| Three years later                                    |                     | 42,375,851   | 12,345,946   | 47,058     |            |            |            |
| Four years later                                     |                     | 41,104,263   | 11,865,519   |            |            |            |            |
| Five years later                                     |                     | 40,716,519   |              |            |            |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 40,716,519   | 11,865,519   | 47,058     | -          | -          | -          |
| At end of accident year                              |                     | (22,210,967) | (2,922,588)  | -          | -          | -          | -          |
| One year later                                       |                     | (33,676,688) | (7,614,617)  | (5,387)    | -          | -          |            |
| Two years later                                      |                     | (34,477,349) | (10,212,208) | (14,557)   | -          |            |            |
| Three years later                                    |                     | (37,001,563) | (10,594,819) | (20,596)   |            |            |            |
| Four years later                                     |                     | (38,550,506) | (10,809,612) |            |            |            |            |
| Five years later                                     |                     | (38,822,148) |              |            |            |            |            |
| Cumulative payments<br>to-date                       |                     | (38,822,148) | (10,809,612) | (20,596)   | -          | -          | -          |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2019 (MCIS general insurance business run-off) (continued):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | Total<br>RM |
|--|---------------------|------------|------------|------------|------------|------------|------------|-------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |             |
| Net general insurance<br>outstanding liabilities<br>(direct and facultative)             | 3,493,445           | 1,894,371  | 1,055,907  | 26,462     | -          | -          | -          | 6,470,185   |
| Net general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | 241,088     |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 6,711,273   |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 403,877     |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 496,098     |
| Net general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | 7,611,248   |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2019 (Prudential general insurance business run-off):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM  | 2015<br>RM  | 2016<br>RM  | 2017<br>RM  | 2018<br>RM | 2019<br>RM |
|--|---------------------|-------------|-------------|-------------|-------------|------------|------------|
| <u>Group/Company</u>                                 |                     |             |             |             |             |            |            |
| At end of accident year                              |                     | 8,602,421   | 6,248,605   | 6,190,620   | 5,292,896   | 1,122,934  | -          |
| One year later                                       |                     | 7,694,913   | 6,765,166   | 5,637,703   | 5,394,646   | 739,426    |            |
| Two years later                                      |                     | 7,678,580   | 6,388,061   | 5,633,741   | 4,510,864   |            |            |
| Three years later                                    |                     | 7,550,671   | 6,367,969   | 5,711,020   |             |            |            |
| Four years later                                     |                     | 7,569,013   | 6,302,394   |             |             |            |            |
| Five years later                                     |                     | 7,632,657   |             |             |             |            |            |
| Current estimate of<br>cumulative claims<br>incurred |                     | 7,632,657   | 6,302,394   | 5,711,020   | 4,510,864   | 739,426    | -          |
| At end of accident year                              |                     | (3,817,365) | (3,456,977) | (2,490,530) | (3,124,049) | (466,517)  | -          |
| One year later                                       |                     | (6,587,588) | (5,476,125) | (3,978,040) | (4,079,538) | (573,376)  |            |
| Two years later                                      |                     | (7,326,801) | (5,833,496) | (4,629,029) | (4,391,137) |            |            |
| Three years later                                    |                     | (7,423,196) | (5,848,981) | (4,865,427) |             |            |            |
| Four years later                                     |                     | (7,441,128) | (5,871,200) |             |             |            |            |
| Five years later                                     |                     | (7,525,928) |             |             |             |            |            |
| Cumulative payments<br>to-date                       |                     | (7,525,928) | (5,871,200) | (4,865,427) | (4,391,137) | (573,376)  | -          |

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**31. INSURANCE RISK (CONTINUED)**

Net general insurance claims liabilities in 2019 (Prudential general insurance business run-off) (continued):

| Accident year  | Prior to 2014<br>RM | 2014<br>RM | 2015<br>RM | 2016<br>RM | 2017<br>RM | 2018<br>RM | 2019<br>RM | Total<br>RM      |
|--|---------------------|------------|------------|------------|------------|------------|------------|------------------|
| <u>Group/Company</u>   |                     |            |            |            |            |            |            |                  |
| Net general insurance<br>outstanding liabilities<br>(direct and facultative)             | 234,703             | 106,729    | 431,194    | 845,593    | 119,727    | 166,050    | -          | 1,903,996        |
| Net general insurance<br>outstanding liabilities<br>(treaty inward)                      |                     |            |            |            |            |            |            | -                |
| Best estimate of claim<br>liabilities  |                     |            |            |            |            |            |            | 1,903,996        |
| Claims handling<br>expenses  |                     |            |            |            |            |            |            | 45,451           |
| PRAD at 75%<br>confidence Level  |                     |            |            |            |            |            |            | 246,561          |
| Net general insurance<br>contract liabilities per<br>statements of financial<br>position |                     |            |            |            |            |            |            | <u>2,196,008</u> |

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**32. FINANCIAL RISKS**

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

**Credit risk**

Credit risk is the risk of financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The major classes of financial assets of the Group and the Company are deposits with financial institutions, FVTPL (unit trusts and bonds), loan receivables and trade receivables.

Credit risk arises when the Group's and the Company's cash assets are placed in interest-bearing instruments, mainly fixed and call deposits and repurchase agreements with licensed financial institutions. The Group and the Company manage this credit risk by spreading their deposits with a large group of financial institutions.

Trade receivables are monitored regularly and the Group and the Company adopt various control measures such as 60 days Premium Warranty and Cash Before Cover to minimise this credit risk.

**Credit exposure**

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the maximum amount of each class of financial assets recognised in the statements of financial position.

**Credit exposure by credit rating**

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



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32. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

|   | Government<br><u>Guaranteed</u><br>RM | Investment<br><u>grade</u><br>RM | <u>Not rated</u><br>RM | <u>Total</u><br>RM   |
|---|---------------------------------------|----------------------------------|------------------------|----------------------|
| 2020  |                                       |                                  |                        |                      |
| <u>Group</u>  |                                       |                                  |                        |                      |
| Amortised cost:                                       |                                       |                                  |                        |                      |
| Fixed and call deposits                               | -                                     | 43,687,131                       | -                      | 43,687,131           |
| Loan  | -                                     | -                                | 624,221                | 624,221              |
| FVTPL financial investments:                          |                                       |                                  |                        |                      |
| Malaysian Government Securities                       | 84,548,498                            | -                                | -                      | 84,548,498           |
| Government Investment Issues                          | 105,574,500                           | -                                | -                      | 105,574,500          |
| Corporate bonds                                       | 54,957,466                            | 66,879,465                       | 4,203,654              | 126,040,585          |
| Unit trusts   | -                                     | -                                | 137,349,418            | 137,349,418          |
| Equity securities                                     | -                                     | -                                | 70,807,130             | 70,807,130           |
| REITs   | -                                     | -                                | 2,910,000              | 2,910,000            |
| Reinsurance assets                                    | -                                     | 517,672,453                      | 16,191,451             | 533,863,904          |
| Insurance receivables and<br>reinsurance recoverables | -                                     | 49,191,078                       | 56,676,247             | 105,867,325          |
| Cash and cash equivalents                             | -                                     | 122,243,549                      | 10,100                 | 122,253,649          |
|   | <u>245,080,464</u>                    | <u>799,673,676</u>               | <u>288,772,221</u>     | <u>1,333,526,361</u> |

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32. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

|   | <u>Investment<br/>grade</u><br>RM | <u>Not rated</u><br>RM | <u>Total</u><br>RM   |
|---|-----------------------------------|------------------------|----------------------|
| 2020  |                                   |                        |                      |
| <u>Company</u>  |                                   |                        |                      |
| Amortised cost:                                       |                                   |                        |                      |
| Fixed and call deposits                               | 43,687,131                        | -                      | 43,687,131           |
| Loan  | -                                 | 624,221                | 624,221              |
| FVTPL financial investments                           |                                   |                        |                      |
| Unit trusts   | -                                 | 463,118,140            | 463,118,140          |
| Equity securities                                     | -                                 | 70,807,130             | 70,807,130           |
| REITs   | -                                 | 2,910,000              | 2,910,000            |
| Reinsurance assets                                    | 517,672,453                       | 16,191,451             | 533,863,904          |
| Insurance receivables and<br>reinsurance recoverables | 49,191,078                        | 56,676,247             | 105,867,325          |
| Cash and cash equivalents                             | 110,969,059                       | 10,100                 | 110,979,159          |
|   | <u>721,519,721</u>                | <u>610,337,289</u>     | <u>1,331,857,010</u> |

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32. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

|   | Government<br><u>Guaranteed</u><br>RM | Investment<br><u>grade</u><br>RM | <u>Not rated</u><br>RM | <u>Total</u><br>RM   |
|---|---------------------------------------|----------------------------------|------------------------|----------------------|
| 2019  |                                       |                                  |                        |                      |
| <u>Group</u>  |                                       |                                  |                        |                      |
| Amortised cost:                                       |                                       |                                  |                        |                      |
| Fixed and call deposits                               | -                                     | 55,774,229                       | -                      | 55,774,229           |
| Loan  | -                                     | -                                | 914,083                | 914,083              |
| FVTPL financial investments:                          |                                       |                                  |                        |                      |
| Malaysian Government Securities                       | 55,155,902                            | -                                | -                      | 55,155,902           |
| Government Investment Issues                          | 108,921,976                           | -                                | -                      | 108,921,976          |
| Corporate bonds                                       | 32,369,639                            | 92,289,749                       | 7,066,181              | 131,725,569          |
| Unit trusts   | -                                     | -                                | 172,228,508            | 172,228,508          |
| Equity securities                                     | -                                     | -                                | 30,122,056             | 30,122,056           |
| REITs   | -                                     | -                                | 3,356,200              | 3,356,200            |
| Reinsurance assets                                    | -                                     | 609,272,632                      | 24,873,790             | 634,146,422          |
| Insurance receivables and<br>reinsurance recoverables | -                                     | 17,009,316                       | 42,974,024             | 59,983,340           |
| Cash and cash equivalents                             | -                                     | 182,905,515                      | 10,100                 | 182,915,615          |
|   | <u>196,447,517</u>                    | <u>957,251,441</u>               | <u>281,544,942</u>     | <u>1,435,243,900</u> |

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**32. FINANCIAL RISKS (CONTINUED)**

Credit exposure by credit rating (continued)

|   | <u>Investment<br/>grade</u><br>RM | <u>Not rated</u><br>RM | <u>Total</u><br>RM   |
|---|-----------------------------------|------------------------|----------------------|
| 2019  |                                   |                        |                      |
| <u>Company</u>  |                                   |                        |                      |
| Amortised cost:                                       |                                   |                        |                      |
| Fixed and call deposits                               | 55,774,229                        | -                      | 55,774,229           |
| Loan  | -                                 | 914,083                | 914,083              |
| FVTPL financial investments                           |                                   |                        |                      |
| Unit trusts   | -                                 | 479,334,485            | 479,334,485          |
| Equity securities                                     | -                                 | 30,122,056             | 30,122,056           |
| REITs   | -                                 | 3,356,200              | 3,356,200            |
| Reinsurance assets                                    | 609,272,632                       | 24,873,790             | 634,146,422          |
| Insurance receivables and<br>reinsurance recoverables | 17,009,316                        | 42,974,024             | 59,983,340           |
| Cash and cash equivalents                             | 170,754,279                       | 10,100                 | 170,764,379          |
|   | <u>852,810,456</u>                | <u>581,584,738</u>     | <u>1,434,395,194</u> |

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**32. FINANCIAL RISKS (CONTINUED)**

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit ratings of counterparties obtained from Rating Agency of Malaysia ("RAM"), Malaysian Rating Corporation Berhad ("MARC"), A.M. Best Company ("A.M. Best"), Standard & Poor's ("S&P") and Fitch Solution. AAA is the highest possible rating.

**Credit exposure by credit rating (continued)**

|  | <b><u>Government</u></b> | <b><u>AAA</u></b> | <b><u>AA</u></b>   | <b><u>A</u></b>    | <b><u>BBB</u></b> | <b><u>Not rated</u></b> | <b><u>Total</u></b>  |
|--|--------------------------|-------------------|--------------------|--------------------|-------------------|-------------------------|----------------------|
|  | <b><u>Guaranteed</u></b> | <b><u>RM</u></b>  | <b><u>RM</u></b>   | <b><u>RM</u></b>   | <b><u>RM</u></b>  | <b><u>RM</u></b>        | <b><u>RM</u></b>     |
| <b>2020</b>  |                          |                   |                    |                    |                   |                         |                      |
| <b><u>Group</u></b>                                |                          |                   |                    |                    |                   |                         |                      |
| Amortised cost:                                    |                          |                   |                    |                    |                   |                         |                      |
| Fixed and call deposits                            | -                        | 14,427,643        | 6,375,307          | 22,884,181         | -                 | -                       | 43,687,131           |
| Loan   | -                        | -                 | -                  | -                  | -                 | 624,221                 | 624,221              |
| FVTPL financial investments:                       |                          |                   |                    |                    |                   |                         |                      |
| Malaysian Government Securities                    | 84,548,498               | -                 | -                  | -                  | -                 | -                       | 84,548,498           |
| Government Investment Issues                       | 105,574,500              | -                 | -                  | -                  | -                 | -                       | 105,574,500          |
| Corporate bonds                                    | 54,957,466               | 24,133,544        | 34,975,583         | 5,746,761          | 2,023,577         | 4,203,654               | 126,040,585          |
| Unit trusts  | -                        | -                 | -                  | -                  | -                 | 137,349,418             | 137,349,418          |
| Equity securities                                  | -                        | -                 | -                  | -                  | -                 | 70,807,130              | 70,807,130           |
| REITs  | -                        | -                 | -                  | -                  | -                 | 2,910,000               | 2,910,000            |
| Reinsurance assets                                 | -                        | 13,783,463        | 71,461             | 497,140,378        | 6,677,151         | 16,191,451              | 533,863,904          |
| Insurance receivables and reinsurance recoverables | -                        | 2,581,447         | 3,630              | 44,241,333         | 2,364,668         | 56,676,247              | 105,867,325          |
| Cash and cash equivalents                          | -                        | 22,509,683        | 99,733,866         | -                  | -                 | 10,100                  | 122,253,649          |
|  | <u>245,080,464</u>       | <u>77,435,780</u> | <u>141,159,847</u> | <u>570,012,653</u> | <u>11,065,396</u> | <u>288,772,221</u>      | <u>1,333,526,361</u> |

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32. FINANCIAL RISKS (CONTINUED)

Credit exposure by credit rating (continued)

|   | <u>AAA</u><br>RM  | <u>AA</u><br>RM    | <u>A</u><br>RM     | <u>BBB</u><br>RM | <u>Not rated</u><br>RM | <u>Total</u><br>RM   |
|---|-------------------|--------------------|--------------------|------------------|------------------------|----------------------|
| 2020  |                   |                    |                    |                  |                        |                      |
| <u>Company</u>  |                   |                    |                    |                  |                        |                      |
| Amortised cost:                                       |                   |                    |                    |                  |                        |                      |
| Fixed and call deposits                               | 14,427,643        | 6,375,307          | 22,884,181         | -                | -                      | 43,687,131           |
| Loan  | -                 | -                  | -                  | -                | 624,221                | 624,221              |
| FVTPL financial investments                           |                   |                    |                    |                  |                        |                      |
| Unit trusts   | -                 | -                  | -                  | -                | 463,118,140            | 463,118,140          |
| Equity securities                                     | -                 | -                  | -                  | -                | 70,807,130             | 70,807,130           |
| REITs   | -                 | -                  | -                  | -                | 2,910,000              | 2,910,000            |
| Reinsurance assets                                    | 13,783,463        | 71,461             | 497,140,378        | 6,677,151        | 16,191,451             | 533,863,904          |
| Insurance receivables and<br>reinsurance recoverables | 2,581,447         | 3,630              | 44,241,333         | 2,364,668        | 56,676,247             | 105,867,325          |
| Cash and cash equivalents                             | 16,581,605        | 94,387,454         | -                  | -                | 10,100                 | 110,979,159          |
|   | <u>47,374,158</u> | <u>100,837,852</u> | <u>564,265,892</u> | <u>9,041,819</u> | <u>610,337,289</u>     | <u>1,331,857,010</u> |

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**32. FINANCIAL RISKS (CONTINUED)**

Credit exposure by credit rating (continued)

|   | <u>Government<br/>Guaranteed</u><br>RM | <u>AAA</u><br>RM | <u>AA</u><br>RM | <u>A</u><br>RM | <u>Not rated</u><br>RM | <u>Total</u><br>RM |
|---|--|------------------|-----------------|----------------|------------------------|--------------------|
| 2019  |  |                  |                 |                |                        |                    |
| <u>Group</u>  |  |                  |                 |                |                        |                    |
| Amortised cost:                                       |  |                  |                 |                |                        |                    |
| Fixed and call deposits                               | -                                      | 40,602,760       | 6,616,209       | 8,555,260      | -                      | 55,774,229         |
| Loan  | -                                      | -                | -               | -              | 914,083                | 914,083            |
| FVTPL financial investments:                          |  |                  |                 |                |                        |                    |
| Malaysian Government Securities                       | 55,155,902                             | -                | -               | -              | -                      | 55,155,902         |
| Government Investment Issues                          | 108,921,976                            | -                | -               | -              | -                      | 108,921,976        |
| Corporate bonds                                       | 32,369,639                             | 20,340,363       | 55,734,120      | 16,215,266     | 7,066,181              | 131,725,569        |
| Unit trusts   | -                                      | -                | -               | -              | 172,228,508            | 172,228,508        |
| Equity securities                                     | -                                      | -                | -               | -              | 30,122,056             | 30,122,056         |
| REITs   | -                                      | -                | -               | -              | 3,356,200              | 3,356,200          |
| Reinsurance assets                                    | -                                      | 38,890,744       | 239,029         | 570,142,859    | 24,873,790             | 634,146,422        |
| Insurance receivables and<br>reinsurance recoverables | -                                      | 1,611,087        | 43,037          | 15,355,192     | 42,974,024             | 59,983,340         |
| Cash and cash equivalents                             | -                                      | 36,035,271       | 146,870,244     | -              | 10,100                 | 182,915,615        |
|   | 196,447,517                            | 137,480,225      | 209,502,639     | 610,268,577    | 281,544,942            | 1,435,243,900      |

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**32. FINANCIAL RISKS (CONTINUED)**

Credit exposure by credit rating (continued)

|   | <u>AAA</u><br>RM   | <u>AA</u><br>RM    | <u>A</u><br>RM     | <u>Not rated</u><br>RM | RM                   |
|---|--------------------|--------------------|--------------------|------------------------|----------------------|
| 2019  |                    |                    |                    |                        |                      |
| <u>Company</u>  |                    |                    |                    |                        |                      |
| Amortised cost:                                       |                    |                    |                    |                        |                      |
| Fixed and call deposits                               | 40,602,760         | 6,616,209          | 8,555,260          | -                      | 55,774,229           |
| Loan  | -                  | -                  | -                  | 914,083                | 914,083              |
| FVTPL financial investments                           |                    |                    |                    |                        |                      |
| Malaysian Government Securities                       | -                  | -                  | -                  | -                      | -                    |
| Government Investment Issues                          | -                  | -                  | -                  | -                      | -                    |
| Corporate bonds                                       | -                  | -                  | -                  | -                      | -                    |
| Unit trusts   | -                  | -                  | -                  | 479,334,485            | 479,334,485          |
| Equity securities                                     | -                  | -                  | -                  | 30,122,056             | 30,122,056           |
| REITs   | -                  | -                  | -                  | 3,356,200              | 3,356,200            |
| Reinsurance assets                                    | 38,890,744         | 239,029            | 570,142,859        | 24,873,790             | 634,146,422          |
| Insurance receivables and<br>reinsurance recoverables | 1,611,087          | 43,037             | 15,355,192         | 42,974,024             | 59,983,340           |
| Cash and cash equivalents                             | 23,889,575         | 146,864,704        | -                  | 10,100                 | 170,764,379          |
|   | <u>104,994,166</u> | <u>153,762,979</u> | <u>594,053,311</u> | <u>581,584,738</u>     | <u>1,434,395,194</u> |



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

**Credit exposure by credit rating (continued)**

It is the Group's and the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The Group and the Company use the ratings assigned by external rating agencies to assess credit risk.

Set out below is the information about the credit risk exposure on the Group's and the Company's insurance receivables, using provision matrix:

| <u>Group/Company</u>                               | <u>0-3</u><br><u>months</u><br>RM | <u>4-6</u><br><u>months</u><br>RM | <u>7-12</u><br><u>months</u><br>RM | <u>&gt;12</u><br><u>months</u><br>RM | <u>Total</u><br>RM |
|--|-----------------------------------|-----------------------------------|------------------------------------|--------------------------------------|--------------------|
| <b>31 December 2020</b>                            |                                   |                                   |                                    |                                      |                    |
| Expected credit loss rate                          | 1%                                | 1%                                | 8%                                 | 57%                                  |                    |
| Insurance receivables and reinsurance recoverables | 82,305,204                        | 17,413,550                        | 3,764,651                          | 8,627,478                            | 112,110,883        |
| Expected credit loss                               | 842,917                           | 154,976                           | 295,449                            | 4,950,216                            | 6,243,558          |
| <b>31 December 2019</b>                            |                                   |                                   |                                    |                                      |                    |
| Expected credit loss rate                          | 2%                                | 3%                                | 9%                                 | 76%                                  |                    |
| Insurance receivables and reinsurance recoverables | 46,576,765                        | 10,278,651                        | 3,033,489                          | 5,794,025                            | 65,682,930         |
| Expected credit loss                               | 776,157                           | 257,601                           | 268,892                            | 4,396,940                            | 5,699,590          |

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**32. FINANCIAL RISKS (CONTINUED)**

At 31 December 2020, based on a combination of collective and individual assessment of receivables, there are impaired insurance receivables, reinsurance recoverables and reinsurance assets of RM6,472,868 (2019: RM6,055,923). No collateral is held as security for any past-due or impaired assets. The Group and the Company record impairment allowance for insurance receivables, reinsurance recoverables and reinsurance assets in separate "allowance for impairment losses" account. A reconciliation of the allowance for impairment losses for insurance receivables, reinsurance recoverables and reinsurance assets are as follows:

|  | Insurance receivables and<br>reinsurance recoverables |                  | Reinsurance Assets                 |                | Total            |                  |
|--|---|------------------|------------------------------------|----------------|------------------|------------------|
|  | Allowance for<br>Impairment losses                    |                  | Allowance for<br>Impairment losses |                |                  |                  |
|  | <u>2020</u>   | <u>2019</u>      | <u>2020</u>                        | <u>2019</u>    | <u>2020</u>      | <u>2019</u>      |
|  | RM  | RM               | RM                                 | RM             | RM               | RM               |
| <u>Group/Company</u>                           |   |                  |                                    |                |                  |                  |
| At 31 December                                 | 5,699,590   | 5,730,106        | 356,333                            | 730,457        | 6,055,923        | 6,460,563        |
| Effects of adoption of MFRS 9                  | -   | 4,397,812        | -                                  | -              | -                | 4,397,812        |
| At 1 January 2019, as restated                 | 5,699,590   | 10,127,918       | 356,333                            | 730,457        | 6,055,923        | 10,858,375       |
| Allowance/ (Write-back) for the financial year | 543,968   | (4,428,328)      | (127,023)                          | (374,124)      | 416,945          | (4,802,452)      |
| At 31 December                                 | <u>6,243,558</u>                                      | <u>5,699,590</u> | <u>229,310</u>                     | <u>356,333</u> | <u>6,472,868</u> | <u>6,055,923</u> |

**Liquidity risk**

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Group's and the Company's exposure to liquidity risk arise mainly from its lending commitments, borrowings, trade and other payables.

The Group and the Company actively manage the profile of its deposits with financial institutions, operating cash flows and the availability of funding so as to ensure that all operating needs are met. As part of its overall prudent liquidity management, the Group and the Company maintain sufficient levels of cash or cash convertible investments to meet its working capital requirements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)

### 32. FINANCIAL RISKS (CONTINUED)

#### Maturity profiles

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

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

Unearned premiums reserves and the reinsurers' share of the unearned premiums reserves have been excluded from the analysis as there are no contractual obligations with those balances.

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**32. FINANCIAL RISKS (CONTINUED)**

**Maturity profiles (continued)**

|  | Carrying<br>value<br>RM | Up to a<br>year<br>RM | 1 - 3<br>years<br>RM | 3 - 5<br>years<br>RM | 5 - 15<br>years<br>RM | Over 15<br>years<br>RM | No maturity<br>date<br>RM | Total<br>RM   |
|--|-------------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|---------------------------|---------------|
| 2020   |                         |                       |                      |                      |                       |                        |                           |               |
| <u>Group</u>   |                         |                       |                      |                      |                       |                        |                           |               |
| Financial investments:                               |                         |                       |                      |                      |                       |                        |                           |               |
| Amortised cost                                       | 43,687,131              | 44,171,913            | -                    | -                    | -                     | -                      | -                         | 44,171,913    |
| FVTPL  | 527,230,131             | 1,543,500             | 39,042,950           | 30,985,450           | 217,152,855           | 132,866,690            | 211,066,548               | 632,657,993   |
| Reinsurance assets on<br>claim liabilities           | 413,838,765             | 243,484,354           | 113,865,599          | 41,791,400           | 14,697,412            | -                      | -                         | 413,838,765   |
| Insurance receivables and<br>reinsurance recoverable | 105,867,325             | 105,867,325           | -                    | -                    | -                     | -                      | -                         | 105,867,325   |
| Other receivables                                    |                         |                       |                      |                      |                       |                        |                           |               |
| - staff loans  | 624,221                 | 121,269               | 191,238              | 88,028               | 209,156               | 14,530                 | -                         | 624,221       |
| - bond collateral deposits<br>placements             | 621,228                 | 624,870               | -                    | -                    | -                     | -                      | -                         | 624,870       |
| Cash and cash equivalents                            | 122,253,649             | 105,170,772           | -                    | -                    | -                     | -                      | 17,121,834                | 122,292,606   |
| Total financial assets                               | 1,214,122,450           | 500,984,003           | 153,099,787          | 72,864,878           | 232,059,423           | 132,881,220            | 228,188,382               | 1,320,077,693 |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

Maturity profiles (continued)

|   | Carrying<br>value<br>RM | Up to a<br>year<br>RM | 1 - 3<br>years<br>RM | 3 - 5<br>years<br>RM | 5 - 15<br>years<br>RM | Over 15<br>years<br>RM | No maturity<br>date<br>RM | Total<br>RM   |
|---|-------------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|---------------------------|---------------|
| 2020  |                         |                       |                      |                      |                       |                        |                           |               |
| <u>Company</u>  |                         |                       |                      |                      |                       |                        |                           |               |
| Financial investments:                                |                         |                       |                      |                      |                       |                        |                           |               |
| Amortised cost  | 43,687,131              | 44,171,913            | -                    | -                    | -                     | -                      | -                         | 44,171,913    |
| FVTPL   | 536,835,270             | -                     | -                    | -                    | -                     | -                      | 536,835,270               | 536,835,270   |
| Reinsurance assets on<br>claim liabilities            | 413,838,765             | 243,484,354           | 113,865,599          | 41,791,400           | 14,697,412            | -                      | -                         | 413,838,765   |
| Insurance receivables and<br>reinsurance recoverables | 105,867,325             | 105,867,325           | -                    | -                    | -                     | -                      | -                         | 105,867,325   |
| Other receivables                                     |                         |                       |                      |                      |                       |                        |                           |               |
| - staff loans   | 624,221                 | 121,269               | 191,238              | 88,028               | 209,156               | 14,530                 | -                         | 624,221       |
| - bond collateral deposits<br>placements              | 621,228                 | 624,870               | -                    | -                    | -                     | -                      | -                         | 624,870       |
| Cash and cash equivalents                             | 110,979,159             | 94,033,248            | -                    | -                    | -                     | -                      | 16,982,921                | 111,016,169   |
| Total financial assets                                | 1,212,453,099           | 488,302,979           | 114,056,837          | 41,879,428           | 14,906,568            | 14,530                 | 553,818,191               | 1,212,978,533 |

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**32. FINANCIAL RISKS (CONTINUED)**

**Maturity profiles (continued)**

|                                | Carrying<br>value<br>RM | Up to a<br>year<br>RM | 1 - 3<br>years<br>RM | 3 - 5<br>years<br>RM | 5 - 15<br>years<br>RM | Over 15<br>years<br>RM | No maturity<br>date<br>RM | Total<br>RM        |
|--------------------------------|-------------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|---------------------------|--------------------|
| 2020                           |                         |                       |                      |                      |                       |                        |                           |                    |
| <u>Group/Company</u>           |                         |                       |                      |                      |                       |                        |                           |                    |
| Insurance contract liabilities |                         |                       |                      |                      |                       |                        |                           |                    |
| - claim liabilities            | 651,094,483             | 386,901,125           | 188,598,803          | 56,449,164           | 19,145,391            | -                      | -                         | 651,094,483        |
| Subordinated loans             | 34,195,181              | 1,708,290             | 3,407,251            | 3,411,918            | 41,285,070            | -                      | -                         | 49,812,529         |
| Insurance payables             | 66,518,669              | 66,518,669            | -                    | -                    | -                     | -                      | -                         | 66,518,669         |
| Other payables                 |                         |                       |                      |                      |                       |                        |                           |                    |
| - cash collateral held for     |                         |                       |                      |                      |                       |                        |                           |                    |
| bond business                  | 647,804                 | 640,504               | 7,300                | -                    | -                     | -                      | -                         | 647,804            |
| Lease liability                | 4,834,211               | 3,207,313             | 1,845,889            | -                    | -                     | -                      | -                         | 5,053,202          |
| Total financial liabilities    | <u>757,290,348</u>      | <u>458,975,901</u>    | <u>193,859,243</u>   | <u>59,861,082</u>    | <u>60,430,461</u>     | <u>-</u>               | <u>-</u>                  | <u>773,126,687</u> |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

**Maturity profiles (continued)**

|  | Carrying<br>value<br>RM | Up to a<br>year<br>RM | 1 - 3<br>years<br>RM | 3 - 5<br>years<br>RM | 5 - 15<br>years<br>RM | Over 15<br>years<br>RM | No maturity<br>date<br>RM | Total<br>RM   |
|--|-------------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|---------------------------|---------------|
| 2019   |                         |                       |                      |                      |                       |                        |                           |               |
| <u>Group</u>   |                         |                       |                      |                      |                       |                        |                           |               |
| Financial investments:                               |                         |                       |                      |                      |                       |                        |                           |               |
| Amortised cost                                       | 55,774,229              | 56,822,751            | -                    | -                    | -                     | -                      | -                         | 56,822,751    |
| FVTPL  | 501,510,211             | 18,644,200            | 33,781,225           | 42,271,150           | 192,662,493           | 113,565,973            | 205,706,764               | 606,631,805   |
| Reinsurance assets on<br>claim liabilities           | 492,849,762             | 219,494,777           | 177,922,321          | 59,179,706           | 36,252,958            | -                      | -                         | 492,849,762   |
| Insurance receivables and<br>reinsurance recoverable | 59,983,340              | 59,983,340            | -                    | -                    | -                     | -                      | -                         | 59,983,340    |
| Other receivables                                    |                         |                       |                      |                      |                       |                        |                           |               |
| - staff loans  | 914,083                 | 177,832               | 278,208              | 148,507              | 279,590               | 29,946                 | -                         | 914,083       |
| - bond collateral deposits<br>placements             | 983,317                 | 994,125               | -                    | -                    | -                     | -                      | -                         | 994,125       |
| Cash and cash equivalents                            | 182,915,615             | 158,111,283           | -                    | -                    | -                     | -                      | 24,994,045                | 183,105,328   |
| Total financial assets                               | 1,294,930,557           | 514,228,308           | 211,981,754          | 101,599,363          | 229,195,041           | 113,595,919            | 230,700,809               | 1,401,301,194 |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

Maturity profiles (continued)

|   | Carrying<br>value<br>RM | Up to a<br>year<br>RM | 1 - 3<br>years<br>RM | 3 - 5<br>years<br>RM | 5 - 15<br>years<br>RM | Over 15<br>years<br>RM | No maturity<br>date<br>RM | Total<br>RM   |
|---|-------------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|---------------------------|---------------|
| 2019  |                         |                       |                      |                      |                       |                        |                           |               |
| <u>Company</u>  |                         |                       |                      |                      |                       |                        |                           |               |
| Financial investments:                                |                         |                       |                      |                      |                       |                        |                           |               |
| Amortised cost  | 55,774,229              | 56,822,751            | -                    | -                    | -                     | -                      | -                         | 56,822,751    |
| FVTPL   | 512,812,741             | -                     | -                    | -                    | -                     | -                      | 512,812,741               | 512,812,741   |
| Reinsurance assets on<br>claim liabilities            | 492,849,762             | 219,494,777           | 177,922,321          | 59,179,706           | 36,252,958            | -                      | -                         | 492,849,762   |
| Insurance receivables and<br>reinsurance recoverables | 59,983,340              | 59,983,340            | -                    | -                    | -                     | -                      | -                         | 59,983,340    |
| Other receivables                                     |                         |                       |                      |                      |                       |                        |                           |               |
| - staff loans   | 914,083                 | 177,832               | 278,208              | 148,507              | 279,590               | 29,946                 | -                         | 914,083       |
| - bond collateral deposits<br>placements              | 983,317                 | 994,125               | -                    | -                    | -                     | -                      | -                         | 994,125       |
| Cash and cash equivalents                             | 170,764,379             | 146,159,876           | -                    | -                    | -                     | -                      | 24,793,201                | 170,953,077   |
| Total financial assets                                | 1,294,081,851           | 483,632,701           | 178,200,529          | 59,328,213           | 36,532,548            | 29,946                 | 537,605,942               | 1,295,329,879 |



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

Maturity profiles (continued)

|   | Carrying<br>value<br>RM | Up to a<br>year<br>RM | 1 - 3<br>years<br>RM | 3 - 5<br>years<br>RM | 5 - 15<br>years<br>RM | Over 15<br>years<br>RM | No maturity<br>date<br>RM | Total<br>RM |
|---|-------------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|---------------------------|-------------|
| 2019  |                         |                       |                      |                      |                       |                        |                           |             |
| <u>Group/Company</u>                        |                         |                       |                      |                      |                       |                        |                           |             |
| Insurance contract liabilities              |                         |                       |                      |                      |                       |                        |                           |             |
| - claim liabilities                         | 760,285,743             | 368,877,055           | 268,006,942          | 78,990,551           | 44,411,195            | -                      | -                         | 760,285,743 |
| Subordinated loans                          | 32,486,891              | 1,703,625             | 3,407,251            | 3,038,513            | 41,663,140            | -                      | -                         | 49,812,529  |
| Insurance payables                          | 88,118,890              | 88,118,890            | -                    | -                    | -                     | -                      | -                         | 88,118,890  |
| Other payables                              |                         |                       |                      |                      |                       |                        |                           |             |
| - cash collateral held for<br>bond business | 1,004,020               | 845,013               | 159,007              | -                    | -                     | -                      | -                         | 1,004,020   |
| Lease liability                             | 7,245,495               | 4,049,830             | 3,519,803            | 168,717              | -                     | -                      | -                         | 7,738,350   |
| Total financial liabilities                 | 889,141,039             | 463,594,413           | 275,093,003          | 82,197,781           | 86,074,335            | -                      | -                         | 906,959,532 |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

**Maturity profiles (continued)**

|   | <u>Current</u>     | <u>Non-<br/>Current</u> | <u>Total</u>         |
|---|--------------------|-------------------------|----------------------|
|   | RM                 | RM                      | RM                   |
| <u>Group</u>  |                    |                         |                      |
| <u>2020</u>   |                    |                         |                      |
| Financial investments:                                |                    |                         |                      |
| Amortised cost  | 43,687,131         | -                       | 43,687,131           |
| FVTPL   | 212,591,342        | 314,638,789             | 527,230,131          |
| Reinsurance assets on claim liabilities               | 243,484,354        | 170,354,411             | 413,838,765          |
| Insurance receivables and<br>reinsurance recoverables | 105,867,325        | -                       | 105,867,325          |
| Loans   | 121,269            | 502,952                 | 624,221              |
| Other receivables                                     |                    |                         |                      |
| - bond collateral deposits placements                 | 621,228            | -                       | 621,228              |
| Cash and cash equivalents                             | 122,253,649        | -                       | 122,253,649          |
| Total financial assets                                | <u>728,626,298</u> | <u>485,496,152</u>      | <u>1,214,122,450</u> |
| <u>2019</u>   |                    |                         |                      |
| Financial investments:                                |                    |                         |                      |
| Amortised cost  | 55,774,229         | -                       | 55,774,229           |
| FVTPL   | 223,937,266        | 277,572,945             | 501,510,211          |
| Reinsurance assets on claim liabilities               | 219,494,777        | 273,354,985             | 492,849,762          |
| Insurance receivables and<br>reinsurance recoverables | 59,983,340         | -                       | 59,983,340           |
| Loans   | 177,832            | 736,251                 | 914,083              |
| Other receivables                                     |                    |                         |                      |
| - bond collateral deposits placements                 | 983,317            | -                       | 983,317              |
| Cash and cash equivalents                             | 182,915,615        | -                       | 182,915,615          |
| Total financial assets                                | <u>743,266,376</u> | <u>551,664,181</u>      | <u>1,294,930,557</u> |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

**Maturity profiles (continued)**

|  | <u>Current</u><br>RM | <u>Non-Current</u><br>RM | <u>Total</u><br>RM   |
|--|----------------------|--------------------------|----------------------|
| <u>Company</u>                                     |                      |                          |                      |
| <u>2020</u>  |                      |                          |                      |
| Financial investments:                             |                      |                          |                      |
| Amortised cost                                     | 43,687,131           | -                        | 43,687,131           |
| FVTPL  | 536,835,270          | -                        | 536,835,270          |
| Reinsurance assets on claim liabilities            | 243,484,354          | 170,354,411              | 413,838,765          |
| Insurance receivables and reinsurance recoverables | 105,867,325          | -                        | 105,867,325          |
| Loans  | 121,269              | 502,952                  | 624,221              |
| Other receivables                                  |                      |                          |                      |
| - bond collateral deposits placements              | 621,228              | -                        | 621,228              |
| Cash and cash equivalents                          | 110,979,159          | -                        | 110,979,159          |
| Total financial assets                             | <u>1,041,595,736</u> | <u>170,857,363</u>       | <u>1,212,453,099</u> |
| <u>2019</u>  |                      |                          |                      |
| Financial investments:                             |                      |                          |                      |
| Amortised cost                                     | 55,774,229           | -                        | 55,774,229           |
| FVTPL  | 512,812,741          | -                        | 512,812,741          |
| Reinsurance assets on claim liabilities            | 219,494,777          | 273,354,985              | 492,849,762          |
| Insurance receivables and reinsurance recoverables | 59,983,340           | -                        | 59,983,340           |
| Loans  | 177,832              | 736,251                  | 914,083              |
| Other receivables                                  |                      |                          |                      |
| - bond collateral deposits placements              | 983,317              | -                        | 983,317              |
| Cash and cash equivalents                          | 170,764,379          | -                        | 170,764,379          |
| Total financial assets                             | <u>1,019,990,615</u> | <u>274,091,236</u>       | <u>1,294,081,851</u> |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

**Market price risk**

Market price risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market prices (other than interest rates).

The Group's and the Company's investments in equities and REITs are subject to fluctuation in market prices of quoted securities while investments in unit trusts are subject to fluctuation in the net asset value of the unit trust funds. The Group's and the Company's investments in unit trusts are managed by licensed asset management companies. The Group and the Company have given clear investment guidelines and performance benchmarks to the asset management companies under the fund management agreements in order to manage the market risk. The unit trusts held by the Group and the Company are invested with unit trust funds governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Group and the Company monitor the performance of the investments against the relevant performance benchmarks established by the Group and the Company.

The analysis below is performed for reasonably possible price movements in the unit trust funds and trading securities of the Group and the Company. The impact on equity represents the changes in fair value of financial assets.

|                        | 2020                                 |  |                                   | 2019                                 |  |                                   |
|------------------------|--------------------------------------|--|-----------------------------------|--------------------------------------|--|-----------------------------------|
|                        | Changes in<br><u>variables</u><br>RM | Impact on<br>profit<br><u>before tax</u><br>RM | Impact on<br><u>equity*</u><br>RM | Changes in<br><u>variables</u><br>RM | Impact on<br>profit<br><u>before tax</u><br>RM | Impact on<br><u>equity*</u><br>RM |
| <u>Group</u>           |                                      |  |                                   |                                      |  |                                   |
| <u>Market value</u>    |                                      |  |                                   |                                      |  |                                   |
| FVTPL:                 |                                      |  |                                   |                                      |  |                                   |
| Equities               | +5%                                  | 3,540,356                                      | 2,690,671                         | +5%                                  | 1,506,103                                      | 1,144,638                         |
| Equities               | -5%                                  | (3,540,356)                                    | (2,690,671)                       | -5%                                  | (1,506,103)                                    | (1,144,638)                       |
| REITs                  | +5%                                  | 145,500  | 110,580                           | +5%                                  | 167,810  | 127,536                           |
| REITs                  | -5%                                  | (145,500)                                      | (110,580)                         | -5%                                  | (167,810)                                      | (127,536)                         |
| Unit trust investments | +5%                                  | 6,867,471                                      | 5,219,278                         | +5%                                  | 8,611,425                                      | 6,544,683                         |
| Unit trust investments | -5%                                  | (6,867,471)                                    | (5,219,278)                       | -5%                                  | (8,611,425)                                    | (6,544,683)                       |
| <u>Company</u>         |                                      |  |                                   |                                      |  |                                   |
| <u>Market value</u>    |                                      |  |                                   |                                      |  |                                   |
| FVTPL:                 |                                      |  |                                   |                                      |  |                                   |
| Equities               | +5%                                  | 3,540,356                                      | 2,690,671                         | +5%                                  | 1,506,103                                      | 1,144,638                         |
| Equities               | -5%                                  | (3,540,356)                                    | (2,690,671)                       | -5%                                  | (1,506,103)                                    | (1,144,638)                       |
| REITs                  | +5%                                  | 145,500  | 110,580                           | +5%                                  | 167,810  | 127,536                           |
| REITs                  | -5%                                  | (145,500)                                      | (110,580)                         | -5%                                  | (167,810)                                      | (127,536)                         |
| Unit trust investments | +5%                                  | 23,155,907                                     | 17,598,489                        | +5%                                  | 23,966,724                                     | 18,214,710                        |
| Unit trust investments | -5%                                  | (23,155,907)                                   | (17,598,489)                      | -5%                                  | (23,966,724)                                   | (18,214,710)                      |

\* Impact on equity reflects adjustments for tax, where applicable.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**32. FINANCIAL RISKS (CONTINUED)**

**Interest rate risk**

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's and the Company's primary interest rate risk relate to interest-bearing assets. The interest-bearing assets are made up primarily of fixed and call deposits with licensed financial institutions, Malaysian Government Securities and bonds issued by corporations in Malaysia. Floating rate/yield instruments expose the Group and the Company to cash flow interest/profit risk, whereas fixed rate/yield instruments expose the Group and the Company to fair value interest/profit risk.

The Group and the Company manage the interest rate risk of its deposits with licensed financial institutions by maintaining a prudent mix of short and longer term deposits and actively reviewing its portfolio of deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the deposits and fixed income securities of the Group and the Company:

|                           | <b>Impact on<br/>profit<br/>before tax<br/>RM</b> | <b>Impact on<br/>equity*<br/>RM</b> |
|---------------------------|---|-------------------------------------|
| <b><u>Group</u></b>       |   |                                     |
| Change in interest rates: |   |                                     |
| <b><u>2020</u></b>        |   |                                     |
| +50 basis points          | (11,546,801)                                      | (8,775,568)                         |
| - 50 basis points         | 11,799,904  | 8,967,927                           |
| <b><u>2019</u></b>        |   |                                     |
| +50 basis points          | (9,405,377)                                       | (7,148,087)                         |
| - 50 basis points         | 10,101,539  | 7,677,170                           |
| <b><u>Company</u></b>     |   |                                     |
| Change in interest rates: |   |                                     |
| <b><u>2020</u></b>        |   |                                     |
| +50 basis points          | 738,386   | 561,174                             |
| - 50 basis points         | (738,386)   | (561,174)                           |
| <b><u>2019</u></b>        |   |                                     |
| +50 basis points          | 781,369   | 516,922                             |
| - 50 basis points         | (781,369)   | (515,554)                           |

\* Impact on equity reflects adjustments for tax, where applicable.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**33. REGULATORY CAPITAL REQUIREMENTS**

The capital structure of the Company as at 31 December 2020, as prescribed under the Risk-Based Capital Framework is provided below:

|                                       | <u>2020</u><br>RM   | <u>2019</u><br>RM   |
|---------------------------------------|---------------------|---------------------|
| <b><u>Eligible Tier 1 Capital</u></b> |                     |                     |
| Share capital (paid-up)               | 219,875,038         | 219,875,038         |
| Reserves, including retained earnings | 216,545,795         | 181,279,003         |
|                                       | <u>436,420,833</u>  | <u>401,154,041</u>  |
| <b><u>Tier 2 Capital</u></b>          |                     |                     |
| Subordinated term debts               | 24,337,504          | 24,337,504          |
|                                       | <u>24,337,504</u>   | <u>32,486,891</u>   |
| <b><u>Deductions</u></b>              |                     |                     |
| Goodwill & other intangible assets    | (49,097,494)        | (41,708,843)        |
| Deferred tax assets                   | (2,510,844)         | (3,011,853)         |
|                                       | <u>(51,608,338)</u> | <u>(44,720,696)</u> |
| Total Capital Available               | <u>409,149,999</u>  | <u>388,920,236</u>  |

**34. CONTINGENT LIABILITY**

In August 2016, Malaysia Competition Commission ("MyCC") had commenced investigation under Section 15(1) of the Competition Act 2010 ("the Act") against the General Insurance Association of Malaysia ("PIAM") and its 22 member companies with regards to an alleged infringement of Section 4(2)(a) of the Act in relation to an agreement to fix parts trade discount and labour rates for 6 vehicle makes. On 22 February 2017, MyCC issued a Proposed Decision to all 22 member companies, proposing to impose collective penalty of RM213.5 million on the general insurance industry. As an 'industry collective action', the Company together with PIAM, submitted written representation and made oral representation to MyCC on 25 April 2017 and 29 January 2018 respectively to defend the allegation.

Due to the changes of Chairman of MyCC and new members being added to MyCC, the new Chairman decided that there would be a re-hearing of the case. The hearing session which was set for 19 - 21 February 2019 concluded and as the dates set were not sufficient for all the insurers to submit their arguments, further hearing dates were set for May and June 2019.

On 25 September 2020, the Company's solicitors received the final decision ("Decision") that parties had infringed the prohibition under Section 4 of the Act and had imposed on each of the 22 general insurers financial penalties for the said infringement.

In view of the impact of COVID-19 pandemic, MyCC granted a reduction of 25% of the financial penalty imposed on the 22 general insurers. The financial penalty imposed on the Company, taking into account the 25% reduction, amounts to RM1,643,583.

**Company No.**  
**198201011878 (91603-K)**

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**

**34. CONTINGENT LIABILITY (CONTINUED)**

The Company had on 14 October 2020 filed a Notice of Appeal with the Competition Appeal Tribunal ("CAT") against the Decision, pursuant to Section 51 of the Act ("Appeal"). On 27 October 2020, the Company had also filed a Stay Application with the CAT pursuant to Section 53 of the Act for the grant of a stay of the Decision in respect of the financial penalty imposed on the Company.

CAT in a letter dated 20 January 2021 informed all parties that the initial case management date for the Appeal and hearing of the Stay Application fixed for 27 January 2021 was rescheduled to 18 February 2021. Due to the extension of the MCO, the hearing for the Stay Application and case management for the Appeal were further rescheduled for online hearing on 25 of February 2021 and online case management on 26 February 2021, respectively. The CAT started hearing oral submissions for the Stay Application on 25 February 2021. The hearing was then continued on 26 February 2021, 5 March 2021 and 12 March 2021. The CAT has fixed 23 March 2021 for the decision on the Stay Application.

The Management of the Company believes that the criteria to disclose the above as a contingent liability is met. Saved as disclosed above, the Company does not have any other contingent assets and liabilities since the last annual balance sheet date.

**35. SIGNIFICANT EVENT DURING THE YEAR**

The World Health Organisation ("WHO") had on 11 March 2020 declared COVID-19 as a pandemic and it has caused one of the most severe economic and financial market turmoil.

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

In 2020, the Government of Malaysia put in place several phases of movement control orders, comprising the Movement Control Order ("MCO"), Conditional Movement Control Order ("CMCO") and Recovery Movement Control Order ("RMCO") to curb the spread of COVID-19 infections. On 13 January 2021, the Government of Malaysia put in place the second MCO, known as MCO 2.0 and on 5 March 2021, replaced the MCO with the CMCO. The Group and the Company are closely monitoring the developing situation and the impact of COVID-19 on their operation and financial position.

While the results of the Group and the Company for the year have remained resilient, the Group and the Company remain cautious in maintaining the same level of profitability amid ongoing uncertainties to the economy arising from the COVID-19 pandemic.

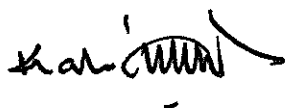
**Company No.**  
**198201011878 (91603-K)**

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

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

We, Dato' Khalid bin Abdol Rahman and Dato' Chan Choy Lin, being two of the Directors of The Pacific Insurance Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 23 to 141 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and the Company as at 31 December 2020 and of the results and the cash flows of the Group and the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 18 March 2021.



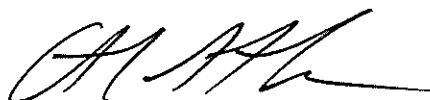
**DATO' KHALID BIN ABDOL RAHMAN**  
**DIRECTOR**



**DATO' CHAN CHOY LIN**  
**DIRECTOR**

**STATUTORY DECLARATION**  
**PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016**

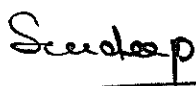
I, Athappan Gobinath Arvind, being the Officer primarily responsible for the financial management of The Pacific Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 23 to 141 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



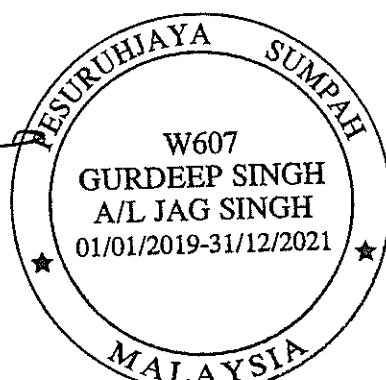
**ATHAPPAN GOBINATH ARVIND**

Subscribed and solemnly declared by the abovenamed Athappan Gobinath Arvind at Kuala Lumpur in Wilayah Persekutuan on 18 March 2021, before me

**COMMISSIONER FOR OATHS**



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5B, JALAN RAKYAT  
( JALAN TRAVERS )  
BRICKFIELDS  
50470 KUALA LUMPUR





INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 198201011878 (91603-K))

Our opinion

In our opinion, the financial statements of The Pacific Insurance Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2020, and of their financial performance and their 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 Group and of the Company, which comprise the statements of financial position as at 31 December 2020 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 23 to 141.

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



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 198201011878 (91603-K))

Information other than the financial statements and auditors' report thereon

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

Our opinion on the financial statements of the Group and 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 Group and 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 Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Group and 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 Group and of the Company that are free from material misstatement, whether due to fraud or error.

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



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF THE PACIFIC INSURANCE BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 198201011878 (91603-K))

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

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and 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 Group's and 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 Group's or 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 Group and 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 Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 THE PACIFIC INSURANCE BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 198201011878 (91603-K))

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 7 to the financial statements.

OTHER MATTERS

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

A stylized signature of the firm Price Waterhouse Coopers, consisting of a large 'P' and 'C' connected by a horizontal line.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

Kuala Lumpur  
18 March 2021

A handwritten signature of Wong Hui Chern, featuring a large 'W' and 'C' connected by a vertical line.

WONG HUI CHERN  
03252/05/2022 J  
Chartered Accountant