

Reports And Statutory Financial Statements

31 DECEMBER 2019

About Zurich Life Insurance in Malaysia

Zurich Life Insurance Malaysia Berhad (ZLIMB), as part of Zurich Insurance Group, is an established life insurer headquartered in Kuala Lumpur. Through its diverse range of life insurance products, ZLIMB provides protection, medical and health, savings and investments solutions to address its customers' financial security needs. Together with its dedicated employees, agency force, distributors and partners, supported by its branch network in major cities nationwide, ZLIMB is committed to help its customers understand and protect themselves from risks. Additionally, shariah-compliant family takaful solutions are made available to customers through its sister company, Zurich Takaful Malaysia Berhad.

Company No.
196801000442 (8029-A)

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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ZURICH LIFE INSURANCE MALAYSIA BERHAD
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CORPORATE GOVERNANCE

Introduction

Zurich Life Insurance Malaysia Berhad ("the Company") is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability.

The Board of Directors ("the Board") is satisfied that the Company has complied with all prescriptive requirements of and adopts the Corporate Governance policy document (BNM/RH/PD 029-9) issued by Bank Negara Malaysia ("BNM"). The Board has continued its commitment in ensuring that the highest principles and best practices in corporate governance are practised as a fundamental part of discharging its responsibilities to protect and enhance shareholders value and the financial performance of the Company.

Roles and responsibilities of the Board

The Board is responsible for the overall governance of the Company by providing guidance, including setting the directions in terms of the Company's corporate objectives and business strategies, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control and reporting procedures.

Composition of the Board

The composition of the Board during the period since the date of the last report is as follows:

Choy Khai Choon	Chairman (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Stephen Clark	Member (Chief Executive Officer/Executive Director)
Kevin John Wright	Member (Executive Director)
(Re-designated as Executive Director on 12 September 2019 and resigned on 1 December 2019)	

The Board currently comprises four (4) Directors with skills and experience in a diverse range of business, financial, technical and public service background. The Board is represented by three (3) Non-Executive Directors and one (1) Executive Director. The roles and activities of the Chairman and the Chief Executive Officer are distinct and separate.

The appointments to the Board were approved by BNM. All appointments and reappointments of Board members are subject to evaluation and review by the Nomination and Remuneration Committee and approved by the Board before the applications are submitted to BNM for approval.

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CORPORATE GOVERNANCE (CONTINUED)

Profile of Directors and Chief Executive Officer

Choy Khai Choon

Malaysian, Male
Independent Non-Executive Director/Chairman
Member of the Audit Committee
Member of Board Investment Committee
Member of Risk Management Committee
Member of Nomination and Remuneration Committee

Mr Choy Khai Choon was appointed as Independent Non-Executive Director and Chairman of the Company on 17 September 2013 and 13 October 2018 respectively. Mr Choy is a member of the Audit Committee, Board Investment Committee, Risk Management Committee ("RMC"), and Nomination and Remuneration Committee of the Company.

Mr Choy graduated with Bachelor of Commerce degree from the University of New South Wales, Australia and holds a Master in Business Administration ("MBA") from Oklahoma City University, USA. Mr Choy is a member of Malaysian Institute of Accountants and a Fellow of the Australian Certified Public Accountant.

Mr Choy served as the President and Chief Executive Officer ("CEO") of Cagamas Berhad from year 2006 to 2012 and was appointed director of Cagamas MBS Berhad, Cagamas SME Berhad, BNM Sukuk Berhad, Cagamas HKMC Berhad and Cagamas SRP Berhad.

Prior to joining Cagamas Berhad, Mr Choy held key positions in leading financial institutions in the areas of financial management, strategic planning and business development. Key roles held include serving as Regional Finance/Planning Director of Aviva Insurance Asia, CEO of Morley Fund Management Ltd, Aviva Insurance Group, Singapore and Senior General Manager, Group Head of RHB Berhad.

Mr Choy is currently an Independent Director of Deutsche Bank (Malaysia) Berhad, Malaysia Marine and Heavy Engineering Holdings Berhad, RAM Rating Services Berhad, Zurich General Insurance Malaysia Berhad, Asian Banking School Sdn Berhad and Hap Seng Plantations Holdings Berhad. Mr Choy is also a Board Member of Bond & Sukuk Information Platform Sdn Bhd, a wholly owned subsidiary of the Securities Commission. Mr Choy is also a Public Interest Director of Federation of Investment Managers Malaysia.

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Profile of Directors and Chief Executive Officer (continued)

Datin Joan Hoi Lai Ping

Malaysian, Female
Independent Non-Executive Director
Chairperson of the Nomination and Remuneration Committee
Chairperson of the Audit Committee
Member of Risk Management Committee
Member of Board Investment Committee

Datin Joan Hoi Lai Ping was appointed as Independent Non-Executive Director of the Company on 17 September 2013. Datin Joan is the Chairperson of the Nomination and Remuneration Committee and the Audit Committee of the Company. She is also a member of the RMC and the Board Investment Committee of the Company.

Datin Joan Hoi graduated with a Bachelor of Economics from Monash University, Victoria, Australia in 1983.

Datin Joan Hoi was a former Partner of Accenture, specialising in Change Management and the financial services industry. Datin Joan Hoi joined Accenture in year 1994 as a Manager and was promoted to be an Associate Partner in year 1999 and made Partner in year 2005. She retired from Accenture in March 2009 after 15 years.

Datin Joan Hoi served as the Head of the Finance Service Human Performance Service Line in ASEAN from year 2000 and Lead for Talent and Organisation Performance in Kuala Lumpur from year 2005. During her time with Accenture, Datin Joan Hoi worked with organisations to implement different types of change such as merger integration, group organisation structure changes including designing of group wide organisation structure, designation and implementation of new business operating models for commercial and corporate banking, bank branches, trade finance, collections, sales and marketing functions, creation of Human Resource shared services for an airline, reengineering of business functions/customer segments in banks, sales force effectiveness, and learning centers. Besides Malaysia, Datin Joan Hoi has also worked with organisations in Australia, Indonesia and assisted projects in Portugal, Singapore, Korea and China.

Datin Joan Hoi was in the banking industry 11 years prior to joining Accenture, working with Hong Leong Finance and the Commonwealth Bank of Australia. As a banker, Datin Joan Hoi evaluated property development projects, managed loan syndications, managed the credit department, the regional office overseeing branches, business banking, corporate banking, implemented risk rating, centralisation and underwent two mergers.

Datin Joan Hoi is the Author of "Take on Change" a management book launched in Malaysia in June 2012 which provides valuable insights and perspectives on managing change effectively. She serves as a Mentor in a leadership development programme run by ICAEW ("Institute of Chartered Accountant England and Wales") from 2013 – 2018.

Datin Joan Hoi is also an Independent Director of FGV Holdings Berhad, a company listed on Bursa Malaysia, and General Rewards Sdn Bhd, a private property investment company.

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CORPORATE GOVERNANCE (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

Hasnah Binti Omar

Malaysian, Female
Independent Non-Executive Director
Chairperson of the Risk Management Committee
Chairperson of the Board Investment Committee
Member of the Audit Committee
Member of Nomination and Remuneration Committee

Cik Hasnah binti Omar was appointed as an Independent Non-Executive Director of the Company on 13 December 2013. Cik Hasnah is the Chairperson of the Risk Management Committee and Board Investment Committee of the Company. She is also a member of the Audit Committee, Nomination and Remuneration Committee.

Cik Hasnah binti Omar graduated and received her BA (Hons) from University of Malaya in 1981 and holds a Master in Public Administration from Harvard University, USA in 1991. Cik Hasnah also holds a Master in Banking Law (Islamic and Conventional) from International Islamic University of Malaysia in 2010.

Cik Hasnah has vast experience in finance, banking and capital market having worked in various capacities with BNM, Securities Commission ("SC"), and the Asian Development Bank ("ADB"), Manila, Philippines.

Cik Hasnah joined BNM in 1981, where she largely worked in the Bank Examination Department of BNM which was responsible for the examinations of commercial banks, merchant banks, discount houses and finance companies. Cik Hasnah led the examinations of a number of financially distressed banks during 1980s and served as the Head of Public Affairs Unit of the Bank for about a year, assisting Governor and Senior Management in managing the press and public perception of BNM's policies.

Cik Hasnah worked with SC from 1991 until 2013, culminating her career in SC as the Director of Market Oversight Business Group. Cik Hasnah was actively involved in the Brokers Monitoring System during the Asian Market Crisis 1997/1998 and was responsible for the formulation and implementation of the Compliance Function Framework for the industry, as well as the formulation of Risk-based Capital for stockbroking companies. Cik Hasnah was primarily responsible for the formulation and implementation of Brokers' Consolidation Policy and together with BNM contributed to the formulation of regulatory framework for Investment Banks. Cik Hasnah represented SC as a member of Financial Stability Committee of Financial Services Authority of Labuan ("FSA") and as a Board Member of Capital Market Compensation Fund.

Cik Hasnah spent two years, from January 2009 to December 2010 with the Asian Development Bank in Manila on a secondment basis. Among others, she advised ADB on Islamic finance matters, she was a Mission Leader for the Financial Sector and Capital Markets Sovereign Loan Program and Technical Assistance ("TA") for Vietnam and involved in sovereign loan programs and TA for Thailand, Indonesia, and Philippines. Cik Hasnah was a Co-Mission Leader for the ASEAN Regional Capital Markets Integration TA. She returned to serve the SC in January 2011 until 2013.

Cik Hasnah is currently the Chairman and Independent Non-Executive Director of MIDF Amanah Assets Management Berhad and Zurich Takaful Malaysia Berhad. She also sits on the Boards of Malaysian Industrial Development Finance Berhad ("MIDF") and Zurich General Takaful Malaysia Berhad. She has been serving as a member of the Appeals Committee of the Securities Industry Dispute Resolution Centre since 2015.

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CORPORATE GOVERNANCE (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

Stephen Clark

British, Male

Chief Executive Officer & Executive Director

Mr Stephen Clark was appointed as the CEO/Executive Director of the Company upon obtaining approval from BNM on 1 October 2018.

Mr Clark was educated in the United Kingdom and received his Masters in Business Administration (Major in Marketing) from City University, London in 1997.

Mr Clark is an experienced insurance professional with vast work experience in the financial services sector in Asia Pacific ("APAC") and possesses a high degree of familiarity with the South East Asia market. He has over 17 years of experience in the Life and General Insurance businesses, over 11 years of which as the CEO of various insurance companies and subsidiaries. Mr Clark has in-depth experience in setting up and running multi-channel life insurance ventures.

With solid executive management and cross-functional experience, Mr Clark is capable of performing in a broad range of executive, financial and commercially oriented positions. He has managed strategic development and execution, business development, sales, management of operations as well as team development and leadership.

Mr Clark is, additionally, the Non-Independent Executive Director of Zurich Takaful Malaysia Berhad. He also sits on the Board of Zurich Holdings Malaysia Berhad, a wholly-owned subsidiary of Zurich Insurance Company Ltd.

Mr Clark reports to the Board of the Company and the Regional CEO, APAC, Mr Jack Howell.

Directors' Training

The Directors are encouraged to attend programmes and seminars to keep abreast with the latest developments in the industry and marketplace and to enhance the discharge of their duties. The training programmes attended by the Directors during the financial year ended 31 December 2019 included areas of leadership, governance, risk management, finance, investment, insurance related matters and information technology.

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CORPORATE GOVERNANCE (CONTINUED)

Board Meetings

The Board is scheduled to meet at least six (6) times a year with additional meetings being convened as necessary. For the financial year ended 31 December 2019, the Board met ten (10) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings held during the financial year ended 31 December 2019.

The number of meetings attended by each member of the Board during the financial year ended 31 December 2019 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Choy Khai Choon, Chairman	10/10
Datin Joan Hoi Lai Ping	10/10
Hasnah binti Omar	10/10
Stephen Clark	10/10
Kevin John Wright	8/10
(Re-designated as Executive Director on 12 September 2019 and resigned on 1 December 2019)	

Board Committees

The Board has established numbers of Board Committees and Senior Management Committees.

Each Committee operates within defined terms of reference. Board Committees are the Audit Committee, the Nomination and Remuneration Committee, the RMC and the Board Investment Committee. Senior Management Committees include the Asset Liability Management and Investment Committee ("ALMIC"), the Human Resource Committee ("HRC"), the Information Technology Steering Committee ("ITSC"), Business Continuity Management ("BCM"), the Risk and Control Committee ("RCC"), the Occupational Safety and Health Committee ("OSHC") and various Senior Management Committees for Life. The Board Committees are chaired by an Independent Non-Executive Director, while the Senior Management Committees are chaired by the CEO or a member of senior management team.

Audit Committee

The members of the Audit Committee are as follows:

Datin Joan Hoi Lai Ping	Chairperson (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Kevin John Wright	Member (Executive Director)*

**Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the Audit Committee concurrently.*

The principal objectives are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company. The Audit Committee meets regularly with senior management, the internal auditors and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

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CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

Audit Committee (continued)

The Audit Committee was established as a sub-committee of the Board with specific terms of reference that have been approved by the Board. The principal objectives are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company. The Audit Committee meets regularly with senior management, the internal auditors and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

The Audit Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Audit Committee are:

- (i) To approve internal auditors' audit plan, review the adequacy of the scope, functions, resources and competency and that it has the necessary authority to carry out its work;
- (ii) To review the results of internal audit process and ensure that appropriate actions are taken on the recommendations given by the internal auditors;
- (iii) To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;
- (iv) To discuss with the external auditors before the audit commences, the nature and scope of audit;
- (v) To provide assurance that the financial information presented by management is relevant, reliable and timely;
- (vi) To oversee compliance with relevant laws and regulations and observance of a proper code of conduct; and
- (vii) To determine the quality, adequacy and effectiveness of the Company's internal control environment.

The Audit Committee meets at least once every quarter, or more frequently as circumstances dictate. During the financial year ended 31 December 2019, the Audit Committee held six (6) meetings with senior management, internal auditors, and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

The number of meetings attended by each member of the Audit Committee during the financial year ended 31 December 2019 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Datin Joan Hoi Lai Ping, Chairperson	6/6
Choy Khai Choon	6/6
Hasnah binti Omar	6/6
Kevin John Wright	4/4*

**Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the Audit Committee concurrently.*

During the financial year ended 31 December 2019, apart from reviewing the quarterly results and annual financial statements, the Audit Committee also approved the annual internal audit plan. The plan is developed to cover key operational areas, financial activities and information systems and regulatory compliance audit that are significant to the overall performance of the Company on a cyclical basis.

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CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

Audit Committee (continued)

The Internal Audit Department also conducts audits on an ad-hoc basis based on special requests either by the Board of Directors or the senior management. It also works closely with the external auditors to resolve any internal control issues raised by them and assists in ensuring appropriate management-based actions are taken. The Audit Committee receives regular reports from the Head of the Internal Audit Department on the audit results.

Nomination and Remuneration Committee

The members of the Nomination and Remuneration Committee are as follows:

Datin Joan Hoi Lai Ping	Chairperson (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Kevin John Wright	Member (Executive Director)*

**Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the Nomination and Remuneration Committee concurrently.*

The Nomination and Remuneration Committee is made up of a majority of Independent Non-Executive Directors. In considering the right candidate for appointment to the Board, the Nomination and Remuneration Committee takes into account the required mix of skills, experience and other core competencies that are necessary to enable the Company to achieve its corporate objectives and fulfil its fiduciary responsibilities. The Nomination and Remuneration Committee is also responsible for the annual review of the effectiveness of the Board and individual Directors.

The Nomination and Remuneration Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Nomination and Remuneration Committee are:

- (i) To develop and recommend a formal, clear and transparent remuneration policy and framework for fixing the remuneration for Directors, CEO and key senior officers (including the expatriates, if any) of the Company. The remuneration policy and practices shall:
 - (a) be documented and approved by the Board of the Company and be subject to periodic Board review, including when material changes are made to the remuneration policy;
 - (b) reflect the experience and level of responsibility borne by individual Directors, the CEO and key senior officers (including the expatriates, if any);
 - (c) be sufficient to attract and retain Directors, CEO and key senior officers (including the expatriates, if any) of calibre needed to manage the Company successfully; and
 - (d) be balanced against the need to ensure that the funds of the Company are not used to subsidise excessive remuneration packages.

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CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

Nomination and Remuneration Committee (continued)

The Nomination and Remuneration Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Nomination and Remuneration Committee are: (continued)

- (ii) To recommend specific remuneration packages for Directors, CEO and key senior officers (including the expatriates, if any) of the Company. The remuneration packages shall:
 - (a) be based on an objective consideration and approved by the Board;
 - (b) take due consideration of the assessment of the Regional/Group Remuneration Team on the effectiveness, level of contribution such as effort and time spent and responsibilities of the Directors, the CEO and key senior officers (including the expatriates, if any) in discharging their duties for the benefits of the Company and of the Group;
 - (c) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - (d) be competitive and does not induce excessive risk-taking and is consistent with the Company's culture, objective, risk appetite and long term strategy.
- (iii) To ensure that the remuneration for individuals within the Company be aligned with prudent risk-taking and appropriately adjusted for risks. The remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that:
 - (a) the remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement;
 - (b) the size of the bonus pool is linked to the overall performance of the Company;
 - (c) incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Company;
 - (d) bonuses are not guaranteed, except in the context of sign-on bonuses;
 - (e) for members of senior management and other material risk takers:
 - i. a portion of remuneration consists of variable remuneration to be paid on the basis of individual, business-unit and institution-wide measures that adequately assess performance; and
 - ii. the variable portion of remuneration increases along with the individual's level of accountability.
- (iv) To undertake and perform such other matters/activities according to the application requirements in the guidelines from Bank Negara Malaysia and/or as the Board think fit.

The number of meetings attended by each member of the Nomination and Remuneration Committee during the financial year ended 31 December 2019 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Datin Joan Hoi Lai Ping, Chairperson	6/6
Choy Khai Choon	6/6
Hasnah binti Omar	6/6
Kevin John Wright	4/4*

**Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the Nomination and Remuneration Committee concurrently.*

In the opinion of the Nomination and Remuneration Committee, the Board has a balanced mix of skills and experience required for the businesses of the Company.

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CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

Risk Management Committee

The members of the Risk Management Committee ("RMC") are as follows:

Hasnah binti Omar	Chairperson (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Kevin John Wright	Member (Executive Director)*

**Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the RMC concurrently.*

The RMC is made up of Non-Executive Directors. It reviews the risk factors of the Company to ensure risks at all levels are managed effectively. It also formulates risk management policies, action plans and evaluates the adequacy of overall risk management policies and procedures.

The RMC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of RMC are as follows:

- (i) To review and recommend risk management strategies, policies and risk tolerance to the Board for approval;
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks;
- (iii) To ensure that there are adequate infrastructure, resources and systems in place for an effective risk management; and
- (iv) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
- (v) To provide oversight over technology-related matters which include review of technology-related frameworks, review and recommendation of technology risk appetite, risk tolerances for technology related events, ensure key performance indicators and forward looking risk indicators are in place, adequacy of IT and cybersecurity strategic plans, effective implementation of sound and robust technology risk management framework ("TRMF") and cyber resilience framework ("CRF") and ensure that risk assessments undertaken in relation to material technology application submitted to BNM are robust and comprehensive.

The number of meetings attended by each member of the RMC during the financial year ended 31 December 2019 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Hasnah binti Omar, Chairperson	5/5
Choy Khai Choon	5/5
Datin Joan Hoi Lai Ping	5/5
Kevin John Wright (Resigned on 1 December 2019)	3/3*

**Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the RMC concurrently.*

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CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

Board Investment Committee

The members of the Board Investment Committee are as follows:

Hasnah binti Omar	Chairperson (Independent Non-Executive Director)*
Choy Khai Choon	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Kevin John Wright	Member (Executive Director)**

**Cik Hasnah binti Omar has been appointed as the Chairperson of Board Investment Committee of the Company on 17 October 2019 in replacement of Mr Kevin John Wright.*

***Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the Board Investment Committee concurrently.*

The Board Investment Committee consists of at least three (3) members, the majority of whom shall be Independent Non-Executive Directors.

The Board Investment Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Board Investment Committee are as follows:

- (i) To ensure proper investment of insurance funds, the Company must put in place an investment and risk management policy that is in line with the risk appetite set by the Board of the Company. The investment and risk management policy should be approved and reviewed regularly by the Board and cover overall investment strategy and proper risk management systems, including monitoring and control mechanisms. In this respect, the Committee is required to review:
 - (a) The Company's ALMIC recommendations for the following:
 - changes to Investment Strategy Policy Statement (includes Strategic Asset Allocation);
 - changes to ALMIC Charter; and
 - changes to Delegated Authority for Investments.
 - (b) The ALMIC meeting approvals and main discussion topics; and
 - (c) Compliance to Risk Appetite Statement and relevant investment guidelines based on the economic performance.

The number of meetings attended by each member of the Board Investment Committee during the financial year ended 31 December 2019 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Hasnah binti Omar, Chairperson	2/2
Choy Khai Choon	2/2
Datin Joan Hoi Lai Ping	2/2
Kevin John Wright (Resigned on 1 December 2019)	1/1*

**Kevin John Wright was re-designated as the Executive Director of the Company effective 12 September 2019 and in compliance with BNM's Policy Document on Corporate Governance, he relinquished his position as member of the Board Investment Committee concurrently.*

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CORPORATE GOVERNANCE (CONTINUED)

Management accountability

The Company has an organisation structure showing all reporting lines as well as clearly documented job description for all management and executive employees. The officers of the Company have knowledge of their respective authority and operating limits, which are documented in the Company's Internal Control Procedures.

The human resource procedures of the Company provide for the setting of goals and training of each staff. The Company conducts formal appraisals for each staff on an annual basis.

The Company has established procedures to avoid and to deal with any conflict of interest situation. None of the Directors and senior management of the Company have, in any circumstances, conflict of interest referred to in Part B, paragraph 14 of BNM Guidelines on Corporate Governance, and paragraph 58 of the Financial Services Act 2013 ("FSA").

The Board has approved a communication policy that is applicable to all levels of staff of the Company.

Corporate independence

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL018-6) in respect of all its related party undertakings. Necessary disclosures were made to the Board and where required, the Board's prior approval for the transaction has also been obtained. All material related party transactions have been disclosed in the financial statements.

Internal controls

The responsibility of maintaining a system of internal controls rests with the Board. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as safeguarding the assets of the Company and stakeholders' interest.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner. The internal audit function reports directly to the Board through the Audit Committee, and its findings and recommendations are communicated to the senior management and all levels of staff concerned. The Chief Internal Auditor has unrestricted access to the Chairman and members of the Audit Committee, and the internal audit function performs their duties within the ambit of the Audit Charter approved by the Audit Committee and the Board.

The ITSC is responsible for establishing effective information technology and information systems plans, authorising information technology ("IT") related expenditure based on authority limits, and monitoring the progress of approved projects. The Company has increased the security controls for the IT systems, and has put in place business resumption and contingency plans to ensure continued operations of mission critical functions. The requirements of BNM's Guidelines on Management of IT Environment (GPIS-1) and Guidelines on Business Continuity Management (BNM/RH/GL/013-3) have been complied.

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CORPORATE GOVERNANCE (CONTINUED)

Risk management

RMC meets regularly, at least every quarter in a financial year, to review risk management reports of the Company. The RMC has categorised risks into six (6) risk types affecting the Company namely Life Insurance Risk, Market Risk, Credit Risk, Operational Risk, Strategic and Reputation Risk and Capital Management/Liquidity Risk.

The Company has established, within its risk management framework, a structural approach to enterprise-wide risk management. The process involves risk identification and assessment process whereby all department heads of the Company are required to assess their operations and identify risks affecting their operations, identify existing controls in place to mitigate those risks and the probability of the risks occurring and its impact severity.

Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff and agents of the Company are required to comply with the Code of Ethics and Conduct.

Financial reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at the Board, Executive Committee and Management Committee meetings. Financial statements and reports are lodged with the regulatory and supervisory authorities, and annual financial statements prepared in accordance with applicable regulations and approved accounting standards are audited.

Remuneration Policy

The Company's remuneration policy is based on Zurich Insurance Group Limited ("ZIGL")'s remuneration philosophy. The Company operates a balanced and effectively managed remuneration system, which is aligned with risk considerations and provides for competitive total remuneration opportunities to attract, retain, motivate and reward employees to deliver outstanding performance.

The remuneration system is also an important element of the risk management framework and is designed to not encourage inappropriate risk taking through effective governance and a clearly defined performance management process which supports the overall business strategy and plans. Aligned with the Company's corporate governance standards, there are separate responsibilities for the business planning and performance management process and for the implementation of the remuneration system.

The Board reviews and approves the remuneration rules regularly, at least once a year, and amends them, as necessary, from time to time. The Board may approve amendments to the remuneration architecture in general or to the applicable plans including exceptions to the short-term incentive plan and/or performance periods and related retention periods.

With respect to the regular review and the oversight of the implementation of the Remuneration Rules, the Board is supported by the Nomination and Remuneration Committee and respective monitoring process.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Policy (continued)

The guiding principles of the remuneration philosophy as set out in the Company's Remuneration Rules are as follows:

- The remuneration architecture is simple, transparent and can be put into practice.
- Remuneration is tied to long-term results for individuals who have a material impact on the Company's risk profile.
- The structure and level of total remuneration are aligned with the Company's risk policies and risk-taking capacity.
- A high performance culture is promoted by differentiating total remuneration based on the relative performance of business and individuals.
- Expected performance is clearly defined through a structured system of performance management and this is used as the basis for remuneration decision.
- Variable remuneration awards are linked to key performance factors which include the performance of the Company, business units, functions, as well as individual achievements.
- The Company's Short Term Incentive Plan ("STIP") and Long Term Incentive Plan ("LTIP") used for variable remuneration, are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with its long term economic performance.
- The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration.
- Employees are provided with a range of benefits based on local market policies, taking into account the ZIGL's risk capacity on pension funding and investments.

Total remuneration and its composition may be influenced by factors such as scope and complexity of the role, level of responsibility, risk exposure, business performance and affordability, individual performance, internal equity, and legal requirements.

Total remuneration can include elements of base salary and variable remuneration.

- Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed regularly. Overall base salary structures are positioned to manage salaries around the relevant market medians. Key factors to be taken into account are the individual's overall experience and performance.
- The variable remuneration architecture is aligned with the achievement of the key financial objective and the execution of the business strategy, risk management framework and operational plans, via short-term and long-term incentive plans. The plan designs are reviewed regularly by the Nomination and Remuneration Committee and the Board. The incentive plans are discretionary and can be terminated, modified, changed or revised, at any time, except for previously awarded grants. A clawback framework is in place however, for members of the Executive Committee to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions are also in place to reduce or eliminate awards applicable to all STIP and LTIP participants.
- Variable remuneration is structured such that on average there is a higher weighting towards the longer term sustainable performance for the most senior employees of the Company, including the individuals with the most impact on the Company's risk profile for the key takers. This ensures that a significant portion of the variable pay for the senior group is deferred to promote the risk awareness of the participants and to encourage the participants to operate the business in a sustainable manner.

Company No.
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ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of life insurance business, including investment-linked and annuity business.

There have been no significant changes in the nature of the principal activities during the financial year.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	<u>74,748</u>

RESERVES AND PROVISIONS

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

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

DIVIDENDS

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

	RM'000
Interim single tier gross dividend for the financial year ended 31 December 2019, paid on 19 December 2019	<u>25,000</u>

The Directors do not recommend the payment of any final dividend in respect of the current financial year.

SHARE CAPITAL

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

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ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

<u>Name of Directors</u>	<u>Designation</u>
Choy Khai Choon	Chairman, Independent Non-Executive Director
Datin Joan Hoi Lai Ping	Independent Non-Executive Director
Hasnah binti Omar	Independent Non-Executive Director
Stephen Clark	Executive Director
Kevin John Wright	Executive Director
(Re-designated as Executive Director on 12 September 2019 and resigned on 1 December 2019)	

To re-elect Hasnah binti Omar who is retiring in accordance with Clause 106 of the Company's Constitution and who, being eligible, offers herself for re-election.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company 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 or the fixed salary of a full-time employee of the Company as disclosed in Note 25 to the financial statements) by reason of a contract made by the Company or a related corporation with a Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

INSURANCE AND INDEMNITY COST

The Company, through its ultimate holding company, ZIGL has maintained a Directors' and Officers Liability Insurance ("Group's D&O Insurance") on a group basis up to an aggregate limit of USD350 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Company has also placed a Directors' and Officers' Liability Insurance with a local insurer up to the deductible amount under the Group's D&O Insurance. 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 total amount paid and payable for indemnity insurance effected for the Directors of the Company for the financial year amounting to RM7,204.

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, particulars of interests of a Director who held office at the end of the financial year in shares of a related corporation are as follows:

<u>Number deferred/restricted/performance share units</u>					
	<u>At</u>	<u>Granted/ Reinvested</u>	<u>Vested</u>	<u>Cancelled</u>	<u>At</u>
	<u>1.1.2019</u>	<u>dividends</u>			<u>31.12.2019</u>
<u>Units in Zurich Insurance</u>					
<u>Group Ltd.</u>					
Direct interest:					
Stephen Clark	2,789	1,344	-	-	4,133

Zurich Insurance Group Ltd. ("ZIGL") the immediate holding company of Zurich Insurance Company Ltd. ("ZICL") which in turn is the holding company of the Company, has designed a Group Long Term Incentive Plan ("the Plan") for the Group's most senior executives for the accomplishment of key Group performance measures. Participants are granted performance-based target shares under the Plan with the vesting of these target grants subject to specific performance achievements over a three-year period.

These performance-based target shares provide the holders with the right to purchase common stock of ZIGL at an exercise price set at the market price of common shares on the Swiss Stock Exchange on the day prior to the date of grant.

Other than the above, none of the other Directors in office at the end of the financial year held any interests in shares in, or debentures of, the Company or its related corporations during the financial year.

By virtue of the above Directors' interests in the shares of the immediate holding company and ultimate holding company, they are deemed to have an interest in the shares of the Company to the extent that the immediate holding company and the ultimate holding company have interest.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 25 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 25 to the financial statements. There is no indemnity given to or insurance affected for any auditor of the Company.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Company were prepared, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value 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 doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made, other than the subsequent event as disclosed in Note 44 to the financial statements.

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

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

Company No.
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ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

SUBSEQUENT EVENT

Details of the subsequent event is as disclosed in Note 44 to the financial statements.

IMMEDIATE AND ULTIMATE HOLDING CORPORATIONS

The Directors regard ZICL as the immediate holding corporation and ZIGL as the ultimate holding corporation. Both corporations are incorporated in Switzerland.

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 30 April 2020.



STEPHEN CLARK
DIRECTOR



CHOY KHAI CHOON
DIRECTOR

Kuala Lumpur
30 April 2020

Company No.
196801000442 (8029-A)

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

We, Stephen Clark and Choy Khai Choon, two of the Directors of the Company state that, in the opinion of the Directors, the financial statements set out on pages 26 to 138 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and the cash flows of the Company for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 30 April 2020.



STEPHEN CLARK
DIRECTOR



CHOY KHAI CHOON
DIRECTOR

Kuala Lumpur
30 April 2020

Company No.
196801000442 (8029-A)

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

I, Tang Loon Khoon, being the officer primarily responsible for the financial management of the Company, do solemnly and sincerely declare that the financial statements set out on pages 26 to 138 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.



TANG LOON KHOON

Subscribed and solemnly declared by the abovenamed Tang Loon Khoon at Kuala Lumpur in the Federal Territory on 30 April 2020.

Before me,



Suite, DG 6, Ground Floor,
Plaza Pekeliling, Jalan Tun Razak,
50400 Kuala Lumpur



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 196801000442 (8029-A))

On 30 April 2020, we have reported on the financial statements of Zurich Life Insurance Malaysia Berhad for the financial year ended 31 December 2019. In the report, we stated that:

"REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 26 to 138.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH LIFE INSURANCE MALAYSIA BERHAD
(CONTINUED)**

(Incorporated in Malaysia)

(Company No. 196801000442 (8029-A))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH LIFE INSURANCE MALAYSIA BERHAD
(CONTINUED)**

(Incorporated in Malaysia)

(Company No. 196801000442 (8029-A))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH LIFE INSURANCE MALAYSIA BERHAD
(CONTINUED)

(Incorporated in Malaysia)

(Company No. 196801000442 (8029-A))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

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

Other than the non-publication of all the notes to the financial statements except for the notes relating to investments, insurance contract liabilities, cash flows, total capital available, capital and other commitments, insurance funds, changes in accounting policies upon adoption of MFRS 16, and subsequent event, the financial statements reproduced herewith are similar in all material respects to those reported on by us.

Accordingly, for a fuller appreciation of the financial position of the Company as at 31 December 2019, and of its financial performance and cash flows for the financial year ended on that date, reference should be made to the financial statements of Zurich Life Insurance Malaysia Berhad for the financial year ended 31 December 2019, in which context our report of 30 April 2020 was made.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
30 April 2020

WONG HUI CHERN
03252/05/2020 J
Chartered Accountant

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Note	31.12.2019 RM'000	31.12.2018 RM'000
ASSETS			
Property, plant and equipment	4	28,071	29,490
Right-of-use assets	5	38,163	-
Intangible assets	6	3,674	2,756
Investment properties	7	76,200	257,700
Investments	8	7,212,752	7,023,233
Available-for-sale financial assets		5,093,517	4,916,754
Financial assets at fair value through profit or loss		1,814,906	1,797,022
Loans and receivables	9	304,329	309,457
Reinsurance assets	10	31,664	31,729
Insurance receivables	11	28,447	31,693
Other receivables	12	22,252	38,200
Tax recoverable		11,083	12,612
Deferred tax assets	13	24,581	57,277
Cash and cash equivalents		274,156	243,033
Non-current assets held-for-sale	14	145,587	550
Total assets		7,896,630	7,728,273
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	15	579,000	579,000
Retained earnings	16(a)	733,531	683,783
Other reserves	16(b)	112,491	36,309
Total equity		1,425,022	1,299,092
Insurance contract liabilities	17	4,489,729	4,436,963
Deferred tax liabilities	13	94,800	118,749
Lease liabilities	18	37,521	-
Other liabilities	19	87,145	81,402
Insurance payables	20	1,755,464	1,784,449
Current tax liabilities		6,949	7,618
Total liabilities		6,471,608	6,429,181
Total equity, policyholders' funds and liabilities		7,896,630	7,728,273

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Note	2019 RM'000	2018 RM'000
Gross earned premiums		801,725	786,381
Premiums ceded to reinsurers		<u>(31,978)</u>	<u>(58,407)</u>
Net earned premiums		<u>769,747</u>	<u>727,974</u>
Investment income	21	323,189	333,268
Realised gains and losses	22	12,920	23,117
Fair value gains and losses	23	(22,059)	(170,024)
Fee and commission income	24(a)	<u>6,616</u>	<u>5,866</u>
Other revenue		<u>320,666</u>	<u>192,227</u>
Total revenue		<u>1,090,413</u>	<u>920,201</u>
Gross benefits and claims paid		(810,917)	(773,774)
Claims ceded to reinsurers		15,162	51,361
Gross change to contract liabilities		47,602	27,145
Change in contract liabilities ceded to reinsurers		<u>(65)</u>	<u>(1,440)</u>
Net claims		<u>(748,218)</u>	<u>(696,708)</u>
Fee and commission expenses	24(b)	(119,841)	(115,615)
Management expenses	25	(127,216)	(132,029)
Other operating expenses - net	26	<u>(1,414)</u>	<u>(2,659)</u>
Other expenses		<u>(248,471)</u>	<u>(250,303)</u>
Operating profit/(loss)		93,724	(26,810)
Finance cost		<u>(1,479)</u>	<u>-</u>
Profit/(loss) before taxation		92,245	(26,810)
Taxation	27	<u>(17,497)</u>	<u>2,568</u>
Net profit/(loss) for the financial year		<u>74,748</u>	<u>(24,242)</u>
Basic/diluted earnings/(deficit) per share (sen)	29	<u>12.91</u>	<u>(4.19)</u>

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

	Note	2019 RM'000	2018 RM'000
Net profit/(loss) for the financial year		74,748	(24,242)
Other comprehensive income/(loss):			
Item that may be subsequently reclassified to profit or loss			
Fair value change on available-for-sale financial assets, net of deferred tax:			
- Gross fair value change arising during the financial year		202,746	10,451
- Gross fair value transferred to statement of profit or loss	22	(12,920)	(18,421)
- Deferred tax	13	(13,283)	482
Net gains/(loss)		176,543	(7,488)
Change in insurance contract liabilities arising from net fair value changes	17	(100,361)	7,577
Other comprehensive income for the financial year, net of tax		76,182	89
Total comprehensive income/(loss) for the financial year		<u>150,930</u>	<u>(24,153)</u>

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)

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

	Issued and fully paid ordinary shares		Non-distributable Reserves of a disposal group classified as held-for-sale			Retained earnings			Total
	Numbers of shares	Share capital	Available- for-sale fair value reserve	Asset revaluation Reserve		Non-Par unallocated surplus ¹	Distributable retained earnings	Total retained earnings	
	'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2019	579,000	579,000	25,181	11,128	-	442,700	241,083	683,783	1,299,092
Net (loss)/profit for the financial year	-	-	-	-	-	(39,647)	114,395	74,748	74,748
Other comprehensive income for the financial year	-	-	76,182	-	-	-	-	-	76,182
Dividend declared	-	-	-	-	-	-	(25,000)	(25,000)	(25,000)
At 31 December 2019	<u>579,000</u>	<u>579,000</u>	<u>101,363</u>	<u>11,128</u>	<u>-</u>	<u>403,053</u>	<u>330,478</u>	<u>733,531</u>	<u>1,425,022</u>
At 1 January 2018	579,000	579,000	25,092	11,128	9,646	417,772	515,045	932,817	1,557,683
Net profit/(loss) for the financial year	-	-	-	-	-	24,928	(49,170)	(24,242)	(24,242)
Other comprehensive income for the financial year	-	-	89	-	-	-	-	-	89
Distribution to Shareholders	-	-	-	-	(9,646)	-	(224,792)	(224,792)	(234,438)
At 31 December 2018	<u>579,000</u>	<u>579,000</u>	<u>25,181</u>	<u>11,128</u>	<u>-</u>	<u>442,700</u>	<u>241,083</u>	<u>683,783</u>	<u>1,299,092</u>

¹ In accordance with the FSA, the unallocated surplus of the Non-Participating ("Non-Par") fund is only available for distribution to the shareholders upon approval by the Appointed Actuary. There was no transfer from Non-Par fund unallocated surplus for the financial year ended 31 December 2019 (2018: Nil).

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 RM'000	2018 RM'000
OPERATING ACTIVITIES			
Cash utilised in operating activities	30	(233,279)	(323,025)
Dividend/distribution income received		66,114	61,981
Interest/profit income received		263,220	269,291
Rental income on investment properties received		8,280	14,618
Property maintenance expenses paid		(7,667)	(8,613)
Interest paid on lease liabilities		(1,479)	-
Income tax paid		(21,990)	(30,753)
Income tax refunded		768	-
Net cash inflows/(outflows) from operating activities		<u>73,967</u>	<u>(16,501)</u>
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		108	7,899
Purchase of property, plant and equipment	4	(5,629)	(19,690)
Purchase of intangible assets	6	<u>(3,203)</u>	<u>(139)</u>
Net cash outflows from investing activities		<u>(8,724)</u>	<u>(11,930)</u>
FINANCING ACTIVITIES			
Payment of lease liabilities	18	(9,120)	-
Dividend distribution to Shareholders		<u>(25,000)</u>	<u>-</u>
Net cash outflows from financing activities		<u>(34,120)</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		31,123	(28,431)
Cash and cash equivalents at the beginning of the financial year		<u>243,033</u>	<u>271,464</u>
Cash and cash equivalents at the end of the financial year		<u>274,156</u>	<u>243,033</u>
Cash and cash equivalents comprise:			
Cash and bank balances		<u>274,156</u>	<u>243,033</u>

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

Company No.
196801000442 (8029-A)

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is an unquoted public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company are as follows:

Registered office

Level 25, Mercu 3
No.3 Jalan Bangsar
KL Eco City
59200 Kuala Lumpur

Principal place of business

Level 23A, Mercu 3
No.3 Jalan Bangsar
KL Eco City
59200 Kuala Lumpur

The Company is engaged principally in the underwriting of life insurance business, including investment-linked and annuity business. There have been no significant changes in the nature of these principal activities during the financial year.

The Directors regard ZICL as the immediate holding company and ZIGL as the ultimate holding company. Both companies are incorporated in Switzerland.

ZIGL is listed on the SIX Swiss Exchange and produces financial statements available for public use.

The financial statements were authorised for issue by the Board in accordance with a resolution of the Directors on 30 April 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The Company has met the minimum capital requirements as prescribed by the RBC as at the date of the statement of financial position.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

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 3 to the financial statements.

The financial statements are presented in Ringgit Malaysia ("RM"), and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

Standards, amendments to published standards and interpretations

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

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

- MFRS 16 "Leases"
- Amendments to MFRS 9 "Prepayment Features with Negative Compensation"
- Amendments to MFRS 119 "Plan Amendment, Curtailment or Settlement"
- IC Interpretation 23 "Uncertainty over Income Tax Treatments"
- Annual Improvements to MFRSs 2015 – 2017 Cycle

The Company has adopted MFRS 16 for the first time in the 2019 financial statements with the date of initial application of 1 January 2019 by applying the simplified retrospective transition method.

The practical expedients elected and the detailed impacts of the changes in accounting policies on leases are disclosed in Note 42. The details of the accounting policies on leases are disclosed separately in Note 2.2(b).

Other than MFRS 16, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments to published standards and interpretations (continued)

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

(a) Effective from financial year beginning on or after 1 January 2020

- Amendments to MFRS 3 “Definition of a Business” revised the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

- The Conceptual Framework for Financial Reporting (Revised 2018)

The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards (‘Amendments’), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies. The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments to published standards and interpretations (continued)

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

(a) Effective from financial year beginning on or after 1 January 2020 (continued)

- Amendments to MFRS 101 “Presentation of Financial Statements” - Definition of Material and Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material

Amendments to the definition of material (Amendments to MFRS 101 and MFRS 108). The amendments clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

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

The amendments also:

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

The amendments shall be applied prospectively.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments to published standards and interpretations (continued)

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

(b) Effective from financial year beginning on or after 1 January 2021

- MFRS 17 “Insurance Contracts” replaces MFRS 4 “Insurance Contracts”.

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

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments to published standards and interpretations (continued)

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

- (b) Effective from financial year beginning on or after 1 January 2021(continued)

Alternative measurement models are provided for the different insurance coverages:

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

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

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

On 17 March 2020, the International Accounting Standards Board ("IASB") tentatively decided to defer the effective date of IFRS 17 "Insurance Contracts" and the temporary exemption of the adoption of IFRS 9 for insurers to annual reporting periods beginning on or after 1 January 2023. The IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020.

The Company plans to adopt the new standard on the required effective date. The Company has yet to assess the full impact of MFRS 17 onto the Company's accounting policies and will complete the process prior to the reporting requirement deadline.

Other than MFRS 17 and MFRS 9 "Financial Instruments", the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Company in the year of initial application.

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 January 2020 are not relevant to the Company.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

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

(a) Property, plant and equipment and depreciation

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

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 recognised as expenses in profit or loss during the financial year in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the period of their respective leases or earlier if the expected useful life is lower than the leasehold period. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives. The expected useful lives of the assets are as follows:

Leasehold land	Over the remaining leasehold period
Freehold and leasehold buildings	50 years
Furniture, fittings and office equipment	5 to 10 years
Motor vehicles	10 years
Renovation	10 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2(g) to the financial statements on impairment of non-financial assets.

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Leases

(i) Accounting by lessee

Accounting policies applied from 1 January 2019

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

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand alone prices. However, for leases of properties for which the Company is a lessee, it has elected the practical expedient provided in MFRS16 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.

Lease term

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

The Company reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy below on reassessment of lease liabilities.

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.

The 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 Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset’s useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Leases (continued)

(i) Accounting by lessee (continued)

Lease liabilities

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

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

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the finance cost in the statement of profit or loss.

Reassessment of lease liabilities

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

Short-term leases and leases of low-value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment, printing and photocopy machines. The Company has elected not to recognise ROU assets and lease liabilities for leases of low-value assets and short-term leases. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Leases (continued)

(i) Accounting by lessee (continued)

Accounting policies on lessee accounting applied until 31 December 2018

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

(ii) Accounting by lessor

Accounting policies applied from 1 January 2019

As a lessor, the Company determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee. As part of this assessment, the Company considers certain indicators such as whether the lease is for major part of the economic life of the asset.

(a) Operating lease

The Company classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

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

(b) Separating lease and non-lease components

If an arrangement contains lease and non-lease components, the Company allocates the consideration in the contract to the lease and non-lease components based on the stand-alone selling prices in accordance with the principles in MFRS 115 "Revenue from Contracts with Customers".

Accounting policies on lessee accounting applied until 31 December 2018

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Investment properties

Investment properties, comprising principally land and office buildings, are held for long term rental yields or for capital appreciation or both. Such properties are measured initially at its cost, including related transaction costs and borrowing costs if the investment properties meet the definition of qualifying asset.

After initial recognition, investment properties are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed monthly, and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying values of the investment properties are materially different from the fair values. All gains or losses arising from a change in fair value of investment properties are recognised in profit or loss.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the financial year in which they arise.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If a owner occupied property becomes an investment property, the fair value changes of the property upon the reclassification are recognised in an equity reserve. Increases are recognised directly in equity, unless there was an impairment loss recognised for the same property in prior years and a portion of the increase is recognised in profit or loss to the extent of that impairment loss. Decreases are recognised in profit or loss for any decrease in excess of the amount included in the revaluation surplus for that property.

(d) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable software systems controlled by the Company, which do not form an integral part of the hardware, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of three years.

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Investments and other financial assets

The Company classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss ("FVTPL"), loans and receivables ("LAR") and available-for-sale ("AFS") financial assets. The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition.

(i) Financial assets measured at FVTPL

The Company classifies investments acquired for the purpose of selling in the short-term as held-for-trading, as FVTPL. Derivatives are also classified as held-for-trading unless they are designated as hedges.

Investments held by investment-linked funds are designated at FVTPL at inception as they are managed and evaluated on a fair value basis, in accordance with the respective investment strategy and mandate.

These investments are initially recorded at fair value and transaction costs are expensed in profit or loss. Subsequent to initial recognition, these assets are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in profit or loss.

(ii) LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market but do not include insurance receivables. These assets are initially recognised at fair value. All transaction costs directly attributable to the acquisition are also included in the cost of the asset. After initial measurement, LAR are measured at amortised cost, using the effective yield method, less allowance for impairment.

Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, as well as through the amortisation process.

Refer to Note 2.2(i) to the financial statements for further details on the accounting policy on loans.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Investments and other financial assets (continued)

(iii) AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other assets categories. These investments are initially recognised at fair value. After initial measurement, AFS financial assets are remeasured at fair value.

Fair value gains and losses of monetary and non-monetary financial assets are reported in the statement of comprehensive income and reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired, except for the life insurance contracts with discretionary participating features, where such fair value gains or losses are reported as a separate component of insurance contract liabilities. Fair value gains and losses of monetary instruments denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the instrument and other changes in the carrying amount of the instrument. The translation differences on monetary instruments are recognised in profit or loss; translation differences on non-monetary instruments are reported in the statement of comprehensive income and shown as a separate component of equity except for the life insurance contract with discretionary participating features ("DPF"), where such fair value gains or losses are reported as a separate component of insurance contract liabilities until the investment is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred through the statement of comprehensive income or from insurance contract liabilities to profit or loss.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published (closing) price on the date of the statement of financial position.

For investments in unit and real estate investment trusts, fair value is determined by reference to published (closing) price.

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flows analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate, over-night and time deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued interest/profit. The fair value of fixed interest/yield-bearing deposits is measured using estimated discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

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

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Impairment of non-financial assets

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

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

(h) Impairment of financial assets

The Company assesses at each date of the statement of financial position, whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at date of the statement of financial position.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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

(ii) AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity through the statement of comprehensive income or from insurance contract liabilities to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in profit or loss.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Loans

Loans are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of loan is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amounts and the present value of estimated future cash flows discounted at the effective interest rates. This includes interest that is suspended and/or recognised to the extent of the recoverable amount.

The amount of specific allowance also takes into account the collateral value and recoverable amount of interest due, which may be discounted to reflect the impact of the recovery process which is estimated to be between one to five years, depending on default condition of the loan, type of collateral and whether under litigation. The amount of the allowance is recognised in profit or loss.

Where the collateral is property, the net realisable value of the property is determined by using its fair value which is based on open market value by independent property valuers, adjusted if necessary, for any difference in the nature, location or condition of the specific asset, while for shares, it is based on the last transacted price. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets, adjusted if necessary, for any difference in nature, location or condition of specific asset or discounted cash flow projections.

Consistent with previous years, loans are classified as non-performing when repayments or interests are in arrears for more than six months from the first day of default or after maturity date.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(j) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.2(h) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(k) to the financial statements, have been met.

(k) Financial instrument - Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred, and the Company has also transferred substantially all risks and rewards of ownership.

(l) Equity instruments

Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributed to the issue of these shares are recognised in equity, net of tax.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Product classification

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

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

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

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

Insurance and investment contracts are further classified as being either with or without DPF. DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the:
 - performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the company, fund or other entity that issues the contract.

Under the terms of the contracts, surpluses in the DPF fund can be distributed on a 90/10 basis to the policyholders and the shareholders respectively. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Product classification (continued)

Under the RBC Framework for Insurers, statutory liabilities are calculated based on the Gross Premium Valuation ("GPV") method which takes into consideration not only the guaranteed but also the discretionary benefits in the case of participating products and the underlying assumptions are based on the Company's actual experience.

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

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

The Company defines insurance risk to be significant when the ratio of the insurance risk over the deposit component is not less than 105% of the deposit component at any point of the insurance contract in force. Based on this definition, all policy contracts issued by the Company are considered insurance contracts as at the date of the statement of financial position.

(n) Reinsurance

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Reinsurance (continued)

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

The Company also assumes reinsurance risk in the normal course of business for life insurance when applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

(o) Life insurance underwriting results

The surplus transferable from the life participating fund to profit or loss is based on the surplus determined by an annual actuarial valuation of the long-term insurance contract liabilities to the policyholders.

Premium income

Premium income includes premium recognised in the life fund and the investment-linked fund. Premium income of the life fund is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date, and subsequent premium is recognised when due.

At the end of the financial year, all due premiums are accounted to the extent that they can be reliably measured.

Premium income of the investment-linked fund includes creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on a receipt basis.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Life insurance underwriting results (continued)

Reinsurance premiums

Gross reinsurance premiums are recognised as an expense when payable or on the date on which the policy is effective.

Benefits, claims and expenses

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

Benefits and claims, including settlement costs, are accounted for using the case-by-case method and for this purpose; the amounts payable under a policy are recognised as follows:

- maturity and other policy benefit payments due on specified dates are treated as claims payable on the due dates;
- death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the assured or occurrence of contingency covered; and
- bonus on DPF policy upon its declaration.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contracts.

Commission and agency expenses

Gross commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to profit or loss in the financial year in which they are incurred.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Insurance contract liabilities

(i) Life actuarial liabilities

Life actuarial liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies. The valuation basis, including the determination of the appropriate risk discount rate, is in accordance with Part D of the RBC Framework and Appendix VII: Valuation Basis for Life Insurance Liabilities of the RBC Framework, and any related circulars issued by BNM relevant to the guidelines.

The liability in respect of DPF insurance contract is taken as the higher of the guaranteed benefit liabilities loaded with provision of risk margin for adverse deviation or the total benefit liabilities at the contract level derived as stated above.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the liabilities shall be the higher of the current accumulated amount (as declared to the policy owners), or the sum of the current accumulated amount and liabilities calculated using the prospective actuarial valuation method.

Where policies or extensions of a policy are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

In the case of a 1-year life policy or a 1-year extension to a life policy covering contingencies other than death or survival, the liability for such life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company.

Adjustments to the liabilities at each reporting date are recorded in profit or loss. Profits that originate from margins of adverse deviations on run-off contracts are recognised in profit or loss over the life of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Insurance contract liabilities (continued)

(ii) Surplus in the life insurance contracts

Surpluses with the DPF fund are distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. The Company, however, has the discretion over the amount and timing of the distribution of these surpluses to policyholders and shareholders which are determined by an actuarial valuation of the long term liabilities to the policyholders at the date of the statement of financial position and is made in accordance with the provision of the FSA and related regulations by the Company's Appointed Actuary.

Unallocated surplus of DPF insurance contracts where the amounts of surplus are yet to be allocated or distributed by the Company's Appointed Actuary to either policyholders or shareholders by the end of the financial year, are classified as part of life insurance contract liabilities.

(iii) AFS fair value adjustment

Where unrealised gains or losses arise on AFS financial assets of the life participating fund, the adjustment to the insurance contract liabilities equal to the effect that the realisation of those gains or losses at the end of the reporting years would have on those liabilities which is recognised directly in the other comprehensive income.

(iv) Asset revaluation surplus adjustment

Where asset revaluation reserve arises on the self-occupied properties of the DPF fund, the adjustment to the life insurance liabilities equal to the effect that the realisation of those surpluses at the end of the reporting period would have on those liabilities is recognised directly in other comprehensive income.

(v) Net asset value attributable to unitholders

The unit liability of investment-linked contract is equal to the net asset value of the investment-linked funds, which represents net premium received and investment returns credited to the policy less deduction for mortality and morbidity costs and expense charges.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Other revenue recognition

Interest income

Interest income is recognised on an accrual basis using the effective yield method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the investment and continues unwinding the discount as interest income.

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

Dividend income

Dividend income is recognised as investment income when the Company's right to receive payment is established.

Rental income

Rental income on owner-occupied and investment properties is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessee is recognised as a reduction of rental income over the lease term on a straight line basis.

Lease rental income net of payment of lease rental expenses made under operating lease of the same properties is recognised on straight-line basis over the lease term.

Realised gains and losses on investments

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

Fees and commission income

Insurance contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, then, they are deferred and recognised over those future periods.

Management fee income earned from the investment-linked business is recognised on an accrued basis based on the net asset value of the investment-linked funds.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(r) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the date of the statement of financial position are translated to Ringgit Malaysia at exchange rates prevailing at the date of the statement of financial position. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss.

(s) Income taxes

Income taxes on the profit or loss for the financial year comprises current and deferred tax.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered or paid to the tax authorities. The tax rates used to compute the amount are those that are enacted or substantively enacted at the date of the statement of financial position.

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits. The tax expense is based on the method prescribed under the Income Tax Act 1967 for life and general insurance businesses. Current tax is recognised in profit or loss.

Deferred tax is provided for, 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 future taxable profits 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 is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each date of the statement of financial position and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be utilised.

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 or substantively enacted at the date of the statement of financial position.

Deferred tax is recognised as income or an expense and included in profit or loss for the financial year, except when it arises from a transaction which is recognised in other comprehensive income or directly in equity or directly in the insurance contract liabilities, in which case the deferred tax is also recognised in other comprehensive income or directly in equity or directly in the insurance contract liabilities.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(t) Provisions

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

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

(u) Employee benefits

Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees. 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.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions or variable contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to the employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF"). Once the contributions have been paid, the Company has no further payment obligations.

(v) Other financial liabilities and insurance payables

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

A financial liability and an insurance payable are derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(w) Contingent liabilities and contingent assets

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

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

(x) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, and deposits held at call 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 changes in value.

(y) Non-current assets held-for-sale

Non-current assets are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale 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.

(z) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Operating Officer who makes strategic decisions. The Company's principal operations are organised into Life insurance and Shareholders' segments as disclosed in Note 41 to the financial statements.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Valuation of life insurance contract liabilities

The liability for life insurance contracts is based on current assumptions, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates, and discount rates. The Company bases mortality and morbidity on established industry and Malaysian tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate. Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

Discount rate for non-participating policies, guaranteed benefits of participating policies and the non-unit liability of investment-linked policies accord a level of guarantee which is no less certain than that accorded by a Malaysian Government Security ("MGS"). In the case of the total benefits liabilities of participating policies, the discount rate is based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund.

(ii) Impairment assessment on non-performing loans

Judgement is applied in determining the amount that may be recovered from long outstanding non-performing loans via the disposal of collaterals pledged to those loans.

The actual amounts that will be recovered from these non-performing loans are largely dependent on the values that those collaterals can fetch should foreclosure take place or if the borrowers agree to settlements with the Company, and lastly the time taken to complete the recovery of these loans. Valuations of collaterals are reviewed by an independent valuer every three years or earlier if the carrying values of the collaterals are materially different from the fair values, and the impairment assessment is done monthly.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

(iii) Assumptions applied for MFRS 16 “Leases”

Determination of incremental borrowing rate

The lease liabilities are measured at the present value of the remaining lease payments over the lease term, discounted using the Company’s incremental borrowing rate as the rate implicit in the lease is generally not readily determinable.

Extension and termination options

Any options to extend or terminate a lease that the Company is reasonably certain to exercise are included in the lease term. The ROU asset is initially recognised at an amount equal to the lease liability adjusted for lease prepayments made or lease incentives received, initial direct costs and any estimated costs to dismantle or restore the leased asset.

The lease term will be considered to extend beyond the non-cancellable period if the lessee has an extension option that is considered to be reasonably certain to exercise, or an termination option that is considered to be reasonably certain not to exercise.

The Company has several lease contracts that include extension and termination options. The Company has included the renewal period as part of the lease term as the Company is reasonably certain to exercise the option to extend the lease. The Company considers all relevant facts and circumstances that create an economic incentive to exercise or not to exercise the option including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

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

4. PROPERTY, PLANT AND EQUIPMENT

	Freehold and leasehold land	Freehold and leasehold buildings	Furniture, fittings and office equipment	Motor vehicles	Renovation	Work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost							
At 1 January 2018	2,573	4,181	10,530	1,174	13,991	1,351	33,800
Additions	-	-	9,736	506	9,293	155	19,690
Transfer	-	-	1,506	-	-	(1,506)	-
Write-offs	-	-	(514)	-	(1,967)	-	(2,481)
Disposals	(1,009)	(2,891)	-	(144)	-	-	(4,044)
At 31 December 2018	1,564	1,290	21,258	1,536	21,317	-	46,965
Additions	-	-	5,068	-	561	-	5,629
Transfer to non-current asset held for sale (Note 14)	(1,564)	(1,290)	-	-	-	-	(2,854)
Write-offs	-	-	(42)	-	(275)	-	(317)
Disposals	-	-	-	(525)	(25)	-	(550)
At 31 December 2019	-	-	26,284	1,011	21,578	-	48,873

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

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold and leasehold land	Freehold and leasehold buildings	Furniture, fittings and office equipment	Motor vehicles	Renovation	Work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accumulated depreciation							
At 1 January 2018	101	1,158	6,736	669	7,950	-	16,614
Charge for the financial year (Note 25)	14	103	1,839	93	1,414	-	3,463
Write-offs	-	-	(395)	-	(1,366)	-	(1,761)
Disposals	(91)	(606)	-	(144)	-	-	(841)
At 31 December 2018	24	655	8,180	618	7,998	-	17,475
Charge for the financial year (Note 25)	-	23	2,844	198	1,723	-	4,788
Transfer to non-current asset held for sale (Note 14)	(24)	(678)	-	-	-	-	(702)
Write-offs	-	-	(42)	-	(275)	-	(317)
Disposals	-	-	-	(426)	(16)	-	(442)
At 31 December 2019	-	-	10,982	390	9,430	-	20,802
Net carrying amount							
At 31 December 2018	1,540	635	13,078	918	13,319	-	29,490
At 31 December 2019	-	-	15,302	621	12,148	-	28,071

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

5. RIGHT-OF-USE ASSETS

	Premises
	RM'000
Cost	
Initial adoption of MFRS 16 at 1 January 2019	43,682
Additions	3,997
Remeasurements	6,005
At 31 December 2019	<u>53,684</u>
Accumulated depreciation	
Initial adoption of MFRS 16 at 1 January 2019	6,191
Charge for the financial year (Note 25)	9,732
Remeasurements	(402)
At 31 December 2019	<u>15,521</u>
Net carrying amount	
At 31 December 2019	<u>38,163</u>

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

6. INTANGIBLE ASSETS

	Computer software	Work-in- progress	Total
	RM'000	RM'000	RM'000
Cost			
At 1 January 2018	16,356	2,342	18,698
Additions	-	139	139
Transfer	651	(651)	-
Write-offs	-	(263)	(263)
At 31 December 2018	17,007	1,567	18,574
Additions	-	3,203	3,203
Write-offs	-	(1,567)	(1,567)
At 31 December 2019	17,007	3,203	20,210
Accumulated amortisation			
At 1 January 2018	14,173	-	14,173
Amortisation during the financial year (Note 25)	1,645	-	1,645
At 31 December 2018	15,818	-	15,818
Amortisation during the financial year (Note 25)	718	-	718
At 31 December 2019	16,536	-	16,536
Net carrying amount			
At 31 December 2018	1,189	1,567	2,756
At 31 December 2019	471	3,203	3,674

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

7. INVESTMENT PROPERTIES

	2019	2018
	RM'000	RM'000
At 1 January	257,700	258,250
Fair value losses recorded in statement of profit or loss (Note 23)	(38,615)	-
Transfer to non-current assets held-for-sale (Note 14)	(142,885)	(550)
At 31 December	<u>76,200</u>	<u>257,700</u>

The fair values of the investment properties as at 31 December 2019 and 31 December 2018 were determined by external independent valuers, or by management based on market or income approaches by reference to valuations performed by external independent valuers where considered appropriate. Fair value changes are recorded in profit or loss.

Rental income and the rates and maintenance expenses in respect of investment properties are disclosed in Note 21 to the financial statements.

The titles to certain investment properties amounting to RM58,100,000 (2018: RM66,150,000) are in the process of being transferred to the Company. Risks, rewards and effective titles to these investment properties have been passed to the Company upon unconditional completion of the acquisition of those properties. The Company has submitted the relevant documents to the authorities for transfer of legal titles and is awaiting the process and finalisation of these transfers to be completed.

Fair value is determined through various valuation techniques using Level 3 inputs (defined as unobservable inputs for asset or liability) in the fair value hierarchy of MFRS 113 Fair Value Measurement. Changes in fair value are recognised in the statement of profit or loss during the reporting period in which they are reviewed.

The Level 3 inputs or unobservable inputs include:

- Term yield - the expected rental that the investment properties are expected to achieve and are derived from the current passing rental, including revision upon renewal of tenancies during the financial year;
- Reversion yield - the expected rental that the investment properties are expected to achieve upon expiry of term rental;
- Allowance for void - refers to allowance provided for vacancy periods; and
- Price per square foot (psf) - estimated price psf for which a property should exchange on the date of valuation between a willing buyer and a willing seller.

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

7. INVESTMENT PROPERTIES (CONTINUED)

The fair value measurements using Level 3 inputs as at are as follows:

	Valuation technique	Fair value RM'000	Term yield %	Reversion yield %	Allowance for void %	Reversion outgoing RM psf/month	Price per sq foot RM/psf
31 December 2019							
Office building	Investment method	142,500	6.50	7.00	30.00	1.20	-
Others	Investment method	33,000	6.00	6.50	10.00	0.92	-
	Comparison method	44,140	-	-	-	-	24.13 – 486.11
31 December 2018							
Office building	Investment method	170,000	6.50	6.50	10.00	1.20	-
Others	Investment method	33,000	6.00	6.50	10.00	0.92	-
	Comparison method	55,250	-	-	-	-	29.00 – 714.00

The estimated fair value of the investment property would increase/(decrease) if the:

- Term yield is lower/(higher)
- Reversion yield is lower/(higher)
- Allowance for void is lower/(higher)

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

8. INVESTMENTS

	31.12.2019	31.12.2018
	RM'000	RM'000
Malaysian Government Securities/ Government Investment Issues	674,426	659,775
Corporate debt securities	4,354,792	4,215,199
Equity securities	1,420,292	1,416,963
Unit trusts	458,913	421,839
Loans	304,329	309,457
	<u>7,212,752</u>	<u>7,023,233</u>
The Company's financial investments are summarised by measurement categories as follows:		
Available-for-sale ("AFS") financial assets	5,093,517	4,916,754
Fair value through profit or loss ("FVTPL") financial assets	1,814,906	1,797,022
Loans and receivables ("LAR") (Note 9)	304,329	309,457
	<u>7,212,752</u>	<u>7,023,233</u>
Investments that mature after 12 months:		
AFS financial assets	4,582,001	4,512,353
FVTPL financial assets	165,144	149,004
LAR (Note 9)	3,604	5,402
	<u>4,750,749</u>	<u>4,666,759</u>

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

8. INVESTMENTS (CONTINUED)

	31.12.2019	31.12.2018
	RM'000	RM'000
(a) AFS financial assets		
Malaysian Government Securities/Government Investment Issues	667,879	650,083
Corporate debt securities		
- Unquoted in Malaysia	4,195,171	4,072,317
Equity securities		
- Quoted in Malaysia	215,071	176,360
- Unquoted in Malaysia	10,424	14,161
Unit trusts		
- Quoted in Malaysia	4,972	3,833
	<u>5,093,517</u>	<u>4,916,754</u>
(b) FVTPL financial assets		
Held-for-trading:		
Equity securities		
- Quoted in Malaysia	576,653	619,540
Unit trusts		
- Quoted in Malaysia	229,986	237,162
	<u>806,639</u>	<u>856,702</u>
Designated at FVTPL:		
Malaysian Government Securities/Government Investment Issues	6,547	9,692
Corporate debt securities		
- Unquoted in Malaysia	159,621	142,882
Equity securities		
- Quoted in Malaysia	618,144	606,902
Unit trusts		
- Quoted in Malaysia	13,193	11,879
- Quoted outside Malaysia	5,998	4,873
- Unquoted outside Malaysia	204,764	164,092
	<u>1,008,267</u>	<u>940,320</u>
	<u>1,814,906</u>	<u>1,797,022</u>

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

8. INVESTMENTS (CONTINUED)

(c) Carrying value of financial instruments

The movements in the Company's financial assets (excluding loans and receivables) are summarised in the table below by measurement category.

	AFS	FVTPL	Total
	RM'000	RM'000	RM'000
At 1 January 2018	5,100,500	1,631,552	6,732,052
Purchases	847,653	1,113,535	1,961,188
Disposals (sale and redemptions)	(1,019,381)	(777,427)	(1,796,808)
Fair value losses recorded in:			
Statement of profit or loss (Note 23)	-	(170,187)	(170,187)
Other comprehensive income	(7,970)	-	(7,970)
Amortisation/interest adjustment	(4,048)	(451)	(4,499)
At 31 December 2018	4,916,754	1,797,022	6,713,776
Purchases	777,010	598,609	1,375,619
Disposals (sale and redemptions)	(783,885)	(600,708)	(1,384,593)
Fair value gains recorded in:			
Statement of profit or loss (Note 23)	-	20,106	20,106
Other comprehensive income	189,826	-	189,826
Movement in impairment allowance	(50)	-	(50)
Amortisation/interest adjustment	(6,138)	(123)	(6,261)
At 31 December 2019	<u>5,093,517</u>	<u>1,814,906</u>	<u>6,908,423</u>

The fair value hierarchy of investments is disclosed in Note 36 to the financial statements.

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

9. LOANS AND RECEIVABLES

	31.12.2019	31.12.2018
	RM'000	RM'000
Loans arising from:		
Policy loans	265,752	266,156
Mortgage loans	57,343	58,566
Unsecured loans	407	408
	<u>323,502</u>	<u>325,130</u>
Allowance for impairment	<u>(19,173)</u>	<u>(15,673)</u>
Net loans (Note 8)	<u>304,329</u>	<u>309,457</u>

The estimated fair values of the loans and receivables have been established by comparing current market interest rates for similar financial instruments to the rates offered when the loans and receivables were first recognised together with appropriate market credit adjustments except for loans which are non-performing ("NPL"), where the estimated recoverable fair value is the discounted amount of estimated future cash flows expected to be received.

The maturity structure of the loans and receivables is as follows:

	31.12.2019	31.12.2018
	RM'000	RM'000
Receivables within 12 months	300,725	304,055
Receivables after 12 months	<u>3,604</u>	<u>5,402</u>
	<u>304,329</u>	<u>309,457</u>

Included in the total loan portfolio net of allowance for impairment as at 31 December 2019 are several NPL amounting to approximately RM34,299,000 (2018: RM36,813,000). These NPL were collateralised by properties as pledged by the borrowers. The Company has assessed the value of the collaterals or agreed settlement plans, and has made appropriate allowances for impairment where appropriate. Should the market value or adjusted value of the collaterals deviate by 10% or the recovery process be delayed by a year, particularly those loans with properties as collateral, there may be a potential shortfall in the net recoverable value of approximately RM6,411,000 (2018: RM1,075,000) for the NPL.

A reconciliation of the allowance for impairment for NPL are as follows:

	31.12.2019	31.12.2018
	RM'000	RM'000
Balance at the beginning of financial year	15,673	15,968
Write-offs during the financial year	-	(132)
Allowance/(write-back) during the financial year	<u>3,500</u>	<u>(163)</u>
Balance at the end of the financial year	<u>19,173</u>	<u>15,673</u>

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

10. REINSURANCE ASSETS

	31.12.2019	31.12.2018
	RM'000	RM'000
Reinsurers' share of insurance contract liabilities (Note 17)	<u>31,664</u>	<u>31,729</u>

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

11. INSURANCE RECEIVABLES

	31.12.2019	31.12.2018
	RM'000	RM'000
Due premiums including agents/brokers and co-insurers balances	23,951	27,214
Due from reinsurers and cedants	<u>4,674</u>	<u>4,659</u>
	28,625	31,873
Allowance for impairment	<u>(178)</u>	<u>(180)</u>
	<u>28,447</u>	<u>31,693</u>

12. OTHER RECEIVABLES

	31.12.2019	31.12.2018
	RM'000	RM'000
Outstanding proceeds from disposal of investments	44	4,481
Deposits, prepayment and other receivables	<u>22,208</u>	<u>33,719</u>
	<u>22,252</u>	<u>38,200</u>

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

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

13. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2019			2018		
	Life fund	Share- holders' fund	Total	Life fund	Share- holders' fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax (liabilities)/assets (net)	<u>(94,800)</u>	<u>24,581</u>	<u>(70,219)</u>	<u>(118,749)</u>	<u>57,277</u>	<u>(61,472)</u>
At 1 January	(118,749)	57,277	(61,472)	(125,399)	33,294	(92,105)
Credited/(charged) to statement of profit or loss (Note 27)						
- property, plant and equipment	(424)	-	(424)	463	-	463
- investments and loans	(3,976)	(255)	(4,231)	16,089	44	16,133
- investment properties	1,785	3,912	5,697	-	-	-
- unallocated surplus of non-DPF	37,567	-	37,567	(10,365)	-	(10,365)
- (refund from)/temporary funding to life participating fund	-	(34,073)	(34,073)	-	23,920	23,920
	<u>34,952</u>	<u>(30,416)</u>	<u>4,536</u>	<u>6,187</u>	<u>23,964</u>	<u>30,151</u>
(Charged)/credited to comprehensive income:						
- available-for-sale reserve	(11,003)	(2,280)	(13,283)	463	19	482
	<u>(11,003)</u>	<u>(2,280)</u>	<u>(13,283)</u>	<u>463</u>	<u>19</u>	<u>482</u>
At 31 December	<u>(94,800)</u>	<u>24,581</u>	<u>(70,219)</u>	<u>(118,749)</u>	<u>57,277</u>	<u>(61,472)</u>

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

13. DEFERRED TAXATION (CONTINUED)

	31.12.2019			31.12.2018		
	Life fund	Share- holders' fund	Total	Life fund	Share- holders' fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Subject to income tax:						
Deferred tax assets (before offsetting)						
- investments and loans	411	3,122	3,533	2,786	3,377	6,163
- investment properties	7,064	16,628	23,692	5,279	12,716	17,995
- others	28	-	28	28	-	28
- temporary funding to life participating fund	-	9,740	9,740	-	43,813	43,813
	7,503	29,490	36,993	8,093	59,906	67,999
Offsetting	(7,503)	(4,909)	(12,412)	(8,093)	(2,629)	(10,722)
Deferred tax assets after offsetting	-	24,581	24,581	-	57,277	57,277
Deferred tax liabilities (before offsetting)						
- asset revaluation reserve	(1,644)	(1,890)	(3,534)	(1,644)	(1,890)	(3,534)
- available-for-sale reserve	(17,770)	(3,019)	(20,789)	(6,767)	(739)	(7,506)
- property, plant and equipment	(878)	-	(878)	(454)	-	(454)
- investments and loans	(5,505)	-	(5,505)	(3,904)	-	(3,904)
- unallocated surplus of non-DPF	(76,506)	-	(76,506)	(114,073)	-	(114,073)
	(102,303)	(4,909)	(107,212)	(126,842)	(2,629)	(129,471)
Offsetting	7,503	4,909	12,412	8,093	2,629	10,722
Deferred tax liabilities after offsetting	(94,800)	-	(94,800)	(118,749)	-	(118,749)

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

14. NON-CURRENT ASSETS AS HELD-FOR-SALE

Non-current assets held-for-sale comprises investment properties identified for disposal which meet certain conditions:

- a) there is management's commitment to a plan to sell;
- b) the investment properties are available for immediate sale;
- c) an active program to locate a buyer is initiated;
- d) the sale is highly probable, within 12 months of classification as held-for-sale;
- e) the sale is being actively marketed for sale at a sales price reasonable to its fair value; and
- f) actions required to complete the sale indicate that it is unlikely that the plan will be significantly changed or withdrawn.

During the financial year, two investment properties and one owner-occupied property have been classified as held-for-sale as compared to the previous financial year of only one investment property. One of the two investment properties is a large office building with a carrying value which makes up 64.8% of the total investment portfolio.

	2019 RM'000	2018 RM'000
<u>Carrying value</u>		
At 1 January	550	-
Transfer from property, plant and equipment (Note 4)	2,152	-
Transfer from investment properties (Note 7)	142,885	550
At 31 December	<u>145,587</u>	<u>550</u>

15. SHARE CAPITAL

	31.12.2019	31.12.2018
	Number of shares	Number of shares
	'000	'000
<u>Issued and fully paid</u>		
At 31 December		
– ordinary shares with no par value	<u>579,000</u>	<u>579,000</u>

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

16. RESERVES

(a) Retained earnings

In accordance with Section 83 of the FSA, the unallocated surplus is only available for distribution to the shareholders upon approval/recommendation by the Appointed Actuary.

Pursuant to the single tier system, any dividends distributed by the Company from the distributable retained earnings will be exempted from tax in the hand of shareholders. The Company shall not be required to deduct tax on dividend paid, credited or distributed to shareholders.

The Company may distribute single tier exempt dividends to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

(b) Other reserves

Other reserves consist of available-for-sale reserve and asset revaluation reserve.

The available-for-sale reserve of the Company represents the fair value gains or losses of the available-for-sale financial assets, net of deferred tax, of the life non-participating and shareholders' funds.

The assets revaluation reserve represents the fair value difference arising upon the reclassification of self-occupied properties which are carried at cost less accumulated depreciation and accumulated impairment loss, to investment properties.

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

17. INSURANCE CONTRACT LIABILITIES

	31.12.2019			31.12.2018		
	Gross	Re- insurance	Net	Gross	Re- insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liability for future policyholders' benefits	3,255,739	(24,122)	3,231,617	3,320,502	(25,561)	3,294,941
Net asset value attributable to unitholders	1,086,246	-	1,086,246	1,010,940	-	1,010,940
Actuarial liabilities	4,341,985	(24,122)	4,317,863	4,331,442	(25,561)	4,305,881
Claims liabilities	115,342	(7,542)	107,800	94,163	(6,168)	87,995
	4,457,327	(31,664)	4,425,663	4,425,605	(31,729)	4,393,876
Life Participating Fund:						
- Unallocated deficit	(160,785)	-	(160,785)	(81,468)	-	(81,468)
- Available-for-sale reserve	172,197	-	172,197	71,836	-	71,836
- Asset revaluation reserve	20,990	-	20,990	20,990	-	20,990
	<u>4,489,729</u>	<u>(31,664)</u>	<u>4,458,065</u>	<u>4,436,963</u>	<u>(31,729)</u>	<u>4,405,234</u>

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

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross			Reinsurance			
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Actuarial liabilities</u>							
At 1 January 2018	2,617,674	1,771,977	4,389,651	(10,365)	(17,074)	(27,439)	4,362,212
Benefit and claims experience variation	(74,215)	40,323	(33,892)	879	999	1,878	(32,014)
Change due to valuation basis:							
Model enhancement	(7,148)	(4,646)	(11,794)	-	-	-	(11,794)
Yield movement	-	(7,292)	(7,292)	-	-	-	(7,292)
Assumption changes	(3,021)	11,914	8,893	-	-	-	8,893
Net asset value attributable to unitholders	-	(14,124)	(14,124)	-	-	-	(14,124)
At 31 December 2018	2,533,290	1,798,152	4,331,442	(9,486)	(16,075)	(25,561)	4,305,881
Benefit and claims experience variation	(108,574)	26,231	(82,343)	1,688	(249)	1,439	(80,904)
Change due to valuation basis:							
Model enhancement	(104,773)	35	(104,738)	-	-	-	(104,738)
Yield movement	5,121	105,288	110,409	-	-	-	110,409
Assumption changes	(3,836)	15,745	11,909	-	-	-	11,909
Net asset value attributable to unitholders	-	75,306	75,306	-	-	-	75,306
At 31 December 2019	2,321,228	2,020,757	4,341,985	(7,798)	(16,324)	(24,122)	4,317,863

Company No.
196801000442 (8029-A)

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

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross			Reinsurance			
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Claims liabilities</u>							
At 1 January 2018	36,238	34,754	70,992	(796)	(4,934)	(5,730)	65,262
Movement in claim provisions	6,182	16,989	23,171	194	(632)	(438)	22,733
At 31 December 2018	42,420	51,743	94,163	(602)	(5,566)	(6,168)	87,995
Movement in claim provisions	16,908	4,271	21,179	(502)	(872)	(1,374)	19,805
At 31 December 2019	59,328	56,014	115,342	(1,104)	(6,438)	(7,542)	107,800

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

	2019			2018		
	With DPF	Without DPF*	Total	With DPF	Without DPF*	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Unallocated surplus/(deficit)</u>						
At 1 January	(81,468)	442,700	361,232	(89,362)	417,772	328,410
Effects of initial adoption of MFRS 16	7	-	7	-	-	-
As restated	(81,461)	442,700	361,239	(89,362)	417,772	328,410
Premium received	147,336	622,411	769,747	161,125	566,849	727,974
Payment due to death, surrenders, benefits and claims	(408,529)	(387,226)	(795,755)	(405,576)	(316,837)	(722,413)
Net investment income	183,896	112,967	296,863	121,999	25,009	147,008
Management expenses and commissions	(43,635)	(194,226)	(237,861)	(43,502)	(197,829)	(241,331)
Change in life insurance fund actuarial liabilities	195,154	(226,877)	(31,723)	78,201	(43,162)	35,039
Change in claims liabilities ceded to reinsurers	(1,186)	1,121	(65)	(1,074)	(366)	(1,440)
Tax expense	(10,389)	32,183	21,794	(2,950)	(8,736)	(11,686)
(Refund to)/temporary funding from Shareholders' Fund	(141,971)	-	(141,971)	99,671	-	99,671
Net (deficit)/surplus for the financial year	(79,324)	(39,647)	(118,971)	7,894	24,928	32,822
At 31 December	(160,785)	403,053	242,268	(81,468)	442,700	361,232

* The unallocated surplus of the Life Non-Participating fund is reported under non-distributable retained earnings in the statement of changes in equity.

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

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

Reserves movement for the Life Participating fund is as follows:

	2019	2018
	RM'000	RM'000
<u>Available-for-sale reserve</u>		
At 1 January	71,836	79,413
Fair value change on available-for-sale financial assets, net of tax:		
- Gross fair value change	105,368	(8,053)
- Deferred tax	<u>(5,007)</u>	<u>476</u>
	<u>100,361</u>	<u>(7,577)</u>
At 31 December	<u>172,197</u>	<u>71,836</u>
	31.12.2019	31.12.2018
	RM'000	RM'000
Asset revaluation reserve	<u>20,990</u>	<u>20,990</u>

18. LEASE LIABILITIES

	2019
	RM'000
Initial adoption of MFRS 16 at 1 January	36,516
Additions	3,932
Accrued interest	1,479
Lease modification	6,193
Payment for lease liabilities	<u>(10,599)</u>
At 31 December	<u>37,521</u>
Repayable within 12 months	9,500
Repayable after 12 months	<u>28,021</u>
	<u>37,521</u>

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

19. OTHER LIABILITIES

	31.12.2019	31.12.2018
	RM'000	RM'000
Investment creditors	13,911	1,117
Unclaimed monies	18,111	5,609
Rental deposits	534	1,606
Accrual for unutilised staff leave	1,616	1,504
Accrued expenses	14,169	16,635
Other payables	<u>38,804</u>	<u>54,931</u>
	<u>87,145</u>	<u>81,402</u>
Repayable within 12 months	86,989	80,544
Repayable after 12 months	<u>156</u>	<u>858</u>
	<u>87,145</u>	<u>81,402</u>

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

20. INSURANCE PAYABLES

	31.12.2019	31.12.2018
	RM'000	RM'000
Due to agents and intermediaries	58,912	50,196
Due to reinsurers and cedants	9,388	8,662
Cash payments/cash dividends payable to life policyholders	1,591,069	1,624,855
Accrued interest on cash payments/cash dividends payable to life policyholders	79,099	85,285
Premium deposits	<u>16,996</u>	<u>15,451</u>
	<u>1,755,464</u>	<u>1,784,449</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position. All amounts are payable within one year.

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

21. INVESTMENT INCOME

	2019	2018
	RM'000	RM'000
FVTPL financial assets		
Interest/profit income:		
- Malaysian Government Securities/Government Investment Issues	339	524
- corporate debt securities unquoted in Malaysia	8,052	8,138
Dividend/distribution income:		
- equity securities quoted in Malaysia	41,125	43,747
- unit trusts quoted in Malaysia	13,635	10,353
- unit trusts quoted outside Malaysia	110	89
- unit trusts unquoted outside Malaysia	2,802	1,811
Accretion of discounts/(amortisation of premiums):		
- Malaysian Government Securities/Government Investment Issues	15	23
- corporate debt securities unquoted in Malaysia	(357)	(589)
	<u>65,721</u>	<u>64,096</u>
AFS financial assets		
Interest/profit income:		
- Malaysian Government Securities/Government Investment Issues	26,997	27,836
- corporate debt securities unquoted in Malaysia	203,823	203,371
Dividend/distribution income:		
- equity securities quoted in Malaysia	6,611	6,370
- equity securities unquoted in Malaysia	998	297
- unit trusts	228	11
Accretion of discounts/(amortisation of premiums):		
- Malaysian Government Securities/Government Investment Issues	396	406
- corporate debt securities unquoted in Malaysia	(6,084)	(5,205)
	<u>232,969</u>	<u>233,086</u>
Loans and receivables		
Interest/profit income:		
- policy loans	17,292	17,660
- mortgage loans	361	5,076
- other secured and unsecured loans	-	1
- fixed and call deposits	6,126	7,552
	<u>23,779</u>	<u>30,289</u>
Properties		
Gross rental income	8,387	14,411
Less: Rates and maintenance	(7,667)	(8,614)
	<u>720</u>	<u>5,797</u>
	<u>323,189</u>	<u>333,268</u>

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

22. REALISED GAINS AND LOSSES

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
AFS financial assets		
Realised gains:		
- Malaysian Government Securities/Government Investment Issues	944	1,455
- corporate debt securities unquoted in Malaysia	12,782	18,110
- equity securities quoted in Malaysia	5,607	14,138
- unit trusts quoted in Malaysia	132	-
Realised losses:		
- Malaysian Government Securities/Government Investment Issues	-	(207)
- corporate debt securities unquoted in Malaysia	(31)	(830)
- equity securities quoted in Malaysia	<u>(6,514)</u>	<u>(14,245)</u>
	12,920	18,421
Non-financial assets		
Realised gains:		
- property, plant and equipment	-	4,696
	<u>12,920</u>	<u>23,117</u>

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

23. FAIR VALUE GAINS AND LOSSES

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
FVTPL financial assets:		
Net fair value gains/(losses)		
- Malaysian Government Securities/Government Investment Issues	484	(129)
- corporate debt securities unquoted in Malaysia	6,537	838
- equity securities quoted in Malaysia	(26,851)	(154,060)
- equity securities unquoted in Malaysia	-	1
- unit trusts quoted in Malaysia	15,701	(2,830)
- unit trusts quoted outside Malaysia	1,221	(210)
- unit trusts unquoted outside Malaysia	<u>23,014</u>	<u>(13,797)</u>
	20,106	(170,187)
Investment properties:		
Net fair value losses (Note 7)	(38,615)	-
AFS financial assets:		
Impairment losses	(50)	-
Loans and receivables:		
(Allowance)/write-back of impairment	<u>(3,500)</u>	<u>163</u>
	<u>(22,059)</u>	<u>(170,024)</u>

24. FEES AND COMMISSION

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
(a) Fee and commission income		
Policy administration and investment management services	1,240	1,115
Surrender charges and other contract fees	201	203
Reinsurance commission income	<u>5,175</u>	<u>4,548</u>
	<u>6,616</u>	<u>5,866</u>
(b) Fee and commission expenses		
Gross commission expenses	<u>(119,841)</u>	<u>(115,615)</u>

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

25. MANAGEMENT EXPENSES

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
Staff costs (including Executive Director):		
- salaries and bonus	88,897	95,741
- staff and retirement benefits contributions	15,827	17,474
	<u>104,724</u>	<u>113,215</u>
Directors' remuneration	714	977
Auditors' remuneration:		
- statutory audit	509	538
- others		
- current year	67	37
- prior year	(30)	38
Office rental	2,329	7,642
Equipment rental	390	318
Depreciation of property, plant and equipment (Note 4)	4,788	3,463
Depreciation of right-of-use assets (Note 5)	9,732	-
Amortisation of intangible assets (Note 6)	718	1,645
Write-offs of intangible assets (Note 6)	1,567	-
(Write-back)/allowance of impairment of insurance receivables (Note 11)	(2)	4
Training expenses	1,035	6,074
Repairs and maintenance expenses	1,906	2,049
Information technology expenses	4,588	825
Advertising, promotional and entertainment expenses	2,168	2,235
Motor vehicle and travelling expenses	3,159	2,728
Printing and stationery expenses	597	978
Postage, courier and telephone charges	2,485	2,407
Management fees	3,636	2,480
Other expenses	14,434	18,953
Less: Shared service costs recovered from related parties	<u>(32,298)</u>	<u>(34,577)</u>
	<u>22,492</u>	<u>18,814</u>
	<u>127,216</u>	<u>132,029</u>

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

25. MANAGEMENT EXPENSES (CONTINUED)

Included in management expenses were emoluments received by the Directors of the Company during the financial year:

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
Executive Director:		
- other emoluments*	5,852	8,977
- benefits-in-kind	<u>192</u>	<u>59</u>
	<u>6,044</u>	<u>9,036</u>
Non-Executive Directors:		
- fees	590	745
- allowances	<u>124</u>	<u>232</u>
	<u>714</u>	<u>977</u>
Total	<u>6,758</u>	<u>10,013</u>
Represented by:		
Directors' fees	590	745
Directors' emoluments	5,976	9,209
Benefits-in-kind	<u>192</u>	<u>59</u>
Total	<u>6,758</u>	<u>10,013</u>

*included other emolument benefits payable to Zurich Services (Hong Kong) Limited.

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

25. MANAGEMENT EXPENSES (CONTINUED)

The number of Executive and Non-Executive Directors whose total remuneration received or receivable during the financial year are analysed by the following bands:

	Number of Directors	
	2019	2018
<u>Executive Director:</u>		
RM3,000,001 – RM4,000,000	-	1
RM4,000,001 – RM5,000,000	-	-
RM5,000,001 – RM6,000,000	-	1
RM6,000,001 – RM7,000,000	1	-
<u>Non-Executive Directors:</u>		
RM 1 - RM100,000	1	1
RM100,001 – RM200,000	1	-
RM200,001 – RM300,000	2	4

Included in the remuneration of the Executive Director is the remuneration attributable to the Chief Executive Officer (“CEO”) of the Company during the financial year amounting to RM6,044,000 (2018: RM9,036,000).

The estimated monetary value of benefits provided to the CEOs during the financial year by way of usage of the Company’s assets was RM192,000 (2018: RM59,000).

The Directors of the Company in office during the financial year were as follows:

Stephen Clark
Choy Khai Choon
Datin Joan Hoi Lai Ping
Hasnah binti Omar
Kevin John Wright

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

25. MANAGEMENT EXPENSES (CONTINUED)

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

	Other emoluments RM'000	Fees RM'000	Benefits- in-kind RM'000	Total RM'000
2019				
Chief Executive Officer/Executive Director				
Stephen Clark	5,852	-	192	6,044
Non-Executive Directors				
Choy Khai Choon	-	240	34	274
Datin Joan Hoi Lai Ping	-	160	43	203
Hasnah binti Omar	-	160	34	194
Kevin John Wright	-	30	13	43
Total	-	590	124	714
2018				
Chief Executive Officer/Executive Director				
Stephen Clark	3,771	-	32	3,803
Philip Smith Wallace (Resigned on 1 October 2018)	5,206	-	27	5,233
Total	8,977	-	59	9,036
Non-Executive Directors				
Tan Sri Ahmad bin Mohd Don (Resigned on 13 October 2018)	-	188	45	233
Choy Khai Choon	-	177	49	226
Datin Joan Hoi Lai Ping	-	160	54	214
Hasnah binti Omar	-	160	46	206
Kevin John Wright	-	60	38	98
Total	-	745	232	977

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

26. OTHER OPERATING EXPENSES – NET

	2019	2018
	RM'000	RM'000
Realised foreign exchange loss	(28)	(46)
Other miscellaneous expenses	(1,386)	(2,613)
	<u>(1,414)</u>	<u>(2,659)</u>

27. TAXATION

	Life fund	Share- holders' fund	Total
	RM'000	RM'000	RM'000
2019			
Current tax	13,158	8,875	22,033
Deferred tax (Note 13)	(34,952)	30,416	(4,536)
Tax expense	<u>(21,794)</u>	<u>39,291</u>	<u>17,497</u>
Current tax			
Current financial year	13,877	7,484	21,361
(Over)/under provision in prior financial years	(719)	1,391	672
	13,158	8,875	22,033
Deferred tax			
Origination and reversal of temporary differences	(34,952)	30,416	(4,536)
	<u>(21,794)</u>	<u>39,291</u>	<u>17,497</u>
2018			
Current tax	17,873	9,710	27,583
Deferred tax (Note 13)	(6,187)	(23,964)	(30,151)
Tax expense	<u>11,686</u>	<u>(14,254)</u>	<u>(2,568)</u>
Current tax			
Current financial year	18,889	9,718	28,607
Over provision in prior financial years	(1,016)	(8)	(1,024)
	17,873	9,710	27,583
Deferred tax			
Origination and reversal of temporary differences	(6,187)	(23,964)	(30,151)
	<u>11,686</u>	<u>(14,254)</u>	<u>(2,568)</u>

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

27. TAXATION (CONTINUED)

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

	2019	2018
	RM'000	RM'000
Profit/(loss) before taxation	92,245	(26,810)
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	22,139	(6,434)
Effect due to different tax rates	(10,464)	(10,644)
Income not subject to tax	(113,087)	(108,720)
Expenses not deductible for tax purposes	109,365	126,384
Tax impact on investment income attributable to policyholders and unitholders	8,872	(2,130)
	16,825	(1,544)
Under/(over) provision of tax in prior financial years	672	(1,024)
Tax expense	17,497	(2,568)

The income tax for the Shareholders' fund is calculated based on the corporate tax rate of 24% (2018: 24%) of the estimated assessable profit for the financial year. The income tax for the Life fund is calculated based on the tax rate of 8% (2018: 8%) of the assessable investment income net of allowable deductions for the financial year.

28. DIVIDENDS

The Company has declared interim dividend of RM25,000,000 in respect of the financial year ended 31 December 2019 which was paid on 19 December 2019.

The Directors do not recommend the payment of any final dividend in respect of the current financial year.

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

29. EARNINGS PER SHARE

The basic earnings per ordinary share has been calculated by dividing the net profit or loss for the financial year attributable to equity holders of the Company over the weighted average number of shares of the Company in issue during the financial year.

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of the statement of financial position.

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

	2019 RM'000	2018 RM'000
Net profit/(loss) attributable to ordinary equity holders	<u>74,748</u>	<u>(24,242)</u>
Weighted average number of shares in issue	<u>579,000</u>	<u>579,000</u>
Basic/diluted earnings/(deficit) per share (sen)	<u>12.91</u>	<u>(4.19)</u>

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

30. CASH FLOWS

	Note	2019 RM'000	2018 RM'000
Net profit/(loss) for the financial year		74,748	(24,242)
Adjustments:			
Depreciation of property, plant and equipment	4	4,788	3,463
Depreciation of right-of-use assets	5	9,732	-
Amortisation of intangible assets	6	718	1,645
Write-offs of property, plant and equipment	4	-	720
Write-offs of intangible assets	6	1,567	263
Investment income	21	(323,189)	(333,268)
Realised (gains)/losses recorded in profit or loss	22	(12,920)	(23,117)
Fair value gains recorded in profit or loss	23	22,059	170,024
(Write-back)/allowance of impairment of insurance receivables	25	(2)	4
Interest expenses on lease liabilities	18	1,479	-
Tax expense	27	17,497	(2,568)
Changes in working capital:			
Decrease/(increase) in financial assets at fair value through profit or loss		2,099	(336,108)
Decrease in available-for-sale financial assets		19,795	190,149
Decrease in loans and receivables		1,628	43,186
Decrease in reinsurance assets		65	1,441
Decrease in insurance receivables		3,246	182
Increase/(decrease) in other receivables		15,450	(15,225)
Decrease in insurance contract liabilities		(47,595)	(27,145)
Increase in other liabilities		4,541	4,246
(Decrease)/increase in insurance payables		(28,985)	23,325
Cash utilised in operating activities		<u>(233,279)</u>	<u>(323,025)</u>

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of benefits and claims incurred for insurance contracts, which are classified under operating activities.

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

31. CAPITAL AND OTHER COMMITMENTS

Capital expenditure not provided for in the financial statements is as follows:

	31.12.2019	31.12.2018
	RM'000	RM'000
Authorised and contracted for:		
- investment properties	<u>409</u>	<u>409</u>

32. LEASES

(a) Lease commitments

The lease commitments are in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

	31.12.2018
	RM'000
<u>As lessee</u>	
Within one year	10,335
One year to less than three years	<u>14,371</u>
	<u>24,706</u>
 <u>As lessor</u>	
Within one year	3,428
One year to less than five years	<u>419</u>
	<u>3,847</u>

(b) Operating leases

The Company leases out its investment property. The Company classified these leases as operating lease, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. The following table sets out the maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	31.12.2019
	RM'000
Within 1 year	5,950
In the 2 nd year	5,292
In the 3 rd year	<u>2,954</u>
Total undiscounted lease payments	<u>14,196</u>

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

33. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

The related parties and their relationship with the Company as at 31 December 2019 are as follows:

<u>Name of company</u>	<u>Relationship</u>
Zurich Insurance Group Limited ("ZIGL")	Ultimate holding company
Zurich Insurance Company Ltd. ("ZICL")	Immediate holding company
Zurich Shared Services Malaysia Sdn. Bhd.	Subsidiary of ZICL
Zurich Services Malaysia Sdn. Bhd.	Subsidiary of ZICL
Zurich Financial Services Australia Limited	Subsidiary of ZICL
Zurich Services (Hong Kong) Limited	Subsidiary of ZICL
Zurich International Life Limited	Subsidiary of ZICL
Zurich Global Investment Management Inc.	Subsidiary of ZICL
Zurich Insurance Company Ltd., Indonesia	Subsidiary of ZICL
Zurich Insurance Company Ltd., Hong Kong	Subsidiary of ZICL
Zurich Insurance Company Ltd., Labuan Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Singapore Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Japan Branch	Branch office of ZICL
Zurich General Insurance Malaysia Berhad	Fellow subsidiary
Zurich General Takaful Malaysia Berhad	Fellow subsidiary
Zurich Takaful Malaysia Berhad	Fellow subsidiary

(b) Related party transactions

In the normal course of business, the Company undertakes various transactions with other companies deemed related by virtue of being subsidiary and associated companies of ZIGL, collectively known as ZIGL Group, at agreed terms and prices.

The significant related party transactions during the financial year with related parties are as follows:

	2019 RM'000	2018 RM'000
Immediate holding company		
Interim dividend	(25,000)	-
Reimbursement of expenses	(7,372)	(6,039)

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

33. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions (continued)

The significant related party transactions during the financial year with related parties are as follows: (continued)

	2019	2018
	RM'000	RM'000
Subsidiary of ultimate holding company		
Resources support charges	(257)	(366)
Actuarial support services	(1,397)	(579)
Corporate real estate & facility management fees	(5)	(388)
Rental income and deposits	-	432
Reimbursement of expenses	(3,112)	(5,596)
Fellow subsidiary		
Rental income and deposits	422	4,255
Cost sharing charges	31,883	37,407
Reimbursement of expenses	20,116	18,874
Business transferred	-	(224,792)

(c) Related party balances

The significant outstanding balances of the Company with its related parties are as follows:

	2019	2018
	RM'000	RM'000
Amount due from related companies		
Other receivables	6,934	12,089
Amount due to related companies		
Other payables	1,183	3,202

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

33. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(d) Key management personnel

Executive Director and key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Company's key management personnel as well as fees and allowances paid to the Executive Director were as follows:

	2019	2018
	RM'000	RM'000
Salaries and other short-term employee benefits	10,186	17,815
Defined contribution retirement benefits	1,645	2,134
	<u>11,831</u>	<u>19,949</u>

The remuneration attributable to the Chief Executive Officer ("CEO") of the Company during the financial year ended 31 December 2019 was RM6,044,000 (2018: RM9,036,000).

The estimated monetary value of benefits provided to CEO during the financial year by way of usage of the Company's assets was RM192,000 (2018: RM59,000).

34. RISK MANAGEMENT FRAMEWORK

Risk Governance Structure

The Company adopts three line of defense model approach to governance and enterprise risk management. The Company's risk governance structure and risk reporting requirement are incorporated in the Company's Risk Management Framework. The Framework explains the underlying approach and defines an on-going and consistent process for identifying, analysing, evaluating, treating, monitoring and reporting significant risks faced by the business units, divisions, stakeholders and ultimately, the Company. It also outlines the key aspects of the risks management process and identifies the main reporting procedures.

The adoption of the Framework is the responsibility of the Board with some of the responsibilities delegated to the Risk Management Committee including oversight over technology-related matters. The Company has established Senior Management Committees which act as platform for two-way communication between the Management and the Board. The Committees are the ALMIC, HRC, ITSC, BCM, RCC, OSHC and other various Senior Management Committees, which are chaired by the Chief Executive Officer or a member of senior management team.

They are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition, and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

Regulatory Framework

The Company is required to comply with the FSA and BNM Regulations, as applicable.

The Company is also required to comply with all Zurich Group's policies and standards. If there is any conflict with the local laws or regulations, the stricter rules will apply.

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

34. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Capital Management

The Company's capital management policy is to create shareholders value, maintain a strong capital position with sufficient buffer to meet policyholders' obligations and regulatory requirements, and make strategic investments for business growth.

The minimum Capital Adequacy Ratio ("CAR") under the RBC Framework regulated by BNM is 130% for each insurance entity. The Company complied with the minimum CAR as at 31 December 2019 and 31 December 2018.

The regulated capital of the Company as at 31 December 2019 comprised Available Capital of RM1,944,480,000 (2018: RM1,953,191,000).

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

	31.12.2019	31.12.2018
	RM'000	RM'000
<u>Tier 1 Capital</u>		
Paid-up share capital	579,000	579,000
Reserves, including retained earnings	<u>1,151,276</u>	<u>1,326,451</u>
	<u>1,730,276</u>	<u>1,905,451</u>
<u>Tier 2 Capital</u>		
Asset revaluation reserve	24,910	24,910
Available-for-sale reserve	<u>213,875</u>	<u>80,107</u>
	<u>238,785</u>	<u>105,017</u>
Less:		
Deferred tax assets	<u>(24,581)</u>	<u>(57,277)</u>
Total Capital Available	<u>1,944,480</u>	<u>1,953,191</u>

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

35. INSURANCE RISK

The risk underlying any insurance contract is the likelihood of the insured event occurring and the uncertainty in the amount of the resulting claims. This risk is random and therefore unpredictable.

For a portfolio of insurance contracts, the principal risk that the Company faces is that claims and benefit payments exceed the amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. The actual number and amount of claims and benefits will vary from year to year from the level established using statistical estimation techniques.

Life Insurance Contracts

Life insurance contracts offered by the Company include whole life, term assurance, endowments, annuity contracts, investment-linked contracts, and medical and health riders. The Company currently does not offer any investment contracts with DPF.

The main risks that the Company is exposed to are the following:

- Mortality risk – risk of loss arising due to policyholders' death experience being worse than expected
- Morbidity risk – risk of loss arising due to policyholders' health experience being worse than expected
- Investment return/Interest rate risk – risk of loss arising from actual returns being lower than expected
- Expense risk – risk of loss arising from expense experience being higher than expected
- Lapse risk – risk of loss arising due to policyholders' surrender experience deviate from that expected

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured or by industry.

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is broadly achieved through diversification across industry sectors and geography, use of medical screening to ensure that pricing reflects policyholders' health condition and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims procedures.

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

35. INSURANCE RISK (CONTINUED)

Life Insurance Contracts (continued)

The table below shows the concentration of the liabilities for future policyholders' benefits by type of contract:

	Gross			Reinsurance			
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2019</u>							
Life Contracts:							
Whole life	1,159,341	77,936	1,237,277	-	-	-	1,237,277
Endowment	244,396	607,742	852,138	-	-	-	852,138
Term-Mortgage	-	66,892	66,892	-	-	-	66,892
Term-Others	127,846	110,295	238,141	-	-	-	238,141
Term-Medical & Health	-	49,794	49,794	-	-	-	49,794
Term-Other plans	-	854	854	-	-	-	854
Term-Other provision	-	21,000	21,000	(7,798)	(16,324)	(24,122)	(3,122)
Annuity Contracts:							
Immediate annuities	409	-	409	-	-	-	409
Deferred annuities	789,234	-	789,234	-	-	-	789,234
Total Life Insurance	<u>2,321,226</u>	<u>934,513</u>	<u>3,255,739</u>	<u>(7,798)</u>	<u>(16,324)</u>	<u>(24,122)</u>	<u>3,231,617</u>

As all of the business is derived from Malaysia, the entire life insurance liabilities are in Malaysia.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

Life Insurance Contracts (continued)

The table below shows the concentration of the liabilities for future policyholders' benefits by type of contract:

	Gross			Reinsurance			
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2018</u>							
Life Contracts:							
Whole life	1,268,474	48,478	1,316,952	-	-	-	1,316,952
Endowment	362,169	496,280	858,449	-	-	-	858,449
Term-Mortgage	-	68,401	68,401	-	-	-	68,401
Term-Others	126,136	103,007	229,143	-	-	-	229,143
Term-Medical & Health	-	49,273	49,273	-	-	-	49,273
Term-Other plans	-	773	773	-	-	-	773
Term-Other provision	-	21,000	21,000	(9,486)	(16,075)	(25,561)	(4,561)
Annuity Contracts:							
Immediate annuities	416	-	416	-	-	-	416
Deferred annuities	776,095	-	776,095	-	-	-	776,095
Total Life Insurance	<u>2,533,290</u>	<u>787,212</u>	<u>3,320,502</u>	<u>(9,486)</u>	<u>(16,075)</u>	<u>(25,561)</u>	<u>3,294,941</u>

As all of the business is derived from Malaysia, the entire life insurance liabilities are in Malaysia.

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

35. INSURANCE RISK (CONTINUED)

Life Insurance Contracts (continued)

Key Assumptions

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Assumptions and prudent estimates are determined at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The table below shows the key underlying assumptions used for valuation of life insurance contract liabilities:

Assumptions	Description
Valuation Method	<p>Gross Premium Valuation</p> <p>For Life Participating fund, liabilities taken as the higher value derived below:</p> <p>(i) Total benefits (i.e. guaranteed and non-guaranteed benefits cash flows) with best estimates assumptions and discounted by Fund Based Yield, or</p> <p>(ii) Guaranteed benefits cash flows with best estimates plus provision for risk of adverse deviation ("PRAD") assumptions and discounted by Malaysia Government Bond yields (as outlined below).</p> <p>For Life Non-Participating business, only value from (ii) is taken.</p>
Interest Rate	<p>Malaysia Government bond yields determined based on the following:</p> <p>(i) For cash flows with duration less than 15 years, Malaysia Government Bond zero coupon spot yields of matching duration.</p> <p>(ii) For cash flows with duration 15 years or more, Malaysia Government Bond zero coupon spot yields of 15 years to maturity.</p> <p>Data source: Malaysia Government Bond zero coupon spot yield from Bond Pricing Agency Malaysia Sdn. Bhd.</p>
Mortality, Disability, Dread disease, Expense, Lapse and Surrenders	<p>Best estimate and PRAD assumptions are determined based on internal experience studies, with due regard to significant recent experience. These assumptions reflect the Company's long term view of future experience that is expected to emerge.</p> <p>Data source: Internal experience studies.</p>

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

Life Insurance Contracts (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

	Change in assumptions	Impact on gross life insurance contract liabilities	Impact on net life insurance contract liabilities	Impact on profit before tax	Impact on equity
	%	RM'000	RM'000	RM'000	RM'000
<u>31 December 2019</u>					
Mortality/morbidity	+10	55,415	55,004	(55,004)	(50,572)
Mortality/morbidity	-10	(56,366)	(55,948)	55,948	52,084
Expenses	+10	42,796	42,479	(42,479)	(28,480)
Lapse and surrender rates	+10	(22,974)	(22,804)	22,804	1,916
Lapse and surrender rates	-10	25,586	25,396	(25,396)	(1,854)
Investment return	+1	(112,670)	(111,835)	111,835	84,995
Investment return	-1	201,231	199,740	(199,740)	(85,056)
Discount rate	+1	(132,587)	(131,605)	131,605	87,194
Discount rate	-1	233,638	231,907	(231,907)	(90,198)
<u>31 December 2018</u>					
Mortality/morbidity	+10	60,562	60,096	(60,096)	(53,907)
Mortality/morbidity	-10	(61,939)	(61,462)	61,462	55,762
Expenses	+10	40,418	40,107	(40,107)	(27,960)
Lapse and surrender rates	+10	(27,390)	(27,179)	27,179	1,957
Lapse and surrender rates	-10	30,963	30,724	(30,724)	(1,603)
Investment return	+1	(188,700)	(187,248)	187,248	87,413
Investment return	-1	241,883	240,021	(240,021)	(101,783)
Discount rate	+1	(98,424)	(97,667)	97,667	74,227
Discount rate	-1	137,417	136,360	(136,360)	(86,196)

The method used and significant assumptions made for deriving sensitivity information did not change from the previous financial year.

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

36. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and fair value hierarchy

The Company classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted market price

Included in the quoted 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 2 - Valuation Techniques - Market observable input

Financial instruments in this category are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. It includes financial instruments for which pricing is obtained via pricing services, but where prices have not been determined in an active market, instruments with fair values based on broker quotes and discounted cash flows, the price of the most recent transactions may be used provided that there has not been a significant change in economic circumstances since the time of the transaction, or if the conditions have changed, that price should be adjusted to reflect the change in conditions by reference to current prices for similar financial instruments and investment in structured products with fair values obtained via investment bankers and/or fund managers.

Level 3 - Valuation Techniques - Unobservable input

Non-market observable inputs mean that fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unquoted equity securities, un-rated securities, investment properties, non-performing loans and debt securities from organisations in default. Valuation techniques of these portfolios are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the instrument at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data and judgments. The judgement applied in valuing the non-performing loans is explained in Note 3(ii) to the financial statements.

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

36. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value

The following tables show the Company's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31 December 2019</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	667,879	-	667,879
- Corporate debt securities	-	4,193,871	1,300	4,195,171
- Equity securities	215,071	-	10,424	225,495
- Unit trusts	4,972	-	-	4,972
FVTPL financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	6,547	-	6,547
- Corporate debt securities	-	159,621	-	159,621
- Equity securities	1,194,797	-	-	1,194,797
- Unit trusts	453,941	-	-	453,941
Non-financial assets				
Investment properties	-	-	76,200	76,200
Non-current assets held-for-sale	-	-	145,587	145,587
	<u>1,868,781</u>	<u>5,027,918</u>	<u>233,511</u>	<u>7,130,210</u>

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

36. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

The following tables show the Company's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy: (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31 December 2018</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	650,083	-	650,083
- Corporate debt securities	-	4,071,017	1,300	4,072,317
- Equity securities	176,360	-	14,161	190,521
- Unit trusts	3,833	-	-	3,833
FVTPL financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	9,692	-	9,692
- Corporate debt securities	-	142,882	-	142,882
- Equity securities	1,226,442	-	-	1,226,442
- Unit trusts	418,006	-	-	418,006
Non-financial assets				
Investment properties	-	-	257,700	257,700
Non-current assets held-for-sale	-	-	550	550
	<u>1,824,641</u>	<u>4,873,674</u>	<u>273,711</u>	<u>6,972,026</u>

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

36. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Financial instruments not measured at fair value but for which fair value is disclosed

The following tables show the Company's financial instruments which are not measured at fair value at the reporting date but for which fair value is disclosed, analysed by the various levels within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<u>31 December 2019</u>				
Financial assets				
Loans and receivables				
- Policy loans	-	265,752	-	265,752
- Mortgage loans	-	4,220	34,304	38,524
- Unsecured loans	-	53	-	53
	<u>-</u>	<u>270,025</u>	<u>34,304</u>	<u>304,329</u>
<u>31 December 2018</u>				
Financial assets				
Loans and receivables				
- Policy loans	-	266,156	-	266,156
- Mortgage loans	-	6,432	36,813	43,245
- Unsecured loans	-	56	-	56
	<u>-</u>	<u>272,644</u>	<u>36,813</u>	<u>309,457</u>

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

36. FAIR VALUE MEASUREMENTS (CONTINUED)

(d) Fair value measurements using valuation techniques based on unobservable input (level 3)

The following table show the changes in level 3 items for the financial years ended 31 December 2019 and 31 December 2018 for recurring fair value measurements:

	AFS	LAR	Investment properties	Non-current assets held-for-sale
	RM'000	RM'000	RM'000	RM'000
At 1 January 2018	13,663	86,827	258,250	-
Addition	-	271	-	-
Disposals	-	(50,448)	-	-
Transfer to non-current assets held-for-sale	-	-	(550)	-
Transfer from investment properties	-	-	-	550
Fair value changes				
- Charged to statement of profit or loss	-	163	-	-
- Charged to other comprehensive income	1,798	-	-	-
At 31 December 2018	15,461	36,813	257,700	550
Addition	-	991	-	-
Disposals	-	-	-	-
Additional impairment	(50)	-	-	-
Transfer to non-current assets held-for-sale	-	-	(142,885)	-
Transfer from investment properties	-	-	-	142,885
Transfer from property, plant and equipment	-	-	-	2,152
Fair value changes				
- Charged to statement of profit or loss	-	(3,500)	(38,615)	-
- Charged to other comprehensive income	(3,687)	-	-	-
At 31 December 2019	11,724	34,304	76,200	145,587

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

37. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangement and similar arrangement are as follows:

	Gross amount recognised as financial assets/ liabilities	Gross amount offset in the statement of financial position	Amount presented in the statement of financial position
	RM'000	RM'000	RM'000
<u>31 December 2019</u>			
Financial assets:			
Insurance receivables	<u>28,447</u>	<u>-</u>	<u>28,447</u>
Financial liabilities:			
Insurance payables	<u>1,755,464</u>	<u>-</u>	<u>1,755,464</u>
<u>31 December 2018</u>			
Financial assets:			
Insurance receivables	<u>34,618</u>	<u>(2,925)</u>	<u>31,693</u>
Financial liabilities:			
Insurance payables	<u>1,787,374</u>	<u>(2,925)</u>	<u>1,784,449</u>

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2019 (2018: RM Nil).

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

38. FINANCIAL RISK

The Company is exposed to a range of financial risks through its assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that in the long term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk, and market risk which comprise of currency risk, interest rate/profit yield risk and price risk.

The Company manages these positions within an Asset Liability Management (“ALM”) framework that has been developed to achieve long term investment returns in excess its obligations under insurance contracts. The key principle of the framework is to match assets to the liabilities by reference to the type of benefits payable to contract holders. For each distinct class of liabilities, a separate portfolio of assets is maintained and monitored.

The Company’s ALM is integrated with the management of the financial risks associated with the Company’s other classes of financial assets and liabilities not directly associated with insurance liabilities. The note below explains how financial risks are managed using the categories utilised in the Company’s ALM framework. In particular, the ALM framework requires the management of interest rate risk, equity price risk, credit risk and liquidity risk at both business line level and company-wide basis. The following notes are in relation to the Company’s management disclosure with respect to credit risk, liquidity risk, interest rate risk, and price risk.

Credit Risk

The Company has exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company is mainly exposed to credit risk through (i) investment in cash and private debt securities, (ii) corporate/individuals and mortgage lending activities, and (iii) exposure to counterparty’s reinsurance contracts. For investments in private debt securities, a downgrade of credit rating or widening of credit spread may also incur financial loss.

Minimum credit quality applies to investments in private debt securities/bonds with a minimum rating of A-/A2 (at the date of investment) provided by Malaysian Rating Corporation Berhad (“MARC”) and Rating Agency Malaysia Berhad (“RAM”), respectively. The Company however intends to maintain an average rating of AA in the overall bond portfolio under current investment strategy and objectives. The Company does not solely depend on the rating report provided but as in all credit assessments/reviews are based on publicly available issuer information together with in-house analysis based on information provided by the borrower/issuer, peer group comparisons, industry comparisons and other quantitative tools.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company’s liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company issues unit-linked investment policies. In the unit-linked business, the holders of these contract bear the investment risks on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit-linked financial assets.

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

38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Debtor recoverability and risk concentration monitoring are part of credit risk management which is reviewed regularly. The management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation. Allowance of impairment/specific provision is made on those securities/loans (or part of remaining amount) where the level of security has been impaired. Refer to Note 9 to the financial statements for more details on assessment and disclosure of credit risk on loan borrowers.

Credit Exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Note	Insurance and Shareholders' Funds RM'000	Unit-Linked RM'000	Total RM'000
<u>31 December 2019</u>				
AFS financial assets:	8(a)			
- Malaysian Government Securities/Government Investment Issues		667,879	-	667,879
- Corporate debt securities		4,195,171	-	4,195,171
FVTPL financial assets:	8(b)			
- Malaysian Government Securities/Government Investment Issues		-	6,547	6,547
- Corporate debt securities		-	159,621	159,621
Loans and receivables:	9			
- Loans		304,329	-	304,329
Reinsurance assets	10	31,664	-	31,664
Insurance receivables	11	28,447	-	28,447
Other receivables		14,662	216	14,878
Cash and cash equivalents		173,272	100,884	274,156
		<u>5,415,424</u>	<u>267,268</u>	<u>5,682,692</u>

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

38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure (continued)

	Note	Insurance and Shareholders' Funds RM'000	Unit-Linked RM'000	Total RM'000
<u>31 December 2018</u>				
AFS financial assets:	8(a)			
- Malaysian Government Securities/Government Investment Issues		650,083	-	650,083
- Corporate debt securities		4,072,317	-	4,072,317
FVTPL financial assets:	8(b)			
- Malaysian Government Securities/Government Investment Issues		-	9,692	9,692
- Corporate debt securities		-	142,882	142,882
Loans and receivables:	9			
- Loans		309,457	-	309,457
Reinsurance assets	10	31,729	-	31,729
Insurance receivables	11	31,693	-	31,693
Other receivables		29,106	412	29,518
Cash and cash equivalents		161,643	81,390	243,033
		<u>5,286,028</u>	<u>234,376</u>	<u>5,520,404</u>

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

38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating

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

	Neither past-due nor impaired					Past due but not impaired	Impaired	Total
	Investment grade		Non- investment grade	Not rated	Unit-Linked			
	Government Guarantee	(AAA to BBB)	(BB to C)					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2019</u>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	667,879	-	-	-	-	-	-	667,879
- Corporate debt securities	846,508	3,346,401	962	-	-	-	1,300	4,195,171
FVTPL financial assets:								
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	6,547	-	-	6,547
- Corporate debt securities	-	-	-	-	159,621	-	-	159,621
Loans and receivables:								
- Loans	-	-	-	270,030	-	1,986	32,313	304,329
Reinsurance assets	-	-	-	-	-	-	31,664	31,664
Insurance receivables	-	-	-	-	-	23,776	4,671	28,447
Other receivables	-	-	-	14,662	216	-	-	14,878
Cash and cash equivalents	-	173,272	-	-	100,884	-	-	274,156
	<u>1,514,387</u>	<u>3,519,673</u>	<u>962</u>	<u>284,692</u>	<u>267,268</u>	<u>25,762</u>	<u>69,948</u>	<u>5,682,692</u>

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

38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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

	Neither past-due nor impaired					Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade	Not rated	Unit-Linked				
	Government Guarantee	(AAA to BBB)	(BB to C)					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2018</u>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	650,083	-	-	-	-	-	-	650,083
- Corporate debt securities	734,121	3,335,688	1,208	-	-	-	1,300	4,072,317
FVTPL financial assets:								
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	9,692	-	-	9,692
- Corporate debt securities	-	-	-	-	142,882	-	-	142,882
Loans and receivables:								
- Loans	-	-	-	272,644	-	978	35,835	309,457
Reinsurance assets	-	-	-	-	-	-	31,729	31,729
Insurance receivables	-	-	-	-	-	27,038	4,655	31,693
Other receivables	-	-	-	29,106	412	-	-	29,518
Cash and cash equivalents	-	161,643	-	-	81,390	-	-	243,033
	1,384,204	3,497,331	1,208	301,750	234,376	28,016	73,519	5,520,404

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

38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and MARC credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	Government Guarantee RM'000	AAA to AA RM'000	A1 to A3 RM'000	BBB1 to BBB3 RM'000	BB and below RM'000	Not rated RM'000	Unit- Linked RM'000	Impaired RM'000	Total RM'000
<u>31 December 2019</u>									
AFS financial assets:									
- Malaysian Government Securities/ Government Investment Issues	667,879	-	-	-	-	-	-	-	667,879
- Corporate debt securities	846,508	3,168,521	177,880	-	962	-	-	1,300	4,195,171
FVTPL financial assets:									
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	-	-	6,547	-	6,547
- Corporate debt securities	-	-	-	-	-	-	159,621	-	159,621
Loans and receivables:									
- Loans	-	-	-	-	-	272,016	-	32,313	304,329
Reinsurance assets	-	-	-	-	-	-	-	31,664	31,664
Insurance receivables	-	-	-	-	-	23,776	-	4,671	28,447
Other receivables	-	-	-	-	-	14,662	216	-	14,878
Cash and cash equivalents	-	173,272	-	-	-	-	100,884	-	274,156
	<u>1,514,387</u>	<u>3,341,793</u>	<u>177,880</u>	<u>-</u>	<u>962</u>	<u>310,454</u>	<u>267,268</u>	<u>69,948</u>	<u>5,682,692</u>

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

38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and MARC credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade. (continued)

	Government Guarantee RM'000	AAA to AA RM'000	A1 to A3 RM'000	BBB1 to BBB3 RM'000	BB and below RM'000	Not rated RM'000	Unit- Linked RM'000	Impaired RM'000	Total RM'000
<u>31 December 2018</u>									
AFS financial assets:									
- Malaysian Government Securities/ Government Investment Issues	650,083	-	-	-	-	-	-	-	650,083
- Corporate debt securities	734,121	3,229,603	106,085	-	1,208	-	-	1,300	4,072,317
FVTPL financial assets:									
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	-	-	9,692	-	9,692
- Corporate debt securities	-	-	-	-	-	-	142,882	-	142,882
Loans and receivables:									
- Loans	-	-	-	-	-	273,622	-	35,835	309,457
Reinsurance assets	-	-	-	-	-	-	-	31,729	31,729
Insurance receivables	-	-	-	-	-	27,038	-	4,655	31,693
Other receivables	-	-	-	-	-	29,106	412	-	29,518
Cash and cash equivalents	-	161,643	-	-	-	-	81,390	-	243,033
	<u>1,384,204</u>	<u>3,391,246</u>	<u>106,085</u>	<u>-</u>	<u>1,208</u>	<u>329,766</u>	<u>234,376</u>	<u>73,519</u>	<u>5,520,404</u>

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38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The credit risk analysis for the unit-linked business was not provided as the Company has no direct exposure to any credit risk in those assets.

The ratings shown for fixed and call deposits are based on the rating assigned to the respective financial institutions issuing the financial instruments.

In total, there are two (2018: four) remaining occurrence of rating default events to date since the financial year ended 2005. No credit exposure limits were exceeded during the financial year.

The bondholders are pursuing recovery actions through negotiations and taking legal actions against the issuers for the remaining two (2) corporate debt securities.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

Age Analysis of Financial Assets Past Due But Not Impaired

	Up to 3 months RM'000	3 months to 6 months RM'000	7 months to 12 months RM'000	>12 months RM'000	Total RM'000
<u>31 December 2019</u>					
Loans and receivables	-	-	-	1,986	1,986
Insurance receivables	23,776	-	-	-	23,776
	<u>23,776</u>	<u>-</u>	<u>-</u>	<u>1,986</u>	<u>25,762</u>
<u>31 December 2018</u>					
Loans and receivables	-	-	-	978	978
Insurance receivables	27,038	-	-	-	27,038
	<u>27,038</u>	<u>-</u>	<u>-</u>	<u>978</u>	<u>28,016</u>

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

38. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Impaired Financial Assets

At 31 December 2019, based on a individual assessment of receivables, there are impaired insurance receivables of RM178,000 (2018: RM180,000). For assets to be classified as “past-due and impaired”, indicators of objective evidence of impairment are contractual payments in arrears for more than three (3) months for insurance receivables and more than six (6) months for loans and receivables. In addition, full impairment were made on insurance receivables exhibiting objective evidence of impairment such as outstanding debts exceeding twelve months, outstanding debts with terminated status, closed accounts, commuted, winding-up under legal action, accounts written or those served letter of demand. This applies similarly to reinsurance assets, particularly reinsurance recoverable on outstanding claims. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate allowance for impairment loss accounts.

A reconciliation of the allowance for impairment loss of insurance receivables is as follows:

	Insurance receivables	
	2019	2018
	RM'000	RM'000
At 1 January	180	176
(Write-back)/allowance for the financial year (Note 25)	(2)	4
At 31 December	<u>178</u>	<u>180</u>

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

38. FINANCIAL RISK (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations when due. This situation arises when the Company is unable to convert its financial assets into cash when needed. Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

Expected liquidity demands are managed through a combination of treasury, investment and asset-liability management practices, which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored, and an adequate cushion in the form of cash and very liquid investments are maintained at all times. The projected cash flows from the in-force insurance policy contract liabilities consist of renewal premiums, commissions, claims, maturities and surrenders. Renewal premiums, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain.

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in life insurance contracts also protects the Company from losses due to unexpected surrender trends as well as reduces the sensitivity of surrenders to changes in interest rates.

In addition, for general insurance contracts, the Company's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate drawdown of funds to meet claims payments should claims events exceed a certain amount.

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

38. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile

The table below summarises the maturity profile of the Company's financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable. For insurance contract liabilities, maturity profiles are determined based on estimated timing of discounted net cash outflows from the recognised insurance liabilities. The insurance contract liabilities below are gross of reinsurance (no reinsurance credit is taken into account). Unit-linked liabilities are repayable or transferrable on demand and are included in the "up to a year" column. Repayments which are subject to notice are treated as if notice were to be given immediately. Products which have no maturity benefits such as term assurance and yearly renewable plans are excluded as these carry no maturity values. Products with no maturity dates are annuity and whole life plans. Unearned premiums have been excluded from the analysis as they are not contractual obligations.

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
<u>31 December 2019</u>								
Financial Assets:								
AFS financial assets	5,093,517	468,751	1,028,905	968,298	3,184,680	1,025,403	230,467	6,906,504
FVTPL financial assets	1,814,906	8,666	20,959	28,909	152,945	24,757	1,648,738	1,884,974
Loans and receivables	304,329	300,725	824	736	2,037	7	-	304,329
Reinsurance assets	31,664	31,664	-	-	-	-	-	31,664
Insurance receivables	28,447	28,447	-	-	-	-	-	28,447
Other receivables	14,878	14,878	-	-	-	-	-	14,878
Cash and cash equivalents	274,156	274,156	-	-	-	-	-	274,156
	<u>7,561,897</u>	<u>1,127,287</u>	<u>1,050,688</u>	<u>997,943</u>	<u>3,339,662</u>	<u>1,050,167</u>	<u>1,879,205</u>	<u>9,444,952</u>

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

38. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile (continued)

	<u>Carrying value</u> RM'000	<u>Up to a year</u> RM'000	<u>1 - 3 years</u> RM'000	<u>3 - 5 years</u> RM'000	<u>5 - 15 years</u> RM'000	<u>Over 15 years</u> RM'000	<u>No maturity date</u> RM'000	<u>Total</u> RM'000
<u>31 December 2019</u>								
Financial Liabilities:								
Insurance contract liabilities:								
- Life insurance	4,009,758	1,280,090	109,178	55,157	141,772	435,865	1,987,696	4,009,758
Lease liabilities	37,521	9,500	18,493	8,200	1,328	-	-	37,521
Other liabilities	87,145	86,989	149	7	-	-	-	87,145
Insurance payables	1,755,464	1,755,464	-	-	-	-	-	1,755,464
	<u>5,889,888</u>	<u>3,132,043</u>	<u>127,820</u>	<u>63,364</u>	<u>143,100</u>	<u>435,865</u>	<u>1,987,696</u>	<u>5,889,888</u>

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

38. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile (continued)

	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2018</u>								
Financial Assets:								
AFS financial assets	4,916,754	414,470	908,199	1,090,615	3,376,128	1,164,820	194,354	7,148,586
FVTPL financial assets	1,797,022	11,245	17,427	30,777	137,732	50,194	1,644,447	1,891,822
Loans and receivables	309,457	304,055	1,403	1,135	1,869	995	-	309,457
Reinsurance assets	31,729	31,729	-	-	-	-	-	31,729
Insurance receivables	31,693	31,693	-	-	-	-	-	31,693
Other receivables	29,518	29,518	-	-	-	-	-	29,518
Cash and cash equivalents	243,033	243,033	-	-	-	-	-	243,033
	<u>7,359,206</u>	<u>1,065,743</u>	<u>927,029</u>	<u>1,122,527</u>	<u>3,515,729</u>	<u>1,216,009</u>	<u>1,838,801</u>	<u>9,685,838</u>

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38. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile (continued)

	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2018</u>								
Financial Liabilities:								
Insurance contract liabilities:								
- Life insurance	4,007,271	1,235,142	130,390	96,967	145,833	345,045	2,053,894	4,007,271
Other liabilities	81,402	80,544	618	240	-	-	-	81,402
Insurance payables	1,784,449	1,784,449	-	-	-	-	-	1,784,449
	<u>5,873,122</u>	<u>3,100,135</u>	<u>131,008</u>	<u>97,207</u>	<u>145,833</u>	<u>345,045</u>	<u>2,053,894</u>	<u>5,873,122</u>

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

38. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

The table below summarises the current/non-current classification of assets:

	Current*	Non-current	Unit-linked	Total
	RM'000	RM'000	RM'000	RM'000
<u>31 December 2019</u>				
Property, plant and equipment	-	28,071	-	28,071
Right-of-use assets	-	38,163	-	38,163
Intangible assets	-	3,674	-	3,674
Investment properties	-	76,200	-	76,200
Financial assets:				
- AFS	511,516	4,582,001	-	5,093,517
- FVTPL	806,638	-	1,008,268	1,814,906
- LAR	300,725	3,604	-	304,329
Reinsurance assets	31,664	-	-	31,664
Insurance receivables	28,447	-	-	28,447
Other receivables	22,036	-	216	22,252
Tax recoverable	11,018	-	65	11,083
Deferred tax assets	24,581	-	-	24,581
Cash and cash equivalents	173,272	-	100,884	274,156
Non-current assets held-for-sale	-	145,587	-	145,587
	<u>1,909,897</u>	<u>4,877,300</u>	<u>1,109,433</u>	<u>7,896,630</u>

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

38. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

The table below summarises the current/non-current classification of assets: (continued)

	Current*	Non-current	Unit-linked	Total
	RM'000	RM'000	RM'000	RM'000
<u>31 December 2018</u>				
Property, plant and equipment	-	29,490	-	29,490
Intangible assets	-	2,756	-	2,756
Investment properties	-	257,700	-	257,700
Financial assets:				
- AFS	404,401	4,512,353	-	4,916,754
- FVTPL	856,702	-	940,320	1,797,022
- LAR	304,055	5,402	-	309,457
Reinsurance assets	31,729	-	-	31,729
Insurance receivables	31,693	-	-	31,693
Other receivables	37,788	-	412	38,200
Tax recoverable	10,035	-	2,577	12,612
Deferred tax assets	57,277	-	-	57,277
Cash and cash equivalents	161,643	-	81,390	243,033
Non-current assets held-for-sale	-	550	-	550
	<u>1,895,323</u>	<u>4,808,251</u>	<u>1,024,699</u>	<u>7,728,273</u>

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

38. FINANCIAL RISK (CONTINUED)

Market Risk

Market risk is the risk of loss in the Company investment's valuation due to adverse changes or volatility of prices in economic and financial markets. Market risk comprises three (3) types of risk i.e. currency risk, market interest rates/profit yields and price risk.

The Company manages market risk through setting of investment policy and asset allocation, approving portfolio limit structure and risk management methodologies, approving hedging, and alternative risk transfer strategies. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Company's risk management principles and philosophies. Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework.

The Company also issues unit-linked investment policies in a number of its products. In unit-linked business, the policyholders bear the investment risk on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the funds. The Company's exposure to market risk on this business is limited to the extent of income arising from asset management charges based on the value of the assets in the funds.

Currency Risk

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

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the FSA and hence, primarily denominated in the same currency (the local RM) as its insurance contract liabilities. Thus, the main exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

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

Interest Rates/Profit Yield Risks

Interest rate risk is part of market risk as any adverse movements in interest rates may affect the Company investment's fair valuation and reinvestment issues to the Company. ALMIC actively monitors such developments as well as discuss changes in maturity profiles of the assets and liabilities to minimise overall mismatch as given the long duration of policy liabilities and the uncertainty of cash flows, it is not possible to hold assets that will perfectly match the policy liabilities.

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

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

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

38. FINANCIAL RISK (CONTINUED)

Market Risk (continued)

Interest Rates/Profit Yield Risks (continued)

	Impact on equity*	
	2019 RM'000	2018 RM'000
Change in variables:		
<u>Interest rate</u>		
+ 100 basis point – loss	(119,053)	(61,434)
- 100 basis point – gain	165,280	193,696

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

The above impact on equity arose from the investments in fixed income securities which are classified as AFS financial assets. The impact arising from changes in interest rate risk to FVTPL fixed income securities of the investment-linked funds are retained in the insurance contract liabilities, and hence there is no impact on profit before tax.

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

Price Risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company monitors its equity price risk through regular stress testing. In addition, the Company monitors and manages the equity exposure against investment guidelines set and agreed by ALMIC. These investment guidelines include monitoring the equity exposure against benchmark set and single security exposure of the portfolio against the limits set. The Company uses historical stock betas, index levels and equity prices, and estimates the volatility and correlation of each of these share prices and index levels to calculate the gains and losses that could occur over a period of time, given a certain index level.

The Company may use derivative financial instruments as a means of hedging against the impact of negative market movements on the value of assets in the portfolio so as to reduce and eliminate risks. The Company's policy is to trade in derivatives only to hedge existing financial market risk and not for the purpose of speculation.

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

38. FINANCIAL RISK (CONTINUED)

Market Risk (continued)

Price Risk (continued)

In respect of risk associated with the use of derivative financial instruments, price risk is controlled through the settling of exposure limits, which are subjected to detailed monitoring and review.

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

In respect of risk associated with the use of derivative financial instruments, price risk is controlled through the settling of exposure limits, which are subjected to detailed monitoring and review.

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

	Impact on equity*	
	2019	2018
	RM'000	RM'000
Change in variables:		
<u>FTSE Bursa Malaysia</u>		
FBM KLCI + 15% - gain	17,003	15,445
FBM KLCI – 15% - loss	(17,003)	(15,445)

The potential impacts arising from other market indices are deemed insignificant as the Company's holdings in equity securities listed in other bourses are not material.

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

The above impact on equity arose from the investments in equities which are classified as AFS financial assets. The impact arising from changes in price risk to FVTPL equities of the DPF fund and investment-linked funds are retained in the insurance contract liabilities, and hence there is no impact on profit before tax.

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

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

39. OPERATIONAL RISK

Operational risk arises from inadequate or failed performance of business functions or internal processes. Exposure to this risk can cause deficiencies or breakdowns in internal controls or processes, technology and external events such as interruption of business operations due to a breakdown of IT systems, landslide or flood.

The Company has developed comprehensive Standard Operating Procedures (“SOP”) to enable all relevant departments to implement measures, monitor and control the risk in order to avoid or reduce future losses. The Risk Management Department is assigned to facilitate the relevant departments in identifying and evaluating their operational risks and control weaknesses via structured risk assessment process.

40. COMPLIANCE RISK

Compliance risk is the risk arising from violations of, or non-conformance with business principles, internal policies and procedures, related laws, rules and regulations (i.e. BNM, Life Insurance Association of Malaysia (“LIAM”), Perbadanan Insurans Deposit Malaysia (“PIDM”) governing the insurance industry, products and activities.

Consequently, the exposure to this risk can damage the Company’s reputation, lead to legal or regulatory sanctions and /or financial loss.

The Legal Department and Compliance Department are assigned to look into all compliance aspects in observing the regulatory requirements (i.e. BNM, LIAM, PIDM). The Company has developed internal policies and procedures (e.g. Anti-Money Laundering Framework, Introduction of New Products Framework, Outsourcing Framework) to align with the laws and guidelines issued by the authorities.

41. INSURANCE FUNDS

The Company’s operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products for different markets. The operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company’s principal operations are organised into Life insurance and Shareholders’ segments.

The Life insurance business offers a wide range of participating and non-participating whole life, term assurance, endowments, medical and health riders, annuity products as well as investment-linked products.

The businesses written for Life insurance are all Malaysian businesses.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

41. INSURANCE FUNDS (CONTINUED)

**STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2019**

	Life Fund	Share- holders' Fund	Total
	RM'000	RM'000	RM'000
ASSETS			
Property, plant and equipment	28,071	-	28,071
Right-of-use assets	38,163	-	38,163
Intangible assets	3,674	-	3,674
Investment properties	54,250	21,950	76,200
Investments	6,381,525	831,227	7,212,752
AFS	4,262,290	831,227	5,093,517
FVTPL	1,814,906	-	1,814,906
LAR	304,329	-	304,329
Reinsurance assets	31,664	-	31,664
Insurance receivables	28,447	-	28,447
Other receivables	20,302	1,950	22,252
Tax recoverable	5,054	6,029	11,083
Deferred tax assets	-	24,581	24,581
Cash and cash equivalents	258,741	15,415	274,156
Non-current assets held-for-sale	102,837	42,750	145,587
Total assets	6,952,728	943,902	7,896,630
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	-	579,000	579,000
Retained earnings	403,053	330,478	733,531
Other reserves	96,946	15,545	112,491
Total equity	499,999	925,023	1,425,022
Insurance contract liabilities	4,489,729	-	4,489,729
Deferred tax liabilities	94,800	-	94,800
Lease liabilities	37,521	-	37,521
Other liabilities	86,542	603	87,145
Insurance payables	1,755,464	-	1,755,464
Current tax liabilities	2,297	4,652	6,949
Total liabilities	6,466,353	5,255	6,471,608
Total equity, policyholders' funds and liabilities	6,966,352	930,278	7,896,630
Inter-fund balances	(13,624)	13,624	-

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

41. INSURANCE FUNDS (CONTINUED)

**STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2018**

	Life Fund	Share- holders' Fund	Total
	RM'000	RM'000	RM'000
ASSETS			
Property, plant and equipment	29,490	-	29,490
Intangible assets	2,756	-	2,756
Investment properties	176,700	81,000	257,700
Investments	6,350,837	672,396	7,023,233
AFS	4,244,358	672,396	4,916,754
FVTPL	1,797,022	-	1,797,022
LAR	309,457	-	309,457
Reinsurance assets	31,729	-	31,729
Insurance receivables	31,693	-	31,693
Other receivables	37,541	659	38,200
Tax recoverable	7,703	4,909	12,612
Non-current assets held-for-sale	550	-	550
Deferred tax assets	-	57,277	57,277
Cash and cash equivalents	229,784	13,249	243,033
Total assets	6,898,783	829,490	7,728,273
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	-	579,000	579,000
Retained earnings	442,700	241,083	683,783
Other reserves	27,986	8,323	36,309
Total equity	470,686	828,406	1,299,092
Insurance contract liabilities	4,436,963	-	4,436,963
Deferred tax liabilities	118,749	-	118,749
Other liabilities	80,868	534	81,402
Insurance payables	1,784,449	-	1,784,449
Current tax liabilities	5,088	2,530	7,618
Total liabilities	6,426,117	3,064	6,429,181
Total equity, policyholders' funds and liabilities	6,896,803	831,470	7,728,273
Inter-fund balances	1,980	(1,980)	-

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

41. INSURANCE FUNDS (CONTINUED)

**STATEMENT OF PROFIT OR LOSS BY FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Life Fund	Share- holders' Fund	Total
	RM'000	RM'000	RM'000
Gross earned premiums	801,725	-	801,725
Premiums ceded to reinsurers	(31,978)	-	(31,978)
Net earned premiums	769,747	-	769,747
Investment income	290,311	32,878	323,189
Realised gains and losses	12,261	659	12,920
Fair value gains and losses	(5,709)	(16,350)	(22,059)
Fee and commission income	6,616	-	6,616
Other revenue	303,479	17,187	320,666
Total revenue	1,073,226	17,187	1,090,413
Gross benefits and claims paid	(810,917)	-	(810,917)
Claims ceded to reinsurers	15,162	-	15,162
Gross change to contract liabilities	47,602	-	47,602
Change in contract liabilities ceded to reinsurers	(65)	-	(65)
Net claims	(748,218)	-	(748,218)
Fee and commission expenses	(119,841)	-	(119,841)
Management expenses	(122,624)	(4,592)	(127,216)
Other operating expenses – net	(534)	(880)	(1,414)
Other expenses	(242,999)	(5,472)	(248,471)
Operating profit	82,009	11,715	93,724
Finance cost	(1,479)	-	(1,479)
Profit before taxation	80,530	11,715	92,245
Temporary funding (to)/from	(141,971)	141,971	-
Taxation	21,794	(39,291)	(17,497)
Net (loss)/profit for the financial year	(39,647)	114,395	74,748

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

41. INSURANCE FUNDS (CONTINUED)

**STATEMENT OF PROFIT OR LOSS BY FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	Life Fund	Share- holders' Fund	Total
	RM'000	RM'000	RM'000
Gross earned premiums	786,381	-	786,381
Premiums ceded to reinsurers	(58,407)	-	(58,407)
Net earned premiums	727,974	-	727,974
Investment income	301,536	31,732	333,268
Realised gains and losses	15,496	7,621	23,117
Fair value gains and losses	(170,024)	-	(170,024)
Fee and commission income	5,866	-	5,866
Other revenue	152,874	39,353	192,227
Total revenue	880,848	39,353	920,201
Gross benefits and claims paid	(773,774)	-	(773,774)
Claims ceded to reinsurers	51,361	-	51,361
Gross change to contract liabilities	27,145	-	27,145
Change in contract liabilities ceded to reinsurers	(1,440)	-	(1,440)
Net claims	(696,708)	-	(696,708)
Fee and commission expenses	(115,615)	-	(115,615)
Management expenses	(129,823)	(2,206)	(132,029)
Other operating expenses – net	(1,759)	(900)	(2,659)
Other expenses	(247,197)	(3,106)	(250,303)
(Loss)/profit before taxation	(63,057)	36,247	(26,810)
Temporary funding from/(to)	99,671	(99,671)	-
Taxation	(11,686)	14,254	2,568
Net profit/(loss) for the financial year	24,928	(49,170)	(24,242)

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

41. INSURANCE FUNDS (CONTINUED)

**INVESTMENT-LINKED FUND
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019**

	31.12.2019	31.12.2018
	RM'000	RM'000
Assets		
Investments		
FVTPL	1,008,268	940,320
Other receivables	216	412
Tax recoverable	65	2,577
Cash and cash equivalents	100,884	81,390
Total assets	1,109,433	1,024,699
Liabilities		
Deferred tax liabilities	5,061	3,908
Other liabilities	9,365	1,658
Current tax liabilities	-	-
Total liabilities	14,426	5,566
Inter-fund balances	8,761	8,193
Net asset value attributable to unitholders (Note 17)	1,086,246	1,010,940

**INVESTMENT-LINKED FUND
STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	RM'000	RM'000
Investment income	35,608	34,062
Fair value gains and losses	7,654	(80,998)
	43,262	(46,936)
Fee and commission expenses	(13,711)	(15,940)
Management expenses	(48)	(48)
Other operating (expenses)/income – net	(118)	1,664
Profit/(loss) before taxation	29,385	(61,260)
Taxation	(2,254)	5,092
Net profit/(loss) for the financial year	27,131	(56,168)

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

41. INSURANCE FUNDS (CONTINUED)

**INFORMATION ON CASH FLOWS BY FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Life Fund RM'000	Share- holders' Fund RM'000	Total RM'000
2019			
Cash flows from:			
Operating activities	46,801	27,166	73,967
Investing activities	(8,724)	-	(8,724)
Financing activities	(9,120)	(25,000)	(34,120)
Net increase in cash and cash equivalents	28,957	2,166	31,123
Cash and cash equivalents:			
At beginning of the financial year	229,784	13,249	243,033
At end of the financial year	<u>258,741</u>	<u>15,415</u>	<u>274,156</u>
2018			
Cash flows from:			
Operating activities	(14,722)	(1,779)	(16,501)
Investing activities	(11,930)	-	(11,930)
Net decrease in cash and cash equivalents	(26,652)	(1,779)	(28,431)
Cash and cash equivalents:			
At beginning of the financial year	256,436	15,028	271,464
At end of the financial year	<u>229,784</u>	<u>13,249</u>	<u>243,033</u>

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

42. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16

MFRS 16 “Leases” supersedes MFRS 117 “Leases” and the related interpretations.

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

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

The ROU asset is depreciated in accordance with the principle in MFRS 116 “Property, Plant and Equipment” and the lease liability is accreted over time with interest expense recognised in profit or loss.

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

The Company adopted MFRS 16 with effect from 1 January 2019 using the simplified retrospective approach and measured the ROU asset and corresponding discounted lease liability, under which no restatement of comparative numbers is required. The cumulative effects of initial application of MFRS 16 where the Company is lessee were recognised as an adjustment to the opening balance of insurance contract liabilities as at 1 January 2019. The Company recognised ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets.

The Company has applied judgement to determine the lease term for lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such option impacts the lease term, which can significantly affect the amount of lease liabilities and ROU assets recognised.

In applying MFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying MFRS 117 IC Interpretation 4 “Determining whether an Arrangement contains a Lease”.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

42. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16 (CONTINUED)

Impact of initial adoption of MFRS 16

On transition to MFRS 16, the Company recognised additional ROU assets and additional lease liabilities. The impact on transition is summarised below:

	01.01.2019
	RM'000
Right-of-use assets	37,491
Lease liabilities	36,516
Insurance contract liabilities	7
Other liabilities	968

Measurement of lease liabilities on 1 January 2019

The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 were 2.85% - 4.34% per annum.

The reconciliation between the operating lease commitments disclosed applying MFRS 117 as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019 is as follows:

	01.01.2019
	RM'000
Operating lease commitment at 31 December 2018 as per previous financial statements prepared under MFRS 117	<u>24,706</u>
Present value of operating lease commitments	21,424
Recognition exemption for leases of low-value assets	(1,242)
Extension options reasonably certain to be exercised	<u>16,334</u>
Lease liabilities recognised at 1 January 2019	<u>36,516</u>

Impacts for the financial year

As a result of initially applying MFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognised ROU assets of RM38,162,000 and lease liabilities of RM37,521,000 as at 31 December 2019.

In relation to those leases under MFRS 16, the Company has recognised depreciation charge and interest expenses, instead of operating lease expenses. During the financial year ended 31 December 2019, the Company recognised depreciation charge of RM9,732,000 and interest expenses of RM1,479,000 from these leases.

ZURICH LIFE INSURANCE MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019 (CONTINUED)

43. ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 INSURANCE CONTRACT LIABILITIES

The Company has applied the temporary exemption from the adoption of MFRS 9 “Financial Instruments” from 1 January 2018 to no later than 1 January 2021.

In order to compare with entities applying MFRS 9, the amendments require deferring entities to disclose additional information including contractual cash flows characteristics and credit exposure of the financial assets. The following table presents the Company’s financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding (“SPPI”).

- (a) The following table shows the carrying amount under MFRS 139 for financial assets with SPPI cash flows analysed by credit quality:

	Government Guarantee RM'000	AAA to AA RM'000	A1 to A3 RM'000	BB and below RM'000	Impaired RM'000	Total RM'000
31 December 2019						
AFS investments:						
Malaysian Government Securities/ Government Investment Issues	667,879	-	-	-	-	667,879
Corporate debt securities	<u>846,508</u>	<u>3,168,521</u>	<u>177,880</u>	<u>962</u>	<u>1,300</u>	<u>4,195,171</u>
	<u>1,514,387</u>	<u>3,168,521</u>	<u>177,880</u>	<u>962</u>	<u>1,300</u>	<u>4,863,050</u>
31 December 2018						
AFS investments:						
Malaysian Government Securities/ Government Investment Issues	650,083	-	-	-	-	650,083
Corporate debt securities	<u>734,121</u>	<u>3,229,603</u>	<u>106,085</u>	<u>1,208</u>	<u>1,300</u>	<u>4,072,317</u>
	<u>1,384,204</u>	<u>3,229,603</u>	<u>106,085</u>	<u>1,208</u>	<u>1,300</u>	<u>4,722,400</u>

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

43. ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) Fair value/carrying amount:

	Financial assets with SPPI cash flows	Other financial assets	Total
	RM'000	RM'000	RM'000
Fair value at 31 December 2019	4,863,050	2,698,847	7,561,897
Fair value changes during the financial year	202,746	3,521	206,267
Financial assets that do not have low credit risk:			
- Fair value/carrying amount at 31 December 2019 under MFRS 139	2,262	N/A	N/A
Fair value at 31 December 2018	4,722,400	2,636,806	7,359,206
Fair value changes during the financial year	10,451	872	11,323
Financial assets that do not have low credit risk:			
- Fair value/carrying amount at 31 December 2018 under MFRS 139	2,508	N/A	N/A

44. SUBSEQUENT EVENT

In the first quarter 2020, the rapid spread of the COVID-19 has been declared a pandemic. Globally, increasing measures are being taken to contain it, and these have led to a significant volatility in the financial markets and resulting in an adverse impact on the global business and economic activity.

With the rapid development of COVID-19 outbreak in Malaysia, the Government issued a Movement Control Order ("MCO") beginning from 18 March 2020 until 31 March 2020. The MCO was subsequently extended to 12 May 2020.

The MCO imposes limitation on movement of people, suspension of non-essential business operations, travel restrictions, and quarantine measures. The Government has also introduced various economic stimulus plans to assist the citizens and businesses.

During the MCO period, Zurich Life Insurance Malaysia Berhad has ensured that the Company continues to provide core insurance services to its customers. The Company expects that the impact of COVID-19 may have a knock-on effect on the business operations and performance of the Company in the coming financial year. Due to uncertainty of when the outbreak will be fully contained, it is challenging to predict the exact extent of the impact to the Company at this juncture. Nevertheless, the Company will continue to monitor the situation and will take actions as needed to ensure it remains viable as a Company.

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