

QBE INSURANCE (MALAYSIA) BERHAD

(Company No. 161086-D)
(Incorporated in Malaysia)

UNAUDITED INTERIM FINANCIAL STATEMENTS

For the Financial Period from 1 January 2019 to 30 June 2019

QBE INSURANCE (MALAYSIA) BERHAD

(Company No. 161086-D)

(Incorporated in Malaysia)

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QBE INSURANCE (MALAYSIA) BERHAD

(Company No. 161086-D)

(Incorporated in Malaysia)

UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	30.06.2019 RM	31.12.2018 RM
ASSETS			
Property, plant and equipment		8,711,760	8,934,107
Intangible assets		2,652,307	3,810,275
Right-of-use assets		1,554,830	-
Investments	11	485,666,789	497,636,145
Fair value through profit and loss		-	7,072,656
Loans and receivables		485,666,789	490,563,489
Reinsurance assets	12	102,318,188	90,729,018
Insurance receivables		99,805,970	95,144,897
Other receivables		60,906,874	61,964,391
Deferred tax asset		6,343,162	5,218,828
Tax recoverable		238,786	-
Cash and bank balances		3,105,601	8,637,281
TOTAL ASSETS		771,304,267	772,074,942
LIABILITIES			
Insurance contract liabilities	12	474,931,139	451,592,214
Insurance payables		21,974,148	34,277,393
Lease Liabilities		1,555,298	-
Tax payable		-	1,868,503
Other payables		77,871,825	84,393,393
TOTAL LIABILITIES		576,332,410	572,131,503
SHAREHOLDERS' EQUITY			
Share capital		108,000,000	108,000,000
Retained earnings		86,971,857	91,943,439
		194,971,857	199,943,439
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		771,304,267	772,074,942

The accompanying notes are an integral part of these financial statements

QBE INSURANCE (MALAYSIA) BERHAD

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**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2019**

	6 months period ended 30.06.2019 RM	6 months period ended 30.06.2018 RM
Gross earned premiums	139,986,760	173,904,658
Premium ceded to reinsurers	(28,529,662)	(60,677,294)
Net earned premiums	<u>111,457,098</u>	<u>113,227,364</u>
Investment income	11,180,506	9,126,375
Loss on disposal of property, plant and equipment	(1,674)	(898)
Gain on disposal of investment	3,500	364,100
Unrealised loss on investments	(10,010)	(336,580)
Reinsurance commission income	1,384,683	13,092,431
Other operating expense	(25,576)	(10,559)
Total Revenue	<u>123,988,527</u>	<u>135,462,233</u>
Gross claims paid	(112,786,208)	(178,756,140)
Claims recoveries from reinsurers	50,559,365	108,530,676
Gross charge to claims liabilities	(29,248,492)	86,852,984
Charge in claims liabilities ceded to reinsurers	12,267,833	(91,238,886)
Net claims	<u>(79,207,502)</u>	<u>(74,611,366)</u>
Fee and commission expense	(22,145,840)	(28,206,761)
Management expenses	(28,731,100)	(30,148,152)
Other expenses	<u>(50,876,940)</u>	<u>(58,354,913)</u>
(Loss)/Profit before taxation	(6,095,915)	2,495,954
Taxation	1,124,334	(734,370)
Net (loss)/profit and total comprehensive (loss)/income for the year	<u>(4,971,581)</u>	<u>1,761,584</u>
(LOSS)/EARNING PER SHARE (SEN)	(2.30)	0.82

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QBE INSURANCE (MALAYSIA) BERHAD

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**UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2019**

	Share Capital	Distributable Retained Earnings	Total
	RM	RM	RM
At 1 January 2018	108,000,000	70,323,861	178,323,861
Total comprehensive income for the financial period	-	1,761,584	1,761,584
Dividend paid	-	-	-
At 30 June 2018	<u>108,000,000</u>	<u>72,085,445</u>	<u>180,085,445</u>
At 1 January 2019	108,000,000	91,943,438	199,943,438
Total comprehensive loss for the financial period	-	(4,971,581)	(4,971,581)
Dividend paid	-	-	-
At 30 June 2019	<u>108,000,000</u>	<u>86,971,857</u>	<u>194,971,857</u>

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QBE INSURANCE (MALAYSIA) BERHAD

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**UNAUDITED CASH FLOW STATEMENT
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2019**

	6 months period ended 30.06.2019 RM	6 months period ended 30.06.2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)/profit for the financial period	(4,971,581)	1,761,584
Adjustments for:		
Depreciation on property, plant and equipment	482,290	1,800,156
Amortisation of intangible assets	1,157,967	-
Depreciation of right-of-use assets	552,062	-
Loss on disposal of property, plant & equipment	1,674	898
Loss on disposal of investments	(3,500)	(364,100)
Unrealised loss on investments	10,010	336,580
Allowance of impairment on insurance receivables	112,056	382,251
Interest income	(11,180,506)	(9,126,375)
Taxation	(1,124,334)	734,370
Profit from operation before changes in operating assets and liabilities	(14,963,862)	(4,474,636)
Proceeds from maturity of FVTPL investments	7,000,000	-
Proceeds from disposal of FVTPL investments	-	39,269,100
Increase/(Decrease) in LAR investments	3,000,000	(131,000,000)
(Decrease)/Increase in premium liabilities	(5,230,903)	2,324,972
Increase in claims liabilities	16,980,658	4,385,902
Increase in insurance receivables	(4,773,129)	(4,996,110)
Increase in other receivables	1,057,517	1,083,702
(Decrease)/Increase in insurance payables	(12,303,245)	9,129,638
(Decrease)/Increase in other payables	(6,521,568)	90,396,199
Income taxes paid	(2,107,290)	(4,856,250)
Interest income received	13,143,352	8,686,851
Net cash generated from operating activities	(4,718,470)	9,949,368
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant & equipment	-	900
Purchase of property, plant & equipment	(261,616)	(163,802)
Net cash used in investing activities	(261,616)	(162,902)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of lease liabilities	(551,594)	-
Net cash used in financing activity	(551,594)	-
Net movement in cash and cash equivalents	(5,531,680)	9,786,466
Cash and cash equivalents at 1 January	8,637,281	267,604
Cash and cash equivalents at 30 June	3,105,601	10,054,070
Cash and cash equivalents comprise:		
Cash and bank balances	3,105,601	10,054,070

The accompanying notes are an integral part of these financial statements

QBE INSURANCE (MALAYSIA) BERHAD

(Company No. 161086-D)

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITY

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

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The unaudited interim financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standard (“MFRS”) 134, “Interim Financial Reporting” which do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s audited financial statements for the financial year ended 31 December 2018.

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework (“the RBC Framework”) as at the date of the statement of financial position.

The preparation of interim 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 interim financial statements, and the reported amounts of revenues and expenses during the reported financial period. It also requires Directors to exercise their judgment in the process of applying the Company’s accounting policies. Although these estimates and judgment are based on the Directors’ best knowledge of current events and actions, actual results may differ from those estimates.

The accounting policies and presentation adopted by the Company for the interim financial statements are consistent with those adopted by the Company’s audited financial statements for the financial year ended 31 December 2018, except for the adoption of the following:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019:

- MFRS 16 ‘Leases’ (effective from 1 January 2019) supersedes MFRS 117 ‘Leases’ and the related interpretations.
- IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’ (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

QBE INSURANCE (MALAYSIA) BERHAD

(Company No. 161086-D)

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

STATEMENT OF COMPLIANCE (CONTINUED)

MFRS 16 'Leases'

MFRS 16 replaces the guidance in MFRS 17 'Leases', IC Interpretation 4 'Determining whether an arrangement contains a Lease', IC Interpretation 115 'Operating Leases – Incentives' and IC Interpretation 127 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

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

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

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 the standard using the simplified transition approach and will not restate comparative amounts for the year prior. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The adoption of MRS16 has resulted in changes in accounting policy. The effect arising from the changes on the statement of financial position are as follow:

	01.01.2019
Assets	RM
Properties	2,022,148
Equipment	144,229
Total right-of-use assets	<u>2,166,377</u>
Liabilities	
Lease Liabilities	<u>2,166,377</u>
	<u>2,166,377</u>

Except as disclosed above, the initial application of the abovementioned and all other standards, amendments to the published standards and interpretations that are effective for the current financial year are not expected to have any material impacts to the current and prior periods financial statements upon their first adoption.

3. COMMENTS ON SEASONALITY OR CYCLICALITY

The business operations of the Company were not significantly affected by seasonality or cyclical factors for the period under review.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

4. UNUSUAL ITEM AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

There were no items affecting assets, liabilities, equity, net income or cash flows which are unusual because of their nature, size or incidence in the current interim financial period ended 30 June 2019.

5. CHANGES IN ESTIMATES

There were no material changes in the basis used for accounting estimates for the current interim financial period ended 30 June 2019.

6. ISSUES, REPURCHASES AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities by the Company in the current interim financial period ended 30 June 2019.

7. DIVIDEND PAID

No dividend has been paid by the Company in the current interim financial period ended 30 June 2019.

8. CONTINGENT LIABILITIES

In August 2016, the Malaysia Competition Commission ("MyCC") commenced investigation into an alleged infringement of Section 4(2)(a) of the Competition Act 2010 ("CA") by Persatuan Insurans Am Malaysia ("PIAM") and all 22 general insurers including QBEM. The alleged infringement is in relation to the agreement reached between PIAM and the Federation Of Automobile Workshop Owners' Association Of Malaysia ("FAWOAM") in relation to the trade discount rates for parts on certain vehicle makes and labour hourly rates for PIAM Approved Repairers Scheme workshops. These rates were applied by QBEM pursuant to a Members' Circular issued by PIAM, which was Bank Negara Malaysia's ("BNM") directive to PIAM to engage FAWOAM - to resolve the issues of parts trade discounts and labour hourly rate.

In February 2017, QBEM received MyCC's notice of proposed decision ("Proposed Decision") that QBEM and all the other 21 General Insurers who are members of PIAM have infringed one of the prohibitions under Part II of the CA. The Proposed Decision includes a proposed financial penalty of RM213,454,814 on all the 22 General Insurers. QBEM, as one of the members of PIAM, will have a share of RM484,646 on the proposed penalty. The Proposed Decision is not final and QBEM is in the process to take appropriate legal actions together with PIAM and the 21 General Insurers to defend its position that it has not been in infringement of Section 4(2)(a) of the Competition Act 2010.

The first oral representation was completed in January 2018. The Competition Committee (new Chairman was appointed) decided to review this case. A new oral representation was agreed to be held. The case management was held on 21 February 2019 and it was agreed that the oral representation from all relevant insurers (represented by counsels) will be held on May and June 2019 respectively.

On 13 May 2019, counsel for BNM explained their view on the proposed decision by MyCC and infringement of CA. the expected date of final decision by MyCC has not been advised.

PIAM, independent consultant and all members have completed the Oral Representations as at the end of January 2018. Final decision by MyCC is expected to be issued after completion of the Oral Representations. The expected date has not been advised.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

9. EVENTS SUBSEQUENT TO THE INTERIM PERIOD

Other than the contingent liabilities disclosed in note 8 to the interim financial statement, there were no material events after the interim financial period that have not been disclosed in the financial statements for the interim financial period ended 30 June 2019.

10. EFFECT OF CHANGES IN THE COMPOSITION OF THE COMPANY

There were no changes in the composition of the Company during the interim financial period under review.

QBE INSURANCE (MALAYSIA) BERHAD

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)**11. INVESTMENTS**

	30.06.2019	30.06.2018
	RM	RM
The Company's investments are summarised as follows:		
Fair value through profit or loss ("FVTPL")	-	7,018,620
Accrued interest	-	65,060
	<u>-</u>	<u>7,083,680</u>
Loan and receivables ("LAR")	478,000,000	499,000,000
Accrued interest	7,666,789	8,000,832
	<u>485,666,789</u>	<u>507,000,832</u>
Total investments	<u>485,666,789</u>	<u>514,084,512</u>

The Company's investments for the current period are all short term investments.

(a) FVTPL

	30.06.2019	30.06.2018
	RM	RM
Fair value		
Malaysian Government Securities	-	7,018,620
Accrued interest	-	65,060
Total investment at FVTPL	<u>-</u>	<u>7,083,680</u>

(b) LAR

	30.06.2019	30.06.2018
	RM	RM
Amortised cost		
Deposits with financial institutions	478,000,000	499,000,000
Accrued interest	7,666,789	8,000,832
Total investments at LAR	<u>485,666,789</u>	<u>507,000,832</u>

The carrying value of investments in LAR as at 30 June 2019 (30 June 2018) approximates their fair value.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)**11. INVESTMENTS (CONTINUED)****(c) Carrying Values of Financial Instruments**

	FVTPL	LAR	Total
	RM	RM	RM
At 1 January 2018	46,445,835	375,440,733	421,886,568
Purchases/ deposits	-	731,000,000	731,000,000
Maturities	-	(618,000,000)	(618,000,000)
Disposals	(38,905,000)	-	(38,905,000)
Unrealised loss recorded in profit or loss	(348,690)	-	(348,690)
Movement in accrued interest	(119,489)	2,122,756	2,003,267
At 31 December 2018	<u>7,072,656</u>	<u>490,563,489</u>	<u>497,636,145</u>
Purchases/ deposits	-	450,000,000	450,000,000
Maturities	(6,996,500)	(453,000,000)	(459,996,500)
Disposals	-	-	-
Unrealised loss recorded in profit or loss	(10,010)	-	(10,010)
Movement in accrued interest	(66,146)	(1,896,700)	(1,962,846)
At 30 June 2019	<u>-</u>	<u>485,666,789</u>	<u>485,666,789</u>

(d) Fair Values of Financial Instruments

The following table shows financial instruments recorded at fair value analysed as follows:

	FVTPL
	RM
30th June 2019	
Level 2- Valuation techniques - market observable input	<u>-</u>
31st December 2018	
Level 2- Valuation techniques - market observable input	<u>7,072,656</u>

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

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

12. INSURANCE CONTRACT LIABILITIES

	Gross RM	Reinsurance RM	Net RM
At 30 June 2019			
Claims liabilities	348,642,522	(96,187,299)	252,455,223
Premium liabilities	126,288,617	(6,130,889)	120,157,728
	<u>474,931,139</u>	<u>(102,318,188)</u>	<u>372,612,951</u>
At 31 December 2018			
Claims liabilities	319,394,031	(83,919,466)	235,474,565
Premium liabilities	132,198,183	(6,809,552)	125,388,631
	<u>451,592,214</u>	<u>(90,729,018)</u>	<u>360,863,196</u>
	Gross RM	Reinsurance RM	Net RM
At 30 June 2019			
Provision for outstanding claims	289,976,892	(90,615,454)	199,361,438
Provision for incurred but not reported claims ("IBNR")	58,665,630	(5,571,845)	53,093,785
Claims liabilities (i)	348,642,522	(96,187,299)	252,455,223
Premium liabilities (ii)	126,288,617	(6,130,889)	120,157,728
	<u>474,931,139</u>	<u>(102,318,188)</u>	<u>372,612,951</u>
At 31 December 2018			
Provision for outstanding claims	268,520,063	(81,546,496)	186,973,567
Provision for incurred but not reported claims ("IBNR")	50,873,968	(2,372,970)	48,500,998
Claims liabilities (i)	319,394,031	(83,919,466)	235,474,565
Premium liabilities (ii)	132,198,183	(6,809,552)	125,388,631
	<u>451,592,214</u>	<u>(90,729,018)</u>	<u>360,863,196</u>

QBE INSURANCE (MALAYSIA) BERHAD

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)**13. SIGNIFICANT RELATED PARTY TRANSACTIONS**

The significant related party transactions of the Company are as follows:

	30.06.2019	30.06.2018
	RM	RM
Related companies		
Reinsurance premium ceded	(24,012,139)	(54,708,302)
Reinsurance commission earned	624,831	12,142,162
Reinsurance claims recoveries	48,944,739	18,659,594

14. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the company as at 30 June 2019, as prescribed under the RBC Framework is as below:

	30.06.2019	30.06.2018
	RM	RM
Eligible Tier 1 Capital		
Share capital (paid-up)	108,000,000	108,000,000
Reserves, including retained earnings	86,971,857	72,085,445
	<u>194,971,857</u>	<u>180,085,445</u>
Amounts deducted from Capital	(6,343,162)	(5,008,975)
Total Capital Available	<u>188,628,695</u>	<u>175,076,470</u>