

Company No.

200701032867 (790895-D)

AIA BHD.
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

Company No.

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the annual audited financial statements of the Group and 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 business.

The principal activities and the details of the subsidiaries are stated in Note 8 to the financial statements. There have been no significant changes in these activities during the financial year.

FINANCIAL RESULTS

| | <u>Group</u> RM'000 | <u>Company</u> RM'000 |
|---|------------------------|--------------------------|
| Profit after tax for the financial year | 171,109 | 101,581 |

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

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 13 September 2019, the Members had approved the Company's corporate restructuring exercise to purchase 45% ordinary shares of AIA PUBLIC Takaful Bhd. ("APTB") from Orange Policy Sdn. Bhd. ("OPSB") at RM135,000,000; 25% ordinary shares of APTB from AIA General Berhad ("AIAGB") at RM75,000,000; and 100% ordinary shares of AIA Health Services Sdn. Bhd. ("AHS") from OPSB at RM24,858,974 in an effort to simplify the structure and achieve capital efficiency, allowing for all AIA entities in Malaysia to be owned directly by the Company. The Company signed the respective Sale and Purchase Agreements with OPSB and AIAGB in relation to the purchase of shares on 12 December 2019 and the sale consideration was satisfied in cash.

On 13 September 2019, the Members had also approved the Company's capital reduction of RM640,890,000 pursuant to section 116 of the Companies Act 2016. The High Court had on 1 November 2019 approved the capital reduction and the payment to the shareholders had completed on 21 November 2019.

On 6 December 2019, the Members had approved the share consolidation of every four (4) existing ordinary shares of the Company into one (1) new ordinary share. Notice of alteration of share capital under the Companies Act 2016 had been lodged with Companies Commission of Malaysia on 16 December 2019.

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DIRECTORS' REPORT (CONTINUED)

SUBSEQUENT EVENTS

In the beginning of 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. The significant disruptions have been observed in the Group's new business sales, and decelerating in values of investments have started to kick in by the first quarter-end of the year. As the situation is rapidly evolving, it is not practical to quantify the financial impact of the outbreak to the Group.

The Group is closely monitoring the developing situation and the potential impact of COVID-19 on its operations and financial position to ensure vigilant steps and appropriate actions could be taken on a timely manner.

DIVIDENDS

The Directors have not recommended any final dividend to be paid for the current financial year under review.

In respect of the financial period ended 31 December 2018:

The Directors had on 23 May 2019 approved the proposal to pay a final dividend of RM713 million or RM0.9291 per ordinary share on 767,438,174 ordinary shares for the 13 months period ended 31 December 2018, subject to Bank Negara's approval. The Company did not proceed with the proposal following Bank Negara's approval on AIA Malaysia's corporate restructuring exercise.

SHARE CAPITAL

Following the capital reduction and share consolidation exercises, the capital of the Company and the number of ordinary shares are RM810,000,000 and 191,859,543 respectively.

During the financial year, the Company:-

- (a) Reduced its issued share capital from RM1,450,890,000 to RM810,000,000 by cancelling RM640,890,000 as confirmed in the Court order; and
- (b) Consolidated every 4 ordinary shares into 1 ordinary share ("Share Consolidation"). The fractional entitlements of shares were disregarded. Upon completion of Share Consolidation, the number of issued and paid-up shares of the Company reduced from 767,438,174 to 191,859,543.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

Ching Yew Chye @ Chng Yew Chye
Dr. Chong Su-Lin
Ching Neng Shyan
Tan Hak Leh (appointed on 22 August 2019)
Mahani binti Amat (appointed on 18 November 2019)
Mohd Daruis bin Zainuddin (retired on 11 March 2020)
Shulamite N K Khoo (resigned on 21 February 2020)
Anusha a/p Thavarajah (resigned on 12 June 2019)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object 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.

Since the end of the previous financial period, no Director has received or become entitled to receive a benefit (other than the benefits shown under Directors' Remuneration in Note 30) by reason of a contract made by the Company or a related corporation with any Directors or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS AND DEBENTURES

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year except as follows:

| | As at 1 January 2019/Date of Appointment | <u>Number of ordinary shares</u> | | As at 31 December 2019 |
|---------------------------------|---|----------------------------------|-----------------|------------------------------|
| | | <u>Acquired</u> | <u>Disposed</u> | |
| AIA Group Limited | | | | |
| <u>Direct Interest</u> | | | | |
| Shulamite N K Khoo | 5,629 | 225,376 | 75,000 | 156,005 |
| <u>Indirect Interest</u> | | | | |
| Ching Yew Chye @ Chng Yew Chye | 238,800 | - | 21,800 | 217,000 |
| Tan Hak Leh | 5,545 | - | 1,889 | 3,656 |

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS AND DEBENTURES (CONTINUED)

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year except as follows: (continued)

| | Number of matching restricted stock purchase unit over ordinary shares under Employee Share Purchase Plan | | | |
|--------------------------|--|----------------|---------------|---------------------------------------|
| | As at 1 January 2019/Date of Appointment | Granted | Vested | As at 31 December 2019 |
| AIA Group Limited | | | | |
| Shulamite N K Khoo | 2,815 | - | 2,815 | - |
| Tan Hak Leh | 2,740 | - | 854 | 1,886 |

| | Number of restricted share units over ordinary shares | | | |
|--------------------------|--|----------------|---------------|---------------------------------------|
| | As at 1 January 2019/Date of Appointment | Granted | Vested | As at 31 December 2019 |
| AIA Group Limited | | | | |
| Shulamite N K Khoo | 125,705 | - | 125,705 | - |
| Tan Hak Leh | 238,095 | 49,482 | - | 287,577 |

| | Number of share options over ordinary shares | | | |
|--------------------------|---|----------------|---------------|---------------------------------------|
| | As at 1 January 2019 | Granted | Vested | As at 31 December 2019 |
| AIA Group Limited | | | | |
| Shulamite N K Khoo | 557,069 | - | 29,513 | 527,556 |

Matching restricted stock purchase units, restricted share units and share options are granted to certain employees, Directors and Officers of the Company under the Employee Share Purchase Plan, Restricted Share Unit Scheme and Share Option Scheme of AIA Group Limited respectively. Details of the employee share purchase plan, restricted share units and share options are set out in Note 40 to the financial statements.

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DIRECTORS' REPORT (CONTINUED)

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

At the date of the statements of financial position, the immediate holding company of the Company is OPSB, whose ultimate holding company is AIA Group Limited ("AIA Group"), a company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong Limited.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors ("the Board") is satisfied that, the Company has complied with all the prescriptive requirements of, and adopts the Corporate Governance Policy Document, issued by Bank Negara Malaysia ("BNM").

(A) BOARD OF DIRECTORS

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

1. Ching Yew Chye @ Chng Yew Chye (Chairman)
Independent Non-Executive Director

Mr Ching holds a Bachelor of Science (Honours) degree from the University of London, UK. Mr Ching has extensive consulting experience in retail and commercial banking as well as capital markets. Between 1997 and 2007, Mr. Ching assumed various regional senior management roles in Accenture, including the roles of Managing Partner of the Financial Services Industry Group-Asia, Geographic Council Chairman-Asia and Managing Partner for the South Asia Region.

2. Mohd Daruis bin Zainuddin (retired on 11 March 2020)
Independent Non-Executive Director

Encik Mohd Daruis is a Fellow of the Association of Chartered Certified Accountants as well as a Member of the Malaysian Institute of Certified Public Accountants, Malaysian Institute of Accountants and Chartered Tax Institute of Malaysia. He is the Sole Practitioner in an audit firm MDZ & Co. Encik Daruis was with PricewaterhouseCoopers Malaysia between 1974 and 2004, when he held the position of Senior Partner. He was also a Member of the ACCA Malaysian Advisory Committee and Dewan Perniagaan Islam Malaysia Negeri Johor.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

The brief profile of the Directors in office during the financial year and during the period from the end of the financial year to the date of the report are as follows: (continued)

3. Anusha a/p Thavarajah (resigned on 12 June 2019)
Executive Director/Chief Executive Officer

Ms Anusha was appointed Chief Executive Officer ("CEO") of AIA Bhd. in June 2015. She joined AIA in 2002 as Vice President of Actuarial and later took on the role of Appointed Actuary & Head of Product Development in ING Insurance Berhad, where she went on to become Deputy CEO. Anusha returned to AIA in 2011 as Deputy General Manager of Operations, Finance & Actuarial. Prior to becoming CEO, Ms Anusha was appointed as the Regional Business Development Director of AIA Group Limited. She holds a First Class Honours in Mathematics & Statistics from the UK's University of Birmingham and is also a Fellow of the Institute of Actuaries, UK.

4. Dr. Chong Su-Lin
Independent Non-Executive Director

Dr. Chong is a graduate from the Royal Free Hospital School of Medicine, London. She began her career in the National Health Services, UK, following which she took an MBA at the London Business School. This was followed by two years with Cambridge Pharma Consultancy, specialising in the field of pharmaco-economics. She has also served as Chief Executive Officer of Sunway Medical Centre Berhad and Prince Court Medical Centre Sdn. Bhd.

5. Ching Neng Shyan
Independent Non-Executive Director

Mr. Ching is a Fellow of the Institute of Chartered Accountants in England and Wales as well as a Member of the Malaysian Institute of Accountants. He holds a Master of Business Administration from Universiti Sains Malaysia and was the Managing Director of Kennedy, Burkill & Company Berhad from 2008 until 2018. Mr. Ching had worked with Pannell Kerr Forster, Chartered Accountants in Liverpool, England and Ernst & Young in Malaysia.

6. Tan Hak Leh (Appointed on 22 August 2019)
Executive Director

Mr Tan is the Regional Chief Executive responsible for AIA Group's business operating in Singapore, Brunei, Malaysia, Cambodia and Myanmar. Mr. Tan was Chief Executive Officer of AIA's operation in Thailand from 2016 to 2019, AIA Group Chief Risk Officer in 2015 and Chief Executive Officer of AIA's operation in Singapore from 2011 to 2015. Prior to joining AIA Group, Mr. Tan was Chief Executive Officer of Great Eastern Life, Singapore. Prior to joining Great Eastern Life, Mr. Tan was Director of the Insurance Department of the Monetary Authority of Singapore. Mr. Tan has played an active role in the life insurance industry since 2005. His appointments include: President of the Life Insurance Association (LIA), Singapore from 2010 to 2013 and Vice Chair of Singapore College of Insurance from 2011 to 2013 and Vice President of Thailand Life Assurance Association from 2017 to 2018. He was also a Board member of Financial Industry Disputes Resolution Centre Ltd from 2008 to 2015.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

The brief profile of the Directors in office during the financial year and during the period from the end of the financial year to the date of the report are as follows: (continued)

7. Mahani binti Amat (Appointed on 18 November 2019)
Independent Non-Executive Director

Puan Mahani who holds a Bachelor of Economics (majoring in Business Administration) from University of Malaya has over 27 years of working experience in the banking industry. She began her career with Bank Negara Malaysia in 1977 where she spent 7 years in Reserves Management. In 1984, she moved on to RHB Bank in Singapore where she took on various positions in the Treasury and Offshore Banking as well as Consumer Banking. She returned to RHB Bank Kuala Lumpur in 2001, where she held senior management positions in the Premium Banking and International divisions, up to her last designation in 2004 as the Executive Vice President of Operations and Services. Currently, Puan Mahani also serves as an Independent Director of three public listed companies on the Main Market of Bursa Securities, namely Unisem (M) Bhd, Scicom (MSC) Bhd and Leong Hup International Berhad. Puan Mahani is also a member of the Investment Committee of Opus Asset Management Sdn. Bhd.

8. Shulamite N K Khoo (resigned on 21 February 2020)
Non-Independent Non-Executive Director

Ms Shu Khoo is a Chartered Fellow of the Chartered Institute of Personnel and Development since 2013 and previously a member of the International Advisory Panel of the Singapore Public Service Division from 2011 to 2018. She gained her Bachelor of Science degree from University of Toronto, Canada in 1983. She was previously the Group Chief Human Resource Officer of AIA Group Limited and a member of AIA Group's Executive Committee. Prior to joining AIA Group in 2011, Ms Shu Khoo was the Group Executive Vice President and Global Head of Human Resources of AXA Group SA. Between 1984 and 2004, she has served in different roles as Regional Head of Human Resource of Asia of Prudential Corporation Asia, as well as Head of Human Resource, Head of Insurance Operations and Head of Underwriting and Claims of Prudential Singapore.

In promoting independent oversight by the Board, the tenure limit for Independent Directors is nine (9) years from the date of the Director's initial appointment. The Board is also discouraged from having more than eight (8) Directors. However, a maximum of ten (10) Directors may be allowed provided the additional Directors are Independent Directors.

During the financial year, a total number of thirty-seven (37) Board and Board Committee Meetings were held, as set out below:

| | Audit Committee | Risk Management Committee | Nominating Committee | Remuneration Committee | Board |
|---------------------------|------------------------|----------------------------------|-----------------------------|-------------------------------|--------------|
| Number of meetings | 6 | 4 | 9 | 5 | 13 |

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

The Directors' attendance to the Board and Board Committee Meetings during the financial year was as follows:

| Name of Director | Audit Committee | Risk Management Committee | Nominating Committee | Remuneration Committee | Board Meetings |
|--|-----------------|---------------------------|----------------------|------------------------|----------------|
| Ching Yew Chye @ Chng Yew Chye | 6/6 | 4/4 | 9/9 | 5/5 | 13/13 |
| Mohd Daruis bin Zainuddin (retired on 11 March 2020) | 6/6 | 4/4 | 9/9 | 5/5 | 13/13 |
| Anusha a/p Thavarajah (resigned on 12 June 2019) | N/A | N/A | 3/3 | N/A | 6/7 |
| Dr. Chong Su-Lin | N/A | 4/4 | 9/9 | 5/5 | 12/13 |
| Shulamite N K Khoo (resigned on 21 February 2020) | 5/6 | N/A | 9/9 | 5/5 | 11/13 |
| Ching Neng Shyan | 6/6 | 4/4 | 9/9 | 5/5 | 13/13 |
| Tan Hak Leh (appointed on 22 August 2019) | N/A | N/A | 3/3 | N/A | 3/3 |
| Mahani binti Amat (appointed on 18 November 2019) | 1/1 | 1/1 | 1/2 | 0/1 | 1/2 |

The Board is responsible for the overall governance of the Company and discharges this responsibility through compliance with the FSA and Corporate Governance Policy Document issued by BNM and other directives, in addition to adopting other best practices on corporate governance.

The Board has an overall responsibility to lead the Company, including setting the strategic future direction, review viability of the corporate objective and overseeing the conduct and performance of business.

As at the date of the report, the Board comprises four Independent Non-Executive Directors and one Executive Director to enable a balanced and objective consideration of issues, hence facilitating optimal decision-making.

The Board met thirteen times during the financial year, seven of which were scheduled and six Special Board Meetings. All Directors in office at the end of the financial year complied with the 75% minimum attendance requirement at such meeting except for Mahani binti Amat who attended 1 out of 2, one being Special Board Meeting where she did not attend.

* N/A – Not Applicable (Not a Member/Not yet appointed)

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

The Members of the Board had attended briefings, conferences, seminars and trainings during the financial year, which include the following:

| No. | Description |
|-----|---|
| 1. | Anti-Money Laundering/Counter Financing of Terrorism |
| 2. | IFRS 17 & IFRS 9 Briefing |
| 3. | FT NED Asia half-day workshop in Singapore |
| 4. | LEAP : How to Thrive in a World Where Everything Can Be Copied |
| 5. | Briefing on Actuarial Valuation of General Liabilities |
| 6. | AIA Projects Overview |
| 7. | Cyber Threat Awareness - What Boards Need to Know |
| 8. | 2nd PIDM-FIDE FORUM Annual Dialogue |
| 9. | IFRS Training |
| 10. | Phishing Awareness Training |
| 11. | IIA Malaysia National Conference 2019 |
| 12. | MIA International Accountants Conference 2019 |
| 13. | Enhancing Shariah Governance Training |
| 14. | Malaysia's Healthiest Workplace Summit |
| 15. | 2020 Budget Seminar |
| 16. | Financial Institutions Directors' Education (FIDE) Core Programme: Module |
| 17. | FIDE Core Programme: Module B |
| 18. | Cyber Security Briefing: The Challenge of Building Cyber Resilience |
| 19. | AMLA Refresher |
| 20. | Customer Segmentation and MAR meeting |
| 21. | AIA Thailand Customer Centricity |
| 22. | MAR Meeting |
| 23. | AIA Group Office Summit |
| 24. | 2019 President Club |
| 25. | AIA Group Risk Compliance |
| 26. | MAS Lecture 2019 |
| 27. | AIA Group ExCo Spark |
| 28. | AIA Board of Directors Programme |
| 29. | SPARK Forum II |

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

The Members of the Board were also regularly updated on the issuance of new related FSA and regulations as well as the requirements to be observed both by the Company and Directors.

The Company provides an in-house orientation to newly appointed Directors and the Directors may request trainings on specific subjects in facilitating the Directors to discharge their duties effectively. On an annual basis, the Nominating Committee ("NC") will conduct annual review of trainings attended by the Directors during each financial year.

To support sound corporate governance and processes, the Board formed various Board Committees namely the Nominating Committee, the Remuneration Committee, the Risk Management Committee and the Audit Committee ("the Committees") in accordance with the requirements of BNM's Corporate Governance Policy Document.

The roles and members of the Committees are as provided below.

Nominating Committee

As at the date of this report, the NC comprises five (5) members as follows:

| | |
|---|---|
| Dr. Chong Su-Lin | Chairperson (Independent Non-Executive) |
| Ching Yew Chye @ Chng Yew Chye | Member (Independent Non-Executive) |
| Ching Neng Shyan | Member (Independent Non-Executive) |
| Tan Hak Leh (appointed on 22 August 2019) | Member (Executive) |
| Mahani binti Amat (appointed on 18 November 2019) | Member (Independent Non-Executive) |

The objective of the NC is to establish a documented, formal and transparent procedure for the appointment of Directors, CEO and Key Senior Officers ("KSOs") and to assess the effectiveness of individual directors, the Board as a whole (including various committees of the Board), CEO and KSOs on an on-going basis.

The principal duties and responsibilities of the NC are:

- (a) establishing the minimum requirements of the Directors and senior management at the time of appointment and on a continuing basis;
- (b) ensuring that the composition of the board and the designated board-level committee should include at least a member with technology experience and competencies;
- (c) establishing and regularly reviewing succession plans for senior management and the Board to promote the Board's renewal and address any vacancies;
- (d) establishing a rigorous process for the appointment and removal of Directors, CEO and Senior Officers. The process must involve the assessment of candidates against the minimum requirements as set out in the Corporate Governance Policy Document to maintain the engagement between a candidate and the Committee and to ascertain the suitability of each candidate for the Board;

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Nominating Committee (continued)

The principal duties and responsibilities of the NC are: (continued)

- (e) assessing against the minimum requirements for each senior management and Director on an annual basis, and as and when the Board becomes aware of information that may materially compromise the individual/Director's fitness and propriety, or any circumstance that suggests that the Director is ineffective, errant or otherwise unsuited to carry out his responsibilities;
- (f) recommending and assessing the appointment and reappointment of Directors and senior management as per the minimum requirements as set out in the Corporate Governance Policy Document before an application for approval is submitted to BNM;
- (g) assessing the Board and the Board Committees in terms of the appropriate size that promotes effective deliberation and encourages the active participation of all Directors and allows the work of the various Board Committees to be discharged without giving rise to an over-extension of Directors that are required to serve on multiple Board Committees;
- (h) assessing the performance and effectiveness of the Board, the Board Committees and individual Directors. This is important to enable the Board to identify areas for professional development and process improvements, having regard to the changing needs of the Company; and
- (i) overseeing the effective implementation of the transfer of knowledge of expatriates to local employees.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Remuneration Committee

As at the date of this report, the Remuneration Committee ("RC") comprises four (4) members as follows:

| | |
|---|---|
| Dr. Chong Su-Lin | Chairperson (Independent Non-Executive) |
| Ching Yew Chye @ Chng Yew Chye | Member (Independent Non-Executive) |
| Ching Neng Shyan | Member (Independent Non-Executive) |
| Mahani binti Amat (appointed on 18 November 2019) | Member (Independent Non-Executive) |

The objective of the RC is to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and KSOs and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

The principal duties and responsibilities of the RC are to review and assess:

- (a) the remuneration policy of the Company which must be approved by the Board and subject to periodic Board's review, including when material changes are made to the policy;
- (b) the remuneration for each Director, members of senior management and other material risk taker must be approved by the Board annually. The Company must maintain and regularly review a list of officers who fall within the definition of "other material risk takers";
- (c) the overall remuneration system for the Company which must:
 - (i) be subject to the Board's active oversight to ensure that the system operates as intended;
 - (ii) be in line with the business and risk strategies, corporate values and long-term interests of the Company;
 - (iii) promote prudent risk-taking behaviour and encourage individuals to act in the interests of the Company as a whole, taking into account the interests of its customers; and
 - (iv) be designed and implemented with input from the control functions and the Board's Risk Management Committee to ensure that risk exposures and risk outcomes are adequately considered.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Remuneration Committee (continued)

The principal duties and responsibilities of the RC are to review and assess: (continued)

- (d) the remuneration for individuals which must be aligned with prudent risk-taking. Hence, remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that:
 - (i) remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgment;
 - (ii) the size of the bonus pool is linked to the overall performance of the Company;
 - (iii) incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Company;
 - (iv) bonuses are not guaranteed, except in the context of sign-on bonuses; and
 - (v) for members of senior management and other material risk takers:
 - 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
 - the variable portion of remuneration increases along with the individual's level of accountability.
- (e) the remuneration payout schedules which must reflect the time horizon of risks and take account of the potential for financial risks to crystallise over a longer period of time. As such, the Company must adopt a multi-year framework to measure the performance of members of senior management and other material risk takers. Such a framework must provide for:
 - (i) the deferment of payment of a portion of variable remuneration to the extent that risks are realised over long periods, with these deferred portions increasing along with the individual's level of accountability;
 - (ii) the calibration of an appropriate mix of cash, shares, share-linked instruments, and other forms of remuneration to reflect risk alignment; and
 - (iii) adjustments to the vested and unvested portions of variable remuneration (through malus, clawbacks and other reversals or downward revaluations of awards) in the event of bad performance of the business unit or institution attributable to the individual or if he commits serious legal, regulatory or internal policy breaches.
- (f) the incentive structure to ensure that:
 - (i) variables used to measure risk and performance outcomes of an individual relate closely to the level of accountability of that individual;
 - (ii) the determination of performance measures and variable remuneration considers that certain indicators (such as share prices) may be influenced in the short term by factors like market sentiment or general economic conditions which are not specifically related to the Company's performance or an individual's actions, and the use of such indicators does not create incentives for individuals to take on excessive risk in the short term; and
 - (iii) members of senior management and other material risk takers commit not to undertake activities (such as personal hedging strategies and liability-related insurance) that will undermine the risk alignment effects embedded in their remuneration.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Risk Management Committee

As at the date of this report, the Risk Management Committee ("RMC") comprises four (4) members as follows:

| | |
|---|--------------------------------------|
| Ching Neng Shyan | Chairman (Independent Non-Executive) |
| Ching Yew Chye @ Chng Yew Chye | Member (Independent Non-Executive) |
| Dr. Chong Su-Lin | Member (Independent Non-Executive) |
| Mahani binti Amat (appointed on 18 November 2019) | Member (Independent Non-Executive) |

The objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that an appropriate risk management process is in place and functioning effectively. Risk Management Committee is also the designate board-level committee to oversee technology related matters and frameworks, ensure that risk assessments undertaken to material technology applications submitted to the Bank are robust and comprehensive and to deliberate the outcome of Data Centre Risk Assessment and Network Resilience and Risk Assessment.

The principal duties and responsibilities of the RMC are:

- (a) ensuring that the Company's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities;
- (b) providing effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework;
- (c) ensuring senior management oversight in the day-to-day management of the financial institution's activities is consistent with the risk strategy, including the risk appetite and policies approved by the Board;
- (d) ensuring that the risk management framework enables the identification, measurement and continuous monitoring of all relevant and material risks on a group and firm-wide basis, supported by robust management information systems that facilitate the timely and reliable reporting of risks and the integration of information across the institution. The sophistication of the Company's risk management framework must keep pace with any changes in the institution's risk profile (including its business growth and complexity) and the external risk environment;
- (e) ensuring that the risk management is well-integrated throughout the organisation and embedded into the culture and business operations of the institution;
- (f) establishing an independent senior risk executive role (chief risk officer or its equivalent) with distinct responsibility for the risk management function and the institution's risk management framework across the entire organisation. The executive must have sufficient stature, authority and seniority within the organisation to meaningfully participate in and be able to influence decisions that affect the Company's exposures to risk;
- (g) establishing and maintaining an effective risk management function with sufficient authority, stature, independence, resources and access to the Board;

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Risk Management Committee (continued)

The principal duties and responsibilities of the RMC are: (continued)

- (h) effectively implementing the risk management framework that is reinforced with an effective compliance function and subjected to an independent internal audit review;
- (i) ensuring that the Company has appropriate mechanisms in place for communicating risks across the organisation and for reporting risk developments to the Board and senior management;
- (j) ensuring that the executive remuneration is aligned with prudent risk-taking and appropriately adjusted for risks. The Board must actively oversee the institution's remuneration structure and its implementation, and must monitor and review the remuneration structure to ensure that it operates as intended;
- (k) ensuring that the Board and senior management are aware of and understand the Company's operational and organisational structure and the risks it poses and be satisfied that it is not overly complex or opaque such that it hampers effective risk management by the Company;
- (l) ensuring that the Board and senior management understand the purpose, structure and unique risks of operations when the Company operates through special-purpose structures. Appropriate measures must be undertaken to mitigate the risks identified;
- (m) exercising oversight over its subsidiaries with appropriate established processes to monitor the subsidiaries' compliance to the Group's risk management policies;
- (n) establishing and approving the technology risk appetite and risk tolerance;
- (o) overseeing the adequacy of the Company's IT and cybersecurity strategic plans covering a period of no less than three years;
- (p) overseeing the effective implementation of a sound and robust technology risk management framework and cyber resilience framework; and
- (q) discussing cyber risks and related issues, including the strategic and reputational risks associated with a cyber-incident.

Audit Committee

As at the date of this report, the Audit Committee ("AC") comprises three (3) members as follows:

| | |
|---|--------------------------------------|
| Ching Neng Shyan | Chairman (Independent Non-Executive) |
| Ching Yew Chye @ Chng Yew Chye | Member (Independent Non-Executive) |
| Mahani Binti Amat (appointed on 18 November 2019) | Member (Independent Non-Executive) |

The primary objective of the AC is to ensure the integrity and transparency of the financial reporting process.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Audit Committee (continued)

The principal duties and responsibilities of the AC are:

- (a) ensuring that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives;
- (b) reviewing and concurring the annual audit plan, audit charter and annual budget of the internal audit department and the appointment of the external auditors;
- (c) ensuring that internal audit staff have free and unrestricted access to the Company's records, assets, personnel or processes relevant to and within the scope of the audits;
- (d) reviewing and concurring with the appointment, removal and remuneration of the external auditors recommended by Group Audit Committee;
- (e) reviewing various relationships between the external auditors and the Company or any other entity that may impair or appear to impair the external auditors' judgement or independence in respect of the Company;
- (f) investigating reasons for any request made by management to dismiss the external auditor, or any resignation by the external auditor and disclosing the full Board and the Group Audit Committee the results of the investigation together with the Audit Committee's recommendations on proposed actions to be taken;
- (g) maintaining regular, timely, open and honest communication with the external auditors, and require the external auditors to report to the AC on significant matters;
- (h) reviewing with the external auditors that appropriate audit plans are in place and the scope of the audit plans reflect the terms of the engagement letter;
- (i) reviewing with the external auditors on the financial statements (before the audited financial statements are presented to the Board) and discussing the findings and issues arising from their work done, including but not limited to, any opinions or qualifications, significant/material changes and fluctuations reported therein;
- (j) audit reports, including obligation reports to BNM and discuss the findings and issues arising from the external audit;
- (k) ensuring that management's remediation efforts with respect to all findings and recommendations are resolved effectively and in a timely manner;
- (l) approving the provision of non-audit services by the external auditors and ensuring that the level of provision of non-audit services is compatible with maintaining auditor independence;

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Audit Committee (continued)

The principal duties and responsibilities of the AC are: (continued)

- (m) reviewing the Chairman's statement, interim financial reports, preliminary announcements and corporate governance disclosures in the Directors' Report (where applicable);
- (n) reviewing any related party transactions and conflicts of interest situations that may arise including any transaction, procedure or conduct that raises questions of management integrity;
- (o) ensuring that the Company's accounts are prepared and published in a timely and accurate manner for regulatory, management and general reporting purposes;
- (p) monitoring compliance with the Board's conflict of interest policy which would include monitoring the items set out below:
 - (i) identifying circumstances which constitute or may give rise to conflicts of interests;
 - (ii) clearly defining the process for Directors to keep the Board informed on any change of circumstances that may give rise to a conflict of interest;
 - (iii) identifying those responsible for maintaining updated records on each Director's conflicts of interest; and
 - (iv) articulating how any non-compliance with the policy will be addressed.
- (q) reviewing third-party opinions on the design and effectiveness of the Company's internal control framework.

The AC has the authority to investigate any matter within its terms of reference and has unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Company.

During the financial year, the AC members have met twice with the external auditors without the presence of the management.

(B) MANAGEMENT ACCOUNTABILITY

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employees and formal performance appraisal is done annually. Information is effectively communicated to the relevant employees within the Company. The Company has a formal and transparent procedure for developing policy on executive remuneration. None of the Directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Sections 54 and 55 of the FSA.

The management meets all prescriptive requirements under this section, and has already adopted best practices in the areas of organisational structure and allocation of responsibilities, conflicts of interest, goal setting and the area of communication.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(C) CORPORATE INDEPENDENCE

All material related party transactions are conducted on agreed terms as specified under BNM's Guidelines on Related-Party Transactions and BNM's Corporate Governance Policy Document. Related parties' transactions and balances have been disclosed in the financial statements in compliance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

(D) INTERNAL CONTROL FRAMEWORK

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness. Enterprise Risk Management, Compliance and Internal Audit functions, among others, provide assessment, reporting and assurance on the effectiveness of the Group's policies and operations as well as its compliance with legal and regulatory obligations.

Such processes are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The criteria applied by the Directors in judging the effectiveness of these controls are that they allow the maximisation of shareholders' value by exploiting business opportunities whilst ensuring that risks are properly identified and managed. The controls are regularly reviewed to ensure that they enable the proper management of business risks without so restricting efficiency and entrepreneurial nature that they inhibit proper running of the business.

The Group has a management structure with clear lines of responsibility and accountability, staffed by appropriate personnel. The Board is responsible for setting the overall strategy and reviewing the performance of the Group.

The day to day running of the Group's operations is managed by the Group's Executive Committee, chaired by the CEO. This team is also responsible for the recommendation to the Board of the Group's strategy and its subsequent implementation, for ensuring that appropriate internal controls are in place to manage and assess risk and that they are fully complied with.

The fundamental elements of the Group's internal control and risk management framework are described below:

1. Structure and reporting

A clear organisational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Action plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Group can meet its future management requirements.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(D) INTERNAL CONTROL FRAMEWORK (CONTINUED)

The fundamental elements of the Group's internal control and risk management framework are described below: (continued)

2. Approval procedures

The Group has delegated authority structures to ensure that decisions are taken at an appropriate level, with an appropriate level of input by internal and external expert advisers. The delegated authority structure prescribes financial limits of approval at each level and requires decisions with significant financial, legal or reputational impact for the Group to be approved by the Board.

3. Operating philosophy

The Group has identified and adopted the following Operating Philosophy as being about "Doing the Right Thing, in the Right Way, with the Right People.....and the results will come". Underlying this Operating Philosophy are 12 Operating Principles that help guide and shape our employees' actions and behaviours, informing how we interact with one another and how we behave externally with our customers, shareholders and other stakeholders, including the community at large.

4. Corporate policies, values and compliance

There are various policies and procedures in place as internal control to govern the operations of the Group. The following policies have been adopted by the Group:

- (a) AIA Code of Conduct: AIA Code of Conduct lays the foundation for good business decisions and guides staff and agents in conducting business honourably, ethically and with utmost professionalism. The Code specifies the standards of behaviour to which every AIA employee and stakeholder is expected to adhere. The Code guides us on compliance, ethics and risk issues and allows us to contribute positively to the societies where we operate.
- (b) Whistleblower Protection Policy: Whistleblower Protection Policy aims to establish corporate values and culture that support ethical behaviour and to assure confidentiality and non-retaliation to whistleblowers. Every employee has the obligation to report unethical behaviour or suspected violations of law or Group policy connected with AIA Group's business activities.
- (c) Anti-Fraud Policy: The Group is committed to conducting all of its business with the highest level of ethics and integrity. To uphold this commitment and in particular, a zero-tolerance approach to fraud, the Group requires adherence to this Anti-Fraud Policy. The policy is intended to reinforce management procedures designed to aid in the prevention, detection and investigation of fraud, thereby safeguarding the Group's assets and providing protection from the legal and reputational consequences of fraudulent activities.
- (d) Anti-Corruption Policy: The Group is committed to conducting all of its business in an honest and ethical manner. Bribery or any improper payment to gain an advantage in any situation is never acceptable and may have serious legal, reputation and regulatory implications for the Group. The Anti-Corruption Policy also makes good business sense.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(D) INTERNAL CONTROL FRAMEWORK (CONTINUED)

The fundamental elements of the Group's internal control and risk management framework are described below: (continued)

4. Corporate policies, values and compliance (continued)

These controls that are embedded in the Group as a result of the adoption of the policies are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. For the Company's policyholders, it provides the security of knowing that the Company will always be there for them; for the Company's investors, it is key to protecting and enhancing the long-term value of their investment. Also for the regulators, the Company is supportive of industry growth and the public's trust in the industry.

While effective risk management is vital to any organisation, it goes to the core of a life insurance business where it is a main driver of value. The Company's Risk Management Framework ("RMF") does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the creation of long-term value.

The Company's RMF is built around developing an appropriate and mindful risk culture at every level of the organisation in support of the Company's strategic objectives. The RMF provides the Company with appropriate tools, processes and capabilities for the identification, assessment and where requires, upward referral of identified material risks for further evaluation.

The RMF consists of the following components:

i. Risk Culture

The RMF recognises the importance of risk culture in the effective management of risks. Risk culture defines the Company's attitude to risks and ensures its remuneration structure promotes the right behaviour. The Board and senior management is committed to fostering a corporate culture which promotes proactive risk management.

Accountability

A key component of the risk culture is accountability. The respective business functions in the Company are owners of the risks arising from within their areas and is responsible for managing risks. The Chief Risk Officer ("CRO") has overall accountability for the Enterprise Risk Management function with primary reporting line to AIA Group's CRO and a secondary reporting line to the CEO. This structure ensures independence of the Enterprise Risk Management and Compliance functions and allows the CRO full access to business discussions so as to provide risk management perspectives and insights. The CRO is also a non-voting member of the Executive Committee.

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(D) INTERNAL CONTROL FRAMEWORK (CONTINUED)

The RMF consists of the following components: (continued)

i. Risk Culture (continued)

Remuneration

The Company's executive remuneration structure ensures appropriate consideration of the RMF within a strong performance-oriented culture. This is supported by a performance management system where all staff are measured on 'how' as well as 'what' they deliver. This structure places significant emphasis on conduct as well as achievement, and is consistent with the Company's fundamental Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People.... And the results will come".

ii. Risk Management Process

In order to encourage good management and to embed a culture of iterative process of continuous improvement, all business functions must incorporate the four key risk management process in their activities to identify, quantify, manage and monitor the risk exposures. This ensures that risk reviews undertaken by the Company are appropriate and contributing to optimise business decisions.

iii. Risk Governance



The Company's Risk Governance framework is built on the "Three Lines of Defence" model. With regard to risk management, the objective is to ensure that an appropriate framework is in place, including an independent system of checks and balances, to provide assurance that risks are identified, assessed, managed and governed properly. The framework clearly defines roles and responsibilities for the management of risk between the Executive Management ("First Line"), Enterprise Risk Management & Compliance ("Second Line") and Internal Audit ("Third Line") functions. While each line of defence is independent from the others, they work closely to ensure effective oversight.

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(D) INTERNAL CONTROL FRAMEWORK (CONTINUED)

The RMF consists of the following components: (continued)

iii. Risk Governance (continued)

The First Line is made up of the business decision-takers who are responsible for ensuring that effective and appropriate processes, limits and controls are in place at all times to effectively identify, assess and manage risk in a manner consistent with the RMF. In particular, the amount of risk taken at each level of the organisation must be consistent with the risk appetite and in accordance with approved risk policies and procedures.

The Second Line consists of the Enterprise Risk Management & Compliance function. This function is independent of the First Line and is responsible for overseeing First Line activities and ensuring that the Company adheres to its own high standards. The Second Line works consultatively with the First Line to support the business in achieving its objectives whilst operating within the risk appetite limits.

The Third Line is the Group Internal Audit ("GIA") function, which reports to the Audit Committee of the Board. GIA is responsible for providing independent assurance over the effectiveness of key internal controls and makes recommendations based on the audit findings.

The Three Lines of Defence converge at the Board, which retains overall responsibility for the Company's RMF.

iv. Risk Appetite Framework

The Company's Risk Appetite Framework is the foundation of its risk management practices. It establishes the risk boundaries within which the business will operate and sets stakeholder expectations in regard to the risk being run in the Company.

v. Risk Landscape

The Company maintains a detailed risk taxonomy to ensure all risks are identified and systematically managed. Under the Company's RMF, the Company adopts a common language in the description of risks to proactively manage a wide spectrum of financial and non-financial risks.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY

i. Objectives

The Group's executive remuneration policy is based on the principle of providing an equitable, motivating and competitive remuneration package to foster a strong performance-oriented culture within an appropriate risk management framework.

The policy aims to ensure that rewards and incentives relate directly to the performance of individuals, the operations and functions in which they work or for which they are responsible, and the overall performance of the Group. The compensation and benefits arrangements designed under the policy provides incentives that are consistent with the interests of the Group's stakeholders and do not encourage executives to take excessive risks that may threaten the value of the Group and impair the reputation of the brand.

ii. Main Components of Remuneration

The table below summarises the Group's remuneration policies regarding the elements of the remuneration structure as it applies to the CEO and Senior Management Team during the financial year.

| Element | Purpose | Basis of determination | Notes on practices |
|----------------------|--|---|---|
| Basic | Fixed cash element of remuneration to recruit and retain talent. | Basic salary is determined with reference to the specific roles and responsibilities of the position, internal relativities, market practice, individual experience, performance and other factors to attract and retain employees with required capabilities to achieve the Group's business objectives. | The Remuneration Committee reviews salaries annually for the CEO and Senior Management Team against relevant industry survey sources. Salary increases, where applicable, typically take effect from 1 March. |
| Short-term incentive | Short-term incentives are delivered in the form of a performance-based cash award to recognize and reward achievement of the Group's objectives and individual contribution. | Short-term incentive target and maximum opportunities are determined with reference to the market appropriateness of total compensation and the roles and responsibilities of the individual. | Annual short-term incentive is based on the achievement of financial performance measures and relevant strategic objectives, as well as individual contribution. |

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY (CONTINUED)

ii. Main Components of Remuneration (continued)

The table below summarises the Group's remuneration policies regarding the elements of the remuneration structure as it applies to the CEO and Senior Management Team during the financial year. (continued)

| Element | Purpose | Basis of determination | Notes on practices |
|---------------------------------------|---|---|--|
| Long-term incentive | Long-term incentive plan focuses key contributors on the long-term success of the Group and is used to align the interest of executives with those of shareholders using a combination of share-based awards and share mix options to deliver a balanced mix of ownership and incentives. | Long-term incentive target and maximum opportunities are determined with reference to the total competitiveness of the total compensation package and the roles and responsibilities of the individual. | Awards are discretionary and determined on an annual basis. Awards are made in restricted share units and/or share options, and generally vest after a three-year period, with the restricted share units subject to pre-defined performance objectives. |
| Benefits | Benefits form part of the long-term employment relationship and contribute to the value of total remuneration provided at market competitive levels. | The benefits program is determined such that it is market competitive. It remains fully compliant with local regulations. | The CEO and Senior Management Team receive certain benefits, for example, medical and life insurance, use of company car and/or driver. |
| Employee share purchase plan ("ESPP") | Share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees, and provide a long-term retention mechanism. | The ESPP is open to all employees who have completed probation and subject to a maximum contribution indicated as a percentage of basic salary or the plan maximum limit. | Participants receive matching shares for shares purchased at a rate approved by the Remuneration Committee. Matching shares vest after three (3) years. |

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(E) REMUNERATION POLICY (CONTINUED)

ii. Main Components of Remuneration (continued)

Short-Term Incentive Plan

The short-term incentive targets were determined and communicated to the CEO and Senior Management Team at the beginning of the financial year. The performance measures for short-term incentives were:

- Value of new business ("VONB")
- Operating profit after tax ("OPAT"); and
- Underlying Free Surplus Generation ("UFSG").

VONB is an estimate of the economic value of one (1) year's sales as published by the Group; OPAT is the IFRS operating profit after tax based on the IFRS results published by the Group; and UFSG is the free surplus generated by the business excluding the free surplus invested in new business, investment return variances and other items.

The weighting of the three (3) performance measures described above is fifty per cent (50%), twenty per cent (20%) and fifteen per cent (15%) for VONB, OPAT and UFSG respectively. The remaining weighting is fifteen per cent (15%) for Active New Agent (7.5%) and Expense Ratio (7.5%). Based on the level of achievement of the performance measures, short-term incentive awards in respect of the financial year ended 31 December 2019 will be paid to the CEO and Senior Management Team in March 2020.

The total value of the short-term incentive awards accrued for the CEO and Senior Management Team for the financial year ended 31 December 2019 is RM5,377,254.

Long-Term Incentive Plan

The Restricted Share Unit Scheme and the Share Option Scheme were adopted on 28 September 2010 and are effective for a period of ten (10) years from the date of adoption.

These schemes are designed to motivate and reward participants who have not only made an important contribution to AIA Group's success but are expected to play a significant role in the future.

Awards made under these schemes are discretionary and are determined on an annual basis with reference to the magnitude of overall variable remuneration, the competitiveness of the total remuneration package, the roles, responsibilities, performance and potential of the individual.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY (CONTINUED)

ii. Main Components of Remuneration (continued)

Long-Term Incentive Plan (continued)

The schemes operate through the award of restricted share units and share options to deliver a balanced mix of incentives and ownership. The rewards are subject to eligibility criteria and generally vest after a three-year period.

As applicable to other remuneration payments, long-term incentive vesting is subject to the AIA Group's Remuneration Committee's approval and is in compliance with all relevant AIA Group's policies.

The schemes are reviewed regularly to ensure that the design, process, structure and governance work together to balance risk and incentives.

a. Restricted Share Unit Scheme

Under the Restricted Share Unit Scheme, AIA Group may award restricted share units to selected employees, CEO, Directors (excluding Independent Non-executive Directors) or officers of the Group or any of its subsidiaries. The objectives of the Restricted Share Unit Scheme is to retain participants, align their interests with those of AIA Group's investors and reward the creation of sustainable value for shareholders through the award of restricted share units to participants.

Performance Measures and Vesting

Vesting of performance-based restricted share unit awards will be contingent on the extent of achievement of three-year performance targets as outlined below for the following AIA Group metrics:

- (i) Value of new business;
- (ii) Equity attributable to shareholders on the embedded value basis; and
- (iii) Total shareholder return.

VONB is an estimate of the economic value of one (1) year's sales as published by the AIA Group.

Equity attributable to shareholders of AIA Group on the embedded value basis ("EV Equity") is the total of embedded value, goodwill and other intangible assets. Embedded value is an estimate of the economic value of in-force life insurance business, including the net worth on AIA Group's balance sheet but excluding any economic value attributable to future new business.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY (CONTINUED)

ii. Main Components of Remuneration (continued)

Long-Term Incentive Plan (continued)

a. Restricted Share Unit Scheme (continued)

Performance Measures and Vesting (continued)

The VONB and EV Equity performance considered in determining incentive awards are based on AIA Group's VONB and AIA Group's EV Equity results published by AIA Group.

Total shareholder return ("TSR") is the compound annual return from the ownership of a share over a period of time, measured by calculating the change in the share price and the gross value of dividends received (and reinvested) during that period. AIA Group's TSR will be calculated in the same way and compared with the TSR of the peer companies in the Dow Jones Insurance Titans 30 Index ("DJTINN") over the performance period.

The three (3) performance measures are equally weighted. Achievement of each performance measure will independently determine the vesting of one-third of the award. Threshold performance levels (for TSR, twenty fifth (25th) percentile relative performance measured against the TSR of the peer companies in DJTINN), are required for restricted share units to vest; at target performance levels, fifty per cent (50%) of the restricted share units will vest; and at maximum performance levels (for TSR, seventy fifth (75th) percentile or above relative performance measured against the TSR of the peer companies in the DJTINN), the full allocation of restricted share units will vest.

b. Share Option Scheme

The objective of the Share Option Scheme is to align the interests of the Scheme participants with those of the AIA Group's shareholders. Under the Share Option Scheme, AIA Group may award share options to Directors (excluding Independent Non-Executive Directors) or selected officers of the Group or any of its subsidiaries. No amount is payable by the eligible participants on the acceptance of a share option.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY (CONTINUED)

ii. Main Components of Remuneration (continued)

Long-Term Incentive Plan (continued)

b. Share Option Scheme (continued)

During the financial year end, share options were awarded by AIA Group under the Share Option Scheme to Directors or selected officers of the Company. The exercise price of such share options was determined by applying the highest of:

- (i) The closing price of the shares on the date of grant;
- (ii) The average closing price of the shares for the five (5) business days immediately preceding the date of grant; or
- (iii) The nominal value of a share.

The total number of share options that can be awarded under the AIA Group scheme is 301,100,000 representing approximately two-point-five per cent (2.5%) of the number of shares in issue as at the date of this report. Unless shareholders' approval is obtained in accordance with the relevant procedural requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the maximum number of shares that may be awarded to any employee in any twelve (12) month period up to and including a proposed date of grant is point-two-five per cent (0.25%) of the number of shares in issue as of the proposed date of grant. No share options have been awarded to substantial shareholders, or in excess of the individual limit.

Performance Measures and Vesting

Share options awarded under the Share Option Scheme have a minimum holding period of six (6) months from date of acceptance, and a maximum life of ten (10) years before expiry. Generally, share options become exercisable three (3) years after the date of grant and remain exercisable for another seven (7) years, subject to participants continued employment in good standing or retirement. There are no performance conditions attached to the vesting of share options. Each share option entitles the eligible participant to subscribe for one (1) ordinary share. Benefits are realized only to the extent that share price exceeds the exercise price.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY (CONTINUED)

ii. Main Components of Remuneration (continued)

Long-Term Incentive Plan (continued)

c. Employee Share Purchase Plan

AIA Group adopted the Employee Share Purchase Plan ("ESPP") on 25 July 2011 (ESPP adoption date). Under the ESPP, eligible employees of the Group may elect to purchase the AIA Group's shares and receive one (1) matching share for each two (2) shares purchased after having been in the plan for a period of three (3) years through the award of matching restricted stock purchase units ("RSPUs"). Each eligible employee's participation level is currently capped at a maximum purchase in any plan year of eight (8) per cent of his or her base salary or Malaysian Ringgit Five Thousand One Hundred Seventy Two (MYR5,172) equivalent of Hong Kong Dollars Nine Thousand Seven Hundred Fifty (HK\$9,750), whichever is lower. Upon vesting of the matching RSPUs, those employees who are still in employment with the Group will receive one (1) matching share for each RSPU which he or she holds. The matching shares can either be purchased on market by the trustee of the ESPP or through the issuance of new shares by AIA Group. The aggregate number of shares which can be issued by AIA Group under the ESPP for the ten-year period shall not exceed two-point-five per cent (2.5%) of the number of shares in issue on the ESPP adoption date.

iii. Remuneration Procedure

The levels of remuneration should be sufficient to attract, retain and motivate all levels of the management and staff of the quality required to run the Group effectively. In this respect, the Group has an independent, objective and robust review process for assessing the remuneration package for the financial year known as the Total Compensation Review ("TCR") process. The TCR process ensures linking remuneration to corporate and individual performance coupled with appropriate consideration of AIA's Group policy during the annual appraisal.

The Board and its respective Committees provide the necessary oversight in the formulation and implementation of the remuneration practices.

- Nominating Committee reviews the performance of the CEO and Senior Management Team, KSO and Key Responsible Persons ("KRP") to ensure alignment with strategies, goals and culture.
- Remuneration Committee reviews policy and practices before recommending remuneration package for the Board's approval.

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AIA BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY (CONTINUED)

iii. Remuneration Procedure (continued)

The Board and its respective Committees provide the necessary oversight in the formulation and implementation of the remuneration practices. (continued)

- Audit Committee and Risk Committee reviews the relevant KRPs' performance before approval by the Board.
- At the management level, the Management Risk Committee reviews the Risk dashboard reports escalated by the Operational Risk Management Committee for all departments.

With effect from 1 June 2019, Officers in control functions with discretionary Short Term Incentive awards will be based on a combination of AIA Group's business performance and the Group's business performance; thereby ensuring the impartiality of the actions of the Officers in control functions.

iv. Quantification of Remuneration

The Directors' remuneration for the financial year is required to be tabled to the Remuneration Committee, Board and Members of the Company for approval. Set out below is the breakdown of the total amount of remuneration for the following Directors during the financial year:

| Name of Director | Fixed Remuneration (RM) | Variable Remuneration (RM) | Total Remuneration (RM) |
|--|-------------------------|----------------------------|-------------------------|
| Ching Yew Chye @ Chng Yew Chye | 265,000 | 76,500 | 341,500 |
| Dr. Chong Su-Lin | 165,000 | 60,000 | 225,000 |
| Ching Neng Shyan | 170,000 | 72,000 | 242,000 |
| Mahani Binti Amat (appointed on 18 November 2019) | 21,251 | 6,000 | 27,251 |
| Mohd Daruis bin Zainuddin (retired on 11 March 2020) | 215,000 | 72,000 | 287,000 |
| Shulamite N K Khoo (resigned on 21 February 2020) | 145,000 | 58,500 | 203,500 |
| TOTAL | 981,251 | 345,000 | 1,326,251 |

The Directors and Officers' liability insurance policy with a total premium of RM58,000 is taken and borne by the Company covering all Directors and Officers of the Company and its subsidiaries and related companies incorporated in Malaysia, collectively.

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AIA BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(E) REMUNERATION POLICY (CONTINUED)

iv. Quantification of Remuneration (continued)

The following breakdown provides the remuneration awarded to the CEO and Senior Management Team during the financial year:

| Total value of remuneration awards | Unrestricted (RM) | Deferred (RM) |
|---|--------------------------|----------------------|
| Fixed remuneration | | |
| • Cash-based | 13,345,947 | - |
| • Other | 2,946,151 | - |
| Variable remuneration | | |
| • Cash-based | 5,377,254 | - |
| • Shares and share-linked instruments | - | 10,574,163 |

(F) PUBLIC ACCOUNTABILITY

As a custodian of public funds, the Group's dealings with the public are always conducted fairly, honestly and professionally. The Group meets all prescriptive and best practice requirements under this section relating to unfair practices.

OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps to ascertain that:
- (i) 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 impairment losses had been made for doubtful debts; and
 - (ii) any current assets which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Group and of the Company have been written down to an amount which the current assets might be expected to realise.

AIA BHD.
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DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

- (b) At the date of this report, the Directors of the Group and of the Company are not aware of any circumstances:
- (i) which would render the amounts written off for bad debts or the amount of impairment losses in the Group and in the Company inadequate to any substantial extent; or
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
 - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
 - (iv) not otherwise dealt with in this report or the financial statements of the Group and of the Company that would render any amount stated in the financial statements misleading.
- (c) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and 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 Group and of the Company which has arisen since the end of the financial year.
- (d) 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, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due;
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and
 - (iii) the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

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

- (e) Before the income statements and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its insurance contract liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework for Insurers/Takaful Operators.

Company No.

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AIA BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 30 to the financial statements.

There was no indemnity given to, or insurance effected for auditors of the Group and of the Company in respect of the liability for any act or omission in their capacity as auditors of the Group and of the Company during the financial year.

AUDITORS

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

This report was approved by the Board of Directors on 20 May 2020. Signed on behalf of the Board of Directors:

CHING NENG SHYAN
DIRECTOR

CHING YEW CHYE @ CHNG YEW CHYE
DIRECTOR

Company No.

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AIA BHD.
(Incorporated in Malaysia)

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

We, Ching Neng Shyan and Ching Yew Chye @ Chng Yew Chye, two of the Directors of AIA Bhd., do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 39 to 233 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and financial performance of the Group and of the Company for the financial year ended 31 December 2019 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated on 20 May 2020.

CHING NENG SHYAN
DIRECTOR

CHING YEW CHYE @ CHNG YEW CHYE
DIRECTOR

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

I, Andrew Loh Tse Yeow, the officer primarily responsible for the financial management of AIA Bhd., do solemnly and sincerely declare that, the financial statements set out on pages 39 to 233 are, to the best of my knowledge and belief, 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.

ANDREW LOH TSE YEOW

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 20 May 2020.

Before me:

COMMISSIONER FOR OATH



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIA BHD.
(Incorporated in Malaysia)
Company No. 200701032867 (790895-D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 39 to 233.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors’ report thereon

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

*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my*



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIA BHD. (CONTINUED)
(Incorporated in Malaysia)
Company No. 200701032867 (790895-D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIA BHD. (CONTINUED)
(Incorporated in Malaysia)
Company No. 200701032867 (790895-D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIA BHD. (CONTINUED)
(Incorporated in Malaysia)
Company No. 200701032867 (790895-D)

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SHIRLEY GOH
01778/08/2020 J
Chartered Accountant

Kuala Lumpur
20 May 2020

Company No.

200701032867 (790895-D)

AIA BHD.
(Incorporated in Malaysia)

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

| | Note | Group | | Company | |
|--|------|----------------------|----------------------|----------------------|----------------------|
| | | 31.12.2019 RM'000 | 31.12.2018 RM'000 | 31.12.2019 RM'000 | 31.12.2018 RM'000 |
| Property, plant and equipment | 3 | 446,272 | 434,777 | 444,966 | 434,418 |
| Right-of-use assets | 4 | 134,388 | - | 133,917 | - |
| Investment properties | 5 | 363,130 | 363,220 | 363,130 | 363,220 |
| Prepaid land lease payments | 6 | - | 1,146 | - | 1,146 |
| Intangible assets | 7 | 129,487 | 98,017 | 118,087 | 94,319 |
| Investment in subsidiaries | 8 | - | - | 487,859 | 253,000 |
| Investment in associates | 9 | 16,397 | 83,558 | 88 | 88 |
| Available-for-sale financial assets | 10 | 9,196,675 | 8,766,691 | 8,610,624 | 8,416,978 |
| Fair value through profit or loss financial assets | 11 | 40,156,127 | 35,393,740 | 39,063,935 | 35,388,499 |
| Loans and receivables | 12 | 4,525,445 | 4,833,091 | 4,483,243 | 4,756,315 |
| Reinsurance/retakaful assets | 13 | 405,827 | 283,010 | 375,679 | 268,015 |
| Insurance/takaful receivables | 14 | 324,950 | 332,442 | 278,331 | 291,033 |
| Deferred tax assets | 19 | 2,384 | 7,078 | - | - |
| Current tax assets | | 173,115 | 112,714 | 159,305 | 110,654 |
| Cash and cash equivalents | | 1,287,050 | 872,332 | 799,146 | 839,783 |
| Total assets | | 57,161,247 | 51,581,816 | 55,318,310 | 51,217,468 |
| Equity and liabilities | | | | | |
| Share capital | 16 | 810,000 | 1,450,890 | 810,000 | 1,450,890 |
| Retained earnings | 17 | 3,365,427 | 3,261,029 | 3,369,914 | 3,266,919 |
| Asset revaluation reserve | | 32,026 | 28,618 | 32,026 | 28,618 |
| Available-for-sale fair value reserve | | 480,060 | 41,642 | 467,322 | 40,244 |
| Total equity attributable to: | | | | | |
| Owners of the parent | | 4,687,513 | 4,782,179 | 4,679,262 | 4,786,671 |
| Non-controlling interest | | 59,548 | - | - | - |
| Total equity | | 4,747,061 | 4,782,179 | 4,679,262 | 4,786,671 |
| Insurance/takaful contract liabilities | 18 | 43,877,289 | 38,958,804 | 42,265,173 | 38,627,221 |
| Deferred tax liabilities | 19 | 675,244 | 485,362 | 666,694 | 485,362 |
| Insurance/takaful payables | 20 | 6,826,113 | 6,406,975 | 6,788,201 | 6,396,914 |
| Derivative financial instrument | 21 | 9,213 | - | 9,213 | - |
| Other payables | 22 | 889,263 | 948,496 | 773,178 | 921,300 |
| Lease liabilities | 4 | 137,064 | - | 136,589 | - |
| Total liabilities | | 52,414,186 | 46,799,637 | 50,639,048 | 46,430,797 |
| Total equity and liabilities | | 57,161,247 | 51,581,816 | 55,318,310 | 51,217,468 |

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

Company No.

200701032867 (790895-D)

AIA BHD.
(Incorporated in Malaysia)

**INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

| | <u>Note</u> | <u>Group</u> | | <u>Company</u> | |
|--|-------------|---|---|---|---|
| | | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> |
| <u>Continuing operations</u> | | | | | |
| Gross earned premiums/contributions | 24(a) | 9,983,933 | 9,947,311 | 9,630,259 | 9,638,391 |
| Premiums/contributions ceded to reinsurers/retakaful operators | 24(b) | <u>(1,039,469)</u> | <u>(1,046,907)</u> | <u>(1,018,693)</u> | <u>(1,021,679)</u> |
| Net earned premiums/contributions revenue | | 8,944,464 | 8,900,404 | 8,611,566 | 8,616,712 |
| Investment income | 25 | 2,248,044 | 2,442,223 | 2,236,583 | 2,423,914 |
| Net realised gains | 26 | 13,226 | 5,809 | 13,047 | 5,277 |
| Fair value gains/(losses) | 27 | 1,818,965 | (1,191,004) | 1,818,741 | (1,190,896) |
| Other operating income | 28 | <u>42,907</u> | <u>38,476</u> | <u>71,033</u> | <u>52,666</u> |
| Total net revenue | | <u>13,067,606</u> | <u>10,195,908</u> | <u>12,750,970</u> | <u>9,907,673</u> |
| Gross benefits and claims paid | 29(a) | (7,849,194) | (7,643,999) | (7,743,995) | (7,555,084) |
| Claims ceded to reinsurers/retakaful operators | 29(b) | 689,208 | 743,117 | 683,007 | 742,712 |
| Gross change to insurance/takaful contract liabilities | 29(c) | (3,636,848) | (269,911) | (3,623,634) | (264,952) |
| Change in insurance/takaful contract liabilities ceded to reinsurers/retakaful operators | 29(d) | <u>109,935</u> | <u>52,032</u> | <u>107,664</u> | <u>52,346</u> |
| Net insurance/takaful benefits and claims | | <u>(10,686,899)</u> | <u>(7,118,761)</u> | <u>(10,576,958)</u> | <u>(7,024,978)</u> |
| Fee and commission expenses | | (999,413) | (942,948) | (914,230) | (870,412) |
| Management expenses | 30 | <u>(929,158)</u> | <u>(953,730)</u> | <u>(887,522)</u> | <u>(886,127)</u> |
| Other expenses | | <u>(1,928,571)</u> | <u>(1,896,678)</u> | <u>(1,801,752)</u> | <u>(1,756,539)</u> |

Company No.

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AIA BHD.
(Incorporated in Malaysia)

**INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

| | <u>Note</u> | <u>Group</u> | | <u>Company</u> | |
|--|-------------|---|---|---|---|
| | | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> |
| Profit before share of profit/(loss) from associate | | 452,136 | 1,180,469 | 372,260 | 1,126,156 |
| Share of profit/(loss) from associate | | 4,940 | (4,972) | - | - |
| Profit before tax | | 457,076 | 1,175,497 | 372,260 | 1,126,156 |
| Tax (expense)/credit attributable to policyholders and unitholders | | (233,241) | 15,292 | (233,241) | 15,292 |
| Profit before tax attributable to shareholders from continuing operations | | 223,835 | 1,190,789 | 139,019 | 1,141,448 |
| Tax expense | 31 | (285,967) | (213,442) | (270,679) | (215,397) |
| Tax expense/(credit) attributable to policyholders and unitholders | | 233,241 | (15,292) | 233,241 | (15,292) |
| Tax expense attributable to shareholders | | (52,726) | (228,734) | (37,438) | (230,689) |
| Profit after tax for the financial year/period from continuing operations | | 171,109 | 962,055 | 101,581 | 910,759 |
| <u>Discontinued operations</u> | | | | | |
| Profit after tax for the financial year/period from discontinued operations | | - | - | - | 12,778 |
| Profit after tax for the financial year/period | | 171,109 | 962,055 | 101,581 | 923,537 |
| Profit attributable to: | | | | | |
| Owners of the parent | | 170,871 | 962,055 | 101,581 | 923,537 |
| Non-controlling interest | | 238 | - | - | - |
| | | 171,109 | 962,055 | 101,581 | 923,537 |
| Basic earnings per share (sen) | 16 | 89 | 501 | | |

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

Company No.

200701032867 (790895-D)

AIA BHD.
(Incorporated in Malaysia)

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

| | <u>Group</u> | | <u>Company</u> | |
|---|---|---|---|---|
| | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> |
| Profit after tax for the financial year/period | 171,109 | 962,055 | 101,581 | 923,537 |
| Other comprehensive income: | | | | |
| <u>Items that may be subsequently reclassified to profit or loss</u> | | | | |
| Net gains arising during the financial year/period | 583,751 | 75,706 | 572,606 | 75,294 |
| Net realised gains transferred to income statements | (13,153) | (7,384) | (12,972) | (6,852) |
| Deferred taxation | (135,187) | (16,190) | (132,556) | (16,197) |
| Change in available-for-sale fair value reserve | 435,411 | 52,132 | 427,078 | 52,245 |
| Share of other comprehensive income from associate | 1,356 | 93 | - | - |
| Continuing operations | 436,767 | 52,225 | 427,078 | 52,245 |
| Discontinued operations | - | - | - | (152) |
| | 436,767 | 52,225 | 427,078 | 52,093 |
| <u>Items that will not be subsequently reclassified to profit or loss</u> | | | | |
| Net gains arising during the financial year/period | 7,682 | 7,727 | 7,682 | 7,727 |
| Deferred taxation | (245) | 364 | (245) | 364 |
| Change in insurance/takaful contract liabilities | (6,264) | (6,824) | (6,264) | (6,824) |
| Change in asset revaluation reserve - continuing operations | 1,173 | 1,267 | 1,173 | 1,267 |
| Remeasurements | 1,706 | (4,751) | 1,706 | (4,751) |
| Deferred taxation | (292) | 817 | (292) | 817 |
| Post employment benefit obligations - continuing operations | 1,414 | (3,934) | 1,414 | (3,934) |
| Total other comprehensive income - net of tax, for the financial year/period | 439,354 | 49,558 | 429,665 | 49,426 |

Company No.

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AIA BHD.

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**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

| | <u>Group</u> | | <u>Company</u> | |
|---|---|---|---|---|
| | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> |
| <u>Comprising:</u> | | | | |
| Continuing operations | 439,354 | 49,558 | 429,665 | 49,578 |
| Discontinued operations | - | - | - | (152) |
| | <u>439,354</u> | <u>49,558</u> | <u>429,665</u> | <u>49,426</u> |
| Total comprehensive income for the financial year/period | <u>610,463</u> | <u>1,011,613</u> | <u>531,246</u> | <u>972,963</u> |
| <u>Comprising:</u> | | | | |
| Continuing operations | 610,463 | 1,011,613 | 531,246 | 960,337 |
| Discontinued operations | - | - | - | 12,626 |
| | <u>610,463</u> | <u>1,011,613</u> | <u>531,246</u> | <u>972,963</u> |

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

Company No.

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

| Group | Attributable to owners of the Company | | | | | | | Total RM'000 |
|---|---------------------------------------|--|---|---------------------------------------|---------------------------------|-----------------|---------------------------------------|-----------------|
| | Non-distributable | | | | Distributable | | Non-controlling interest RM'000 | |
| | Share capital RM'000 | Available-for- sale fair value reserve RM'000 | Asset revaluation reserve RM'000 | Share- based reserves RM'000 | Retained earnings* RM'000 | Total RM'000 | | |
| At 1 January 2019 | | | | | | | | |
| - As previously reported | 1,450,890 | 41,642 | 28,618 | - | 3,261,029 | 4,782,179 | - | 4,782,179 |
| - Opening adjustment on adoption of MFRS 16 | - | - | 2,235 | - | - | 2,235 | - | 2,235 |
| - As adjusted | 1,450,890 | 41,642 | 30,853 | - | 3,261,029 | 4,784,414 | - | 4,784,414 |
| Profit after tax for the financial year | - | - | - | - | 170,871 | 170,871 | 238 | 171,109 |
| Other comprehensive income for the financial year | - | 436,767 | 1,173 | - | 1,414 | 439,354 | - | 439,354 |
| Total comprehensive income for the financial year | - | 436,767 | 1,173 | - | 172,285 | 610,225 | 238 | 610,463 |
| Share based compensation: | | | | | | | | |
| - value of employee services | - | - | - | 12,480 | - | 12,480 | - | 12,480 |
| - repayment to ultimate parent company | - | - | - | (12,480) | - | (12,480) | - | (12,480) |
| Capital reduction (Note 16) | (640,890) | - | - | - | - | (640,890) | - | (640,890) |
| Reserves arising from acquisition of subsidiaries (Note 42) | - | 1,651 | - | - | (67,887) | (66,236) | - | (66,236) |
| Acquisition of subsidiaries (Note 42) | - | - | - | - | - | - | 59,310 | 59,310 |
| At 31 December 2019 | 810,000 | 480,060 | 32,026 | - | 3,365,427 | 4,687,513 | 59,548 | 4,747,061 |

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**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

Group

| | <u>Share capital</u> RM'000 | <u>Available-for- sale fair value reserve</u> RM'000 | <u>Asset revaluation reserve</u> RM'000 | <u>Share- based reserves</u> RM'000 | <u>Retained earnings*</u> RM'000 | <u>Total</u> RM'000 |
|---|------------------------------------|---|--|--|---|------------------------|
| At 1 December 2017 | 1,450,890 | (10,583) | 29,739 | - | 3,260,520 | 4,730,566 |
| Profit after tax for the financial period | - | - | - | - | 962,055 | 962,055 |
| Reclassification of asset revaluation reserves to retained earnings | | | (2,388) | | 2,388 | - |
| Other comprehensive income for the financial period | - | 52,225 | 1,267 | - | (3,934) | 49,558 |
| Total comprehensive income for the financial period | - | 52,225 | (1,121) | - | 960,509 | 1,011,613 |
| Share based compensation: | | | | | | |
| - value of employee services | - | - | - | 12,140 | - | 12,140 |
| - repayment to ultimate parent company | - | - | - | (12,140) | - | (12,140) |
| Dividend paid (Note 32) | - | - | - | - | (960,000) | (960,000) |
| At 31 December 2018 | <u>1,450,890</u> | <u>41,642</u> | <u>28,618</u> | <u>-</u> | <u>3,261,029</u> | <u>4,782,179</u> |

* Included in retained earnings is RM1,798 million (2018: RM2,439 million) which comprise surplus from the Life Non-Participating Fund (net of deferred tax). This amount is only distributable to the shareholders upon the actual transfer of surplus from the Life Non-Participating Fund to the Shareholder's Fund as approved by the Appointed Actuary and Board of Directors of the Company.

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**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

| <u>Company</u> | <u>Non-distributable</u> | | | <u>Distributable</u> | | |
|---|--------------------------------|--|--|---------------------------------------|-------------------------------------|------------------------|
| | <u>Share capital</u> RM'000 | <u>Available-for-sale fair value reserve</u> RM'000 | <u>Asset revaluation reserve</u> RM'000 | <u>Share-based reserves</u> RM'000 | <u>Retained earnings*</u> RM'000 | <u>Total</u> RM'000 |
| At 1 January 2019 | | | | | | |
| - As previously reported | 1,450,890 | 40,244 | 28,618 | - | 3,266,919 | 4,786,671 |
| - Opening adjustment on adoption of MFRS 16 | - | - | 2,235 | - | - | 2,235 |
| - As adjusted | 1,450,890 | 40,244 | 30,853 | - | 3,266,919 | 4,788,906 |
| Profit after tax for the financial year | - | - | - | - | 101,581 | 101,581 |
| Other comprehensive income for the financial year | - | 427,078 | 1,173 | - | 1,414 | 429,665 |
| Total comprehensive income for the financial year | - | 427,078 | 1,173 | - | 102,995 | 531,246 |
| Share based compensation: | | | | | | |
| - value of employee services | - | - | - | 12,424 | - | 12,424 |
| - repayment to ultimate parent company | - | - | - | (12,424) | - | (12,424) |
| Capital reduction (Note 16) | (640,890) | - | - | - | - | (640,890) |
| At 31 December 2019 | 810,000 | 467,322 | 32,026 | - | 3,369,914 | 4,679,262 |

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**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

| <u>Company</u> | | | | | | <u>Non-distributable</u> | <u>Distributable</u> | <u>Total</u> RM'000 |
|--|--------------------------------|--------------------------------|--|--|---|---------------------------------------|-------------------------------------|------------------------|
| | <u>Share capital</u> RM'000 | <u>Share premium</u> RM'000 | <u>Available-for-sale fair value reserve</u> RM'000 | <u>Asset revaluation reserve</u> RM'000 | <u>Reserves of a disposal group classified as held-for-sale</u> RM'000 | <u>Share-based reserves</u> RM'000 | <u>Retained earnings*</u> RM'000 | |
| At 1 December 2017 | 1,450,890 | - | (12,001) | 29,739 | 152 | - | 3,304,928 | 4,773,708 |
| Profit after tax for the financial period | - | - | - | - | - | - | 923,537 | 923,537 |
| Other comprehensive income for the financial period | - | - | 52,245 | 1,267 | (152) | - | (3,934) | 49,426 |
| Total comprehensive income for the financial period | - | - | 52,245 | 1,267 | - | - | 919,603 | 972,963 |
| Transfer of gain on disposal of self occupied properties through other comprehensive income to retained earnings | - | - | - | (2,388) | - | - | 2,388 | - |
| Share based compensation: | | | | | | | | |
| - value of employee services | - | - | - | - | - | 12,130 | - | 12,130 |
| - repayment to ultimate parent company | - | - | - | - | - | (12,130) | - | (12,130) |
| Dividend paid (Note 32) | - | - | - | - | - | - | (960,000) | (960,000) |
| At 31 December 2018 | <u>1,450,890</u> | <u>-</u> | <u>40,244</u> | <u>28,618</u> | <u>-</u> | <u>-</u> | <u>3,266,919</u> | <u>4,786,671</u> |

* Included in retained earnings is RM1,798 million (2018: RM2,439 million) which comprise surplus from the Life Non-Participating Fund (net of deferred tax). This amount is only distributable to the shareholders upon the actual transfer of surplus from the Life Non-Participating Fund to the Shareholder's Fund as approved by the Appointed Actuary and Board of Directors of the Company.

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

Company No.

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**STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

| | <u>Note</u> | <u>Group</u> | | <u>Company</u> | |
|--|-------------|---|---|---|---|
| | | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit before taxation | | | | | |
| Continuing operations | | 223,835 | 1,190,789 | 139,019 | 1,141,448 |
| Discontinued operations | | - | - | - | 18,599 |
| | | <u>223,835</u> | <u>1,190,789</u> | <u>139,019</u> | <u>1,160,047</u> |
| Tax expense/(credit) attributable to policyholders and unitholders | | 233,241 | (15,292) | 233,241 | (15,292) |
| Rental, interest and dividend Income | | (2,240,744) | (2,432,688) | (2,224,492) | (2,424,272) |
| Realised gains | 26 | (13,153) | (7,384) | (12,974) | (5,985) |
| Fair value (gains)/losses | 27 | (1,818,965) | 1,191,004 | (1,818,741) | 1,191,055 |
| Impairment losses on property, plant and equipment | | 4 | - | 4 | - |
| Bad debts recovery from insurance receivable | | 1,518 | - | - | - |
| Allowance for impairment Losses | 28 | (10,913) | 4,688 | (8,372) | 4,553 |
| Interest expense on lease liabilities | 4 | 5,881 | - | 5,879 | - |
| Write off of intangible assets | 28 | - | 3,438 | - | 3,438 |
| Depreciation | | | | | |
| - property, plant and equipment | 30 | 31,983 | 32,926 | 31,878 | 32,857 |
| - right of use assets | 30 | 21,395 | - | 21,393 | - |
| Amortisation | | | | | |
| - prepaid land lease payments | 30 | - | 28 | - | 28 |
| - intangible assets | 30 | 15,135 | 16,375 | 13,445 | 15,587 |
| Share of (profit)/loss from Associate | | (4,940) | 4,972 | - | - |
| Write off of property, plant and equipment | 28 | 9 | - | 9 | - |
| (Gain)/Loss on sale of property, plant and equipment | 26 | (73) | 1,575 | (73) | 1,575 |

AIA BHD.
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

| | <u>Note</u> | <u>Group</u> | | <u>Company</u> | |
|---|-------------|---|---|---|---|
| | | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> |
| Changes in working capital: | | | | | |
| Increase in AFS and FVTPL financial assets | | (1,580,329) | (1,609,630) | (1,487,776) | (1,491,200) |
| Increase in reinsurance /retakaful assets | | (109,463) | (50,019) | (107,664) | (51,838) |
| Decrease/(Increase) in insurance/takaful receivables | | 23,671 | (13,684) | 21,573 | (5,974) |
| Decrease/(Increase) in loans and receivables | | 354,721 | (35,690) | 227,004 | (56,372) |
| Increase in insurance/takaful payables | | 392,093 | 279,994 | 391,287 | 277,119 |
| Increase in insurance/takaful contract liabilities | | 3,622,271 | 276,795 | 3,623,633 | 279,078 |
| (Decrease)/Increase in other payables | | (263,709) | 169,736 | (146,416) | 160,559 |
| Cash used in operating activities | | <u>(1,116,532)</u> | <u>(992,067)</u> | <u>(1,098,143)</u> | <u>(925,037)</u> |
| Income taxes paid | | (278,445) | (392,365) | (272,416) | (390,335) |
| Rental income received | | 29,405 | 30,075 | 29,405 | 30,075 |
| Interest income received | | 1,860,619 | 1,999,487 | 1,843,351 | 1,990,121 |
| Interest paid | | (5,881) | - | (5,879) | - |
| Dividend income received | | 428,088 | 457,792 | 427,801 | 457,649 |
| Net cash inflows from operating activities | | <u>917,254</u> | <u>1,102,922</u> | <u>924,119</u> | <u>1,162,473</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of intangible assets | | (38,101) | (30,214) | (37,255) | (29,656) |
| Purchase of property, plant and equipment | | (22,068) | (21,103) | (21,960) | (21,080) |
| Purchase of investment properties | | (10,457) | (1,552) | (10,457) | (1,552) |
| Investment in associates | | - | (25,000) | - | - |
| Payment for acquisition of subsidiaries, net of cash acquired | 42 | 228,319 | - | (234,859) | (90,000) |
| Proceed from disposal of property, plant and equipment | | 79 | 29,685 | 79 | 29,685 |
| Cash received upon transfer of General Insurance business | | - | - | - | 11,613 |
| Settlement of derivative instruments | | (693) | - | (693) | - |
| Net cash inflows/(outflows) from investing activities | | <u>157,079</u> | <u>(48,184)</u> | <u>(305,145)</u> | <u>(100,990)</u> |

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**STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

| | <u>Note</u> | <u>Group</u> | | <u>Company</u> | |
|--|-------------|---|---|---|---|
| | | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Payment for lease liabilities | | (18,725) | - | (18,721) | - |
| Capital reduction | | (640,890) | - | (640,890) | - |
| Dividends paid | | - | (960,000) | - | (960,000) |
| Net cash outflows from financing activities | | <u>(659,615)</u> | <u>(960,000)</u> | <u>(659,611)</u> | <u>(960,000)</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | | | |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY/1 DECEMBER | | <u>872,332</u> | <u>777,594</u> | <u>839,783</u> | <u>738,300</u> |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | <u>1,287,050</u> | <u>872,332</u> | <u>799,146</u> | <u>839,783</u> |
| <u>Cash and cash equivalents comprised:</u> | | | | | |
| Cash and bank balances | | 344,919 | 283,982 | 205,786 | 252,853 |
| Fixed and call deposits with licensed financial institutions | | <u>942,131</u> | <u>588,350</u> | <u>593,360</u> | <u>586,930</u> |
| | | <u>1,287,050</u> | <u>872,332</u> | <u>799,146</u> | <u>839,783</u> |

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

Analysis of changes in liabilities arising from financing activities is as follows:

| | <u>Group</u> | <u>Company</u> |
|--|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2019</u> |
| | <u>RM'000</u> | <u>RM'000</u> |
| As at 31 December 2018 | - | - |
| Effects of adoption of MFRS 16 | 97,939 | 97,939 |
| As at 1 January 2019 (as restated) | <u>97,939</u> | <u>97,939</u> |
| <u>Non-cash changes:</u> | | |
| Additions | 57,378 | 57,371 |
| Additions arising from acquisition of subsidiaries | 472 | - |
| Interest expense | 5,881 | 5,879 |
| <u>Cash changes:</u> | | |
| Net cash flows from operating activities | (5,881) | (5,879) |
| Net cash flows from financing activities | (18,725) | (18,721) |
| As at 31 December 2019 | <u>137,064</u> | <u>136,589</u> |

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

1 CORPORATE INFORMATION

The Company is engaged principally in the underwriting of life insurance business, including investment-linked business. The principal activities of the subsidiaries are stated in Note 8 to the financial statements.

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

The Company is a public limited liability company, incorporated on 4 October 2007 under the Companies Act 2016 and the Financial Services Act, 2013 ("FSA") and domiciled in Malaysia. The registered office and principal place of business of the Company are located at Level 29, Menara AIA, 99 Jalan Ampang, 50450 Kuala Lumpur and Menara AIA, 99 Jalan Ampang, 50450 Kuala Lumpur respectively.

The immediate holding company of the Company is Orange Policy Sdn. Bhd. ("OPSB"), whose ultimate holding company is AIA Group Limited, a company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong Limited.

The financial statements are authorised for issue by the Board on 20 May 2020.

2 SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements of all the years presented.

2.1 Basis of preparation

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

The preparation of financial statements in conformity with MFRS and IFRS 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 Directors to exercise 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 result may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Non-controlling interests are presented within equity and represent the portion of profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Non-controlling interests are measured at the non-controlling interests' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and their share of change in the subsidiaries' equity since that date. Acquisition and disposal of non-controlling interests are treated as transactions between equity holders.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the Group's financial statements using the equity method of accounting and are initially recognised at cost. Under the equity method, the investment in associates is carried in the Group's statements of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' post-acquisition profit is recognised in the Group's income statements and its share of post-acquisition movement in other comprehensive income is recognised in the Group's statements of comprehensive income.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment losses with respect to the Group's net investment in the associates. The associates are equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associates.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further loss, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not consistent with those of the Group, the share of results is arrived at from the last audited financial statements available and/or management accounts up to the end of the accounting period. Uniform accounting policies are adopted for transactions and events in similar circumstances.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Business combination under common control

Business combinations under common control are accounted for using the predecessor method of accounting. Under the predecessor method of accounting, the income statements include the results of the acquired business from the date of combinations. The assets and liabilities of the acquired business are accounted for at the date of combination, based on the carrying amounts of the acquiree adjusted for alignment of accounting policies, if any. The excess of the cost of acquisition over the aggregate carrying amounts of assets and liabilities as of the date of the combination is taken to equity.

(c) Investment in subsidiaries and associates under the Company's separate financial statements

In the Company's separate financial statements, investments in subsidiaries and associates are stated at cost less impairment losses. Income from investment in associates is recognised in the income statements to the extent of dividends received subsequent to the date of acquisition.

(d) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statements during the financial year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the original assessed standard of performance of the existing asset will flow to the Group.

Subsequent to initial recognition, property, plant and equipment except for land and owner occupied buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and owner occupied buildings are stated at revalued amount, which is the fair value at the date of the revaluation less subsequent depreciation and accumulated impairment losses, if any. The Group records its interest in leasehold land and land use rights associated with owner occupied buildings as right-of-use assets, which are reported as a component of property, plant and equipment and carried at fair value at last valuation date less accumulated depreciation.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Property, plant and equipment and depreciation (continued)

Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in the statement of comprehensive income to the extent of the decrease previously recognised. When an asset is adjusted for the latest fair value, any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset. Upon disposal or retirement of an asset, any asset revaluation reserve relating to the particular asset is transferred directly to the retained earnings.

The residual values, useful life and depreciation method are reviewed and adjusted, if applicable, at each date of the statements of financial position. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gains and losses on disposal of an asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statements and presented within net realised gains/(losses).

Freehold land has an unlimited useful life and therefore is not depreciated. Leasehold land is depreciated over its remaining lease term. Major building improvements are depreciated over the shorter of the remaining useful lives of the related assets or 10 years. Depreciation of other property and equipment is calculated using the straight-line method to allocate cost less any residual value over the estimated useful life, as summarised as follows:

| | |
|----------------------------------|----------------|
| Leasehold land | 60 – 912 years |
| Buildings | 30 years |
| Furniture, fixtures and fittings | 5 – 10 years |
| Office equipments | 3 – 5 years |
| Motor vehicles | 5 years |

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

Fair value is arrived at by reference to market evidence of transactions priced for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued and/or periodic intervening valuation by internal qualified professionals as appropriate.

Gains and losses arising from changes in the fair values of the investment properties are recognised in the income statements in the financial year in which they arise and presented within the fair value gains/(losses).

Investment properties are derecognised when either 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 the income statements and presented within net realised gains/(losses) in the financial year in which they arise.

(f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each date of the statements of financial position. The amortisation expense on intangible assets with finite lives is recognised in the income statements.

Gains or losses arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statements and presented within net realised gains/(losses) when the asset is derecognised.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

Software

The cost of acquired computer software licenses 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 life, generally not exceeding a period of 5 years.

The cost of significant development of knowledge-based software and computer application to meet the unique requirements of the insurance/takaful business is capitalised and recognised as an intangible asset in accordance with MFRS 138. The Group establishes that these development costs will generate economic benefits beyond one year and are associated with identifiable software applications controlled by the commissioning, on a straight-line basis over its useful economic life. The carrying amount is assessed for impairment when there is an indication of impairment.

Membership fees

The membership fees are in relation to club membership subscription. The membership fees with finite lives are amortised over its useful life using the straight-line method and those with infinite lives are subject to impairment test.

(g) Impairment of non-financial assets

Property, plant and equipment, investment properties, intangible assets and other non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's or cash generating unit's fair value less costs of disposal and its value in use. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statements. 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 the income statements immediately.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) Financial assets and financial liabilities

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

The significant accounting policies by the categories above are as follows:

FVTPL

Financial assets at FVTPL comprise two sub-categories:

- financial assets designated at fair value through profit or loss; and
- financial assets held for trading, including derivatives not designated as hedges.

The Group designates financial assets at FVTPL if this eliminates a measurement inconsistency or if the related assets and liabilities are actively managed on a fair value basis, including:

- financial assets held to back investment-linked contracts and participating funds; and
- other financial assets managed on a fair value basis; consisting of the Group's equity portfolio and investments held by the Group's fully consolidated investment-linked fund.

Financial assets at FVTPL are initially recorded at fair value. Subsequent to initial recognition, financial assets at FVTPL are remeasured at fair value. Fair value adjustments and realised gains and losses on derecognition are recognised in the income statements and presented within fair value gains/(losses). Transaction costs in respect of financial assets at FVTPL are expensed as they are incurred.

Fair value changes of financial assets at FVTPL are analysed between change resulting from foreign currency fluctuation and other fair value changes. Foreign currency fluctuation and other fair value changes are included under other operating income/(expense) and fair value gains/(losses) in the income statements respectively.

Dividend income from equity instruments designated at fair value through profit or loss is recognised as investment income in the income statements, generally when the security becomes ex-dividend or the right to receive payment is established. Interest income is recognised as investment income in the income statements using the effective interest method.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

LAR

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those the Group intends to sell in the short term or that it has designated as FVTPL. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest rate method less any impairment losses.

Interest income from loans and receivables is recognised as investment income in the income statements using the effective interest rate method. Gains and losses are recognised in the income statements when the investments are derecognised or impaired, as well as through the amortisation process.

AFS

Financial assets, other than those at FVTPL, LAR and HTM, are classified as AFS. AFS category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Group's debt securities (other than those backing participating funds and investment-linked contracts). AFS financial assets are initially recognised at fair value plus attributable transaction costs. For AFS debt securities, the difference between their cost and par value is amortised. AFS financial assets are subsequently measured at fair value.

Interest income from debt securities classified as AFS is recognised as investment income in the income statements using the effective interest method.

Unrealised gains and losses on securities classified as AFS are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary AFS investments, such as debt securities, and impairment of AFS financial assets are recognised under "other operating income/(expense)" in the income statements.

Changes in the fair value of securities classified as AFS, except for impairment losses and relevant foreign exchange gains and losses on monetary AFS investments, are recorded in a separate fair value reserve within equity.

On derecognition, the cumulative fair value gains and losses previously reported in equity are transferred to the income statements and presented within net realised gains/(losses).

Financial liabilities

All financial liabilities are initially recorded at fair value. Subsequent to initial recognition, financial liabilities are carried at amortised cost using effective interest rate method.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

Derivative financial instruments

Derivative financial instruments primarily include foreign exchange contracts that derive their value mainly from underlying foreign exchange rates. All derivatives are initially recognized at their fair value, which represents their cost excluding transaction costs, which are expensed, giving rise to a day one loss. They are subsequently remeasured at their fair value, with movements in this value recognized in profit or loss. Fair values are obtained from quoted market prices or, if there are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Whilst the Group enters into derivative transactions to provide economic hedges under the Group's risk management framework, it adopts hedge accounting to these transactions only in limited circumstances. This is either because the transactions would not meet the specific IFRS/MFRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. Where hedge accounting does not apply, these transactions are treated as held for trading and fair value movements are recognized immediately in investment experience.

(i) Fair value of financial instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, having regard to the specific characteristics of the asset or liability concerned, assuming that the transfer takes place in the most advantageous market to which the Group has access. The fair values of financial instruments traded in active markets (such as financial instruments at FVTPL and AFS) are based on quoted market prices at the date of the statements of financial position. The quoted market price used for financial assets held by the Group is the current bid price. The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions at the date of each statements of financial position. The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place between market participants at the date of the statement of financial position.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value i.e. the cost of the deposits/placements and accrued interest.

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.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets

General

Financial assets are assessed for impairment on a regular basis. A financial asset is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the financial asset. The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset, or group of assets, is impaired includes observable data that comes to the attention of the Group about the following events:

- significant financial difficulty of the issuer or debtor; or
- a breach of contract, such as a default or delinquency in payments; or
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
 - adverse changes in the payment status of issuers; and
 - national or local economic conditions that correlate with increased default risk.

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is considered to have taken place if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount is decreased through a charge to the income statements. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognised as an impairment loss in the income statements.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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 the income statements, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

AFS financial assets

When a decline in the fair value of an AFS financial asset has been recognised in shareholders' equity and there is objective evidence that the financial asset is impaired, the cumulative loss already recognised directly in shareholders' equity is recognised in the current financial year's income statements. The Group generally considers an AFS debt security for evidence of impairment when it is identified as credit impaired. In the absence of any other evidence of credit impairment, a debt security would be assessed for impairment when there is a significant decline in fair value.

If the fair value of a debt security classified as AFS increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statements, the impairment loss is reversed through the income statements.

Where, following the recognition of an impairment loss in respect of an AFS debt security, the financial asset suffers further decline in value, such further decline are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.

(k) Derecognition of financial assets

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

(l) Equity instruments

Ordinary share capital

Issued capital represents the nominal value of shares issued plus any share premium received from the issue of share capital, if any. Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the date of the statement of financial position. A dividend proposed or declared after the date of the statement of financial position, but before the financial statements are authorised for issue, is not recognised as a liability at the date of statement of financial position. Upon the dividend becoming payable, it will be accounted for as a liability.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Repurchase agreement

Obligations on securities sold under repurchase agreements are securities which have been sold from the Group's portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the statements of financial position.

The securities sold under repurchase agreements are treated as pledged assets and are not derecognised from the statements of financial position.

(n) Product classification

Insurance/takaful contracts are those contracts that transfer significant insurance/takaful risk. These contracts may also transfer financial risk. Significant insurance/takaful risk is defined as the possibility of paying significantly more in a scenario when the insured/takaful event occurs than in a scenario in which it does not. Scenarios considered are those with commercial substance.

Investment contracts are those contracts without significant insurance/takaful risk. Once a contract has been classified as an insurance/takaful or investment contract, no reclassification is subsequently performed unless the terms of the agreement are later amended.

Certain contracts with discretionary participation features ("DPF") supplement the amount of guaranteed benefits due to the policyholders. These contracts are distinct from other insurance/takaful and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Customers may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

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

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Product classification (continued)

Approximately 90% of surpluses in the DPF funds must be distributed to the policyholders as a group in accordance with the relevant terms under the FSA. The Group 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 the insurance contract liabilities.

Certain derivatives embedded in insurance contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statements.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Group with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

The recognition and measurement of life insurance/family takaful contracts and general insurance contracts are set out in Note 2.2(o) and 2.2(p) to the financial statements respectively.

(o) Life insurance/family takaful contracts

Gross premium/contribution

Premium/contribution income includes premium/contribution recognised in the ordinary life/family takaful and investment-linked business. Gross premium/contribution is recognised as soon as the amount of the premium/contribution can be reliably measured. First premium/contribution is recognised from inception date and subsequent premium/contribution is recognised when it is due.

At the end of the period, all due premiums/contribution are accounted for to the extent that they can be reliably measured.

Premium/contribution income of investment-linked business is in respect of the net creation of units which represents premiums/contributions paid by policyholders/certificate holders 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.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Life insurance/family takaful contracts (continued)

Commission and agency expenses of life insurance business

Gross commission and agency expenses, which are costs directly incurred in securing premium on insurance policies are charged to the income statements in the financial year in which they are incurred.

Management expenses, commission expenses and wakalah fee of family takaful business

Acquisition costs, commissions and management expenses are borne by the family takaful fund at an agreed percentage of the gross contribution, in accordance with the principles of Wakalah as approved by the Shariah Committee of the subsidiary engaged in the takaful business and agreed between the participants and the subsidiary. These expenses are allocated to the shareholders' fund via wakalah fee and recognised as income by the shareholders' fund upon issuance of certificates.

At each reporting date, the Group estimates its net future expense cash flow required on the maintenance of the family takaful fund. If the estimate shows that there is deficiency in the net future expense cash flow, the deficiency is immediately charged to the income statements with a corresponding credit to a provision of expense liabilities.

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/takaful operator is notified.

Benefits and claims arising on life insurance policies/family takaful certificates, including settlement costs, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy/family takaful certificate is recognised as follows:

- (i) maturity or other policy benefits payments due on specified dates are treated as claims payable on the due dates;
- (ii) 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;
- (iii) benefits payable under investment-linked business include net cancellation of units and are recognised as surrender; and
- (iv) bonus on DPF policy upon declaration.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Life insurance/family takaful contracts (continued)

Life insurance contract liabilities

Life insurance contract liabilities comprise (i) claims liabilities, (ii) actuarial liabilities, (iii) unallocated surplus, and (iv) net asset value attributable to unitholders.

(i) Claims liabilities

Claims liabilities represent the amounts payable under a life insurance policy in respect of claims including settlement costs, and are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

(ii) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and premiums are charged.

Actuarial liabilities are valued, where appropriate by using a prospective actuarial valuation based on 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 expected future cash flows are determined using best estimate assumptions. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is provided for in the valuation of non-participating policies and non-unit liabilities of investment-linked policies, and in the valuation of participating policies on guaranteed benefits only.

Actuarial liabilities in respect of a participating insurance contract is taken as the higher of the guaranteed benefits insurance liabilities or the total benefits insurance liabilities at the fund level derived as stated above.

In the case of a life policy where the future premiums are not determinable, the reserve is determined as the higher of the gross premium valuation ("GPV") reserve or the accumulated amount, plus the unearned cost of insurance. The GPV calculation includes assumptions regarding the pattern of premium payments as the product has a flexible premium nature. In this regard, assumptions are made on the proportion of policyholders taking premium holidays in the future.

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

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Life insurance/family takaful contracts (continued)

Life insurance contract liabilities (continued)

(ii) Actuarial liabilities (continued)

The valuation of the non-unit liability is conducted for each investment-linked policy by a cash flow projection. The liability in respect of the non-unit component of an investment-linked policy is valued by projecting future cash flows to ensure that all future outflows can be met without recourse to additional finance or capital support at any future time during the duration of the investment-linked policy.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the reserves shall be the higher of the current accumulated amount, or the sum of the current accumulated amount and a reserve calculated on the net cash flows. These cash flows shall, where appropriate, be determined by considering the projected future values of the accumulated amount, at the relevant confidence level.

The actuarial liabilities are derecognised when the insurance contract expires, is discharged or is cancelled.

Adjustments to the actuarial liabilities at each reporting date are recorded in the income statements.

The liability adequacy test has been in-built in the valuation of actuarial liabilities and hence no separate assessment is carried out.

(iii) Unallocated surplus

Surpluses of contracts with DPF are attributable to policyholders and shareholders and the amount and timing of the distribution to both the policyholders and shareholders are determined by an actuarial valuation of the long term liabilities to policyholders at the date of the statements of financial position is made in accordance with the provision of the Financial Services Act, 2013 and related regulations by the Company's Appointed Actuary.

Unallocated surplus of contracts with DPF, where the amount are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

(iv) Net asset value attributable to unitholders

The unit liability of investment-linked policy 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.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Life insurance/family takaful contracts (continued)

Family takaful contract liabilities

Family takaful contract liabilities comprise (i) claims liabilities, (ii) actuarial liabilities, (iii) AFS fair value reserves, (iv) net asset value attributable to participants and (v) unallocated surplus.

(i) Claims liabilities

Claims liabilities represent the amounts payable under a family takaful contract in respect of claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

(ii) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and contributions are charged.

Actuarial liabilities as determined by the annual actuarial valuation are based on the Guidelines on Valuation Basis for Liabilities of Family Takaful Business by BNM pursuant to the Islamic Financial Services Act, 2013 ("IFSA").

Actuarial liabilities are valued, where appropriate by using a prospective actuarial valuation based on the sum of the present value of future gross benefits (with investment returns net of tax), less the present value of future gross tabarru arising from the policy discounted at the appropriate risk discount rate plus unearned tabarru.

The expected future cash flows are determined using best estimate assumptions after taking into account of all future contractual cash flows and investment returns net of tax from assets backing such liabilities. An appropriate allowance for provision of risk margin adverse deviation from expected experience is provided for in the valuation.

The principal uncertainty in the Shareholder's fund ("SHF") Takaful contract liabilities arises from the technical provisions which includes the unearned wakalah fees reserve and expenses liabilities of Family Takaful fund.

The cash flow reserves for SHF were set up using a discounted cash flow method to ensure the present value of expected future expenses payable from SHF in managing the Family Takaful fund for the full contractual obligation of the Family Takaful contract can be covered by present value of expected future income.

The expense liabilities for Family Takaful business are estimated assuming that the block of in-force contracts are to be maintained on a 'going concern' basis. Under a 'going concern' scenario, the contracts so valued are taken as a particular sub-block of contracts and the cashflows are valued to the point the last certificate goes off the books.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Life insurance/family takaful contracts (continued)

Family takaful contract liabilities (continued)

(ii) Actuarial liabilities (continued)

The maintenance expenses related to such contracts include the cost of functions that would normally be associated with operation of the business on a 'going concern' basis.

The expense liabilities are calculated using adjusted parameters to provide sufficiency at the appropriate percentile of statistical variation that is higher than the best estimate values.

The expense liabilities are the present value of future maintenance expenses on the current in-force Family Takaful contracts and are further reduced by the present value of future SHF income realisable with reasonable certainty relating to those in-force Family Takaful contracts.

The present value of the future Shareholders' Fund income relates to future renewal wakalah fees, certificate fee and fund management charges of Investment-Linked Participant's Account (PA).

The actuarial liabilities are derecognised when the Takaful contract expires, is discharged or is cancelled.

Adjustment to the actuarial liabilities at each reporting date are recorded in income statement of Takaful fund.

The liability adequacy test has been in-built in the valuation of actuarial liabilities and hence no separate assessment is to be carried out.

(iii) AFS fair value reserves

Where unrealised gain or losses arise on AFS financial assets of the Family Takaful fund, the adjustment to the Takaful contract liabilities equal to the effect that the realization of those gains or losses at the end of the reporting period would have on those liabilities is recognised directly in the statement of comprehensive income.

(iv) Net asset value attributable to participants

Net asset value represents contribution received and investment surplus credited to the certificate less deduction for mortality and morbidity cost and expenses charges. The net asset value attributable to participants of Investment-linked certificate is equal to the net asset value of the investment-linked funds.

(v) Unallocated surplus

Unallocated surplus represents undistributable underwriting surplus set aside in accordance with the terms of the contract while accumulated deficits represent underwriting loss which will be made good by SHF via *al-qard al-hasan*.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) General insurance contracts

Gross premium

Gross premium income is recognised in the period in respect of risks assumed during that particular period.

Acquisition costs and deferred acquisition costs (“DAC”)

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

Commission costs are deferred to the extent that these costs are recoverable out of future premium. All other acquisition costs are charged to the income statements in the period in which they are incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the terms of expected future premiums. Amortisation is recognised in the income statements.

An impairment review is performed at each date of the statements of financial position or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statements.

DAC is also considered in the liability adequacy test for each accounting period. DAC is derecognised when the related contracts are either settled or disposed of.

DAC is insignificant, predominantly short-term in nature and hence is netted against premium liabilities in the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) General insurance contracts (continued)

Claims and expenses

Claims and losses adjustment expenses are charged to the income statements as incurred based on the estimated liabilities for compensation owed to policyholders or third parties damaged by the policyholders. They include direct and indirect claims settlements costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group.

General insurance contracts liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise of (i) unearned premium reserves and (ii) claims liabilities.

(i) Unearned premium reserves

Unearned Premium Reserves ("UPR") represents the portion of the net premiums of insurance policies written that relate to the unexpired periods of policies at the end of the financial year. In determining UPR at the date of the statements of financial position, the method that most accurately reflects the actual unearned premiums is used as follows:

- (i) 1/24th method for all other classes of Malaysian policies; and
- (ii) time apportionment method for non-annual policies.

At each reporting date, the Group reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premium. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions and a Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall fund level. The current estimate of future contractual cash flow is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and shall allow for expected future premium refunds.

If these estimates show that the carrying amount of the unearned premium less related deferred acquisition costs is inadequate, the deficiency is recognised in the income statements by setting up a provision for liability adequacy.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) General insurance contracts (continued)

Claims and expenses (continued)

(ii) Claims liabilities

Claims liabilities are determined based on the estimated ultimate cost of all claims incurred but not settled at the date of the statements of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of the statements of financial position.

The liabilities are calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions at best estimate and a PRAD calculated at the overall fund level. The liabilities are not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised.

The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The liability adequacy test has been in-built in the estimation of claims liabilities and hence no separate assessment is carried out.

(q) Reinsurance/retakaful

The Group cedes reinsurance/retakaful in the normal course of business, with retentions varying by line of business. The cost of reinsurance/retakaful is accounted for over the life of the underlying reinsured policies/retakaful contracts, using assumptions consistent with those used to account for such policies/contracts.

Premiums/contributions ceded and claims reimbursed are recognised in the same accounting period as the original policy/contract in which the reinsurance/retakaful relates, and are presented on a gross basis in the income statements and statements of financial position.

Fee income derived from reinsurers/retakaful operators in the course of reinsurance/retakaful are credited to the income statements in the financial year in which they are earned.

Reinsurance/retakaful assets consist of amounts receivable in respect of ceded insurance/takaful liabilities. Amounts recoverable from reinsurers/retakaful operators are estimated in a manner consistent with the reinsured's insurance/takaful's contract or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance/retakaful contract.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Reinsurance/retakaful (continued)

To the extent that reinsurance/retakaful contracts principally transfer financial risk (as opposed to insurance risk), they are accounted for directly through the statements of financial position and are not included in reinsurance/retakaful assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums/contributions or fees to be retained by the reinsured/takaful operator.

If a reinsurance/retakaful asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment losses in the income statements. A reinsurance/retakaful asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance/retakaful asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer/retakaful operator can be reliably measured.

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

Premiums and claims on assumed facultative 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. Premiums, claims and other transactions costs on assumed treaty reinsurance are accounted for upon notification by the ceding companies or upon receipt of the statements of accounts.

(r) Insurance/takaful receivables

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

If there is objective evidence that the insurance/takaful receivable is impaired, the Group reduces the carrying amount of the insurance/takaful receivable accordingly and recognises that impairment losses in the income statements. The Group gathers the objective evidence that an insurance/takaful receivables is impaired using the same process adopted for financial assets carried at amortised cost. These processes are described in Note 2.2(j) to the financial statements.

(s) Other financial liabilities and insurance payables

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

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(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(t) Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits 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 statements of financial position and adjusted to reflect the current best estimate. Where 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.

(u) Cash and cash equivalents

Cash and cash equivalents consist of cash in hands, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purposes. The Group classifies the cash flows for purchase and disposal of investments in financial assets in its operating cash flows as the purchases are funded from the cash flows predominantly associated with the origination of insurance/takaful contracts, net of the cash flows for payments of insurance/takaful benefits and claims benefits.

(v) Leases**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 Group (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Group 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 Group is a lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

(i) Lease term

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

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) Leases (continued)

Accounting policies applied from 1 January 2019 (continued)

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

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

Leasehold land and prepayments for land use rights that are held for the Group's own occupancy are recognised at cost and measured subsequently using the revaluation model in MFRS 16 Property, plant and equipment, where changes in fair values in subsequent periods are generally recognised in other comprehensive income. ROU assets that are not investment properties or property, plant and equipment are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

(iii) Lease liabilities

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) Leases (continued)

Accounting policies applied from 1 January 2019 (continued)

(iii) Lease liabilities (continued)

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

The Group 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 comprehensive income.

(iv) Reassessment of lease liabilities

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

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

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line bases as an expense in statement of comprehensive income.

Accounting policies applied before 31 December 2018

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of lands are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease.

Assets leased out under operating leases are recorded on the statements of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(w) Employee benefits

(i) Short term benefits

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

(ii) Post retirement benefit obligations

Defined contribution plans

As required by law, the Group makes contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statements as incurred. Once the contributions have been paid, the Group has no further payment obligations.

The Group operates one unfunded post retirement employee benefit schemes, whose members receive benefits on a defined benefit basis (related to length of service). The defined benefit plans provide life and medical benefits for employees after retirement.

(iii) Share-based compensation plans

AIA Group Limited ("AIAGL") launched a number of share-based compensation plans, under which the Company receives services from the employees, Directors and Officers as consideration for the shares and/or options of AIAGL. These share-based compensation plans comprise the Share Option Scheme ("SO Scheme"), the Restricted Share Unit Scheme ("RSU Scheme") and the Employee Share Purchase Plan ("ESPP").

The AIA Group's share compensation plans offered to the Group's employees are equity-settled plans. Under the equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of AIAGL's shares and/or options is recognised as an expense in the income statements over the vesting period with a corresponding amount recorded in equity. Any amounts recharged from AIAGL related to equity-settled share-based payment arrangements are offsetted against the amounts recorded in equity.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(w) Employee benefits (continued)

(iii) Share-based compensation plans (continued)

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or options granted. Non-market vesting conditions are included in assumptions for the number of shares and/or options that are expected to be vested. At each period end, the Group revises its estimates of the number of shares and/or options that are expected to be vested. Any impact of the revision to original estimates is recognised in income statements with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

The Group estimates the fair value of options using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk free interest rate, expected dividend rate and the expected life of the option.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

(x) Provision for agents' retirement benefits

Provision for agents' retirement benefits is calculated in accordance with the terms and conditions in the respective agents' agreements. The scheme is not separately funded. The Group pays fixed contributions into the Agency Provident Fund.

Provision for agents' retirement benefits is charged to profit or loss in the period in which it relates.

(y) Non-current assets (or disposal group) held-for-sale

Non-current assets (or disposal groups) are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount or fair value less costs to sell.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(z) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the consolidated financial statements are presented in thousands of Ringgit Malaysia ("RM"), which is the Group's and the Company's presentation currency.

(ii) Foreign currency transactions

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

Translation differences on non-monetary items carried at fair value are translated at the rates prevailing on the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not re-translated.

(iii) Operations denominated in functional currency other than Ringgit Malaysia

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) equity items are translated at their respective historical rates;
- (ii) assets and liabilities for each statements of financial position presented are translated at the closing rate at the date of the statements of financial position;
- (iii) income and expenses for each income statements are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iv) all resulting exchange differences are recognised as a separate component of equity under the foreign currency translation reserve.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(aa) Taxation

Income tax on the income statements for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the date of statements of financial position.

Deferred tax is provided for, using the liability method, on temporary differences at the date of the statements of financial position between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can 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 statements of financial position. Deferred tax is recognised in the income statements, except when it arises from a transaction which is recognised in other comprehensive income or directly in equity in which case the deferred tax is also charged or credited in other comprehensive income.

(ab) Other revenue recognition

(i) Rental income

Rental income is recognised on accrual basis and presented within the investment income in the income statements.

(ii) Gains and losses on disposal of investments

Gains and losses on disposal of investments are determined by comparing the sales proceeds and the carrying amounts of the investments and the resulting difference is credited or charged to the income statements. Cost is determined by specific identification.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised MFRS

(a) Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Group's financial year beginning on or after 1 January 2019

The following accounting standards, amendments and interpretations have been adopted for the first time for the financial year beginning on 1 January 2019.

- MFRS 15 "Revenue from contracts with customers" replaces MFRS 118 "Revenue" and MFRS 111 "Construction contracts" and related interpretations
- MFRS 16 "Leases" supercedes MFRS 117 "Leases" and the related interpretations
- Amendments to MFRS 2 "Share-based Payment – Classification and Measurement of Share-based Payment Transactions"
- Amendments to MFRS 9 "Prepayment Features with Negative Compensation"
- Amendments to MFRS 119 "Plan Amendment, Curtailment or Settlement"
- Amendments to MFRS 128 "Long-term interests in Associates and Joint Ventures"
- Amendments to MFRS 140 "Investment Property – Transfer of Investment Property"
- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"
- IC Interpretation 23 "Uncertainty over Income Tax Treatments"
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 128 "Investments in Associates and Joint Ventures"
- Annual Improvements to MFRSs 2015 – 2017 Cycle: MFRS 3 "Business Combinations"
- Annual Improvements to MFRSs 2015 – 2017 Cycle: MFRS 112 "Income Taxes"
- Annual Improvements to MFRSs 2015 – 2017 Cycle: MFRS 123 "Borrowing Costs"

The adoption of the above accounting standards, amendments and interpretations does not have any significant financial impact to the financial statements.

- MFRS 9 "Financial Instruments" replaces MFRS 139 "Financial Instruments: Recognition and Measurement"

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised MFRS (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Group's financial year beginning on or after 1 January 2019 (continued)

- MFRS 9 "Financial Instruments" replaces MFRS 139 "Financial Instruments: Recognition and Measurement" (continued)

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to income statement; and
- When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in income statement.

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

The standard is mandatorily effective for financial periods beginning on or after 1 January 2019, but the Group and the Company qualifies for a temporary exemption as explained below:

- Amendments to MFRS 4 - Applying MFRS 9 "Financial Instruments" with MFRS 4 ("Insurance Contracts")

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

The amendments provide 2 different approaches for entities: (i) a temporary exemption from MFRS 9 for entities that meet specific requirements; and (ii) the overlay approach. Both approaches are optional.

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised MFRS (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Group's financial year beginning on or after 1 January 2019 (continued)

- Amendments to MFRS 4 - Applying MFRS 9 "Financial Instruments" with MFRS 4 ("Insurance Contracts") (continued)

An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2019. An entity may start applying the overlay approach when it applies MFRS 9 for the first time.

The Group and the Company's business activity is predominantly insurance as the liabilities connected with the Group and the Company's insurance businesses made up of more than 90% of the Company's total liabilities. Hence, the Group and the Company qualifies for the temporary exemption from applying MFRS 9 and intends to defer and adopt MFRS 9 together with MFRS 17, Insurance Contracts for the financial year beginning on or after 1 January 2021. On 17 March 2020, the International Accounting Standards Board ("IASB") has decided to defer the effective date of IFRS 17 and the temporary exemption of the adoption of IFRS 9 for insurers to annual reporting periods beginning on or after 1 January 2023. The Board expects to issue the amendments to IFRS 17 in the second quarter of 2020.

Additional disclosures as required under Amendments to MFRS 4 are included in the financial statements of the Group as stated in Note 44.

- MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group has elected to apply MFRS 16 to its leases retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Therefore, the comparative information has not been restated and continues to be reported under MFRS 117.

Furthermore, as permitted by the standard the Group has elected to initially measure the right-of-use asset in relation to each lease at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. This approach results in no adjustment to the opening balance of retained earnings on 1 January 2019. However, due to the initial application of the revaluation model in measuring the right-of-use assets relating to the Group's interest in leasehold land and land use rights associated with property held for own use, the opening balance of asset revaluation reserve has been adjusted by RM2.2m on 1 January 2019.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised MFRS (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Group's financial year beginning on or after 1 January 2019 (continued)

- MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations (continued)

The adoption of MFRS 16 affected the following items in the balance sheet on 1 January 2019:

| | Group | | |
|--------------------------------------|--|---|---|
| | Balance at 1 January 2019, as previously reported | Opening adjustments on adoption of MFRS 16 | Balance at 1 January 2019, as adjusted |
| | RM'000 | RM'000 | RM'000 |
| <u>Assets</u> | | | |
| Property, plant and equipment | 434,777 | 12,761 | 447,538 |
| Prepaid land lease payment | 1,146 | (1,146) | - |
| Right-of-use assets | - | 97,979 | 97,979 |
| <u>Equity and liabilities</u> | | | |
| Asset revaluation reserve | 28,618 | 2,235 | 30,853 |
| Insurance contract liabilities | 38,958,804 | 8,055 | 38,966,859 |
| Deferred tax liabilities | 478,284 | 1,325 | 479,609 |
| Lease liabilities | - | 97,979 | 97,979 |
| | Company | | |
| | Balance at 1 January 2019, as previously reported | Opening adjustments on adoption of MFRS 16 | Balance at 1 January 2019, as adjusted |
| | RM'000 | RM'000 | RM'000 |
| <u>Assets</u> | | | |
| Property, plant and equipment | 434,418 | 12,761 | 447,179 |
| Prepaid land lease payment | 1,146 | (1,146) | - |
| Right-of-use assets | - | 97,979 | 97,979 |
| <u>Equity and liabilities</u> | | | |
| Asset revaluation reserve | 28,618 | 2,235 | 30,853 |
| Insurance contract liabilities | 38,627,221 | 8,055 | 38,635,276 |
| Deferred tax liabilities | 485,362 | 1,325 | 486,687 |
| Lease liabilities | - | 97,979 | 97,979 |

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised MFRS (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Group's financial year beginning on or after 1 January 2019 (continued)

- MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations (continued)

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 right-of-use 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 Group 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 *Leases* and IC Int. 4 *Determining whether an Arrangement contains a Lease*.

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

| | |
|--|----------------------|
| | 2019 |
| | RM'000 |
| Operating lease commitments disclosed as at 31 December 2018 | 60,619 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | (13,457) |
| (Less): short-term leases recognised on a straight-line basis as expense | (3,182) |
| Add: adjustments as a result of a different treatment of extension and termination options | 53,999 |
| Lease liability recognised as at 1 January 2019 | <u>97,979</u> |
| Of which are: | |
| Current lease liabilities | 22,401 |
| Non-current lease liabilities | 75,578 |
| | <u>97,979</u> |

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised MFRS (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are relevant to the Group but are not effective for the financial year ended 31 December 2019 and have not been early adopted

The Group will apply the new standards, amendments to standards and interpretations in the following period:

Financial year beginning on/after 1 January 2021

- MFRS 17 “Insurance Contracts” replaces MFRS 4 “Insurance Contracts” and the related interpretations

MFRS 17 “Insurance Contracts” replaces MFRS 4 “Insurance Contracts” applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 “Revenue”.

An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be ‘unbundled’ and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

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

Alternative measurement models are provided for the different insurance coverages:

- a) Simplified premium allocation approach if the insurance coverage period is a year or less; and
- b) Variable fee approach should be applied for insurance contracts that specify a link between payments to the policyholders 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.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised MFRS (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are relevant to the Group but are not effective for the financial year ended 31 December 2019 and have not been early adopted (continued)

The Group will apply the new standards, amendments to standards and interpretations in the following period (continued):

Financial year beginning on/after 1 January 2021 (continued)

- MFRS 17 “Insurance Contracts” replaces MFRS 4 “Insurance Contracts” and the related interpretations (continued)

The Group is in the midst of conducting a detailed assessment of the new standard. The standard is currently mandatorily effective for financial year beginning on or after 1 January 2021. On 17 March 2020, the International Accounting Standards Board (“IASB”) has decided to defer the effective date of IFRS 17 and the temporary exemption of the adoption of IFRS 9 for insurers to annual reporting periods beginning on or after 1 January 2023. The Board expects to issue the amendments to IFRS 17 in the second quarter of 2020.

2.4 Critical accounting estimates and judgements in applying accounting policies

In the preparation of the financial statements, management has made judgements and estimates in applying accounting policies in respect of the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the judgements made by management that have the most significant effect on the amounts recognised in the financial statements:

Key sources of estimation uncertainty

(a) Actuarial liabilities for life insurance contracts and premium liabilities for accident & health contracts

There are several sources of uncertainty in the estimation of these liabilities, including future mortality and morbidity, withdrawals, expenses and discount rates. In developing the operating assumptions, management has utilised the Company’s actual historical experience wherever available. For certain products where experience is limited, experience for similar products or pricing assumptions has been used.

Prescribed risk-free discount rates are used for discounting of cash flows to value Ringgit Malaysia denominated liabilities of non-DPF life policies, the guaranteed liabilities under participating policies and the non-unit liabilities of investment-linked policies. The risk-free discount rate was based on a weighted average of zero-coupon spot yields of Malaysian Government Securities (“MGS”). Where total guaranteed and non-guaranteed benefits of the DPF funds are considered, the discount rate assumed is the current portfolio yield graded to the long-term interest rate assumption for the DPF fund.

The key assumptions used and the sensitivity analysis on the key assumptions as at 31 December 2019, based on the change in one specific assumption while holding all other assumptions constant are disclosed in Note 37 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Critical accounting estimates and judgements in applying accounting policies (continued)

The following are the judgements made by management that have the most significant effect on the amounts recognised in the financial statements: (continued)

Key sources of estimation uncertainty (continued)

(b) Actuarial liabilities of family takaful contracts

The estimation of the actuarial liabilities of family takaful is made in accordance with the guidelines issued by BNM.

For Shareholders' fund, the cash flow reserves for operator fund were set up using a discounted cash flow to ensure the present value of expected future expenses payable from Shareholders' fund in managing the family takaful fund for the full contractual obligation of the family takaful contracts can be covered by present value of expected future income.

For family takaful fund, the cash flow reserves were set up using a discounted cash flow method, with sufficient PRAD, to ensure that any future negative cash flow resulting from insufficiency of tabarru' charges to meet expected family takaful contract benefits are eliminated.

(c) Valuation of general insurance contract liabilities

For general insurance contracts, Bornheutter-Ferguson ("BF") methods are used to estimate the ultimate cost of outstanding claims.

BF method basically assumes that the claim experience for an accident year will produce a particular loss ratio and adjusted with subsequent actual claim experience.

The estimates of general insurance contract liabilities are therefore sensitive to various factors and uncertainties. These uncertainties may arise from changes in expected loss ratio used for each accident years and changes in average claim settlement period. Thus, the general settlement of eventual insurance contract liabilities may vary from the estimates.

The key assumptions used and the sensitivity analysis on the key assumptions as at 31 December 2019, based on the change in one specific assumption while holding all other assumptions constant are disclosed in Note 37 to the financial statements.

(d) Valuation of investment properties and properties held for own use

The Group uses independent professional valuers to determine the fair value of properties on the basis of highest and best use of the properties that is physically possible, legally permissible and financially feasible. In most cases, current use of the properties are considered to be its highest and best use. Different valuation approaches may be adopted to reach the fair value of a property. Under the market data approach, records of recent sales and offerings of similar properties are analysed and comparisons are made for factors such as size, location, quality and prospective use.

For investment properties, the discounted cash flow approach is used by reference to net rental income allowing for reversionary income potential to estimate the fair value of the properties. In some occasions, the cost approach is used as well to calculate the fair value which reflects the cost that would be required to replace the service capacity of the property.

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**NOTES TO THE FINANCIAL STATEMENTS
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3 PROPERTY, PLANT AND EQUIPMENT

| <u>Group</u> | <u>Freehold land</u> RM'000 | <u>Leasehold Land*</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|---|------------------------------------|--------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>At 31 December 2019</u> | | | | | | | | |
| <u>Cost/Valuation</u> | | | | | | | | |
| At 1 January 2019 | | | | | | | | |
| - As previously reported | 148,565 | 10,530 | 193,360 | 2,172 | 170,743 | 65,453 | 1,127 | 591,950 |
| - Opening adjustment on adoption of MFRS 16 | - | 12,761 | - | - | - | - | - | 12,761 |
| At 1 January 2019 (as restated) | 148,565 | 23,291 | 193,360 | 2,172 | 170,743 | 65,453 | 1,127 | 604,711 |
| Additions | - | - | - | 188 | 11,514 | 7,220 | 3,146 | 22,068 |
| Revaluation surplus recognised in other comprehensive income | 1,636 | 506 | 5,540 | - | - | - | - | 7,682 |
| Elimination of accumulated depreciation and impairment on revaluation | - | (332) | (7,179) | - | - | - | - | (7,511) |
| Disposal | - | - | - | (137) | (44) | - | - | (181) |
| Written off | - | - | - | - | (12) | (15) | - | (27) |
| Reclassification | - | - | - | - | 961 | 93 | (1,054) | - |
| Reclass from intangible assets (Note 7) | - | - | - | - | - | 42 | - | 42 |
| Acquisition of subsidiaries | - | - | - | - | 536 | 408 | - | 944 |
| At 31 December 2019 | 150,201 | 23,465 | 191,721 | 2,223 | 183,698 | 73,201 | 3,219 | 627,728 |

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**NOTES TO THE FINANCIAL STATEMENTS
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3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Group (continued)</u> | <u>Freehold land</u> RM'000 | <u>Leasehold Land*</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|---|------------------------------------|--------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>At 31 December 2019</u> | | | | | | | | |
| <u>Accumulated depreciation and impairment</u> | | | | | | | | |
| At 1 January 2019 | - | - | - | 1,582 | 102,965 | 52,626 | - | 157,173 |
| Depreciation charge for the financial year (Note 30) | - | 328 | 7,179 | 234 | 17,685 | 6,557 | - | 31,983 |
| Impairment loss | - | 4 | - | - | - | - | - | 4 |
| Disposal | - | - | - | (137) | (38) | - | - | (175) |
| Written off | - | - | - | - | (6) | (12) | - | (18) |
| Elimination of accumulated depreciation and impairment on revaluation | - | (332) | (7,179) | - | - | - | - | (7,511) |
| At 31 December 2019 | - | - | - | 1,679 | 120,606 | 59,171 | - | 181,456 |
| Net Book Value at 31 December 2019 | 150,201 | 23,465 | 191,721 | 544 | 63,092 | 14,030 | 3,219 | 446,272 |

*Right-of-use assets in relation to leasehold land are reported within property, plant and equipment

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**NOTES TO THE FINANCIAL STATEMENTS
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3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Group</u> | <u>Freehold land</u> RM'000 | <u>Leasehold land</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|--|------------------------------------|-------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>At 31 December 2018</u> | | | | | | | | |
| <u>Cost/Valuation</u> | | | | | | | | |
| At 1 December 2017 | 142,159 | 11,735 | 230,673 | 2,302 | 156,020 | 59,401 | 1,011 | 603,301 |
| Additions | - | - | - | 147 | 907 | 3,028 | 17,021 | 21,103 |
| Revaluation surplus/(deficit) recognised in other comprehensive income | 13,906 | 449 | (6,628) | - | - | - | - | 7,727 |
| Elimination of accumulated depreciation and impairment on revaluation | - | (14) | (8,025) | - | - | - | - | (8,039) |
| Disposal | (7,500) | (1,640) | (22,660) | (277) | - | (135) | - | (32,212) |
| Written off | - | - | - | - | (1,000) | (1,189) | - | (2,189) |
| Reclassification | - | - | - | - | 14,816 | 1,540 | (16,356) | - |
| Reclass from intangible assets (Note 7) | - | - | - | - | - | 2,808 | - | 2,808 |
| Reclass to intangible assets (Note 7) | - | - | - | - | - | - | (549) | (549) |
| At 31 December 2018 | 148,565 | 10,530 | 193,360 | 2,172 | 170,743 | 65,453 | 1,127 | 591,950 |

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**NOTES TO THE FINANCIAL STATEMENTS
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3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Group (continued)</u> | <u>Freehold land</u> RM'000 | <u>Leasehold land</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|---|------------------------------------|-------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>At 31 December 2018</u> | | | | | | | | |
| <u>Accumulated depreciation and impairment</u> | | | | | | | | |
| At 1 December 2017 | - | - | - | 1,640 | 86,942 | 46,845 | - | 135,427 |
| Depreciation charge for the financial period (Note 30) | - | 15 | 8,565 | 219 | 17,023 | 7,104 | - | 32,926 |
| Disposal | - | (1) | (540) | (277) | - | (134) | - | (952) |
| Written off | - | - | - | - | (1,000) | (1,189) | - | (2,189) |
| Elimination of accumulated depreciation and impairment on revaluation | - | (14) | (8,025) | - | - | - | - | (8,039) |
| At 31 December 2018 | - | - | - | 1,582 | 102,965 | 52,626 | - | 157,173 |
| Net Book Value at 31 December 2018 | 148,565 | 10,530 | 193,360 | 590 | 67,778 | 12,827 | 1,127 | 434,777 |

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**NOTES TO THE FINANCIAL STATEMENTS
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3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Company</u> | <u>Freehold land</u> RM'000 | <u>Leasehold Land*</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|---|------------------------------------|--------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>As at 31 December 2019</u> | | | | | | | | |
| <u>Cost/Valuation</u> | | | | | | | | |
| At 1 January 2019 | | | | | | | | |
| - As previously reported | 148,565 | 10,530 | 193,360 | 2,172 | 170,037 | 65,110 | 1,127 | 590,901 |
| - Opening adjustment on adoption of MFRS 16 | - | 12,761 | - | - | - | - | - | 12,761 |
| At 1 January 2019 (as restated) | 148,565 | 23,291 | 193,360 | 2,172 | 170,037 | 65,110 | 1,127 | 603,662 |
| Additions | - | - | - | 188 | 11,512 | 7,160 | 3,100 | 21,960 |
| Revaluation surplus recognised in other comprehensive income | 1,636 | 506 | 5,540 | - | - | - | - | 7,682 |
| Elimination of accumulated depreciation and impairment on revaluation | - | (332) | (7,179) | - | - | - | - | (7,511) |
| Disposal | - | - | - | (137) | (44) | - | - | (181) |
| Written off | - | - | - | - | (12) | (15) | - | (27) |
| Reclassification | - | - | - | - | 961 | 93 | (1,054) | - |
| Reclass from intangible assets (Note 7) | - | - | - | - | - | 42 | - | 42 |
| At 31 December 2019 | 150,201 | 23,465 | 191,721 | 2,223 | 182,454 | 72,390 | 3,173 | 625,627 |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Company</u> (continued) | <u>Freehold land</u> RM'000 | <u>Leasehold Land*</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|---|------------------------------------|--------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>Accumulated depreciation and impairment</u> | | | | | | | | |
| At 1 January 2019 | - | - | - | 1,582 | 102,582 | 52,319 | - | 156,483 |
| Depreciation charge for the financial year (Note 30) | - | 328 | 7,179 | 234 | 17,610 | 6,527 | - | 31,878 |
| Impairment loss | - | 4 | - | - | - | - | - | 4 |
| Disposal | - | - | - | (137) | (38) | - | - | (175) |
| Written off | - | - | - | - | (6) | (12) | - | (18) |
| Elimination of accumulated depreciation and impairment on revaluation | - | (332) | (7,179) | - | - | - | - | (7,511) |
| At 31 December 2019 | - | - | - | 1,679 | 120,148 | 58,834 | - | 180,661 |
| Net Book Value at 31 December 2019 | 150,201 | 23,465 | 191,721 | 544 | 62,306 | 13,556 | 3,173 | 444,966 |

*Right-of-use assets in relation to leasehold land are reported within property, plant and equipment

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Company</u> | <u>Freehold land</u> RM'000 | <u>Leasehold land</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|--|------------------------------------|-------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>As at 31 December 2018</u> | | | | | | | | |
| <u>Continuing operations</u> | | | | | | | | |
| <u>Cost/Valuation</u> | | | | | | | | |
| At 1 December 2017 | 142,159 | 11,735 | 230,673 | 2,302 | 154,349 | 57,840 | 1,011 | 600,069 |
| Additions | - | - | - | 147 | 907 | 3,005 | 16,986 | 21,045 |
| Revaluation surplus/(deficit) recognised in other comprehensive income | 13,906 | 449 | (6,628) | - | - | - | - | 7,727 |
| Elimination of accumulated depreciation and impairment on revaluation | - | (14) | (8,025) | - | - | - | - | (8,039) |
| Disposal | (7,500) | (1,640) | (22,660) | (277) | - | (135) | - | (32,212) |
| Reclassification | - | - | - | - | 14,781 | 1,540 | (16,321) | - |
| Reclass from intangible assets (Note 7) | - | - | - | - | - | 2,808 | - | 2,808 |
| Reclass to intangible assets (Note 7) | - | - | - | - | - | - | (549) | (549) |
| Reclass from discontinued operations | - | - | - | - | - | 52 | - | 52 |
| At 31 December 2018 | 148,565 | 10,530 | 193,360 | 2,172 | 170,037 | 65,110 | 1,127 | 590,901 |

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Company (continued)</u> | <u>Freehold land</u> RM'000 | <u>Leasehold land</u> RM'000 | <u>Buildings owner occupied properties</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|---|------------------------------------|-------------------------------------|--|-------------------------------------|---|--|--|------------------------|
| <u>Continuing operations</u> | | | | | | | | |
| <u>Accumulated depreciation and impairment</u> | | | | | | | | |
| At 1 December 2017 | - | - | - | 1,640 | 85,640 | 45,357 | - | 132,637 |
| Depreciation charge for the financial period (Note 30) | - | 15 | 8,565 | 219 | 16,942 | 7,058 | - | 32,799 |
| Disposal | - | (1) | (540) | (277) | - | (134) | - | (952) |
| Elimination of accumulated depreciation and impairment on revaluation | - | (14) | (8,025) | - | - | - | - | (8,039) |
| Reclass from discontinued operations | - | - | - | - | - | 38 | - | 38 |
| At 31 December 2018 | - | - | - | 1,582 | 102,582 | 52,319 | - | 156,483 |
| Net Book Value at 31 December 2018 | 148,565 | 10,530 | 193,360 | 590 | 67,455 | 12,791 | 1,127 | 434,418 |

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3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Company</u> | <u>Furniture, fixtures and fittings</u> RM'000 | <u>Office equipments</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|--|---|--|--|------------------------|
| <u>As at 31 December 2018</u> | | | | |
| <u>Discontinued operations</u> | | | | |
| <u>Cost/Valuation</u> | | | | |
| At 1 December 2017 | 671 | 205 | - | 876 |
| Additions | - | - | 35 | 35 |
| Reclass to continuing operations | - | (52) | - | (52) |
| Business transfer to AIA General Berhad | (671) | (153) | (35) | (859) |
| At 31 December 2018 | - | - | - | - |
| <u>Accumulated depreciation and impairment</u> | | | | |
| At 1 December 2017 | 303 | 172 | - | 475 |
| Depreciation charge for the financial period (Note 30) | 43 | 15 | - | 58 |
| Reclass to continuing operations | - | (38) | - | (38) |
| Business transfer to AIA General Berhad | (346) | (149) | - | (495) |
| At 31 December 2018 | - | - | - | - |
| Net Book Value at 31 December 2018 | - | - | - | - |

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3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Properties held for own use are carried at fair value at the reporting date less accumulated depreciation. The Group and the Company use independent professional valuers to determine the fair value of properties on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible.

In most cases, current use of the properties is considered to be the highest and best use for determining the fair values and are determined based on appropriate valuation techniques which may consider among other income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable inputs under the level 3 fair value hierarchy.

Increases in revaluation surplus on properties held for own use of RM8 million (2018: RM8 million) for the Group and Company were recognised in other comprehensive income during the financial year.

The net book value of revalued buildings had these assets been carried at cost less accumulated depreciation are as follows:

| | Group and Company | |
|-------------------------------------|--------------------------|-------------------|
| | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 |
| Freehold land | 6,440 | 6,440 |
| Leasehold land | 6,616 | 5,503 |
| Buildings owner occupied properties | <u>153,611</u> | <u>159,538</u> |

The table below set out the summary of changes in level 3 fair value for financial assets during the financial year.

| | Freehold land | Leasehold land | Building owner occupied properties |
|---|--------------------------|---------------------------|---|
| | RM'000 | RM'000 | RM'000 |
| At 30 November 2017 | 142,159 | 11,735 | 230,673 |
| Depreciation charge for the financial period | - | (14) | (8,025) |
| Disposal during the financial period | (7,500) | (1,640) | (22,660) |
| Revaluation surplus for the financial period recognised in other comprehensive income | <u>13,906</u> | <u>449</u> | <u>(6,628)</u> |
| At 31 December 2018 | <u>148,565</u> | <u>10,530</u> | <u>193,360</u> |
| At 1 January 2019 | | | |
| - As previously reported | 148,565 | 10,530 | 193,360 |
| - Opening adjustment on adoption of MFRS 16 | <u>-</u> | <u>12,761</u> | <u>-</u> |
| At 1 January 2019 (as restated) | 148,565 | 23,291 | 193,360 |
| Depreciation charge for the financial year | - | (328) | (7,179) |
| Impairment loss | - | (4) | - |
| Revaluation surplus for the financial year recognised in other comprehensive income | <u>1,636</u> | <u>506</u> | <u>5,540</u> |
| At 31 December 2019 | <u>150,201</u> | <u>23,465</u> | <u>191,721</u> |

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4 LEASES

This note provides information for leases where the Group and Company are lessees. For leases where the Group and Company are lessors, see note 34.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

| | Group | | Company | |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
| Rights-of-use assets | | | | |
| Properties | 134,083 | - | 133,781 | - |
| Others | 305 | - | 136 | - |
| | <u>134,388</u> | <u>-</u> | <u>133,917</u> | <u>-</u> |
| Lease liabilities | | | | |
| Current | 19,296 | - | 19,160 | - |
| Non-current | 117,768 | - | 117,429 | - |
| | <u>137,064</u> | <u>-</u> | <u>136,589</u> | <u>-</u> |

Additions to the right-of-use assets during the 2019 financial year for Group and Company were RM57.3 million.

Included in property, plant and equipment, there is RM23.5 million of right-of-use assets in relation to leasehold land.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

| | Group | | Company | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
| Depreciation charge of right-of-use assets | | | | |
| Properties | 21,085 | - | 21,085 | - |
| Others | 310 | - | 308 | - |
| | <u>21,395</u> | <u>-</u> | <u>21,393</u> | <u>-</u> |
| Interest expense (included in finance cost) | 5,881 | - | 5,879 | - |
| Expense relating to short-term leases (included in cost of goods sold and administrative expenses) | 707 | - | 707 | - |

The total cash outflow for leases for 2019 for Group and Company were RM24.6 million.

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5 INVESTMENT PROPERTIES

| <u>Group and Company</u> | <u>Freehold land</u> RM'000 | <u>Buildings</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|-----------------------------------|------------------------------------|----------------------------|--|------------------------|
| <u>At 31 December 2019</u> | | | | |
| At 1 January 2019 | 193,831 | 168,742 | 647 | 363,220 |
| Fair value changes (Note 27) | 2,527 | (13,074) | - | (10,547) |
| Addition | - | 45 | 10,412 | 10,457 |
| Reclassification | - | 99 | (99) | - |
| At 31 December 2019 | <u>196,358</u> | <u>155,812</u> | <u>10,960</u> | <u>363,130</u> |
| <u>At 31 December 2018</u> | | | | |
| At 1 December 2017 | 200,100 | 169,200 | 1,012 | 370,312 |
| Fair value changes (Note 27) | (6,269) | (2,375) | - | (8,644) |
| Addition | - | - | 1,552 | 1,552 |
| Reclassification | - | 1,917 | (1,917) | - |
| At 31 December 2018 | <u>193,831</u> | <u>168,742</u> | <u>647</u> | <u>363,220</u> |

Investment properties are carried at fair value at the reporting date as determined by independent professional valuers. Fair value of the Group and the Company's investment properties are determined based on appropriate valuation techniques which may consider among other income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable inputs under the level 3 fair value hierarchy.

No investment properties were pledged as security for banking facilities as at the date of the statements of financial position.

The following are amounts arising from investment properties that have been recognised in the income statements during the financial year:

| | <u>Group and Company</u> | |
|--|--|--|
| | <u>12 months period ended 31.12.2019</u> RM'000 | <u>13 months period ended 31.12.2018</u> RM'000 |
| Rental income | 20,933 | 26,043 |
| Direct operating expenses arising from investment properties that generate rental income | <u>(7,572)</u> | <u>(9,781)</u> |

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6 PREPAID LAND LEASE PAYMENTS

| | <u>Group and Company</u> | |
|--|--------------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 |
| At beginning of the financial year/period | | |
| - As previously reported | 1,146 | 1,174 |
| - Opening adjustment on adoption of MFRS 16 | (1,146) | - |
| At 1 January 2019 (as restated) | - | 1,174 |
| Amortisation for the financial year/period (Note 30) | - | (28) |
| At end of the financial year/period | - | 1,146 |
| | | |
| Analysed as: | | |
| Medium term leasehold land | - | 562 |
| Long term leasehold land | - | 584 |
| | - | 1,146 |
| | | |
| | <u>Group and Company</u> | |
| | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 |
| Current | - | 28 |
| Non-current | - | 1,118 |
| | - | 1,146 |
| | | |
| | | |

No leasehold land of the Group and the Company were pledged as security for banking facilities as at the date of the statements of financial position.

7 INTANGIBLE ASSETS

| <u>Group</u> | <u>Software</u> | <u>Membership</u> | <u>Work- in- progress</u> | <u>Total</u> |
|---|-----------------|-------------------|-------------------------------|--------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>At 31 December 2019</u> | | | | |
| <u>Cost</u> | | | | |
| At 1 January 2019 | 190,786 | 1,439 | 26,577 | 218,802 |
| Additions | 6,081 | - | 32,020 | 38,101 |
| Reclassification to property, plant and equipment (Note 3) | - | - | (42) | (42) |
| Acquisition of subsidiaries | 7,558 | - | 988 | 8,546 |
| Reclassification | 21,583 | - | (21,583) | - |
| At 31 December 2019 | 226,008 | 1,439 | 37,960 | 265,407 |
| | | | | |

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7 INTANGIBLE ASSETS (CONTINUED)

| <u>Group (continued)</u> | <u>Software</u> RM'000 | <u>Membership</u> RM'000 | <u>Work-in-progress</u> RM'000 | <u>Total</u> RM'000 |
|---|---------------------------|-----------------------------|-----------------------------------|------------------------|
| <u>At 31 December 2019</u> | | | | |
| <u>Accumulated amortisation</u> | | | | |
| At 1 January 2019 | 120,500 | 285 | - | 120,785 |
| Amortisation for the financial year (Note 30) | 15,113 | 22 | - | 15,135 |
| At 31 December 2019 | 135,613 | 307 | - | 135,920 |
| Net Book Value at 31 December 2019 | 90,395 | 1,132 | 37,960 | 129,487 |
| | | | | |
| <u>Group</u> | <u>Software</u> RM'000 | <u>Membership</u> RM'000 | <u>Work-in-progress</u> RM'000 | <u>Total</u> RM'000 |
| <u>At 31 December 2018</u> | | | | |
| <u>Cost</u> | | | | |
| At 1 December 2017 | 180,130 | 1,439 | 14,682 | 196,251 |
| Additions | 1,354 | - | 28,860 | 30,214 |
| Written off | (5,404) | - | - | (5,404) |
| Reclass to property, plant and equipment (Note 3) | - | - | (2,808) | (2,808) |
| Reclass from property, plant and equipment (Note 3) | - | - | 549 | 549 |
| Reclassification | 14,706 | - | (14,706) | - |
| At 31 December 2018 | 190,786 | 1,439 | 26,577 | 218,802 |
| <u>Accumulated amortisation</u> | | | | |
| At 1 December 2017 | 106,114 | 262 | - | 106,376 |
| Amortisation for the financial period (Note 30) | 16,352 | 23 | - | 16,375 |
| Written off | (1,966) | - | - | (1,966) |
| At 31 December 2018 | 120,500 | 285 | - | 120,785 |
| Net Book Value at 31 December 2018 | 70,286 | 1,154 | 26,577 | 98,017 |

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**NOTES TO THE FINANCIAL STATEMENTS
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7 INTANGIBLE ASSETS (CONTINUED)

| <u>Company</u> | <u>Software</u> RM'000 | <u>Membership</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|--|---------------------------|-----------------------------|--|------------------------|
| <u>At 31 December 2019</u> | | | | |
| <u>Cost</u> | | | | |
| At 1 January 2019 | 180,769 | 1,439 | 26,515 | 208,723 |
| Additions | 6,081 | - | 31,174 | 37,255 |
| Reclass to property, plant and equipment (Note 3) | - | - | (42) | (42) |
| Reclassification | 21,583 | - | (21,583) | - |
| At 31 December 2019 | <u>208,433</u> | <u>1,439</u> | <u>36,064</u> | <u>245,936</u> |
| <u>Accumulated amortisation</u> | | | | |
| At 1 January 2019 | 114,120 | 284 | - | 114,404 |
| Amortisation for the financial year (Note 30) | 13,423 | 22 | - | 13,445 |
| At 31 December 2019 | <u>127,543</u> | <u>306</u> | <u>-</u> | <u>127,849</u> |
| Net Book Value at 31 December 2019 | <u>80,890</u> | <u>1,133</u> | <u>36,064</u> | <u>118,087</u> |

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7 INTANGIBLE ASSETS (CONTINUED)

| <u>Company</u> | <u>Software</u> RM'000 | <u>Membership</u> RM'000 | <u>Work-in-progress</u> RM'000 | <u>Total</u> RM'000 |
|---|---------------------------|-----------------------------|-----------------------------------|------------------------|
| <u>Continuing operations</u> | | | | |
| <u>At 31 December 2018</u> | | | | |
| <u>Cost</u> | | | | |
| At 1 December 2017 | 171,582 | 1,439 | 14,228 | 187,249 |
| Additions | 1,101 | - | 28,036 | 29,137 |
| Written off | (5,404) | - | - | (5,404) |
| Reclass to property, plant and equipment (Note 3) | - | - | (2,808) | (2,808) |
| Reclass from property, plant and equipment (Note 3) | - | - | 549 | 549 |
| Reclassification | 13,490 | - | (13,490) | - |
| At 31 December 2018 | <u>180,769</u> | <u>1,439</u> | <u>26,515</u> | <u>208,723</u> |
| <u>Accumulated amortisation</u> | | | | |
| At 1 December 2017 | 101,355 | 262 | - | 101,617 |
| Amortisation for the financial period (Note 30) | 14,731 | 22 | - | 14,753 |
| Written off | (1,966) | - | - | (1,966) |
| At 31 December 2018 | <u>114,120</u> | <u>284</u> | <u>-</u> | <u>114,404</u> |
| Net Book Value at 31 December 2018 | <u>66,649</u> | <u>1,155</u> | <u>26,515</u> | <u>94,319</u> |

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7 INTANGIBLE ASSETS (CONTINUED)

| <u>Company</u> | <u>Software</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|---|---------------------------|--|------------------------|
| <u>Discontinued operations</u> | | | |
| <u>At 31 December 2018</u> | | | |
| <u>Cost</u> | | | |
| At 1 December 2017 | 7,794 | 454 | 8,248 |
| Additions | - | 519 | 519 |
| Reclassification | 383 | (383) | - |
| Business transfer to AIA General Berhad | (8,177) | (590) | (8,767) |
| At 31 December 2018 | - | - | - |
| <u>Accumulated amortisation</u> | | | |
| At 1 December 2017 | 4,005 | - | 4,005 |
| Amortisation for the financial period (Note 30) | 834 | - | 834 |
| Business transfer to AIA General Berhad | (4,839) | - | (4,839) |
| At 31 December 2018 | - | - | - |
| Net Book Value at 31 December 2018 | - | - | - |

8 INVESTMENT IN SUBSIDIARIES

| | <u>Company</u> | |
|--------------------------|-----------------------------|-----------------------------|
| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
| Unquoted shares, at cost | 487,859 | 253,000 |

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8 INVESTMENT IN SUBSIDIARIES (CONTINUED)

(i) Details of the subsidiaries are as follows:

| <u>Name</u> | <u>Country of incorporation</u> | <u>Effective interest</u> | | <u>Principal activities</u> |
|---|---------------------------------|---------------------------|-------------|--|
| | | <u>2019</u> | <u>2018</u> | |
| | | % | % | |
| AIA General Berhad ("AIAGB") | Malaysia | 100 | 100 | Underwriting of general insurance business. |
| AIA Pension and Asset Management Sdn. Bhd. ("APAM") | Malaysia | 100 | 100 | Managing private retirement scheme and asset management business. |
| AIA PUBLIC Takaful Bhd. ("APTB") | Malaysia | 70 | 25* | Management of family takaful including takaful investment-linked business. |
| AIA Health Services Sdn. Bhd. ("AHS") | Malaysia | 100 | - | Provision of healthcare marketing and management services. |

The Members have in a General Meeting held on 13 September 2019 approved the Company's corporate restructuring exercise to purchase 45% ordinary shares of APTB from OPSB at RM135,000,000; 25% ordinary shares of APTB from AIAGB at RM75,000,000; and 100% ordinary shares of AHS from OPSB at RM24,858,974 in an effort to simplify the structure and achieve capital efficiency, allowing for all AIA entities in Malaysia to be owned directly by AIA Bhd.

*Prior to the Company's corporate restructuring exercise in 2019, APTB was held as an associate by AIAB through AIAGB.

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8 INVESTMENT IN SUBSIDIARIES (CONTINUED)

(ii) Non-controlling interest

Set out below is the Group's subsidiary company that has material non-controlling interest:

| | Proportion of equity ownership held by owners of non-controlling interest | |
|-------------------------|--|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | % | % |
| AIA PUBLIC Takaful Bhd. | 30 | - |

Summarised financial information for the subsidiary company that has non-controlling interests that are material to the Group is set out below. The summarised financial information below represents amounts before inter-company eliminations.

| | AIA PUBLIC Takaful Bhd. | |
|--|-------------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 |
| <u>Assets and liabilities</u> | | |
| Total assets | 1,656,207 | - |
| Total liabilities | 1,457,741 | - |
| Net assets | <u>198,466</u> | <u>-</u> |
| Equity attributable to owners of the Company | 138,918 | - |
| Non-controlling interest | 59,548 | - |
| <u>Results</u> | | |
| Revenue | 1,051,198 | - |
| Profit after tax | 15,251 | - |
| Total comprehensive income | <u>19,772</u> | <u>-</u> |
| Attributable to owners of non- controlling interests: | | |
| Profit after tax | 4,575 | - |
| Total comprehensive income | 5,932 | - |
| <u>Cash flows</u> | | |
| Net cash generated from operating activities | 63,336 | - |
| Net cash used in investing activities | (3,927) | - |
| Net cash used in financing activities | (589) | - |
| Net increase in cash and cash equivalents | <u>58,820</u> | <u>-</u> |

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8 INVESTMENT IN SUBSIDIARIES (CONTINUED)

(iii) Interests in structured entities

The Group has determined that the investment funds and structured securities, such as mortgage-backed securities, mutual funds and real estate investment trust funds that the Group has interest are structured entities.

The following tables summarise the Group's interest in unconsolidated structured entities as at 31 December 2019:

| | Investment funds RM'000 | Group Structured securities⁽¹⁾ RM'000 |
|--|--|---|
| <u>At 31 December 2019</u> | | |
| Available for sale debt securities | - | 76,659 |
| Debt securities at fair value through profit or loss | - | 491,629 |
| Equity securities at fair value through profit or loss | 2,751,527 ⁽²⁾ | - |
| | <u>2,751,527</u> | <u>568,288</u> |
| | | Company |
| | Investment funds RM'000 | Structured securities⁽¹⁾ RM'000 |
| <u>At 31 December 2019</u> | | |
| Available for sale debt securities | - | 76,659 |
| Debt securities at fair value through profit or loss | - | 491,629 |
| Equity securities at fair value through profit or loss | 2,734,504 ⁽²⁾ | - |
| | <u>2,734,504</u> | <u>568,288</u> |

The following tables summarise the Group's interest in unconsolidated structured entities as at 31 December 2018:

| | Group and Company | |
|--|--|---|
| | Investment funds RM'000 | Structured securities⁽¹⁾ RM'000 |
| <u>At 31 December 2018</u> | | |
| Available for sale debt securities | - | 90,222 |
| Debt securities at fair value through profit or loss | - | 592,015 |
| Equity securities at fair value through profit or loss | 2,132,207 ⁽²⁾ | - |
| | <u>2,132,207</u> | <u>682,237</u> |

Notes:

(1) Structured securities include mortgage-backed securities.

(2) Balance represents the Group's interests in mutual funds and real estate investment trusts.

The Group's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities.

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8 INVESTMENT IN SUBSIDIARIES (CONTINUED)

(iii) Interests in structured entities (continued)

In addition, the Group receives management fees in respect of providing management and administrative services to certain investment funds. As the investment funds are not held by the Group and the associated investment risks are not borne by the Group, the Group does not have exposure to losses in these funds.

9 INVESTMENT IN ASSOCIATES

| | <u>Group</u> | | <u>Company</u> | |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
| Unquoted shares, at cost | 88 | 75,088 | 88 | 88 |
| Share of post-acquisition reserve | 16,309 | 8,470 | - | - |
| | <u>16,397</u> | <u>83,558</u> | <u>88</u> | <u>88</u> |

Details of the associate companies are as follows:

| <u>Name</u> | <u>Country of incorporation</u> | <u>Effective interest</u> | | <u>Principal activities</u> |
|---------------------------|---------------------------------|---------------------------|------------------|---|
| | | <u>2019</u> % | <u>2018</u> % | |
| Panareno Sdn. Bhd. | Malaysia | 35 | 35 | Property management and development |
| * AIA PUBLIC Takaful Bhd. | Malaysia | - | 25 | Managing Family Takaful business including investment-linked business |

* The Company has purchased 45% and 25% ordinary shares of APTB from OPSB and AGB respectively during the financial year. (note 8)

The summarised financial information of the associates are as follows:

| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
|---|------------------------------------|------------------------------------|
| <u>Assets and liabilities</u> | | |
| Total assets | <u>63,008</u> | <u>1,374,133</u> |
| Total liabilities | <u>16,159</u> | <u>1,107,724</u> |
| Net assets | <u>46,849</u> | <u>266,409</u> |
| <u>Results</u> | | |
| | 12 months year ended | 13 months period ended |
| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
| Revenue | 999,452 | 829,489 |
| Profit/(Loss) for the financial year/period | 16,181 | (20,543) |
| Other comprehensive income | 4,521 | 371 |
| Total other comprehensive income/(loss) | <u>20,702</u> | <u>(20,172)</u> |

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NOTES TO THE FINANCIAL STATEMENTS
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10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | <u>Group</u> | | <u>Company</u> | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Continuing operations</u> | | | | |
| <u>At fair value</u> | | | | |
| Malaysian government securities | 2,308,533 | 2,544,915 | 2,061,777 | 2,361,075 |
| Cagamas papers | 254,249 | 295,826 | 233,830 | 268,192 |
| Unquoted corporate debt securities | 6,423,027 | 5,714,098 | 6,109,680 | 5,578,747 |
| Unquoted equity securities | 4,625 | 4,625 | 4,625 | 4,625 |
| Deposits with licensed bank | 101,010 | 101,550 | 101,010 | 101,550 |
| Accrued interest | 105,231 | 105,677 | 99,702 | 102,789 |
| | <u>9,196,675</u> | <u>8,766,691</u> | <u>8,610,624</u> | <u>8,416,978</u> |
| <u>Carrying values of financial instruments</u> | | | | |
| At 1 January/1 December | 8,766,691 | 8,237,863 | 8,416,978 | 8,002,329 |
| Purchases | 899,499 | 2,479,641 | 741,565 | 2,274,912 |
| Maturities | (281,553) | (417,691) | (256,453) | (413,991) |
| Disposals at amortised cost | (887,304) | (1,613,452) | (842,201) | (1,527,117) |
| Fair value gains/(losses) recorded in: | | | | |
| Other comprehensive income | 570,598 | 68,322 | 559,634 | 68,442 |
| Unrealised foreign exchange loss | (567) | - | (567) | - |
| Movement in accrued interest | (2,153) | 17,689 | (3,087) | 17,568 |
| Net amortisation of premiums (Note 25) | (5,986) | (5,681) | (5,245) | (5,165) |
| Acquisition of subsidiaries | 137,450 | - | - | - |
| At 31 December | <u>9,196,675</u> | <u>8,766,691</u> | <u>8,610,624</u> | <u>8,416,978</u> |
| Current | 325,705 | 417,113 | 291,660 | 388,960 |
| Non-current | 8,870,970 | 8,349,578 | 8,318,964 | 8,028,018 |
| | <u>9,196,675</u> | <u>8,766,691</u> | <u>8,610,624</u> | <u>8,416,978</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

| | <u>Group</u> | | <u>Company</u> | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Discontinued operations</u> | | | | |
| <u>Carrying values of financial instruments</u> | | | | |
| At 1 January/1 December | - | - | - | 189,992 |
| Purchases | - | - | - | 30,124 |
| Maturities | - | - | - | (1,000) |
| Disposals at amortised cost | - | - | - | (34,352) |
| Fair value losses recorded in: | | | | |
| Other comprehensive income | - | - | - | (200) |
| Movement in accrued interest | - | - | - | (411) |
| Net amortisation of premiums (Note 25) | - | - | - | (141) |
| Business transfer to AIA General Berhad | - | - | - | (184,012) |
| At 31 December | - | - | - | - |

Fair value of financial instruments

The following tables show the financial instruments recorded at fair value analysed by the different level of fair values as follows:

Group

| | <u>Carrying amount</u> | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|------------------------|----------|----------------|------------------|----------------|
| | RM'000 | | RM'000 | RM'000 | RM'000 |
| <u>At 31 December 2019</u> | | | | | |
| Malaysian government securities | 2,308,533 | - | - | 2,308,533 | - |
| Cagamas papers | 254,249 | - | - | 254,249 | - |
| Unquoted equity securities | 4,625 | - | - | - | 4,625 |
| Unquoted corporate debt securities | 6,423,027 | - | - | 6,423,027 | - |
| Deposits with licensed bank | 101,010 | - | - | 101,010 | - |
| Accrued interest | 105,231 | - | - | 105,231 | - |
| Total assets on a recurring fair value measurement basis | <u>9,196,675</u> | <u>-</u> | <u>-</u> | <u>9,192,050</u> | <u>4,625</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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10 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Fair value of financial instruments (continued)

The following tables show the financial instruments recorded at fair value analysed by the different level of fair values as follows:

Group (continued)

| | <u>Carrying amount</u> RM'000 | <u>Level 1</u> RM'000 | <u>Level 2</u> RM'000 | <u>Level 3</u> RM'000 |
|---|--------------------------------------|--------------------------|--------------------------|--------------------------|
| <u>At 31 December 2018</u> | | | | |
| Malaysian government securities | 2,544,915 | - | 2,544,915 | - |
| Cagamas papers | 295,826 | - | 295,826 | - |
| Unquoted equity securities | 4,625 | - | - | 4,625 |
| Unquoted corporate debt | | | | |
| Securities | 5,714,098 | - | 5,714,098 | - |
| Deposits with licensed bank | 101,550 | - | 101,550 | - |
| Accrued interest | 105,677 | - | 105,677 | - |
| Total assets on a recurring fair value measurement basis | <u>8,766,691</u> | <u>-</u> | <u>8,762,066</u> | <u>4,625</u> |

Company

At 31 December 2019

| | | | | |
|---|------------------|----------|------------------|--------------|
| Malaysian government securities | 2,061,777 | - | 2,061,777 | - |
| Cagamas papers | 233,830 | - | 233,830 | - |
| Unquoted equity securities | 4,625 | - | - | 4,625 |
| Unquoted corporate debt | | | | |
| securities | 6,109,680 | - | 6,109,680 | - |
| Deposits with licensed bank | 101,010 | - | 101,010 | - |
| Accrued interest | 99,702 | - | 99,702 | - |
| Total assets on a recurring fair value measurement basis | <u>8,610,624</u> | <u>-</u> | <u>8,605,999</u> | <u>4,625</u> |

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10 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Fair value of financial instruments (continued)

Company (continued)

| | <u>Carrying amount</u> RM'000 | <u>Level 1</u> RM'000 | <u>Level 2</u> RM'000 | <u>Level 3</u> RM'000 |
|--|--|--|--|--|
| <u>At 31 December 2018</u> | | | | |
| Malaysian government securities | 2,361,075 | - | 2,361,075 | - |
| Cagamas papers | 268,192 | - | 268,192 | - |
| Unquoted equity securities | 4,625 | - | - | 4,625 |
| Unquoted corporate debt securities | 5,578,747 | - | 5,578,747 | - |
| Deposits with licensed bank | 101,550 | - | 101,550 | - |
| Accrued interest | 102,789 | - | 102,789 | - |
| Total assets on a recurring fair value measurement basis | <u>8,416,978</u> | <u>-</u> | <u>8,412,353</u> | <u>4,625</u> |

The table below sets out the summary of changes in level 3 fair value for financial assets during the financial year.

| | <u>Group and Company</u> <u>Unquoted equity securities</u> RM'000 |
|--------------------------------------|--|
| <u>Assets and liabilities</u> | |
| At 1 January 2019/31 December 2019 | <u>4,625</u> |

Fair value hierarchy for financial and non-financial instruments

A level is assigned to each fair value measurement based on the significance of the input to the fair value measurement in its entirety. The three-level hierarchy is defined in Note 15 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

11 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS

| | <u>Group</u> | | <u>Company</u> | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Continuing operations</u> | | | | |
| <u>At fair value</u> | | | | |
| Malaysian government securities | 5,741,633 | 5,698,444 | 5,575,662 | 5,698,444 |
| Cagamas papers | 1,283,329 | 1,509,375 | 1,283,329 | 1,509,375 |
| Equity securities of corporations | | | | |
| - Quoted | 9,907,872 | 8,066,078 | 9,570,146 | 8,066,078 |
| - Unquoted | 721,633 | 299,678 | 675,825 | 294,437 |
| Quoted real estate investment trust funds | 551,598 | 408,724 | 544,671 | 408,724 |
| Unquoted corporate debt securities | 19,463,210 | 17,399,252 | 18,945,904 | 17,399,252 |
| Mutual funds | | | | |
| - Quoted | 1,698,243 | 1,299,161 | 1,688,147 | 1,299,161 |
| - Unquoted | 501,687 | 424,322 | 501,687 | 424,322 |
| Malaysian government guaranteed loans | - | 8,000 | - | 8,000 |
| Accrued interest | 286,922 | 280,706 | 278,564 | 280,706 |
| | <u>40,156,127</u> | <u>35,393,740</u> | <u>39,063,935</u> | <u>35,388,499</u> |
| <u>Carrying values of financial instruments</u> | | | | |
| At 1 January/1 December | 35,393,740 | 35,426,038 | 35,388,499 | 35,420,689 |
| Purchases | 7,832,332 | 6,090,123 | 7,827,333 | 6,090,123 |
| Maturities | (920,900) | (993,358) | (920,900) | (993,358) |
| Disposals at fair value | (5,051,538) | (3,926,157) | (5,051,538) | (3,926,157) |
| Fair value gains/(losses) recorded in income statements (Note 27) | 1,839,418 | (1,182,360) | 1,839,194 | (1,182,252) |
| Unrealised foreign exchange loss | (355) | - | (355) | - |
| Movement in accrued interest | (2,141) | (1,639) | (2,142) | (1,639) |
| Net amortisation of premiums (Note 25) | (16,156) | (18,907) | (16,156) | (18,907) |
| Acquisition of subsidiaries | 1,081,727 | - | - | - |
| At 31 December | <u>40,156,127</u> | <u>35,393,740</u> | <u>39,063,935</u> | <u>35,388,499</u> |
| Current | 13,762,149 | 11,535,980 | 13,727,743 | 11,535,980 |
| Non-current | 26,393,978 | 23,857,760 | 25,336,192 | 23,852,519 |
| | <u>40,156,127</u> | <u>35,393,740</u> | <u>39,063,935</u> | <u>35,388,499</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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11 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS (CONTINUED)

| | <u>Group</u> | | <u>Company</u> | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Discontinued operations</u> | | | | |
| <u>Carrying values of financial instruments</u> | | | | |
| At 1 January/1 December | - | - | - | 5,349 |
| Fair value losses recorded in income statements (Note 27) | - | - | - | (159) |
| Business transfer to AIA General Berhad | - | - | - | (5,190) |
| At 31 December | - | - | - | - |

Fair value of financial instruments

The following tables show the financial instruments recorded at fair value analysed by the different level of fair values as follows:

| <u>Group</u> | <u>Carrying amount</u> | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|------------------------|-------------------|----------------|-------------------|----------------|
| | RM'000 | | RM'000 | RM'000 | RM'000 |
| <u>At 31 December 2019</u> | | | | | |
| Malaysian government securities | 5,741,633 | - | | 5,741,633 | - |
| Cagamas papers | 1,283,329 | - | | 1,283,329 | - |
| Equity securities of corporations | | | | | |
| - Quoted | 9,907,872 | 9,906,625 | | 1,247 | - |
| - Unquoted | 721,633 | - | | 721,600 | 33 |
| Quoted real estate investment trust funds | 551,598 | 551,598 | | - | - |
| Unquoted corporate debt securities | 19,463,210 | - | | 19,463,210 | - |
| Mutual funds | | | | | |
| - Quoted | 1,698,243 | 1,698,243 | | - | - |
| - Unquoted | 501,687 | - | | - | 501,687 |
| Accrued interest | 286,922 | 779 | | 286,143 | - |
| Total assets on a recurring fair value measurement basis | <u>40,156,127</u> | <u>12,157,245</u> | | <u>27,497,162</u> | <u>501,720</u> |

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11 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS (CONTINUED)

Fair value of financial instruments (continued)

The following tables show the financial instruments recorded at fair value analysed by the different level of fair values as follows (continued):

Group

| | <u>Carrying amount</u> RM'000 | <u>Level 1</u> RM'000 | <u>Level 2</u> RM'000 | <u>Level 3</u> RM'000 |
|--|--------------------------------------|--------------------------|--------------------------|--------------------------|
| <u>At 31 December 2018</u> | | | | |
| Malaysian government securities | 5,698,444 | - | 5,698,444 | - |
| Cagamas papers | 1,509,375 | - | 1,509,375 | - |
| Equity securities of corporations | | | | |
| - Quoted | 8,066,078 | 8,064,297 | 1,781 | - |
| - Unquoted | 299,678 | - | 299,645 | 33 |
| Quoted real estate investment trust funds | 408,724 | 408,724 | - | - |
| Unquoted corporate debt securities | 17,399,252 | - | 17,399,252 | - |
| Mutual funds | | | | |
| - Quoted | 1,299,161 | 1,299,161 | - | - |
| - Unquoted | 424,322 | - | - | 424,322 |
| Malaysian government guaranteed loans | 8,000 | - | - | 8,000 |
| Accrued interest | 280,706 | - | 280,706 | - |
| Total assets on a recurring fair value measurement basis | <u>35,393,740</u> | <u>9,772,182</u> | <u>25,189,203</u> | <u>432,355</u> |

Company

At 31 December 2019

| | | | | |
|--|-------------------|-------------------|-------------------|----------------|
| Malaysian government securities | 5,575,662 | - | 5,575,662 | - |
| Cagamas papers | 1,283,329 | - | 1,283,329 | - |
| Equity securities of corporations | | | | |
| - Quoted | 9,570,146 | 9,568,899 | 1,247 | - |
| - Unquoted | 675,825 | - | 675,792 | 33 |
| Quoted real estate investment trust funds | 544,671 | 544,671 | - | - |
| Unquoted corporate debt securities | 18,945,904 | - | 18,945,904 | - |
| Mutual funds | | | | |
| - Quoted | 1,688,147 | 1,688,147 | - | - |
| - Unquoted | 501,687 | - | - | 501,687 |
| Accrued interest | 278,564 | - | 278,564 | - |
| Total assets on a recurring fair value measurement basis | <u>39,063,935</u> | <u>11,801,717</u> | <u>26,760,498</u> | <u>501,720</u> |

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11 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS (CONTINUED)

Fair value of financial instruments (continued)

Company (continued)

| | <u>Carrying amount</u> RM'000 | <u>Level 1</u> RM'000 | <u>Level 2</u> RM'000 | <u>Level 3</u> RM'000 |
|--|--|--|--|--|
| <u>At 31 December 2018</u> | | | | |
| Malaysian government securities | 5,698,444 | - | 5,698,444 | - |
| Cagamas papers | 1,509,375 | - | 1,509,375 | - |
| Equity securities of corporations | | | | |
| - Quoted | 8,066,078 | 8,064,297 | 1,781 | - |
| - Unquoted | 294,437 | - | 294,404 | 33 |
| Quoted real estate investment trust funds | 408,724 | 408,724 | - | - |
| Unquoted corporate debt securities | 17,399,252 | - | 17,399,252 | - |
| Mutual funds | | | | |
| - Quoted | 1,299,161 | 1,299,161 | - | - |
| - Unquoted | 424,322 | - | - | 424,322 |
| Malaysian government guaranteed loans | 8,000 | - | - | 8,000 |
| Accrued interest | 280,706 | - | 280,706 | - |
| Total assets on a recurring fair value measurement basis | <u>35,388,499</u> | <u>9,772,182</u> | <u>25,183,962</u> | <u>432,355</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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11 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS (CONTINUED)

Fair value of financial instruments (continued)

The table below set out the summary of changes in level 3 fair value for financial assets during the financial year.

| | Group and Company | | |
|---|--|------------------------------|---------------------|
| | Malaysian government guaranteed loans | Equity securities | Mutual funds |
| | RM'000 | RM'000 | RM'000 |
| At 30 November 2017 | 8,000 | 33 | 261,155 |
| Acquisition during the financial period | - | - | 171,531 |
| Disposal during the financial period | - | - | (17,130) |
| Fair value losses recorded in income statements | - | - | 8,766 |
| At 31 December 2018 | 8,000 | 33 | 424,322 |
| Acquisition during the financial year | - | - | 64,695 |
| Disposal during the financial year | - | - | (2,174) |
| Maturity during the financial year | (8,000) | - | - |
| Fair value gains recorded in income statements | - | - | 14,844 |
| At 31 December 2019 | - | 33 | 501,687 |

Fair value hierarchy for financial and non-financial instruments

A level is assigned to each fair value measurement based on the significance of the input to the fair value measurement in its entirety. The three-level hierarchy is defined in Note 15 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
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12 LOANS AND RECEIVABLES

| <u>At amortised cost</u> | <u>Group</u> | | <u>Company</u> | |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| Malaysian government guaranteed loans | 325,000 | 517,000 | 325,000 | 517,000 |
| Policy loans | 1,430,501 | 1,501,355 | 1,430,501 | 1,501,355 |
| Mortgage loans | 2,417,476 | 2,470,548 | 2,417,476 | 2,470,548 |
| Staff loans | 31,765 | 32,205 | 27,701 | 30,688 |
| Unsecured loans | 7,112 | 10,813 | 7,112 | 10,813 |
| Accrued interest | 40,759 | 42,536 | 40,044 | 42,387 |
| | <u>4,252,613</u> | <u>4,574,457</u> | <u>4,247,834</u> | <u>4,572,791</u> |
| Allowance for impairment losses | (42,356) | (43,187) | (42,356) | (43,187) |
| | <u>4,210,257</u> | <u>4,531,270</u> | <u>4,205,478</u> | <u>4,529,604</u> |
| Fixed and call deposits with licensed financial institutions | 91,486 | 33,146 | - | - |
| Other receivables*: | | | | |
| Accrued dividend | 9,199 | 13,065 | 9,199 | 13,065 |
| Other receivables | 210,363 | 249,795 | 263,425 | 207,831 |
| Deposits and prepayments | 17,409 | 16,683 | 17,339 | 16,683 |
| | <u>236,971</u> | <u>279,543</u> | <u>289,963</u> | <u>237,579</u> |
| Allowance for impairment losses | (13,269) | (10,868) | (12,198) | (10,868) |
| | <u>223,702</u> | <u>268,675</u> | <u>277,765</u> | <u>226,711</u> |
| Total | <u>4,525,445</u> | <u>4,833,091</u> | <u>4,483,243</u> | <u>4,756,315</u> |
| Current | 311,437 | 224,768 | 269,055 | 219,515 |
| Non-current | 4,214,008 | 4,608,323 | 4,214,188 | 4,536,800 |
| | <u>4,525,445</u> | <u>4,833,091</u> | <u>4,483,243</u> | <u>4,756,315</u> |

* The carrying amounts of other receivables approximate their fair values as at the date of the statements of financial position due to the relatively short-term maturity of these balances.

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**NOTES TO THE FINANCIAL STATEMENTS
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13 REINSURANCE/RETAKAFUL ASSETS

Group

| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
|--|---|---|
| Reinsurance/retakaful of insurance contracts | <u>405,827</u> | <u>283,010</u> |
| Receivable within 12 months | 395,063 | 273,663 |
| Receivable after 12 months | <u>10,764</u> | <u>9,347</u> |
| | <u>405,827</u> | <u>283,010</u> |

Company

| | | |
|------------------------------------|----------------|----------------|
| Reinsurance of insurance contracts | <u>375,679</u> | <u>268,015</u> |
| Receivable within 12 months | <u>375,679</u> | <u>268,015</u> |

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14 INSURANCE/TAKAFUL RECEIVABLES

Group

| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
|---|---|---|
| Outstanding premiums/contributions including agents' balances | 289,408 | 310,882 |
| Amount due from reinsurers/retakaful operators | 60,382 | 58,460 |
| | <u>349,790</u> | <u>369,342</u> |
| Allowance for impairment losses | (24,840) | (36,900) |
| | <u>324,950</u> | <u>332,442</u> |
| Receivable within 12 months | <u>324,950</u> | <u>332,442</u> |

Company

| | | |
|---|----------------|----------------|
| Outstanding premiums including agents' balances | 239,902 | 268,754 |
| Amount due from reinsurers | 59,154 | 55,511 |
| | <u>299,056</u> | <u>324,265</u> |
| Allowance for impairment losses | (20,725) | (33,232) |
| | <u>278,331</u> | <u>291,033</u> |
| Receivable within 12 months | <u>278,331</u> | <u>291,033</u> |

Offsetting of financial assets and financial liabilities

The following table shows the financial assets and financial liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each financial year/period end:

Group

| | Gross amount of recognised financial assets/(liabilities) | Gross amount of recognised assets/(liabilities) set off in the statements of financial position | Net amount of financial assets/(liabilities) presented in the statements of financial position |
|-------------------------------|--|--|---|
| | RM'000 | RM'000 | RM'000 |
| <u>2019</u> | | | |
| Insurance/takaful receivables | 401,863 | (52,073) | 349,790 |
| Insurance/takaful payables | (6,878,186) | 52,073 | (6,826,113) |
| | <u>(6,476,323)</u> | <u>-</u> | <u>(6,476,323)</u> |
| <u>2018</u> | | | |
| Insurance/takaful receivables | 374,795 | (5,453) | 369,342 |
| Insurance/takaful payables | (6,412,428) | 5,453 | (6,406,975) |
| | <u>(6,037,633)</u> | <u>-</u> | <u>(6,037,633)</u> |

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14 INSURANCE/TAKAFUL RECEIVABLES (CONTINUED)

Offsetting of financial assets and financial liabilities (continued)

Company

| | Gross amount of recognised financial assets/ (liabilities) RM'000 | Gross amount of recognised financial assets/(liabilities) set off in the statements of financial position RM'000 | Net amount of financial assets/(liabilities) presented in the statements of financial position RM'000 |
|-----------------------|--|---|--|
| <u>2019</u> | | | |
| Insurance receivables | 341,967 | (42,911) | 299,056 |
| Insurance payables | (6,831,112) | 42,911 | (6,788,201) |
| | <u>(6,489,145)</u> | <u>-</u> | <u>(6,489,145)</u> |
| <u>2018</u> | | | |
| Insurance receivables | 329,718 | (5,453) | 324,265 |
| Insurance payables | (6,402,367) | 5,453 | (6,396,914) |
| | <u>(6,072,649)</u> | <u>-</u> | <u>(6,072,649)</u> |

Certain amount due from reinsurers/retakaful operators and amount due to reinsurers/retakaful operators were set off for presentation purpose because they have enforceable right to set off and they intend either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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15 FAIR VALUE MEASUREMENTS

Fair value measurements on a recurring basis

The Group measures at fair value for financial instruments classified at fair value through profit or loss, available for sale and investments in non-consolidated investment funds on a recurring basis. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the financial year ended 31 December 2019.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments:

Level 1 - Financial instruments 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 - Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions 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, investment in unit and property trusts with fair values obtained via fund managers and instruments that are valued using the Group's own models whereby the majority of assumptions are market observable.

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15 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements on a recurring basis (continued)

Level 3 - Financial instruments measured 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 class in this category is unquoted equity securities. Valuation techniques 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 at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the Group'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 Group's own data.

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the financial year ended 31 December 2019, there is no transfer of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There is no transfer of assets from Level 2 to Level 1 during the financial year ended 31 December 2019.

The Group's Level 2 financial instruments include debt securities, deposits with licensed bank and Malaysian government guarantee loans. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from third-party pricing services and brokers are not available, internal valuation techniques and observable inputs will be used to derive the fair value for the financial instruments.

Significant unobservable inputs for Level 3 fair value measurements

The following table shows the valuation techniques used in determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models:

| <u>Description</u> | <u>Valuation techniques</u> | <u>Valuation unobservable inputs</u> |
|--|------------------------------------|--|
| Private equity funds | Net asset value | Net asset value |
| Common and preferred shares of private companies | Cost | Cost |
| Investment properties and properties held for own use | Discounted cash flows | Expected market rental growth, discount rate and yield |
| Malaysian government guarantee loan | Cost | Cost |

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15 FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation processes

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses third-party pricing providers and, only in rare cases when no third-party prices exist, will use prices derived from internal models. Chief Investment Officers of the Group are required to review the reasonableness of the prices used and report price exceptions, if any. The Group's investment team analyses reported price exceptions and reviews price challenge responses from third party pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Pricing Committee ("GPC") which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

Fair value for assets and liabilities for which fair value is disclosed at reporting date

A summary of the fair value hierarchy of assets and liabilities not carried at fair value but for which fair value is disclosed as at 31 December 2019 is set out below.

Group

| | <u>Level 1</u> RM'000 | <u>Level 2</u> RM'000 | <u>Level 3</u> RM'000 | <u>Total</u> RM'000 |
|--------------------------------------|--------------------------|--------------------------|--------------------------|------------------------|
| <u>At 31 December 2019</u> | | | | |
| Financial assets | | | | |
| Loans and receivables | - | 328,457 | 4,252,613 | 4,581,070 |
| Financial liabilities/takaful | | | | |
| Insurance payables | - | - | 6,826,113 | 6,826,113 |
| Other payables | - | 889,263 | - | 889,263 |
| | - | 889,263 | 6,826,113 | 7,715,376 |
| <u>At 31 December 2018</u> | | | | |
| Financial assets | | | | |
| Loans and receivables | - | 33,146 | 4,578,493 | 4,611,639 |
| Financial liabilities/takaful | | | | |
| Insurance payables | - | - | 6,406,975 | 6,406,975 |
| Other payables | - | 948,496 | - | 948,496 |
| | - | 948,496 | 6,406,975 | 7,355,471 |

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15 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value for assets and liabilities for which fair value is disclosed at reporting date (continued)

A summary of the fair value hierarchy of assets and liabilities not carried at fair value but for which fair value is disclosed as at 31 December 2019 is set out below. (continued)

Company

| | <u>Level 1</u> <u>RM'000</u> | <u>Level 2</u> <u>RM'000</u> | <u>Level 3</u> <u>RM'000</u> | <u>Total</u> <u>RM'000</u> |
|-----------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------------|
| <u>At 31 December 2019</u> | | | | |
| Financial assets | | | | |
| Loans and receivables | - | 289,963 | 4,247,834 | 4,537,797 |
| Financial liabilities | | | | |
| Insurance payables | - | - | 6,788,201 | 6,788,201 |
| Other payables | - | 773,178 | - | 773,178 |
| | <u>-</u> | <u>773,178</u> | <u>6,788,201</u> | <u>7,561,379</u> |
| <u>At 31 December 2018</u> | | | | |
| Financial assets | | | | |
| Loans and receivables | - | - | 4,575,654 | 4,575,654 |
| Financial liabilities | | | | |
| Insurance payables | - | - | 6,396,914 | 6,396,914 |
| Other payables | - | 921,300 | - | 921,300 |
| | <u>-</u> | <u>921,300</u> | <u>6,396,914</u> | <u>7,318,214</u> |

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16 SHARE CAPITAL

| | <u>Number of shares</u> | | <u>Amount</u> | |
|---|-------------------------|-------------------|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | '000 | '000 | RM'000 | RM'000 |
| <u>Group and Company</u> | | | | |
| Issued and paid up share capital | | | | |
| At 1 January/1 December | 767,438 | 767,438 | 1,450,890 | 1,450,890 |
| Share consolidation | (575,578) | - | - | - |
| Capital reduction | - | - | (640,890) | - |
| At 31 December | <u>191,860</u> | <u>767,438</u> | <u>810,000</u> | <u>1,450,890</u> |

During the financial year, the Company reduced its issued share capital from RM1,450,890,000 to RM810,000,000 by cancelling RM640,890,000 as confirmed in the Court order and consolidated every 4 ordinary shares into 1 ordinary share ("Share Consolidation"). The fractional entitlements of shares were disregarded. Upon completion of Share Consolidation, the number of issued and paid-up shares of the Company reduced from 767,438,174 to 191,859,543.

| | <u>Group</u> | |
|---|-------------------|-------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 |
| Profit after tax attributable to the shareholder | 171,109 | 962,055 |
| Weighted average number of shares in issue during the financial year/period | 191,860 | 191,860 |
| Basic earnings per share (sen) | <u>89</u> | <u>501</u> |

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17 RETAINED EARNINGS

Under the single tier system, there are no restrictions on the Company to frank the payment of dividends out of its entire retained earnings as at the date of the statements of financial position.

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend with effect from financial year beginning 1 December 2016. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio ("CAR") position is less than its internal target capital level or if the payment of dividend would impair its CAR position to below its internal target.

18 INSURANCE/TAKAFUL CONTRACT LIABILITIES

Group

| | Gross RM'000 | Reinsurance/ Retakaful RM'000 | Net RM'000 |
|-------------------------------|-------------------------|--|-----------------------|
| At 31 December 2019 | | | |
| Life insurance/family takaful | 43,564,789 | (389,033) | 43,175,756 |
| General insurance | 303,411 | (16,794) | 286,617 |
| Expense liabilities | 9,089 | - | 9,089 |
| | <u>43,877,289</u> | <u>(405,827)</u> | <u>43,471,462</u> |
| At 31 December 2018 | | | |
| Life insurance/family takaful | 38,653,427 | (268,015) | 38,385,412 |
| General insurance | 305,377 | (14,995) | 290,382 |
| | <u>38,958,804</u> | <u>(283,010)</u> | <u>38,675,794</u> |

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18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

Company

| | <u>Gross</u> RM'000 | <u>Reinsurance</u> RM'000 | <u>Net</u> RM'000 |
|----------------------------|------------------------|------------------------------|----------------------|
| At 31 December 2019 | | | |
| Life insurance | 42,265,173 | (375,679) | 41,889,494 |
| | <u>42,265,173</u> | <u>(375,679)</u> | <u>41,889,494</u> |
| At 31 December 2018 | | | |
| Life insurance | 38,627,221 | (268,015) | 38,359,206 |
| | <u>38,627,221</u> | <u>(268,015)</u> | <u>38,359,206</u> |

| | <u>Group</u> | | <u>Company</u> | |
|-------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
| Current | 1,417,343 | 1,352,610 | 1,151,379 | 1,206,016 |
| Non-current | 42,459,946 | 37,606,194 | 41,113,794 | 37,421,205 |
| | <u>43,877,289</u> | <u>38,958,804</u> | <u>42,265,173</u> | <u>38,627,221</u> |

(A) Life Insurance/family takaful

The life insurance/family takaful contract liabilities and their movements are further analysed as follows:

(i) Life insurance/family takaful contract liabilities

| <u>Group</u> | <u>Gross</u> RM'000 | <u>Reinsurance/ Retakaful</u> RM'000 | <u>Net</u> RM'000 |
|---|------------------------|---|----------------------|
| At 31 December 2019 | | | |
| Claims liabilities | 456,026 | (146,649) | 309,377 |
| Actuarial liabilities | 32,607,357 | (242,384) | 32,364,973 |
| Unallocated surplus | 1,414,042 | - | 1,414,042 |
| Asset revaluation reserve | 165,029 | - | 165,029 |
| Available for sales reserve | 61 | - | 61 |
| Net asset value attributable to unitholders | 8,910,024 | - | 8,910,024 |
| Surplus attributable to participants | 12,250 | - | 12,250 |
| | <u>43,564,789</u> | <u>(389,033)</u> | <u>43,175,756</u> |

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18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(A) Life Insurance/family takaful (continued)

The life insurance/family takaful contract liabilities and their movements are further analysed as follows: (continued)

(i) Life insurance/family takaful contract liabilities (continued)

| <u>Group</u> | <u>Gross</u> RM'000 | <u>Reinsurance</u> RM'000 | <u>Net</u> RM'000 |
|--|------------------------|------------------------------|----------------------|
| At 31 December 2018 | | | |
| Claims liabilities | 350,146 | (95,851) | 254,295 |
| Actuarial liabilities (Note 37 (i)) | 30,491,935 | (172,164) | 30,319,771 |
| Unallocated surplus | 1,293,301 | - | 1,293,301 |
| Asset revaluation reserve | 150,711 | - | 150,711 |
| Net asset value attributable to unitholders | 6,367,334 | - | 6,367,334 |
| | <u>38,653,427</u> | <u>(268,015)</u> | <u>38,385,412</u> |
| Company | | | |
| | <u>Gross</u> RM'000 | <u>Reinsurance</u> RM'000 | <u>Net</u> RM'000 |
| At 31 December 2019 | | | |
| Claims liabilities | 385,213 | (133,867) | 251,346 |
| Actuarial liabilities (Note 37 (i)) | 32,435,957 | (241,812) | 32,194,145 |
| Unallocated surplus | 1,293,992 | - | 1,293,992 |
| Asset revaluation reserve | 165,029 | - | 165,029 |
| Net asset value attributable to unitholders | 7,984,982 | - | 7,984,982 |
| | <u>42,265,173</u> | <u>(375,679)</u> | <u>41,889,494</u> |
| At 31 December 2018 | | | |
| Claims liabilities | 350,146 | (95,851) | 254,295 |
| Actuarial liabilities (Note 37 (i)) | 30,491,935 | (172,164) | 30,319,771 |
| Unallocated surplus | 1,267,095 | - | 1,267,095 |
| Asset revaluation reserve | 150,711 | - | 150,711 |
| Net asset value attributable to unitholders | 6,367,334 | - | 6,367,334 |
| | <u>38,627,221</u> | <u>(268,015)</u> | <u>38,359,206</u> |

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18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(A) Life Insurance/family takaful (continued)

The life insurance/family takaful contract liabilities and their movements are further analysed as follows: (continued)

(ii) Movements of life insurance/family takaful contract liabilities

| <u>Group</u> | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | <u>Gross</u> <u>Total</u> RM'000 |
|---|---------------------------|------------------------------|--|
| At 31 December 2019 | | | |
| At 1 January 2019 | | | |
| - As previously reported | 27,435,813 | 11,217,614 | 38,653,427 |
| - Opening adjustment on adoption of MFRS 16 | 8,055 | - | 8,055 |
| - As adjusted | 27,443,868 | 11,217,614 | 38,661,482 |
| Policy movement | (336,788) | 419,527 | 82,739 |
| Movement in claims liabilities | (2,681) | 37,748 | 35,067 |
| Model refinement | 3,106 | 2,529 | 5,635 |
| Adjustments due to changes in assumptions: | | | |
| Lapse and surrender rates | - | 70,242 | 70,242 |
| Discount rate | 1,095,301 | 568,505 | 1,663,806 |
| Fund growth rate | - | (1,093) | (1,093) |
| Mortality/morbidity | | | |
| Change in bonus | 47,563 | - | 47,563 |
| Others | 77 | 75,052 | 75,129 |
| Change in net asset value attributable to unitholders | - | 1,617,648 | 1,617,648 |
| Change in asset revaluation reserve | 6,264 | - | 6,264 |
| Acquisition of subsidiaries | 1,283,307 | - | 1,283,307 |
| Unallocated surplus | 17,000 | - | 17,000 |
| At 31 December 2019 | <u>29,557,017</u> | <u>14,007,772</u> | <u>43,564,789</u> |

| | Reinsurance/Retakaful | | |
|--------------------------------|------------------------------|------------------------------|------------------------|
| | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | <u>Total</u> RM'000 |
| At 1 January 2019 | (7,071) | (260,944) | (268,015) |
| Policy movement | (2,022) | (67,626) | (69,648) |
| Movement in claims liabilities | 161 | (38,177) | (38,016) |
| Acquisition of subsidiaries | (13,354) | - | (13,354) |
| At 31 December 2019 | <u>(22,286)</u> | <u>(366,747)</u> | <u>(389,033)</u> |

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18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(A) Life Insurance/family takaful (continued)

The life insurance/family takaful contract liabilities and their movements are further analysed as follows: (continued)

(ii) Movements of life insurance/family takaful contract liabilities (continued)

| <u>Group</u> | <u>Gross</u> | | <u>Total</u> RM'000 |
|---|------------------------------|------------------------------|------------------------|
| | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | |
| At 31 December 2018 | | | |
| At 1 December 2017 | 27,816,245 | 10,564,834 | 38,381,079 |
| Policy movement | 201,084 | 303,232 | 504,316 |
| Movement in claims liabilities | (2,756) | 18,185 | 15,429 |
| Model refinement | 40,936 | 5,931 | 46,867 |
| Adjustments due to changes in assumptions: | | | |
| Expense | (41) | 28,889 | 28,848 |
| Lapse and surrender rates | (186,047) | (48,786) | (234,833) |
| Discount rate | 105,613 | (23,957) | 81,656 |
| Mortality/morbidity | (252,145) | (50,945) | (303,090) |
| Change in bonus | (3,911) | - | (3,911) |
| Others | 20 | 70,896 | 70,916 |
| Change in net asset value attributable to unitholders | - | 349,335 | 349,335 |
| Change in asset revaluation Reserve | 6,824 | - | 6,824 |
| Release from asset revaluation reserve to unallocated surplus | (11,306) | - | (11,306) |
| Unallocated surplus | (278,703) | - | (278,703) |
| At 31 December 2018 | <u>27,435,813</u> | <u>11,217,614</u> | <u>38,653,427</u> |
| | | | |
| | <u>Reinsurance/Retakaful</u> | | <u>Total</u> RM'000 |
| | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | |
| At 1 December 2017 | (7,586) | (208,083) | (215,669) |
| Policy movement | 1,456 | (13,185) | (11,729) |
| Movement in claims liabilities | (941) | (39,676) | (40,617) |
| At 31 December 2018 | <u>(7,071)</u> | <u>(260,944)</u> | <u>(268,015)</u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(A) Life Insurance/family takaful (continued)

The life insurance/family takaful contract liabilities and its movements are further analysed as follows: (continued)

(ii) Movements of life insurance/family takaful contract liabilities (continued)

| <u>Company</u> | <u>With DPF</u> <u>RM'000</u> | <u>Without DPF</u> <u>RM'000</u> | <u>Gross</u> <u>Total</u> <u>RM'000</u> |
|---|----------------------------------|-------------------------------------|---|
| At 31 December 2019 | | | |
| At 1 January 2019 | | | |
| - As previously reported | 27,409,607 | 11,217,614 | 38,627,221 |
| - Opening adjustment on adoption of MFRS 16 | 8,055 | - | 8,055 |
| - As adjusted | 27,417,662 | 11,217,614 | 38,635,276 |
| Policy movement | (336,788) | 419,527 | 82,739 |
| Movement in claims liabilities | (2,681) | 37,748 | 35,067 |
| Model refinement | 3,106 | 2,529 | 5,635 |
| Adjustments due to changes in assumptions: | | | |
| Lapse and surrender rates | - | 70,242 | 70,242 |
| Discount rate | 1,095,301 | 568,505 | 1,663,806 |
| Fund growth rate | - | (1,093) | (1,093) |
| Change in bonus | 47,563 | - | 47,563 |
| Others | 77 | 75,052 | 75,129 |
| Change in net asset value attributable to unitholders | - | 1,617,648 | 1,617,648 |
| Change in asset revaluation reserve | 6,264 | - | 6,264 |
| Unallocated surplus | 26,897 | - | 26,897 |
| At 31 December 2019 | <u>28,257,401</u> | <u>14,007,772</u> | <u>42,265,173</u> |
| | | | |
| | <u>With DPF</u> <u>RM'000</u> | <u>Without DPF</u> <u>RM'000</u> | <u>Reinsurance</u> <u>Total</u> <u>RM'000</u> |
| At 1 January 2019 | (7,071) | (260,944) | (268,015) |
| Policy movement | (2,022) | (67,626) | (69,648) |
| Movement in claims liabilities | 161 | (38,177) | (38,016) |
| At 31 December 2019 | <u>(8,932)</u> | <u>(366,747)</u> | <u>(375,679)</u> |

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NOTES TO THE FINANCIAL STATEMENTS
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18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(A) Life Insurance/family takaful (continued)

The life insurance/family takaful contract liabilities and its movements are further analysed as follows: (continued)

(ii) Movements of life insurance/family takaful contract liabilities (continued)

| <u>Company</u> | <u>Gross</u> | | <u>Total</u> RM'000 |
|---|---------------------------|------------------------------|------------------------|
| | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | |
| At 31 December 2018 | | | |
| At 1 December 2017 | 27,790,611 | 10,564,834 | 38,355,445 |
| Policy movement | 201,084 | 303,232 | 504,316 |
| Movement in claims liabilities | (2,756) | 18,185 | 15,429 |
| Model refinement | 40,936 | 5,931 | 46,867 |
| Adjustments due to changes in assumptions: | | | |
| Expense | (41) | 28,889 | 28,848 |
| Lapse and surrender rates | (186,047) | (48,786) | (234,833) |
| Discount rate | 105,613 | (23,957) | 81,656 |
| Mortality/morbidity | (252,145) | (50,945) | (303,090) |
| Change in bonus | (3,911) | - | (3,911) |
| Others | 20 | 70,896 | 70,916 |
| Change in net asset value attributable to unitholders | - | 349,335 | 349,335 |
| Change in asset revaluation reserve | 6,824 | - | 6,824 |
| Release from asset revaluation reserve to unallocated surplus | (11,306) | - | (11,306) |
| Unallocated surplus | (279,275) | - | (279,275) |
| At 31 December 2018 | <u>27,409,607</u> | <u>11,217,614</u> | <u>38,627,221</u> |
| | | | |
| | <u>Reinsurance</u> | | <u>Total</u> RM'000 |
| | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | |
| At 1 December 2017 | (7,586) | (208,083) | (215,669) |
| Policy movement | 1,456 | (13,185) | (11,729) |
| Movement in claims liabilities | (941) | (39,676) | (40,617) |
| At 31 December 2018 | <u>(7,071)</u> | <u>(260,944)</u> | <u>(268,015)</u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(B) General Insurance

Group

| | <u>Gross</u> RM'000 | <u>Reinsurance</u> RM'000 | <u>Net</u> RM'000 |
|---|--------------------------------------|--|------------------------------------|
| At 31 December 2019 | | | |
| Provision for claims reported by policyholders | 111,225 | (11,462) | 99,763 |
| Provision for incurred but not reported ("IBNR") claims | 80,840 | (2,449) | 78,391 |
| Claims liabilities (i) | 192,065 | (13,911) | 178,154 |
| Premium liabilities (ii) | 111,346 | (2,883) | 108,463 |
| | <u>303,411</u> | <u>(16,794)</u> | <u>286,617</u> |
| At 31 December 2018 | | | |
| Provision for claims reported by policyholders | 99,479 | (9,381) | 90,098 |
| Provision for incurred but not reported ("IBNR") claims | 88,844 | (2,450) | 86,394 |
| Claims liabilities (i) | 188,323 | (11,831) | 176,492 |
| Premium liabilities (ii) | 117,054 | (3,164) | 113,890 |
| | <u>305,377</u> | <u>(14,995)</u> | <u>290,382</u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(B) General Insurance (continued)

(i) Claim liabilities

Group

| | <u>Gross</u> RM'000 | <u>Reinsurance</u> RM'000 | <u>Net</u> RM'000 |
|--|--------------------------------------|--|------------------------------------|
| At 31 December 2019 | | | |
| At 1 January 2019 | 188,323 | (11,831) | 176,492 |
| Claims incurred in the current accident year | 62,265 | (2,282) | 59,983 |
| Movement in claims incurred in prior accident years | 33,846 | (4,741) | 29,105 |
| Claims paid during the financial year | (87,209) | 5,045 | (82,164) |
| Others | (5,665) | - | (5,665) |
| Change in expense liabilities and risk margin | 505 | (102) | 403 |
| At 31 December 2019 | <u>192,065</u> | <u>(13,911)</u> | <u>178,154</u> |
| At 31 December 2018 | | | |
| At 1 December 2017 | 183,936 | (12,145) | 171,791 |
| Claims incurred in the current accident year | 143,508 | (3,077) | 140,431 |
| Movement in claims incurred in prior accident years | (45,916) | 2,961 | (42,955) |
| Claims paid during the financial period | (88,915) | 405 | (88,510) |
| Others | (5,330) | - | (5,330) |
| Change in expense liabilities and risk margin | 1,040 | 25 | 1,065 |
| At 31 December 2018 | <u>188,323</u> | <u>(11,831)</u> | <u>176,492</u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

- (B) General Insurance (continued)
(i) Claims liabilities (continued)

Company

| | <u>Gross</u> RM'000 | <u>Reinsurance</u> RM'000 | <u>Net</u> RM'000 |
|--|--------------------------------------|--|------------------------------------|
| <u>Discontinued operations</u> | | | |
| At 31 December 2018 | | | |
| At 1 December 2017 | 183,936 | (12,145) | 171,791 |
| Claims incurred in the current accident period | 60,182 | (2,224) | 57,958 |
| Movement in claims incurred in prior accident years | (6,908) | 5,982 | (926) |
| Claims paid during the financial period | (44,004) | (3,639) | (47,643) |
| Others | (1,949) | - | (1,949) |
| Change in expense liabilities and risk margin | 1,355 | 117 | 1,472 |
| Business transfer to AIA General Berhad | (192,612) | 11,909 | (180,703) |
| At 31 December 2018 | <u>-</u> | <u>-</u> | <u>-</u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18 INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(B) General Insurance (continued)

(ii) Premium liabilities

| <u>Group</u> | <u>Gross</u> <u>RM'000</u> | <u>Reinsurance</u> <u>RM'000</u> | <u>Net</u> <u>RM'000</u> |
|--|-------------------------------|-------------------------------------|-----------------------------|
| At 31 December 2019 | | | |
| At 1 January 2019 | 117,054 | (3,164) | 113,890 |
| Premium written during the financial year (Note 24) | 297,727 | (18,912) | 278,815 |
| Premium earned during the financial year | <u>(303,435)</u> | <u>19,193</u> | <u>(284,242)</u> |
| At 31 December 2019 | <u>111,346</u> | <u>(2,883)</u> | <u>108,463</u> |
| At 31 December 2018 | | | |
| At 1 December 2017 | 110,169 | (5,177) | 104,992 |
| Premium written during the financial period (Note 24) | 315,805 | (23,215) | 292,590 |
| Premium earned during the financial period | <u>(308,920)</u> | <u>25,228</u> | <u>(283,692)</u> |
| At 31 December 2018 | <u>117,054</u> | <u>(3,164)</u> | <u>113,890</u> |
| <u>Discontinued operations</u> | | | |
| At 31 December 2018 | | | |
| At 1 December 2017 | 110,169 | (5,177) | 104,992 |
| Premium written during the financial period (Note 24) | 168,585 | (12,238) | 156,347 |
| Premium earned during the financial period | <u>(163,135)</u> | <u>12,510</u> | <u>(150,625)</u> |
| Business transfer to AIA General Berhad | <u>(115,619)</u> | <u>4,905</u> | <u>(110,714)</u> |
| At 31 December 2018 | <u>-</u> | <u>-</u> | <u>-</u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19 DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities are offsetted when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax assets/liabilities shown in the statements of financial position are determined after appropriate offsetting.

| | Group | | Company | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Presented after appropriate offsetting as follows: | | | | |
| Deferred tax liabilities | 675,244 | 485,362 | 666,694 | 485,362 |
| Deferred tax assets | (2,384) | (7,078) | - | - |
| | <u>672,860</u> | <u>478,284</u> | <u>666,694</u> | <u>485,362</u> |
| <u>Continuing operations</u> | | | | |
| Current | (2,552) | (20,215) | 54,438 | (12,215) |
| Non current | 675,412 | 498,499 | 612,256 | 497,577 |
| | <u>672,860</u> | <u>478,284</u> | <u>666,694</u> | <u>485,362</u> |
| | | | | |
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January/1 December | | | | |
| - As previously reported | 478,284 | 516,931 | 485,362 | 516,931 |
| - Opening adjustment on adoption of MFRS 16 | 1,325 | - | 1,325 | - |
| At 1 January 2019 (as restated) | <u>479,609</u> | <u>516,931</u> | <u>486,687</u> | <u>516,931</u> |
| Recognised in: | | | | |
| Income statements (Note 31) | 54,479 | (53,656) | 46,914 | (45,790) |
| Other comprehensive income | 135,724 | 15,009 | 133,093 | 14,968 |
| Business transfer to AIA General Berhad | - | - | - | (747) |
| Acquisition of subsidiaries | 3,048 | - | - | - |
| At 31 December | <u>672,860</u> | <u>478,284</u> | <u>666,694</u> | <u>485,362</u> |
| Recognised in: | | | | |
| <u>Income statements (Note 31)</u> | | | | |
| Continuing operations | 54,479 | (53,656) | 46,914 | (46,286) |
| Discontinued operations | - | - | - | 496 |
| | <u>54,479</u> | <u>(53,656)</u> | <u>46,914</u> | <u>(45,790)</u> |
| <u>Other comprehensive income</u> | | | | |
| Continuing operations | 135,724 | 15,009 | 133,093 | 15,016 |
| Discontinued operations | - | - | - | (48) |
| | <u>135,724</u> | <u>15,009</u> | <u>133,093</u> | <u>14,968</u> |

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19 DEFERRED TAX LIABILITIES (CONTINUED)

| <u>Group</u> | <u>Fair value of properties</u> RM'000 | <u>Unallocated surplus</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Accelerated depreciation</u> RM'000 | <u>Total</u> RM'000 |
|---|--|---|---|---|------------------------|
| At 31 December 2019 | | | | | |
| Deferred tax liabilities at 1 January 2019 | | | | | |
| - As previously reported | 6,915 | 500,035 | 365 | 7,358 | 514,673 |
| - Opening adjustment on adoption of MFRS 16 | 1,325 | - | - | - | 1,325 |
| At 1 January 2019 (as restated) | <u>8,240</u> | <u>500,035</u> | <u>365</u> | <u>7,358</u> | <u>515,998</u> |
| Recognised in: | | | | | |
| Income statements | (844) | (131,988) | 149,257 | (725) | 15,700 |
| Other comprehensive income | 245 | 292 | 147,680 | - | 148,217 |
| Acquisition of subsidiaries | - | - | 5,761 | 430 | 6,191 |
| Deferred tax liabilities at 31 December 2019 (before offsetting) | <u>7,641</u> | <u>368,339</u> | <u>303,063</u> | <u>7,063</u> | <u>686,106</u> |
| Offsetting | | | | | (10,862) |
| Deferred tax liabilities at 31 December 2019 (after offsetting) | | | | | <u>675,244</u> |
| | <u>Unutilised capital allowance and tax losses</u> RM'000 | <u>Impairment allowance</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Unrealised amortisation</u> RM'000 | <u>Total</u> RM'000 |
| Deferred tax assets at 1 January 2019 | (8,022) | - | (18,995) | (9,372) | (36,389) |
| Recognised in: | | | | | |
| Income statements | 8,022 | - | 31,488 | (731) | 38,779 |
| Other comprehensive income | - | - | (12,493) | - | (12,493) |
| Acquisition of subsidiaries | - | - | - | (3,143) | (3,143) |
| Deferred tax assets at 31 December 2019 (before offsetting) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(13,246)</u> | <u>(13,246)</u> |
| Offsetting | | | | | 10,862 |
| Deferred tax assets at 31 December 2019 (after offsetting) | | | | | <u>(2,384)</u> |

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19 DEFERRED TAX LIABILITIES (CONTINUED)

| <u>Group</u> | <u>Fair value of properties</u> RM'000 | <u>Unallocated surplus</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Accelerated depreciation</u> RM'000 | <u>Total</u> RM'000 |
|---|--|---|---|---|------------------------|
| At 31 December 2018 | | | | | |
| Deferred tax liabilities at 1 December 2017 | 8,461 | 464,046 | 43,626 | 9,112 | 525,245 |
| Recognised in: | | | | | |
| Income statements | (692) | 36,316 | (46,960) | (1,754) | (13,090) |
| Other comprehensive income | (364) | (817) | 3,699 | - | 2,518 |
| Disposal of property – revaluation | (490) | 490 | - | - | - |
| Deferred tax liabilities at 31 December 2018 (before offsetting) | <u>6,915</u> | <u>500,035</u> | <u>365</u> | <u>7,358</u> | <u>514,673</u> |
| Offsetting | | | | | (29,311) |
| Deferred tax liabilities at 31 December 2018 (after offsetting) | | | | | <u>485,362</u> |
| | <u>Unutilised capital allowance and tax losses</u> RM'000 | <u>Impairment allowance</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Unrealised amortisation</u> RM'000 | <u>Total</u> RM'000 |
| Deferred tax assets at 1 December 2017 | - | (559) | - | (7,755) | (8,314) |
| Recognised in: | | | | | |
| Income statements | (8,022) | 559 | (31,486) | (1,617) | (40,566) |
| Other comprehensive income | - | - | 12,491 | - | 12,491 |
| Deferred tax assets at 31 December 2018 (before offsetting) | <u>(8,022)</u> | <u>-</u> | <u>(18,995)</u> | <u>(9,372)</u> | <u>(36,389)</u> |
| Offsetting | | | | | 29,311 |
| Deferred tax assets at 31 December 2018 (after offsetting) | | | | | <u>(7,078)</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

19 DEFERRED TAX LIABILITIES (CONTINUED)

| <u>Company</u> | <u>Fair value of properties</u> RM'000 | <u>Unallocated surplus</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Accelerated depreciation</u> RM'000 | <u>Total</u> RM'000 |
|--|---|---|---|---|------------------------|
| <u>At 31 December 2019</u> | | | | | |
| <u>Continuing operations</u> | | | | | |
| Deferred tax liabilities at 1 January 2019 | | | | | |
| - As previously reported | 6,915 | 500,035 | - | 6,695 | 513,645 |
| - Opening adjustment on adoption of MFRS 16 | 1,325 | - | - | - | 1,325 |
| At 1 January 2019 (as restated) | 8,240 | 500,035 | - | 6,695 | 514,970 |
| Recognised in: | | | | | |
| Income statements | (844) | (131,988) | 149,205 | (347) | 16,026 |
| Other comprehensive income | 245 | 292 | 145,049 | - | 145,586 |
| Deferred tax liabilities at 31 December 2019 (before offsetting) | 7,641 | 368,339 | 294,254 | 6,348 | 676,582 |
| Offsetting | | | | | (9,888) |
| Deferred tax liabilities at 31 December 2019 (after offsetting) | | | | | 666,694 |
| | | <u>Impairment allowance</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Unrealised amortisation</u> RM'000 | <u>Total</u> RM'000 |
| Deferred tax assets at 1 January 2019 | | - | (18,995) | (9,288) | (28,283) |
| Recognised in: | | | | | |
| Income statements | | - | 31,488 | (600) | 30,888 |
| Other comprehensive income | | - | (12,493) | - | (12,493) |
| Deferred tax assets at 31 December 2019 (before offsetting) | | - | - | (9,888) | (9,888) |
| Offsetting | | | | | 9,888 |
| Deferred tax assets at 31 December 2019 (after offsetting) | | | | | - |

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19 DEFERRED TAX LIABILITIES (CONTINUED)

| <u>Company</u> | <u>Fair value of properties</u> RM'000 | <u>Unallocated surplus</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Accelerated depreciation</u> RM'000 | <u>Total</u> RM'000 |
|--|---|---|---|---|------------------------|
| <u>At 31 December 2018</u> | | | | | |
| <u>Continuing operations</u> | | | | | |
| Deferred tax liabilities at 1 December 2017 | 8,461 | 464,046 | 43,591 | 8,178 | 524,276 |
| Recognised in: | | | | | |
| Income statements | (692) | 36,316 | (47,297) | (1,483) | (13,156) |
| Other comprehensive income | (364) | (817) | 3,706 | - | 2,525 |
| Disposal of property – revaluation | (490) | 490 | - | - | - |
| Deferred tax liabilities at 31 December 2018 (before offsetting) | <u>6,915</u> | <u>500,035</u> | <u>-</u> | <u>6,695</u> | <u>513,645</u> |
| Offsetting | | | | | <u>(28,283)</u> |
| Deferred tax liabilities at 31 December 2018 (after offsetting) | | | | | <u>485,362</u> |
| | | <u>Impairment allowance</u> RM'000 | <u>Revaluation of investments</u> RM'000 | <u>Unrealised amortisation</u> RM'000 | <u>Total</u> RM'000 |
| Deferred tax assets at 1 December 2017 | | - | - | (7,644) | (7,644) |
| Recognised in: | | | | | |
| Income statements | | - | (31,486) | (1,644) | (33,130) |
| Other comprehensive income | | - | 12,491 | - | 12,491 |
| Deferred tax assets at 31 December 2018 (before offsetting) | | <u>-</u> | <u>(18,995)</u> | <u>(9,288)</u> | <u>(28,283)</u> |
| Offsetting | | | | | <u>28,283</u> |
| Deferred tax assets at 31 December 2018 (after offsetting) | | | | | <u>-</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

19 DEFERRED TAX LIABILITIES (CONTINUED)

| <u>Company</u> | <u>Revaluation of investments</u> RM'000 | <u>Accelerated depreciation</u> RM'000 | <u>Total</u> RM'000 |
|--|---|---|------------------------|
| <u>At 31 December 2018</u> | | | |
| <u>Discontinued operations</u> | | | |
| Deferred tax liabilities at 1 December 2017 | 35 | 934 | 969 |
| Recognised in: | | | |
| Income statements | 13 | (187) | (174) |
| Other comprehensive income | (48) | - | (48) |
| Business transfer to AIA General Berhad | - | (747) | (747) |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Deferred tax liabilities at 31 December 2018 | | | |
| | | | |
| | <u>Impairment allowance</u> RM'000 | <u>Unrealised amortisation</u> RM'000 | <u>Total</u> RM'000 |
| Deferred tax assets at 1 December 2017 | (559) | (111) | (670) |
| Recognised in: | | | |
| Income statements | 559 | 111 | 670 |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Deferred tax assets at 31 December 2018 | | | |

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**NOTES TO THE FINANCIAL STATEMENTS
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20 INSURANCE/TAKAFUL PAYABLES

Group

| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
|---------------------------------------|---|---|
| Dividend payable to policyholders | 6,002,222 | 5,580,295 |
| Due to reinsurers/retakaful operators | 213,108 | 202,662 |
| Due to agents and insureds | 426,090 | 428,556 |
| Premium deposits | 184,693 | 195,462 |
| | <u>6,826,113</u> | <u>6,406,975</u> |

Company

| | | |
|-----------------------------------|------------------|------------------|
| Dividend payable to policyholders | 6,001,936 | 5,580,295 |
| Due to reinsurers | 194,460 | 199,691 |
| Due to agents and insureds | 418,051 | 421,466 |
| Premium deposits | 173,754 | 195,462 |
| | <u>6,788,201</u> | <u>6,396,914</u> |

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

Offsetting of financial assets and financial liabilities

Certain amounts due from reinsurers/retakaful operators and amounts due to reinsurers/retakaful operators were set off for presentation purpose because they have the enforceable right to set off and they intend either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously as disclosed in Note 14 to the financial statements.

21 DERIVATIVE FINANCIAL INSTRUMENTS

| | <u>Notional amount</u> RM'000 | <u>Group and Company</u> <u>Fair Value</u> | |
|-----------------------------|--|---|--|
| | | <u>Assets</u> RM'000 | <u>Liabilities</u> RM'000 |
| At 31 December 2019 | | | |
| Foreign exchange contracts: | | | |
| Cross-currency swaps | 335,629 | - | 9,213 |
| Total | <u>335,629</u> | <u>-</u> | <u>9,213</u> |

The column "notional amount" in the above table represents the pay leg of derivative transactions. The derivatives in the table above are over-the-counter (OTC) derivatives which consists of cross currency swaps. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

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21 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative assets and derivative liabilities are recognized at fair value through profit or loss. The Group's derivative contracts are established to economic hedge financial exposures, The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the balance sheet as they do not represent the fair value of these transactions. The notional amounts in the table above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on these foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices and the timing of payments.

22 OTHER PAYABLES

| | <u>Group</u> | | <u>Company</u> | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 | <u>31.12.2019</u> RM'000 | <u>31.12.2018</u> RM'000 |
| Amount due to ultimate holding company | 7,206 | 12,625 | 7,156 | 12,620 |
| Amount due to penultimate holding company | 89,308 | 38,540 | 87,833 | 38,540 |
| Post employment benefit obligation - defined benefit plan | 35,264 | 34,653 | 34,984 | 34,423 |
| Accruals | 307,345 | 247,845 | 240,643 | 234,224 |
| Other payables | 450,140 | 614,833 | 402,562 | 601,493 |
| | <u>889,263</u> | <u>948,496</u> | <u>773,178</u> | <u>921,300</u> |

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

23 OPERATING REVENUE

| | <u>Group</u> | | <u>Company</u> | |
|--|--|--|--|--|
| | <u>12 months year ended</u> <u>31.12.2019</u> RM'000 | <u>13 months period ended</u> <u>31.12.2018</u> RM'000 | <u>12 months year ended</u> <u>31.12.2019</u> RM'000 | <u>13 months period ended</u> <u>31.12.2018</u> RM'000 |
| <u>Continuing operations</u> | | | | |
| Gross earned premiums/ contributions (Note 24) | 9,983,933 | 9,947,311 | 9,630,259 | 9,638,391 |
| Investment income (Note 25) | 2,248,044 | 2,442,223 | 2,236,583 | 2,423,914 |
| | <u>12,231,977</u> | <u>12,389,534</u> | <u>11,866,842</u> | <u>12,062,305</u> |
| <u>Discontinued operations</u> | | | | |
| Gross earned premiums/ contributions (Note 24) | - | - | - | 163,135 |
| Investment income (Note 25) | - | - | - | 6,480 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>169,615</u> |

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24 NET EARNED PREMIUMS/CONTRIBUTIONS REVENUE

| | <u>Group</u> | | <u>Company</u> | |
|---|----------------------------|------------------------------|----------------------------|------------------------------|
| | 12 months year ended | 13 months period ended | 12 months year ended | 13 months period ended |
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Continuing operations</u> | | | | |
| (a) Gross earned premiums/contributions | | | | |
| <u>Insurance/takaful contracts:</u> | | | | |
| Life/family takaful | 9,680,498 | 9,638,391 | 9,630,259 | 9,638,391 |
| General (Note 18(B)(ii)) | 297,727 | 315,805 | - | - |
| Gross premium/contributions | 9,978,225 | 9,954,196 | 9,630,259 | 9,638,391 |
| Change in premium liabilities | 5,708 | (6,885) | - | - |
| | <u>9,983,933</u> | <u>9,947,311</u> | <u>9,630,259</u> | <u>9,638,391</u> |
| (b) Premiums/contributions ceded to reinsurers/retakaful operators | | | | |
| <u>Insurance/takaful contracts:</u> | | | | |
| Life/family takaful | (1,020,276) | (1,021,679) | (1,018,693) | (1,021,679) |
| General (Note 18(B)(ii)) | (18,912) | (23,215) | - | - |
| Gross premium/contributions ceded | (1,039,188) | (1,044,894) | (1,018,693) | (1,021,679) |
| Change in premium liabilities | (281) | (2,013) | - | - |
| | <u>(1,039,469)</u> | <u>(1,046,907)</u> | <u>(1,018,693)</u> | <u>(1,021,679)</u> |
| Net earned premiums/contributions revenue | <u>8,944,464</u> | <u>8,900,404</u> | <u>8,611,566</u> | <u>8,616,712</u> |
| <u>Discontinued operations</u> | | | | |
| (a) Gross earned premiums/contributions | | | | |
| <u>Insurance contracts:</u> | | | | |
| General (Note 18(B)(ii)) | - | - | - | 168,585 |
| Gross premium | - | - | - | 168,585 |
| Change in premium liabilities | - | - | - | (5,450) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>163,135</u> |
| (b) Premiums/contributions ceded to reinsurers | | | | |
| <u>Insurance contracts:</u> | | | | |
| General (Note 18(B)(ii)) | - | - | - | (12,238) |
| Gross premium ceded | - | - | - | (12,238) |
| Change in premium liabilities | - | - | - | (272) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>(12,510)</u> |
| Net earned premiums | <u>-</u> | <u>-</u> | <u>-</u> | <u>150,625</u> |

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25 INVESTMENT INCOME

| | <u>Group</u> | | <u>Company</u> | |
|--|--|--|--|--|
| | <u>12 months year ended 31.12.2019</u> | <u>13 months period ended 31.12.2018</u> | <u>12 months year ended 31.12.2019</u> | <u>13 months period ended 31.12.2018</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Continuing operations</u> | | | | |
| Rental income | 29,405 | 30,075 | 29,405 | 30,075 |
| Financial assets at FVTPL – designated upon initial recognition: | | | | |
| Interest income | 1,186,509 | 1,297,667 | 1,186,509 | 1,297,667 |
| Dividend income: | | | | |
| - equity securities quoted in Malaysia | 215,461 | 376,816 | 215,461 | 376,816 |
| - equity securities quoted outside Malaysia | 849 | 3,074 | 849 | 3,074 |
| - equity securities unquoted in Malaysia | 163,433 | 47,507 | 163,146 | 47,074 |
| - unit and property trusts | 33,979 | 34,450 | 33,979 | 34,450 |
| Amortisation of premiums – net (Note 11) | (16,156) | (18,907) | (16,156) | (18,907) |
| <u>AFS financial assets:</u> | | | | |
| Interest income | 377,135 | 396,777 | 360,518 | 382,868 |
| Amortisation of premiums – net (Note 10) | (5,986) | (5,681) | (5,245) | (5,165) |
| <u>Loan and receivables:</u> | | | | |
| Interest income | 245,615 | 270,910 | 245,526 | 270,367 |
| <u>Investment in associates:</u> | | | | |
| Dividend income | - | - | 10,500 | - |
| <u>Cash and cash equivalents:</u> | | | | |
| Interest income | 44,078 | 30,614 | 43,226 | 30,270 |
| Others | 4,879 | 3,614 | - | - |
| | <u>2,279,201</u> | <u>2,466,916</u> | <u>2,267,718</u> | <u>2,448,589</u> |
| Less: | | | | |
| Investment expenses | (31,157) | (24,693) | (31,135) | (24,675) |
| | <u>2,248,044</u> | <u>2,442,223</u> | <u>2,236,583</u> | <u>2,423,914</u> |

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25 INVESTMENT INCOME (CONTINUED)

| | <u>Group</u> | | <u>Company</u> | |
|--|--|--|--|--|
| | <u>12 months</u> year ended <u>31.12.2019</u> RM'000 | <u>13 months</u> period ended <u>31.12.2018</u> RM'000 | <u>12 months</u> year ended <u>31.12.2019</u> RM'000 | <u>13 months</u> period ended <u>31.12.2018</u> RM'000 |
| <u>Discontinued operations</u> | | | | |
| Financial assets at FVTPL – designated upon initial <u>recognition</u> : | | | | |
| Dividend income: | | | | |
| - equity securities unquoted in Malaysia | - | - | - | 290 |
| <u>AFS financial assets</u> : | | | | |
| Interest income | - | - | - | 5,499 |
| Amortisation of premiums – net (Note 10) | - | - | - | (141) |
| <u>Loan and receivables</u> : | | | | |
| Interest income | - | - | - | 305 |
| <u>Cash and cash equivalents</u> : | | | | |
| Interest income | - | - | - | 72 |
| Others | - | - | - | 461 |
| | - | - | - | 6,486 |
| Less: | | | | |
| Investment expenses | - | - | - | (6) |
| | - | - | - | 6,480 |

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26 NET REALISED GAINS

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------------|---|---|---|---|
| | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> | <u>12 months year ended 31.12.2019 RM'000</u> | <u>13 months period ended 31.12.2018 RM'000</u> |
| <u>Continuing operations</u> | | | | |
| <u>Property, plant and equipment</u> | | | | |
| Realised gains/(losses) | 73 | (1,575) | 73 | (1,575) |
| <u>AFS financial assets</u> | | | | |
| <u>Realised gains:</u> | | | | |
| Unit and property trusts | - | 1,371 | - | - |
| Debt securities | | | | |
| - unquoted in Malaysia | 13,153 | 6,880 | 12,974 | 6,852 |
| <u>Realised losses:</u> | | | | |
| Debt securities | | | | |
| - unquoted in Malaysia | - | (867) | - | - |
| | 13,153 | 7,384 | 12,974 | 6,852 |
| Total net realised gains | 13,226 | 5,809 | 13,047 | 5,277 |
| <u>Discontinued operations</u> | | | | |
| <u>AFS financial assets</u> | | | | |
| <u>Realised losses:</u> | | | | |
| Debt securities | | | | |
| - unquoted in Malaysia | - | - | - | (867) |

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27 FAIR VALUE GAINS/(LOSSES)

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------------|---|---|---|---|
| | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> |
| <u>Continuing operations</u> | | | | |
| Investment properties (Note 5) | (10,547) | (8,644) | (10,547) | (8,644) |
| Financial assets at FVTPL (Note 11) | | | | |
| - designated upon initial recognition | 1,839,418 | (1,182,360) | 1,839,194 | (1,182,252) |
| Derivatives | (9,906) | - | (9,906) | - |
| | <u>1,818,965</u> | <u>(1,191,004)</u> | <u>1,818,741</u> | <u>(1,190,896)</u> |
| <u>Discontinued operations</u> | | | | |
| Financial assets at FVTPL | - | - | - | - |
| - designated upon initial recognition | - | - | - | (159) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>(159)</u> |

28 OTHER OPERATING INCOME

| | <u>Group</u> | | <u>Company</u> | |
|---|---|---|---|---|
| | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> |
| <u>Continuing operations</u> | | | | |
| Foreign exchange (losses)/gains: | | | | |
| - realised | (12,327) | (2,597) | (12,366) | (2,515) |
| - unrealised | 8,817 | (5,072) | 8,817 | (5,099) |
| Reversal of/(allowance for) impairment losses: | | | | |
| - loans and receivables | 831 | (3,218) | 831 | (3,218) |
| - insurance receivables | 11,412 | (7,521) | 8,871 | (6,182) |
| - other receivables | (1,330) | 6,051 | (1,330) | 6,051 |
| Writeback/(write off): | | | | |
| - loans and receivables | (1,766) | (195) | (1,766) | (195) |
| - insurance receivables | (4,971) | 1,075 | (3,453) | (612) |
| - other receivables | (3,334) | (814) | (3,334) | (814) |
| - others | (13) | (298) | (13) | (298) |
| Service level agreement charges and other service fees from related companies | 63,350 | 55,167 | 99,575 | 79,720 |
| Write off of property, plant and equipment | (9) | - | (9) | - |
| Write off of intangible assets | - | (3,438) | - | (3,438) |
| Others | (17,753) | (664) | (24,790) | (10,734) |
| | <u>42,907</u> | <u>38,476</u> | <u>71,033</u> | <u>52,666</u> |

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28 OTHER OPERATING INCOME (CONTINUED)

| | <u>Group</u> | | <u>Company</u> | |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>12 months</u> | <u>13 months</u> | <u>12 months</u> | <u>13 months</u> |
| | <u>year</u> | <u>period</u> | <u>year</u> | <u>period</u> |
| | <u>ended</u> | <u>ended</u> | <u>ended</u> | <u>ended</u> |
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>Discontinued operations</u> | | | | |
| (Allowance for)/reversal of impairment losses: | | | | |
| - insurance receivables | - | - | - | (1,204) |
| Writeback/(write off) of bad debts: | | | | |
| - insurance receivables | - | - | - | 1,683 |
| Others | - | - | - | 976 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,455</u> |

29 NET INSURANCE/TAKAFUL BENEFITS AND CLAIMS

| | <u>Group</u> | | <u>Company</u> | |
|---|--------------------|--------------------|--------------------|--------------------|
| | <u>12 months</u> | <u>13 months</u> | <u>12 months</u> | <u>13 months</u> |
| | <u>year</u> | <u>period</u> | <u>year</u> | <u>period</u> |
| | <u>ended</u> | <u>ended</u> | <u>ended</u> | <u>ended</u> |
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| (a) Gross benefits and claims paid | | | | |
| <u>Continuing operations</u> | | | | |
| Insurance/takaful contracts: | | | | |
| Life/family takaful | (7,761,985) | (7,555,084) | (7,743,995) | (7,555,084) |
| General (Note 18(B)(i)) | (87,209) | (88,915) | - | - |
| | <u>(7,849,194)</u> | <u>(7,643,999)</u> | <u>(7,743,995)</u> | <u>(7,555,084)</u> |
| <u>Discontinued operations</u> | | | | |
| Insurance contracts: | | | | |
| General | - | - | - | (44,004) |

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29 NET INSURANCE/TAKAFUL BENEFITS AND CLAIMS (CONTINUED)

| | <u>Group</u> | | <u>Company</u> | |
|--|---|---|---|---|
| | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 |
| (b) Claims ceded to reinsurers/ retakaful operators | | | | |
| <u>Continuing operations</u> | | | | |
| Insurance/takaful contracts: | | | | |
| Life/family takaful | 684,163 | 742,712 | 683,007 | 742,712 |
| General (Note 18(B)(i)) | 5,045 | 405 | - | - |
| | <u>689,208</u> | <u>743,117</u> | <u>683,007</u> | <u>742,712</u> |
| <u>Discontinued operations</u> | | | | |
| Insurance contracts: | | | | |
| General | - | - | - | (3,639) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,639)</u> |
| (c) Gross change to insurance/takaful contract liabilities: | | | | |
| <u>Continuing operations</u> | | | | |
| Insurance/takaful contracts: | | | | |
| Life/family takaful | (3,633,106) | (265,524) | (3,623,634) | (264,952) |
| General | (3,742) | (4,387) | - | - |
| | <u>(3,636,848)</u> | <u>(269,911)</u> | <u>(3,623,634)</u> | <u>(264,952)</u> |
| <u>Discontinued operations</u> | | | | |
| Insurance contracts: | | | | |
| General | - | - | - | (8,676) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>(8,676)</u> |
| (d) Change in insurance/takaful contract liabilities ceded to reinsurers/ retakaful operators | | | | |
| <u>Continuing operations</u> | | | | |
| Insurance/takaful contracts: | | | | |
| Life/family takaful | 107,855 | 52,346 | 107,664 | 52,346 |
| General | 2,080 | (314) | - | - |
| | <u>109,935</u> | <u>52,032</u> | <u>107,664</u> | <u>52,346</u> |
| <u>Discontinued operations</u> | | | | |
| Insurance contracts: | | | | |
| General | - | - | - | (236) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>(236)</u> |

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30 MANAGEMENT EXPENSES

| | <u>Group</u> | | <u>Company</u> | |
|---|---|---|---|---|
| | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 |
| <u>Continuing operations</u> | | | | |
| Advertising | 10,707 | 27,598 | 9,740 | 26,743 |
| Fees payable to PricewaterhouseCoopers PLT | | | | |
| - statutory audit | | | | |
| - current financial year/period | 1,441 | 1,298 | 1,152 | 1,083 |
| - non-audit services | 574 | 1,374 | 515 | 1,371 |
| Staff salaries and bonuses | 270,041 | 339,315 | 257,300 | 315,194 |
| Contribution to EPF | 42,256 | 49,802 | 40,731 | 46,729 |
| Pension benefits | 1,717 | 2,181 | 1,199 | 1,548 |
| Post-employment medical benefits | 907 | 403 | 907 | 403 |
| Share-based payments | 12,444 | 12,140 | 12,424 | 11,650 |
| Staff benefits | 19,504 | 18,532 | 18,511 | 17,275 |
| Travelling expenses | 4,622 | 6,155 | 4,378 | 5,812 |
| Office rental lease payments | 998 | 17,094 | 579 | 16,018 |
| Printing and stationery | 8,447 | 8,557 | 7,793 | 7,859 |
| Postage | 13,812 | 13,811 | 13,307 | 12,811 |
| Directors' remuneration and other emoluments | 6,490 | 6,113 | 6,282 | 5,998 |
| Depreciation | | | | |
| - property, plant and equipment (Note 3) | 31,983 | 32,926 | 31,878 | 32,799 |
| - right of use assets (Note 4) | 21,395 | - | 21,393 | - |
| Amortisation | | | | |
| - prepaid land lease payments (Note 6) | - | 28 | - | 28 |
| - intangible assets (Note 7) | 15,135 | 16,375 | 13,445 | 14,753 |
| IT expenses | 96,250 | 91,619 | 94,420 | 87,173 |
| Medical fees | 4,052 | 3,850 | 4,052 | 3,850 |
| Legal expenses | 475 | 1,016 | 461 | 971 |
| Repairs and maintenance | 16,943 | 19,621 | 16,920 | 18,705 |
| Other expenses | 348,965 | 283,922 | 330,135 | 257,354 |
| | <u>929,158</u> | <u>953,730</u> | <u>887,522</u> | <u>886,127</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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30 MANAGEMENT EXPENSES (CONTINUED)

| | <u>Group</u> | | <u>Company</u> | |
|---|---|---|---|---|
| | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> |
| <u>Discontinued operations</u> | | | | |
| Advertising | - | - | - | 709 |
| Staff salaries and bonuses | - | - | - | 16,819 |
| Contribution to EPF | - | - | - | 2,523 |
| Pension benefits | - | - | - | 138 |
| Share based payment | - | - | - | 480 |
| Staff benefits | - | - | - | 879 |
| Travelling expenses | - | - | - | 283 |
| Office rental lease payments | - | - | - | 661 |
| Printing and stationery | - | - | - | 497 |
| Postage | - | - | - | 651 |
| Depreciation | | | | |
| - property, plant and equipment (Note 3) | - | - | - | 58 |
| Amortisation | | | | |
| - intangible assets (Note 7) | - | - | - | 834 |
| IT expenses | - | - | - | 3,705 |
| Legal expenses | - | - | - | 40 |
| Repairs and maintenance | - | - | - | 899 |
| Other expenses | - | - | - | 17,888 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>47,064</u> |

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30 MANAGEMENT EXPENSES (CONTINUED)

(i) The Directors' remuneration and other emoluments are as follows:

| | <u>Group</u> | | <u>Company</u> | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>12 months</u> | <u>13 months</u> | <u>12 months</u> | <u>13 months</u> |
| | <u>year</u> | <u>period</u> | <u>year</u> | <u>period</u> |
| | <u>ended</u> | <u>ended</u> | <u>ended</u> | <u>ended</u> |
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>Executive Director:</u> | | | | |
| Anusha a/p Thavarajah (resigned on 12 June 2019) | | | | |
| - Remuneration | 1,927 | 3,066 | 1,927 | 3,066 |
| - Share-based payments | 2,700 | 1,306 | 2,700 | 1,306 |
| - Other remuneration or emoluments | 328 | 532 | 328 | 532 |
| | <u>4,955</u> | <u>4,904</u> | <u>4,955</u> | <u>4,904</u> |
| <u>Non-Executive Directors:</u> | | | | |
| <u>Directors' fees</u> | | | | |
| Mohd Daruis bin Zainuddin | 227 | 245 | 215 | 233 |
| Ching Yew Chye @ Chng Yew Chye | 425 | 367 | 265 | 287 |
| Dr. Chong Su-Lin | 165 | 165 | 165 | 165 |
| Ching Neng Shyan | 170 | 50 | 170 | 50 |
| Shulamite N K Khoo | 145 | 100 | 145 | 100 |
| Mahani binti Amat | 21 | - | 21 | - |
| | <u>1,153</u> | <u>927</u> | <u>981</u> | <u>835</u> |

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NOTES TO THE FINANCIAL STATEMENTS
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30 MANAGEMENT EXPENSES (CONTINUED)

(i) The Directors' remuneration and other emoluments are as follows: (Continue)

Non-Executive Directors:

Other remuneration or emoluments

| | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|
| Mohd Daruis bin Zainuddin | 79 | 80 | 72 | 75 |
| Ching Yew Chye @ Chng Yew Chye | 106 | 95 | 77 | 77 |
| Dr. Chong Su-Lin | 60 | 61 | 60 | 61 |
| Ching Neng Shyan | 72 | 13 | 72 | 13 |
| Shulamite N K Khoo | 59 | 33 | 59 | 33 |
| Mahani binti Amat | 6 | - | 6 | - |
| | <u>382</u> | <u>282</u> | <u>346</u> | <u>259</u> |
| Total | <u>6,490</u> | <u>6,113</u> | <u>6,282</u> | <u>5,998</u> |

(ii) The number of Executive and non-Executive Directors whose total remuneration received during the financial year that fall within the following bands are as follows:

| | Number of Directors | | | |
|---------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| | Group | | Company | |
| | 12 months year ended | 13 months period ended | 12 months year ended | 13 months period ended |
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Executive Director:</u> | | | | |
| RM2,000,001 – RM5,000,000 | 1 | 1 | 1 | 1 |
| <u>Non-Executive Directors:</u> | | | | |
| RM 1 – RM100,000 | 1 | 1 | 1 | 1 |
| RM100,001 – RM200,000 | - | 1 | - | 1 |
| RM200,001 – RM300,000 | 4 | 1 | 4 | 1 |
| RM300,001 – RM400,000 | 1 | 1 | 1 | 2 |
| RM400,001 – RM500,000 | - | 1 | - | - |

Total staff costs of the Group and Company (including the Executive Directors) is RM346,869,000 and RM331,072,000 respectively (2018: RM422,373,000 and RM413,638,000).

In the current financial year, the Executive Director is also the CEO of the Company.

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NOTES TO THE FINANCIAL STATEMENTS
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31 TAX EXPENSE

Continuing operations

| | Group | | Company | |
|---|---|---|---|---|
| | 12 months year ended 31.12.2019 RM'000 | 13 months period ended 31.12.2018 RM'000 | 12 months year ended 31.12.2019 RM'000 | 13 months period ended 31.12.2018 RM'000 |
| Tax expense: | | | | |
| - current | 231,488 | 267,098 | 223,765 | 261,683 |
| - deferred (Note 19) | 54,479 | (53,656) | 46,914 | (46,286) |
| | <u>285,967</u> | <u>213,442</u> | <u>270,679</u> | <u>215,397</u> |
| <u>Current tax</u> | | | | |
| Current financial year/period | 232,465 | 303,102 | 224,742 | 297,733 |
| Over provision in prior financial years | (977) | (36,004) | (977) | (36,050) |
| | <u>231,488</u> | <u>267,098</u> | <u>223,765</u> | <u>261,683</u> |
| <u>Deferred tax</u> | | | | |
| Origination and reversal of temporary differences | 54,479 | (53,656) | 46,914 | (46,286) |
| | <u>54,479</u> | <u>(53,656)</u> | <u>46,914</u> | <u>(46,286)</u> |
| Total | <u>285,967</u> | <u>213,442</u> | <u>270,679</u> | <u>215,397</u> |
| <u>Discontinued operations</u> | | | | |
| Tax expense: | | | | |
| - current | - | - | - | 5,325 |
| - deferred (Note 19) | - | - | - | 496 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,821</u> |
| <u>Current tax</u> | | | | |
| Current financial year/period | - | - | - | 5,325 |
| Under provision in prior financial years | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,325</u> |
| <u>Deferred tax</u> | | | | |
| Origination and reversal of temporary differences | - | - | - | 496 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>496</u> |
| Total | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,821</u> |

Over provision in prior financial years include the recognition of tax credit for prior years of assessment arising from a change in tax position taken upon clarification by the tax authority.

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31 TAX EXPENSE (CONTINUED)

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

Continuing operations

| | Group | | Company | |
|---|--|--|--|--|
| | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 |
| Profit before tax | 452,721 | 1,175,497 | 372,260 | 1,126,156 |
| Tax at Malaysian statutory tax rate of 24% | 108,471 | 282,119 | 89,342 | 270,277 |
| Income not subject to tax | (424,538) | (442,451) | (420,784) | (429,204) |
| Expenses not deductible for tax purposes | 667,855 | 465,521 | 667,371 | 462,245 |
| Tax relief on actuarial surplus transferred to Shareholders' fund | (14,093) | (42,238) | (14,093) | (42,238) |
| Single tier tax relief | (7,520) | (9,106) | (7,520) | (9,106) |
| Effect of difference in tax rate | (42,660) | (527) | (42,660) | (527) |
| Over provision of tax expense in prior financial years | (1,548) | (36,004) | (977) | (36,050) |
| Recognition of previously unrecognised tax losses | - | (3,872) | - | - |
| Tax expense | <u>285,967</u> | <u>213,442</u> | <u>270,679</u> | <u>215,397</u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 DIVIDENDS

| | Group and Company | |
|---|---|---|
| | 12 months year ended 31.12.2019 RM'000 | 13 months period ended 31.12.2018 RM'000 |
| <u>Dividends paid:</u> | | |
| <u>In respect of the financial period ended 31 December 2018:</u> | | |
| Final single tier dividend on 767,438,174 ordinary shares | - | 210,000 |
| <u>In respect of the financial year ended 30 November 2017:</u> | | |
| Final single tier dividend on 767,438,174 ordinary shares | - | 750,000 |
| | - | 960,000 |
| Dividend per share (sen) | - | 125 |

The Directors had on 23 May 2019 approved the proposal to pay a final dividend of RM713 million or RM0.9291 per ordinary share on 767,438,174 ordinary shares for the 13 months period ended 31 December 2018, subject to Bank Negara's approval. The Company did not proceed with the proposal following Bank Negara's approval on AIA Malaysia's corporate restructuring exercise.

33 CAPITAL COMMITMENTS

| | Group and Company | |
|---|------------------------------|------------------------------|
| | 31.12.2019 RM'000 | 31.12.2018 RM'000 |
| Capital expenditure | | |
| <u>Approved and contracted for:</u> | | |
| Property, plant and equipment | 1,954 | 10,955 |
| Investment properties | 30,156 | 2,873 |
| Intangible assets | 4,981 | 13,248 |
| Investments | 171,678 | 271,873 |
| | <u>208,769</u> | <u>298,949</u> |
| <u>Approved but not contracted for:</u> | | |
| Property, plant and equipment | 1,705 | 1,864 |
| Investment properties | 5,840 | 34,640 |
| Intangible assets | 28,411 | 9,669 |
| | <u>35,956</u> | <u>46,173</u> |
| Total | <u>244,725</u> | <u>345,122</u> |

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34 OPERATING LEASE ARRANGEMENTS

(a) The Company as lessee

The Company has entered into operating lease agreements for the use of buildings, computers and printers.

From 1 January 2019, the Company has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 4 for further information.

The future aggregate minimum lease payments payable under the operating leases contracted for as at the reporting date but not recognised as liabilities, are as follows:

| | Group and Company | |
|--|--------------------------|-------------------|
| | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 |
| <u>Future minimum rental payments:</u> | | |
| Not later than 1 year | - | 27,985 |
| Later than 1 year and not later than 5 years | - | 32,634 |
| | <u>-</u> | <u>60,619</u> |

The lease payments recognised in the income statements during the financial year are disclosed in Note 30 to the financial statements.

(b) The Company as lessor

The future aggregate minimum lease payments receivable under the operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

| | Group | |
|--|-------------------|-------------------|
| | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 |
| Not later than 1 year | 10,353 | 18,146 |
| Later than 1 year and not later than 6 years | 11,781 | 11,774 |
| More than 6 years | 2,359 | 2,359 |
| | <u>24,493</u> | <u>32,279</u> |

| | Company | |
|--|-------------------|-------------------|
| | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 |
| Not later than 1 year | 10,953 | 19,570 |
| Later than 1 year and not later than 6 years | 11,781 | 12,166 |
| More than 6 years | 2,359 | 2,359 |
| | <u>25,093</u> | <u>34,095</u> |

Rental income recognised in the income statements during the financial year are disclosed in Note 25 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
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35 RELATED PARTY DISCLOSURES

In the normal course of business, the Group and the Company undertake various transactions with the immediate holding company and other related corporations deemed related parties by virtue of them being members of AIA Group Limited and its subsidiaries ("AIA Group"). These transactions were carried out on terms and conditions negotiated between the related parties.

(a) Significant related party transactions

The following are the significant transactions held by the Group and the Company with the related parties during the financial year:

| | Group | | Company | |
|--|-------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| | 12 months year ended | 13 months period ended | 12 months year ended | 13 months period ended |
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Ultimate holding company: | | | | |
| <u>AIA Group Ltd.</u> | | | | |
| - Employees benefits | (12,424) | (12,130) | (12,424) | (12,130) |
| - Managerial, secretarial or like services | (207) | (215) | (207) | (215) |
| Penultimate holding company: | | | | |
| <u>AIA Company Ltd.</u> | | | | |
| - Group service fee | (54,293) | (52,262) | (54,293) | (52,262) |
| - Computer services | (542) | (473) | (542) | (473) |
| - Reinsurance | (7,168) | (795) | (7,168) | (795) |
| - Technical consultation services | (42,075) | - | (40,837) | - |
| Fellow related companies: | | | | |
| <u>AIA Shared Services (Hong Kong) Ltd.</u> | | | | |
| - Computer services | (5,622) | (3,844) | (5,622) | (3,844) |
| - Managerial, secretarial or like services | (2,809) | (2,720) | (2,809) | (2,720) |
| <u>AIA Information Technology (Guangzhou) Co. Ltd.</u> | | | | |
| - Computer services | (7,868) | (7,664) | (7,868) | (7,664) |
| <u>AIA Information Technology (Beijing) Co. Ltd.</u> | | | | |
| - Computer services | (10,041) | (6,133) | (10,041) | (6,133) |

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35 RELATED PARTY DISCLOSURES (CONTINUED)

(a) Significant related party transactions (continued)

The following are the significant transactions held by the Group and the Company with the related parties during the financial year: (continued)

| | <u>12 months</u> year ended <u>31.12.2019</u> RM'000 | <u>Group</u> <u>13 months</u> period ended <u>31.12.2018</u> RM'000 | <u>12 months</u> year ended <u>31.12.2019</u> RM'000 | <u>Company</u> <u>13 months</u> period ended <u>31.12.2018</u> RM'000 |
|---|--|--|--|--|
| Fellow related companies: | | | | |
| (continued) | | | | |
| <u>AIA Shared Services Sdn. Bhd.</u> | | | | |
| - Computer services | | | | |
| - paid | (6,164) | (5,417) | (6,164) | (5,417) |
| - received | 16 | 17 | 16 | 17 |
| - Rental income | 294 | 419 | 294 | 419 |
| - Premium income | 730 | 539 | 730 | 539 |
| - Interest income | - | 145 | - | 145 |
| - Managerial, secretarial or like services | | | | |
| - paid | (1,671) | (1,321) | (1,620) | (1,321) |
| - received | 151 | 172 | 151 | 172 |
| <u>AIA Reinsurance Ltd.</u> | | | | |
| - Net of reinsurance expenses | (93,883) | (78,650) | (93,883) | (78,650) |
| <u>AIA Health Services Sdn. Bhd.</u> | | | | |
| - Claims administration fee | (46,835) | (51,597) | (46,835) | (51,597) |
| - Managerial, secretarial or like services received | 7,696 | 5,682 | 7,696 | 5,682 |
| - Rental income | 1,356 | 1,544 | 1,356 | 1,544 |
| - Premium income | 342 | 146 | 342 | 146 |
| - Vitality fee | (2,871) | - | (2,871) | - |
| <u>AIA PUBLIC Takaful Bhd.</u> | | | | |
| - Managerial, secretarial or like services received | 54,853 | 49,728 | 54,853 | 49,728 |
| - Rental income | 668 | 770 | 668 | 770 |
| - Premium income | - | - | - | - |
| - Technical consultation services | 553 | - | 553 | - |

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35 RELATED PARTY DISCLOSURES (CONTINUED)

(a) Significant related party transactions (continued)

The following are the significant transactions held by the Group and the Company with the related parties during the financial year: (continued)

| | <u>Group</u> | | <u>Company</u> | |
|---|---|---|---|---|
| | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> | <u>12 months</u> <u>year</u> <u>ended</u> <u>31.12.2019</u> <u>RM'000</u> | <u>13 months</u> <u>period</u> <u>ended</u> <u>31.12.2018</u> <u>RM'000</u> |
| Subsidiary companies: | | | | |
| <u>AIA General Berhad</u> | | | | |
| - Managerial, secretarial or like services received | - | - | 33,050 | 20,163 |
| - Rental income | - | - | 558 | 281 |
| - Premium income | - | - | (106) | (123) |
| - Computer services income | - | - | - | 79 |
| - Technical consultation services | - | - | 149 | - |
| <u>AIA Health Services Sdn. Bhd.</u> | | | | |
| - Claims administration fee | - | - | (2,572) | - |
| - Managerial, secretarial or like services received | - | - | 423 | - |
| - Rental income | - | - | 74 | - |
| - Premium income | - | - | 19 | - |
| - Vitality fee | - | - | (158) | - |
| <u>AIA PUBLIC Takaful Bhd.</u> | | | | |
| - Managerial, secretarial or like services received | - | - | 3,012 | - |
| - Rental income | - | - | 37 | - |
| - Technical consultation services | - | - | 30 | - |

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35 RELATED PARTY DISCLOSURES (CONTINUED)

(a) Significant related party transactions (continued)

The following are the significant transactions held by the Group and the Company with the related parties during the financial year: (continued)

| | Group | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 12 months | 13 months | 12 months | 13 months |
| | year | period | year | period |
| | ended | ended | ended | ended |
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Subsidiary companies: | | | | |
| (continued) | | | | |
| <u>AIA Pension and Asset</u> | | | | |
| <u>Management Sdn. Bhd.</u> | | | | |
| - Rental income | - | - | 195 | 213 |
| - Managerial, secretarial or like services received | - | - | 391 | 441 |
| - Premium income | - | - | 44 | 62 |

(b) Related party balances

| | Group | | Company | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Receivables</u> | | | | |
| Other receivables | 369 | 36,629 | 120,726 | 48,234 |
| <u>Payables</u> | | | | |
| Insurance payables | (135,900) | (115,020) | (135,900) | (115,020) |
| Other payables | (120,515) | (74,639) | (118,127) | (74,639) |
| | <u>(256,415)</u> | <u>(189,659)</u> | <u>(254,027)</u> | <u>(189,659)</u> |

The amounts due from/(to) related parties are unsecured, interest free and repayable within 30 days.

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35 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Compensation of key management personnel

Members of key management personnel comprise those persons having the authority and responsibility for planning, directing and controlling the activities of the Group and the Company, directly or indirectly, including any director (whether executive or otherwise) of the Group and the Company.

Compensation of key management personnel during the financial year are as follows:

| | Group | | Company | |
|------------------------------|--|--|--|--|
| | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 |
| Short-term employee benefits | 21,971 | 22,231 | 19,109 | 21,858 |
| Post-employment benefits | | | | |
| - Defined contribution plan | 3,043 | 3,045 | 2,560 | 2,986 |
| Share-based payments | 10,826 | 8,588 | 10,574 | 8,588 |
| Allowances | 1,535 | 1,094 | 1,327 | 1,094 |
| | <u>37,375</u> | <u>34,958</u> | <u>33,570</u> | <u>34,526</u> |

Included in the compensation of key management personnel are:

| | Group and Company | |
|--------------------------------------|--|--|
| | 12 months year ended <u>31.12.2019</u> RM'000 | 13 months period ended <u>31.12.2018</u> RM'000 |
| <u>Executive Director:</u> (Note 30) | | |
| - Remuneration | 1,927 | 3,066 |
| - Share-based payments | 2,700 | 1,306 |
| - Other remuneration or emoluments | 328 | 532 |
| | <u>4,955</u> | <u>4,904</u> |

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36 RISK MANAGEMENT

Risk Management Framework

The Company's Risk Management Framework consist of the following key components – Risk Culture, Risk Management Process, Risk Governance, Risk Appetite and Risk Landscape as set out in part of the Directors' Report on Statement on Corporate Governance on Internal Control Framework.

Capital Management Framework

The Company actively manages its capital adequacy by taking into account the potential impact of business strategies on the Company's risk profile and overall resilience. This is in line with BNM Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers/Takaful Operators and the Risk-Based Capital Framework for Insurers/Takaful Operators ("RBC Framework").

Under the RBC Framework, the Company and its insurance/takaful subsidiaries have to maintain a capital adequacy level that is commensurate with its risk profiles at all times. The Capital Adequacy Ratio of the Company and its insurance/takaful subsidiaries remained well above the minimum capital requirement of 130% under the RBC Framework, regulated by BNM.

The ICAAP is the overall process (including oversight and operational frameworks and processes) by which the Company and its insurance/takaful subsidiaries ensure adequate capital to meet their capital requirements on an ongoing basis. The key elements of ICAAP includes Board and senior management oversight; comprehensive risk assessment; individual target capital level and stress testing; sound capital management and ongoing monitoring, reporting and review of the ICAAP.

A capital management plan has been established which lists the thresholds that act as triggers for actions to ensure maintenance of appropriate capital levels at all times as well as the corresponding corrective actions that are required for different scenarios and at each specified thresholds. Results of stress tests shall be considered when evaluating the appropriateness of capital thresholds and corrective actions with consideration of the particular stage of the business cycle in which the Company and its insurance/takaful subsidiaries are operating, given the potential changes in the external environment that could affect the risk profile.

The Company and its insurance/takaful subsidiaries set an Individual Target Capital Level ("ITCL") that reflects the overall risk tolerance and risk appetite set by the Board, its own risk profile and risk management practices. The Company and its insurance/takaful subsidiaries shall operate at capital levels above ITCL at all times. The ITCL provides a robust threshold in the management of capital adequacy, where a breach of this level would trigger timely responses by management to restore capital to the ITCL and heighten the Board's scrutiny based on the Capital Management Plan.

The planning and assessment of capital and ITCL will be formally conducted by senior management at least annually or as and when the need arises. The result will be reported to the Board and/or the Board's RMC.

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36 RISK MANAGEMENT (CONTINUED)

Governance and Regulatory Framework

The Company and its insurance/takaful subsidiaries' risk governance framework is built on the "three lines of defence" model. With regards to risk management, the objective is to ensure that an appropriate framework is in place, including an independent system of checks and balances to provide assurance that risks are identified, assessed, managed and governed properly. The framework clearly defines roles and responsibilities for the management of risks between the Executive Management, Compliance and Enterprise Risk Management and Internal Audit functions. While each line of defence is independent from the others, they work closely to ensure effective oversight.

The Company and its insurance/takaful subsidiaries are required to comply with the requirements of the relevant regulations, laws and guidelines including those from BNM, Securities Commission, Life Insurance Association of Malaysia ("LIAM"), Persatuan Insurans Am Malaysia ("PIAM") and Malaysian Takaful Association ("MTA").

The Company and its insurance/takaful subsidiaries have complied with the capital requirements prescribed by BNM during the reported financial year.

37 INSURANCE/TAKAFUL RISK

Insurance/takaful risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance/takaful business. This also includes changes to actuarial and investment assumptions regarding future experience for these risks.

The Group considers insurance/takaful risk to be a combination of the following component risks:

- (a) Product design risk;
- (b) Pricing and underwriting risk;
- (c) Lapse risk; and
- (d) Claims volatility risk

The Group manages its exposure to insurance/takaful risk across a spectrum of components. The Group has significant underwriting and actuarial resources, and has implemented well-defined underwriting and actuarial guidelines and practices. The Group has accumulated substantial experience which assists in the evaluation, pricing and underwriting of its products. The Group's Product Development Committee ("PDC") and Financial Risk Committee ("FRC") play an important oversight role in relation to these insurance/takaful related risks, as discussed below. Insurance/takaful risk exposure is also considered when FRC reviews the strategic asset allocation plan and asset-liability management strategies.

(a) Product design risk

Product design risk refers to potential defects in the development of a particular insurance/takaful product. Product development process is overseen by PDC, which oversees the pricing guidelines set by the Group. The Group seeks to manage this risk by completing pre-launch reviews of each new product including product management, actuarial, legal and underwriting. The Group has substantial experience and has developed significant expertise in identifying potential flaws in product development that could expose the Group to excessive risks. The Group monitors closely the performance of new products and focus on actively managing each part of the actuarial control cycle to minimise risk in both in-force policies and new products.

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(b) Pricing and underwriting risk

Pricing and underwriting risk refers to the possibility of product related income being inadequate to support future obligations arising from an insurance/takaful product. The Group seeks to manage pricing and underwriting risk by adhering to its underwriting guidelines.

The Group maintains a team of professional underwriters who review and select risks consistent with acceptable risk profile and underwriting strategy. In certain circumstances, such as when the Group enters into new lines of business, products or markets and do not have sufficient experience data, it makes use of reinsurers/retakaful to obtain product pricing expertise. The use of reinsurance/retakaful subjects the Group to the risk that the reinsurers/retakaful operators become insolvent or fail to make any payment when due to the Group. The credit risk of the reinsurer/retakaful operator is addressed via the established Credit Risk management process. The Group allows for an appropriate level of expenses in its product pricing that reflects a realistic medium to long term view of its cost structure. In the daily operations, the Group adheres to a disciplined expense budgeting and management process that controls expenses within the product pricing allowances over the medium to long term.

(c) Lapse risk

Lapse risk refers to the possibility of actual lapse experience that diverges from the anticipated experience assumed when products were priced. It includes the potential financial loss incurred due to early termination of policies or contracts in circumstances where the acquisition costs incurred are no longer recoverable from future revenue. The Group carries out regular reviews of persistency experience and the results are assimilated into new and in-force product management. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees upon early termination by policyholders, thereby reducing its exposure to lapse risk.

(d) Claims volatility risk

Claims volatility risk refers to the possibility that the frequency or severity of claims arising from insurance/takaful products exceed the levels assumed when the products were priced. Firstly, the Group seeks to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of such information on reinsurance/retakaful needs, product design and pricing. Secondly, the Group mitigates this risk by adhering to the underwriting and claims management policies and procedures that have been developed based on its extensive historical experience. Thirdly, broad product offering and large in-force product portfolio also reduce the Group's exposure to concentration risk. The Group also uses reinsurance/retakaful solutions to help reduce concentration risk.

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37 INSURANCE RISK (CONTINUED)

(i) Life insurance/family takaful contracts

The insurance/takaful risk of life insurance/family takaful contracts consists of mortality/longevity and calamity risks. Mortality/longevity risk represents the risk of loss attributable to positive or negative changes in the assumed medical prognosis for life expectancy, occupational disability, illness and the need for long-term care as well as under-estimation of these probabilities. Calamity risk represents the risk of loss because of strong short-term fluctuation in the mortality rate, for example as a result of war or epidemics.

The table below shows the concentration of actuarial liabilities by types of contract reflecting product features of insurance/takaful risk associated.

Group

| 31 December 2019 | Gross | | | Reinsurance | | | Net RM'000 |
|------------------------------------|----------------------------|-------------------------------|-------------------------|----------------------------|-------------------------------|-------------------------|-----------------------|
| | With DPF RM'000 | Without DPF RM'000 | Total RM'000 | With DPF RM'000 | Without DPF RM'000 | Total RM'000 | |
| Whole life | 21,128,434 | 1,840,222 | 22,968,656 | 8,084 | 15,322 | 23,406 | 22,945,250 |
| Endowment | 4,843,948 | 619,088 | 5,463,036 | 46 | 1,035 | 1,081 | 5,461,955 |
| Term assurance | - | 2,786,660 | 2,786,660 | - | 164,904 | 164,904 | 2,621,756 |
| Riders | 618,209 | 347,456 | 965,665 | 21 | 34,009 | 34,030 | 931,635 |
| Others | 190,864 | 61,076 | 251,940 | - | 18,391 | 18,391 | 233,549 |
| Family takaful plans | (6,596) | - | (6,596) | - | - | - | (6,596) |
| Credit takaful plans | 181,581 | - | 181,581 | - | - | - | 181,581 |
| Group credit takaful plans | 22,131 | - | 22,131 | - | - | - | 22,131 |
| Investment-linked takaful plans | 551,190 | - | 551,190 | - | - | - | 551,190 |
| Total | 27,529,761 | 5,654,502 | 33,184,263 | 8,151 | 233,661 | 241,812 | 32,942,451 |

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37 INSURANCE RISK (CONTINUED)

(i) Life insurance/family takaful contracts (continued)

Company

| <u>31 December 2019</u> | Gross | | | Reinsurance | | | <u>Net</u> RM'000 |
|--------------------------------|---|--|--------------------------------------|---|--|--------------------------------------|------------------------------------|
| | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | <u>Total</u> RM'000 | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | <u>Total</u> RM'000 | |
| Whole life | 21,128,434 | 1,840,222 | 22,968,656 | 8,084 | 15,322 | 23,406 | 22,945,250 |
| Endowment | 4,843,948 | 619,088 | 5,463,036 | 46 | 1,035 | 1,081 | 5,461,955 |
| Term assurance | - | 2,786,660 | 2,786,660 | - | 164,904 | 164,904 | 2,621,756 |
| Riders | 618,209 | 347,456 | 965,665 | 21 | 34,009 | 34,030 | 931,635 |
| Others | 190,864 | 61,076 | 251,940 | - | 18,391 | 18,391 | 233,549 |
| Total | 26,781,455 | 5,654,502 | 32,435,957 | 8,151 | 233,661 | 241,812 | 32,194,145 |

Group and Company

| <u>31 December 2018</u> | Gross | | | Reinsurance | | | <u>Net</u> RM'000 |
|--------------------------------|---|--|--------------------------------------|---|--|--------------------------------------|------------------------------------|
| | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | <u>Total</u> RM'000 | <u>With DPF</u> RM'000 | <u>Without DPF</u> RM'000 | <u>Total</u> RM'000 | |
| Whole life | 19,838,647 | 1,484,000 | 21,322,647 | 6,056 | 7,586 | 13,642 | 21,309,005 |
| Endowment | 5,268,835 | 329,874 | 5,598,709 | 61 | 1,607 | 1,668 | 5,597,041 |
| Term assurance | 33 | 2,404,357 | 2,404,390 | - | 130,137 | 130,137 | 2,274,253 |
| Riders | 658,146 | 304,281 | 962,427 | 12 | 26,246 | 26,258 | 936,169 |
| Others | 206,533 | (2,771) | 203,762 | - | 459 | 459 | 203,303 |
| Total | 25,972,194 | 4,519,741 | 30,491,935 | 6,129 | 166,035 | 172,164 | 30,319,771 |

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**NOTES TO THE FINANCIAL STATEMENTS
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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(i) Life insurance/family takaful contracts (continued)

Key assumptions

Mortality, total permanent disability and critical illness

Mortality, total permanent disability and critical illness assumptions were derived based on past experience, and expectation of current and future experience. For assumptions related to new morbidity risk, in the absence of credible experience, reference has been made to pricing assumptions.

Expense

Expense assumption was derived based on actual expense analysis which was translated into unit cost factors with appropriate expense carriers (e.g. per premium, per sum assured and per policy) and expense inflation rate was based on expectation of long-term consumer price index. In the absence of credible experience, reference has been made to pricing assumptions.

Lapse and surrender rates

Lapse rate assumption was derived based on past experience and best estimate of current and future experience. Lapse rate assumption vary by policy year, product type and/or premium/contribution payment method with different rates for regular and single premium products. Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions. In the case of surrenders, the valuation assumes that current surrender value basis will continue to apply in the future.

Discount/Profit rate

The risk-free discount/profit rate was derived from a yield curve, as follows:

1. For policies'/certificates' duration of less than 15 years: zero-coupon spot yields of MGS/Government Islamic Instruments ("GII") with matching duration; and
2. For policies'/certificates' duration of 15 years or more: zero-coupon spot yields of MGS/GII with 15 years term to maturity.

Where total guaranteed and non-guaranteed benefits were considered, the discount rate used was the current portfolio yield (as at the valuation date) of the participating life funds graded linearly to the long-term interest rate over 9 years for AIA Participating Fund and 7 years for Business Acquired Participating Fund respectively. Long-term interest rate refers to the long-term interest assumption for the participating funds, which was determined based on the expected long term asset mix for the participating funds, historical yields on these asset classes over the last 5 years, as well as current market yields and future outlook. The graded period was determined based on the duration of the existing fixed income portfolio with reference to the relationship between asset and liability durations of the participating fund. The methodology for determining the participating portfolio interest rate, the grading period and the long-term interest rate assumption is consistent with the methodology adopted in the insurer's annual bonus investigations.

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**NOTES TO THE FINANCIAL STATEMENTS
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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(i) Life insurances/family takaful contracts (continued)

Key assumptions (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 included in insurance/takaful contract liabilities and profit after tax. The correlation of assumptions will have a significant effect in determining the insurance/takaful contract 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.

| | <u>Change in assumption</u> | <u>Group</u> | |
|--------------------------|-----------------------------|--|-----------------------------------|
| | | <u>Impact on gross/net actuarial liabilities</u> | <u>Impact on profit after tax</u> |
| | <u>%</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>31.12.2019</u> | | | |
| Mortality | +10 | 288,789 | (269,105) |
| Expense | +10 | 80,646 | (42,963) |
| Lapse rate | +10 | (128,348) | (32,898) |
| Discount rate | -0.5 | 90,840 | (323,205) |
| <u>31.12.2018</u> | | | |
| Mortality | +10 | 275,880 | (250,968) |
| Expense | +10 | 83,897 | (41,317) |
| Lapse rate | +10 | (101,268) | (56,143) |
| Discount rate | -0.5 | 74,613 | (248,484) |
| | <u>Change in assumption</u> | <u>Company</u> | |
| | | <u>Impact on gross/net actuarial liabilities</u> | <u>Impact on profit after tax</u> |
| | <u>%</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>31.12.2019</u> | | | |
| Mortality | +10 | 277,640 | (264,187) |
| Expense | +10 | 80,646 | (42,963) |
| Lapse rate | +10 | (127,678) | (33,229) |
| Discount rate | -0.5 | 78,234 | (316,907) |
| <u>31.12.2018</u> | | | |
| Mortality | +10 | 275,880 | (250,968) |
| Expense | +10 | 83,897 | (41,317) |
| Lapse rate | +10 | (101,268) | (56,143) |
| Discount rate | -0.5 | 74,613 | (248,484) |

The impact from changes in the above assumptions to insurance/takaful contracts with DPF has taken into consideration of the flexibility to adjust the policyholders'/certificate holders' bonuses or dividends.

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(ii) General insurance contracts

The insurance risk of general insurance contracts consists of premium and reserve risks. Premium risk represents the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Reserve risks represents the risk of loss resulting from deviations between payments for incurred losses that have not yet been definitely settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves.

The table below shows the concentration of General insurance contract liabilities by type of contract.

Group

| | 31 December 2019 | | | 31 December 2018 | | |
|-----------------------------------|------------------|-----------------------|---------------|------------------|-----------------------|---------------|
| | Gross RM'000 | Reinsurance RM'000 | Net RM'000 | Gross RM'000 | Reinsurance RM'000 | Net RM'000 |
| <u>Claims liabilities</u> | | | | | | |
| Personal accident | 123,932 | (12,265) | 111,667 | 112,833 | (9,539) | 103,294 |
| Motor | 64,691 | (1,561) | 63,130 | 71,364 | (2,173) | 69,191 |
| Fire | 3,244 | (80) | 3,164 | 3,207 | (97) | 3,110 |
| Miscellaneous and liabilities | 198 | (5) | 193 | 919 | (22) | 897 |
| Total | 192,065 | (13,911) | 178,154 | 188,323 | (11,831) | 176,492 |
| <u>Premium liabilities</u> | | | | | | |
| Personal accident | 84,039 | (1,964) | 82,075 | 87,701 | (2,425) | 85,276 |
| Motor | 22,637 | (827) | 21,810 | 24,421 | (612) | 23,809 |
| Fire | 4,420 | (86) | 4,334 | 4,635 | (118) | 4,517 |
| Miscellaneous and liabilities | 250 | (6) | 244 | 297 | (9) | 288 |
| Total | 111,346 | (2,883) | 108,463 | 117,054 | (3,164) | 113,890 |

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(ii) General insurance contracts (continued)

Key assumptions

Expenses

Three elements of management expenses were considered, namely marketing, claims-related and premium-related expense. The premium-related expense is further segregated into two parts, i.e. a one-off expense incurred at the policy issuance and an on-going expense incurred during the policy period. Expense provision only takes into account the provision for claims-related expenses and the on-going premium-related expenses in outstanding claims liabilities and unexpired premium liabilities, respectively.

Premium liabilities

Premium liabilities for all classes of general insurance is the higher of Unexpired Risk Reserves ("URR") at 75% probability of adequacy or Unearned Premium Reserves ("UPR").

URR is assumed as the adjusted unearned premium reserve (net of reinsurance after adjustment for non-qualifying offshore reinsurance but gross of commission) multiplied by the resultant Ultimate Loss Ratio ("ULR") for the most recent loss year.

Provision for claims related expenses and overhead expenses are added to the ultimate unexpired risk reserves plus Provision of Risk Margin for Adverse Deviation ("PRAD") as follows:

- Provision for claims related expense at 10.0% of the unexpired risk to allow for internal claims expenses including staff costs and administrative expenses expected to be incurred in settling claims on the unexpired portion of risk. This rate was based on the most recent financial year's data of claims-related expenses against outstanding claims reserves held at the beginning of the financial year.
- Provision for overhead expense at 10.0% of the UPR (gross of reinsurance and commission) to allow for on-going premium related expenses including staff costs and administrative expenses not related to settling claims. This rate is based on a historic comparison of management expenses against gross written premiums over the most recent financial year, apportioned to exclude claims expenses and upfront expenses like marketing and underwriting costs.

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(ii) General insurance contracts (continued)

Key assumptions (continued)

Claim liabilities

Claim liabilities include provision for outstanding claims of Incurred But Not Reported (“IBNR”) and Incurred But Not Enough Reported (“IBNER”) claims on best estimate basis using primarily the Link Ratio method for all classes of business, coupled with the Bornhueter-Ferguson and/or Expected Loss Ratio methods where deemed necessary and appropriate. Provision for claims-related expense plus a Provision of Risk Margin for Adverse Deviation (“PRAD”) are included to derive the total claims liabilities.

Explicit allowance is not made for future inflation. However an implicit allowance is made based on projection of past development rates of claim inflation contained within the historical claims development data.

Sensitivities

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

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net claim liabilities included in insurance contract liabilities and profit after tax. The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

| | | Group | | |
|--------------------------|------------------------------------|--|--|--|
| | <u>Change in assumption</u> | <u>Impact on gross insurance contract liabilities</u> | <u>Impact on net insurance contract liabilities</u> | <u>Impact on profit after tax</u> |
| | % | RM'000 | RM'000 | RM'000 |
| <u>31.12.2019</u> | | | | |
| Expected loss ratio | +10 | 13,502 | 12,955 | (9,846) |
| Provision for expenses | +10 | 911 | 911 | (692) |
| PRAD | +10 | 1,203 | 1,098 | (834) |
| <u>31.12.2018</u> | | | | |
| Expected loss ratio | +10 | 12,938 | 12,351 | (9,387) |
| Provision for expenses | +10 | 896 | 896 | (681) |
| PRAD | +10 | 1,169 | 1,074 | (816) |

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(ii) General insurance contracts (continued)

Claims development table

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

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

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(ii) General insurance contracts (continued)

Claims development table - Group

Gross Claims Liabilities as at 31.12.2019:

| Accident year | Before 2013 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 | 2019 RM'000 | Total RM'000 |
|---|-----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|
| At end of accident year | | 276,542 | 257,497 | 169,793 | 108,657 | 107,920 | 109,160 | 84,252 | |
| One year later | | 280,151 | 240,380 | 161,191 | 102,693 | 103,746 | 104,021 | - | |
| Two years later | | 278,308 | 236,933 | 158,326 | 97,380 | 111,829 | - | - | |
| Three years later | | 276,243 | 236,751 | 156,335 | 94,331 | - | - | - | |
| Four years later | | 275,406 | 237,193 | 160,381 | - | - | - | - | |
| Five years later | | 275,885 | 241,008 | - | - | - | - | - | |
| Six years later | | 277,697 | - | - | - | - | - | - | |
| Current estimate of cumulative claims incurred | | <u>277,697</u> | <u>241,008</u> | <u>160,381</u> | <u>94,331</u> | <u>111,829</u> | <u>104,021</u> | <u>84,252</u> | |
| At end of accident year | | (183,774) | (169,749) | (96,783) | (36,488) | (46,816) | (38,548) | (41,336) | |
| One year later | | (254,384) | (216,580) | (133,213) | (75,669) | (76,252) | (66,886) | - | |
| Two years later | | (265,715) | (225,861) | (147,752) | (84,467) | (84,379) | - | - | |
| Three years later | | (270,390) | (230,010) | (151,376) | (87,327) | - | - | - | |
| Four years later | | (271,508) | (233,749) | (153,048) | - | - | - | - | |
| Five years later | | (272,800) | (234,229) | - | - | - | - | - | |
| Six years later | | (274,097) | - | - | - | - | - | - | |
| Cumulative payments to-date | | <u>(274,097)</u> | <u>(234,229)</u> | <u>(153,048)</u> | <u>(87,327)</u> | <u>(84,379)</u> | <u>(66,886)</u> | <u>(41,336)</u> | |
| Gross claims liabilities | 6,884 | 3,600 | 6,779 | 7,333 | 7,004 | 27,450 | 37,135 | 42,916 | 139,101 |
| Treaty inwards and MMIP | | | | | | | | | 26,706 |
| Best estimate of claims liabilities | | | | | | | | | 165,807 |
| Claims handling expenses | | | | | | | | | 9,114 |
| PRAD at 75% confidence level | | | | | | | | | 17,144 |
| Gross claims liabilities | | | | | | | | | <u>192,065</u> |

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(ii) General insurance contracts (continued)

Claims development table - Group (continued)

Net Claims Liabilities as at 31.12.2019:

| <u>Accident year</u> | <u>Before 2013 RM'000</u> | <u>2013 RM'000</u> | <u>2014 RM'000</u> | <u>2015 RM'000</u> | <u>2016 RM'000</u> | <u>2017 RM'000</u> | <u>2018 RM'000</u> | <u>2019 RM'000</u> | <u>Total RM'000</u> |
|---|-----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|
| At end of accident year | | 256,068 | 248,076 | 163,819 | 103,548 | 102,102 | 104,354 | 80,574 | |
| One year later | | 245,302 | 230,865 | 155,047 | 97,224 | 94,641 | 97,610 | - | |
| Two years later | | 243,233 | 227,940 | 150,699 | 92,487 | 103,073 | - | - | |
| Three years later | | 239,890 | 227,707 | 148,675 | 89,879 | - | - | - | |
| Four years later | | 239,898 | 228,147 | 152,381 | - | - | - | - | |
| Five years later | | 240,284 | 231,799 | - | - | - | - | - | |
| Six years later | | 241,814 | - | - | - | - | - | - | |
| Current estimate of cumulative claims incurred | | 241,814 | 231,799 | 152,381 | 89,879 | 103,073 | 97,610 | 80,574 | |
| At end of accident year | | (171,511) | (164,546) | (93,632) | (35,307) | (44,365) | (35,974) | (38,270) | |
| One year later | | (223,021) | (209,064) | (128,679) | (72,866) | (70,676) | (62,932) | - | |
| Two years later | | (232,156) | (217,879) | (140,908) | (80,639) | (80,519) | - | - | |
| Three years later | | (235,870) | (221,904) | (143,974) | (82,945) | - | - | - | |
| Four years later | | (236,821) | (225,552) | (145,557) | - | - | - | - | |
| Five years later | | (237,844) | (225,812) | - | - | - | - | - | |
| Six years later | | (239,089) | - | - | - | - | - | - | |
| Cumulative payments to-date | | (239,089) | (225,812) | (145,557) | (82,945) | (80,519) | (62,932) | (38,270) | |
| Net claims liabilities | 4,232 | 2,725 | 5,987 | 6,824 | 6,934 | 22,554 | 34,678 | 42,304 | 126,238 |
| Treaty inwards and MMIP | | | | | | | | | 26,706 |
| Best estimate of claims liabilities | | | | | | | | | 152,944 |
| Claims handling expenses | | | | | | | | | 9,114 |
| PRAD at 75% confidence level | | | | | | | | | 16,096 |
| Net claims liabilities | | | | | | | | | 178,154 |

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(ii) General insurance contracts (continued)

Claims development table - Group (continued)

Gross Claims Liabilities as at 31.12.2018:

| <u>Accident year</u> | Before <u>2012</u> RM'000 | <u>2012</u> RM'000 | <u>2013</u> RM'000 | <u>2014</u> RM'000 | <u>2015</u> RM'000 | <u>2016</u> RM'000 | <u>2017</u> RM'000 | <u>2018</u> RM'000 | Total RM'000 |
|--|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------|
| At end of accident year | | 252,624 | 276,542 | 257,497 | 169,793 | 108,657 | 107,920 | 109,161 | |
| One year later | | 232,634 | 280,151 | 240,380 | 161,191 | 102,693 | 103,746 | - | |
| Two years later | | 235,098 | 278,308 | 236,933 | 158,326 | 97,380 | - | - | |
| Three years later | | 235,778 | 276,243 | 236,751 | 156,335 | - | - | - | |
| Four years later | | 235,405 | 275,406 | 237,193 | - | - | - | - | |
| Five years later | | 235,890 | 275,885 | - | - | - | - | - | |
| Six years later | | 234,646 | - | - | - | - | - | - | |
| Current estimate of cumulative claims incurred | | <u>234,646</u> | <u>275,885</u> | <u>237,193</u> | <u>156,335</u> | <u>97,380</u> | <u>103,746</u> | <u>109,161</u> | |
| At end of accident year | | (165,281) | (183,774) | (169,749) | (96,783) | (36,488) | (46,816) | (38,548) | |
| One year later | | (213,998) | (254,384) | (216,580) | (133,213) | (75,669) | (76,252) | - | |
| Two years later | | (223,788) | (265,715) | (225,861) | (147,752) | (84,467) | - | - | |
| Three years later | | (229,496) | (270,390) | (230,010) | (151,376) | - | - | - | |
| Four years later | | (230,600) | (271,508) | (233,749) | - | - | - | - | |
| Five years later | | (232,678) | (272,800) | - | - | - | - | - | |
| Six years later | | (232,987) | - | - | - | - | - | - | |
| Cumulative payments to-date | | <u>(232,987)</u> | <u>(272,800)</u> | <u>(233,749)</u> | <u>(151,376)</u> | <u>(84,467)</u> | <u>(76,252)</u> | <u>(38,548)</u> | |
| Gross claims liabilities | 6,032 | 1,659 | 3,085 | 3,444 | 4,959 | 12,913 | 27,494 | 70,613 | 130,199 |
| Treaty inwards and MMIP | | | | | | | | | 30,943 |
| Best estimate of claims liabilities | | | | | | | | | 161,142 |
| Claims handling expenses | | | | | | | | | 8,957 |
| PRAD at 75% confidence level | | | | | | | | | 18,225 |
| Gross claims liabilities | | | | | | | | | <u>188,324</u> |

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37 INSURANCE/TAKAFUL RISK (CONTINUED)

(i) General insurance contracts (continued)

Claims development table - Group (continued)

Net Claims Liabilities as at 31.12.2018:

| <u>Accident year</u> | <u>Before 2012 RM'000</u> | <u>2012 RM'000</u> | <u>2013 RM'000</u> | <u>2014 RM'000</u> | <u>2015 RM'000</u> | <u>2016 RM'000</u> | <u>2017 RM'000</u> | <u>2018 RM'000</u> | <u>Total RM'000</u> |
|---|-----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|
| At end of accident year | | 233,328 | 256,068 | 248,076 | 163,819 | 103,548 | 102,102 | 104,354 | |
| One year later | | 215,201 | 245,302 | 230,865 | 155,047 | 97,224 | 94,641 | - | |
| Two years later | | 217,684 | 243,233 | 227,940 | 150,699 | 92,487 | - | - | |
| Three years later | | 217,772 | 239,890 | 227,707 | 148,675 | - | - | - | |
| Four years later | | 217,515 | 239,898 | 228,147 | - | - | - | - | |
| Five years later | | 218,079 | 240,284 | - | - | - | - | - | |
| Six years later | | 216,855 | - | - | - | - | - | - | |
| Current estimate of cumulative claims incurred | | 216,855 | 240,284 | 228,147 | 148,675 | 92,487 | 94,641 | 104,354 | |
| At end of accident year | | (154,111) | (171,511) | (164,546) | (93,632) | (35,307) | (44,365) | (35,974) | |
| One year later | | (198,975) | (223,021) | (209,064) | (128,679) | (72,866) | (70,676) | - | |
| Two years later | | (208,401) | (232,156) | (217,879) | (140,908) | (80,639) | - | - | |
| Three years later | | (211,993) | (235,870) | (221,904) | (143,974) | - | - | - | |
| Four years later | | (213,045) | (236,821) | (225,552) | - | - | - | - | |
| Five years later | | (214,986) | (237,844) | - | - | - | - | - | |
| Six years later | | (215,238) | - | - | - | - | - | - | |
| Cumulative payments to-date | | (215,238) | (237,844) | (225,552) | (143,974) | (80,639) | (70,676) | (35,974) | |
| Net claims liabilities | 3,768 | 1,617 | 2,440 | 2,595 | 4,701 | 11,848 | 23,965 | 68,380 | 119,314 |
| Treaty inwards and MMIP | | | | | | | | | 30,943 |
| Best estimate of claims liabilities | | | | | | | | | 150,257 |
| Claims handling expenses | | | | | | | | | 8,957 |
| PRAD at 75% confidence level | | | | | | | | | 17,278 |
| Net claims liabilities | | | | | | | | | 176,492 |

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38 FINANCIAL RISKS

The Group is exposed to a range of financial risks, including credit risk, liquidity risk and market risk. The Group applies a consistent risk management philosophy that is embedded in management's processes and controls such that both existing and emerging risks are considered and addressed.

Financial risks of investment-linked investments are not further provided and analysed as the financial risks in respect of investment-linked investments are generally wholly borne by the policyholders/participants, and do not directly affect the profit before tax. Furthermore, investment-linked policyholders/participants are responsible for allocation of their policy/certificate values amongst investment options offered by the Group. Although profit before tax is not affected by investment-linked investments, the investment return from such financial investments is included in the Group's income statements, as the Group has selected the fair value option for all investment-linked investments with corresponding change in insurance/takaful contract liabilities for investment-linked contracts.

(a) Credit risk

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and decrease in the value of financial instruments due to deterioration in credit quality. The key areas where the Group is exposed to credit risk include repayment risk are in respect of:

- cash and cash equivalents;
- investments in debt securities;
- loans and receivables (including insurance/takaful receivables); and
- reinsurance/retakaful receivables.

The Group only takes risks that it understands and can manage effectively. In credit risk management this means combining a detailed, bottom-up approach to market and credit analysis that considers individual counterparties with a portfolio approach focusing on sectors, countries and concentrations.

The Group manages credit risk consistent with the AIA Group's investment philosophy and risk appetite, as endorsed by the Board and the Board of Directors of the Group.

With respect to investing activities, investment objectives including asset allocation limits and permitted variances from such limits ("Investment Guidelines") undergo through the governance process which includes the Investment Committee ("IC"), Asset Liability Committee ("ALCO"), FRC and the Board.

The Group Investment (being the investment team in the Company and in AIA Group Office) manages the investment assets of the AIA Group within the Investment Guidelines, utilising a discipline consistent with an outsourced service provider.

Within the investment guidelines, credit risk-based risk tolerances are set by the FRC. Such tolerances are based on the AIA Group's internal credit ratings framework as approved by the AIA Group's FRC (the "AIA Credit Ratings Framework").

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NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Credit exposure

The table below shows the maximum exposure to credit risk for the components on the statements of financial position. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting or collateral agreements.

| <u>Group</u> | <u>Insurance and shareholders' fund</u> RM'000 | <u>Investment- linked</u> RM'000 | <u>Total</u> RM'000 |
|---|---|---|------------------------|
| <u>At 31 December 2019</u> | | | |
| Available-for-sale financial assets | 9,196,675 | - | 9,196,675 |
| Fair value through profit or loss financial assets | 32,299,789 | 7,856,338 | 40,156,127 |
| Loans and receivables | 4,516,260 | 9,185 | 4,525,445 |
| Reinsurance/retakaful assets | 402,945 | - | 402,945 |
| Insurance/takaful receivables | 324,950 | - | 324,950 |
| Cash and cash equivalents | 675,922 | 611,128 | 1,287,050 |
| | <u>47,416,541</u> | <u>8,476,651</u> | <u>55,893,192</u> |
| <u>At 31 December 2018</u> | | | |
| Available-for-sale financial assets | 8,766,691 | - | 8,766,691 |
| Fair value through profit or loss financial assets | 29,553,240 | 5,840,500 | 35,393,740 |
| Loans and receivables | 4,812,869 | 20,222 | 4,833,091 |
| Reinsurance assets | 283,010 | - | 283,010 |
| Insurance receivables | 332,442 | - | 332,442 |
| Cash and cash equivalents | 347,167 | 525,165 | 872,332 |
| | <u>44,095,419</u> | <u>6,385,887</u> | <u>50,481,306</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Credit exposure (continued)

| <u>Company</u> | <u>Insurance and shareholders' fund RM'000</u> | <u>Investment- linked RM'000</u> | <u>Total RM'000</u> |
|---|---|---|--------------------------------|
| <u>At 31 December 2019</u> | | | |
| Available-for-sale financial assets | 8,610,624 | - | 8,610,624 |
| Fair value through profit or loss financial assets | 31,593,822 | 7,470,113 | 39,063,935 |
| Loans and receivables | 4,475,846 | 7,397 | 4,483,243 |
| Reinsurance assets | 375,679 | - | 375,679 |
| Insurance receivables | 278,331 | - | 278,331 |
| Cash and cash equivalents | 263,364 | 535,782 | 799,146 |
| | <u>45,597,666</u> | <u>8,013,292</u> | <u>53,610,958</u> |
| <u>At 31 December 2018</u> | | | |
| Available-for-sale financial assets | 8,416,978 | - | 8,416,978 |
| Fair value through profit or loss financial assets | 29,547,999 | 5,840,500 | 35,388,499 |
| Loans and receivables | 4,736,093 | 20,222 | 4,756,315 |
| Reinsurance assets | 268,015 | - | 268,015 |
| Insurance receivables | 291,033 | - | 291,033 |
| Cash and cash equivalents | 314,618 | 525,165 | 839,783 |
| | <u>43,574,736</u> | <u>6,385,887</u> | <u>49,960,623</u> |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

The table below provides information on the credit risk exposure of the Group and the Company by classifying assets according to Rating Agency of Malaysia and Malaysian Rating Corporation Berhad's credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to A are classified as speculative grade.

| <u>Group</u> | <u>Investment grade (AAA-A)</u> RM'000 | <u>Not rated</u> RM'000 | <u>Past due but not impaired</u> RM'000 | <u>Past due and impaired/ partially impaired</u> RM'000 | <u>Investment-linked</u> RM'000 | <u>Not subject to credit risks</u> RM'000 | <u>Total</u> RM'000 |
|-----------------------------------|---|----------------------------|--|--|------------------------------------|--|------------------------|
| <u>At 31 December 2019</u> | | | | | | | |
| <u>AFS financial assets</u> | | | | | | | |
| Malaysian government securities | 15,902 | 2,292,631 | - | - | - | - | 2,308,533 |
| Cagamas papers | 254,249 | - | - | - | - | - | 254,249 |
| Unquoted equity securities | - | - | - | - | - | 4,625 | 4,625 |
| Corporate debt securities | 3,240,935 | 3,182,092 | - | - | - | - | 6,423,027 |
| Deposits with licensed banks | 101,010 | - | - | - | - | - | 101,010 |
| Accrued interest | 43,876 | 61,355 | - | - | - | - | 105,231 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Group (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> | <u>Past due and impaired/ partially impaired</u> | <u>Investment-linked</u> | <u>Not subject to credit risks</u> | <u>Total</u> |
|--|--------------------------------------|------------------|----------------------------------|--|--------------------------|------------------------------------|---------------|
| | <u>Investment grade (AAA-A)</u> | <u>Not rated</u> | | | | | |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>At 31 December 2019 (continued)</u> | | | | | | | |
| <u>FVTPL financial assets</u> | | | | | | | |
| Malaysian government securities | 93,947 | 5,363,428 | - | - | 284,258 | - | 5,741,633 |
| Cagamas papers | 1,282,871 | - | - | - | 458 | - | 1,283,329 |
| Equity securities | - | 24,732 | - | - | 4,414,880 | 6,189,893 | 10,629,505 |
| Real estate investment trust funds | - | - | - | - | 164,408 | 387,190 | 551,598 |
| Corporate debt securities | 10,303,255 | 7,226,147 | - | - | 1,933,808 | - | 19,463,210 |
| Mutual funds | - | - | - | - | 1,035,682 | 1,164,248 | 2,199,930 |
| Accrued interest | 131,421 | 131,762 | - | - | 22,844 | 895 | 286,922 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Group (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> | <u>Past due and impaired/ partially impaired</u> | <u>Investment-linked</u> | <u>Not subject to credit risks</u> | <u>Total</u> |
|---|--------------------------------------|-------------------|----------------------------------|--|--------------------------|------------------------------------|-------------------|
| | <u>Investment grade (AAA-A)</u> | <u>Not rated</u> | | | | | |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>At 31 December 2019 (continued)</u> | | | | | | | |
| <u>Loans and receivables</u> | | | | | | | |
| Loan receivables | - | 4,097,303 | 72,195 | 42,356 | - | - | 4,211,854 |
| Fixed and call deposits with licensed banks | - | 91,486 | - | - | - | - | 91,486 |
| Other receivables | - | 214,517 | - | 13,269 | 9,185 | - | 236,971 |
| Reinsurance/retakaful assets | - | 402,945 | - | - | - | - | 402,945 |
| Insurance/takaful receivables | - | 324,811 | 139 | 24,840 | - | - | 349,790 |
| Cash and cash equivalents | 354,530 | 321,392 | - | - | 611,128 | - | 1,287,050 |
| Accrued interest | - | 40,759 | - | - | - | - | 40,759 |
| Allowance for impairment losses | - | - | - | (80,465) | - | - | (80,465) |
| | 15,821,996 | 23,775,360 | 72,334 | - | 8,476,651 | 7,746,851 | 55,893,192 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Group</u> | <u>Investment grade (AAA-A) RM'000</u> | <u>Not rated RM'000</u> | <u>Past due but not impaired RM'000</u> | <u>Past due and impaired/ partially impaired RM'000</u> | <u>Investment- linked RM'000</u> | <u>Not subject to credit risks RM'000</u> | <u>Total RM'000</u> |
|------------------------------------|--|-----------------------------|---|---|--|---|-------------------------|
| <u>At 31 December 2018</u> | | | | | | | |
| <u>AFS financial assets</u> | | | | | | | |
| Malaysian government securities | - | 2,544,915 | - | - | - | - | 2,544,915 |
| Cagamas papers | 295,826 | - | - | - | - | - | 295,826 |
| Unquoted equity securities | - | - | - | - | - | 4,625 | 4,625 |
| Corporate debt securities | 3,043,432 | 2,670,666 | - | - | - | - | 5,714,098 |
| Deposits with licensed banks | 101,550 | - | - | - | - | - | 101,550 |
| Accrued interest | 43,548 | 62,129 | - | - | - | - | 105,677 |

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**NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Group (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> | <u>Past due and impaired/ partially impaired</u> | <u>Investment- linked</u> | <u>Not subject to credit risks</u> | <u>Total</u> |
|---|---|------------------|--|--|-------------------------------|--|---------------|
| | <u>Investment grade (AAA-A)</u> | <u>Not rated</u> | | | | | |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>At 31 December 2018 (continued)</u> | | | | | | | |
| <u>FVTPL financial assets</u> | | | | | | | |
| Malaysian government securities | - | 5,399,860 | - | - | 298,584 | - | 5,698,444 |
| Cagamas papers | 1,508,922 | - | - | - | 453 | - | 1,509,375 |
| Equity securities | - | - | - | - | 3,291,748 | 5,074,008 | 8,365,756 |
| Real estate investment trust funds | - | - | - | - | 28,752 | 379,972 | 408,724 |
| Corporate debt securities | 9,789,825 | 6,229,168 | - | - | 1,380,259 | - | 17,399,252 |
| Mutual funds | - | - | - | - | 815,645 | 907,838 | 1,723,483 |
| Malaysian government guaranteed loans | - | - | - | - | 8,000 | - | 8,000 |
| Deposits with licensed banks | - | - | - | - | - | - | - |
| Accrued interest | 130,708 | 132,939 | - | - | 17,059 | - | 280,706 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Group (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> | <u>Past due and impaired/ partially impaired</u> | <u>Investment-linked</u> | <u>Not subject to credit risks</u> | <u>Total</u> |
|---|--------------------------------------|-------------------|----------------------------------|--|--------------------------|------------------------------------|-------------------|
| | <u>Investment grade (AAA-A)</u> | <u>Not rated</u> | | | | | |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>At 31 December 2018 (continued)</u> | | | | | | | |
| <u>Loans and receivables</u> | | | | | | | |
| Loan receivables | - | 4,486,537 | 2,197 | 43,187 | - | - | 4,531,921 |
| Fixed and call deposits with licensed banks | 33,146 | - | - | - | - | - | 33,146 |
| Other receivables | - | 248,453 | - | 10,868 | 20,222 | - | 279,543 |
| Reinsurance assets | - | 283,010 | - | - | - | - | 283,010 |
| Insurance receivables | - | 331,582 | 860 | 36,900 | - | - | 369,342 |
| Cash and cash equivalents | 346,146 | 1,021 | - | - | 525,165 | - | 872,332 |
| Accrued interest | 149 | 42,387 | - | - | - | - | 42,536 |
| Allowance for impairment losses | - | - | - | (90,955) | - | - | (90,955) |
| | <u>15,293,252</u> | <u>22,432,667</u> | <u>3,057</u> | <u>-</u> | <u>6,385,887</u> | <u>6,366,443</u> | <u>50,481,306</u> |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Company</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> RM'000 | <u>Past due and impaired/ partially impaired</u> RM'000 | <u>Investment- linked</u> RM'000 | <u>Not subject to credit risks</u> RM'000 | <u>Total</u> RM'000 |
|-----------------------------------|---|----------------------------|--|--|---|--|------------------------|
| | <u>Investment grade (AAA-A)</u> RM'000 | <u>Not rated</u> RM'000 | | | | | |
| <u>At 31 December 2019</u> | | | | | | | |
| <u>AFS financial assets</u> | | | | | | | |
| Malaysian government securities | - | 2,061,777 | - | - | - | - | 2,061,777 |
| Cagamas papers | 233,830 | - | - | - | - | - | 233,830 |
| Unquoted equity securities | - | - | - | - | - | 4,625 | 4,625 |
| Corporate debt securities | 3,074,512 | 3,035,168 | - | - | - | - | 6,109,680 |
| Deposits with licensed banks | 101,010 | - | - | - | - | - | 101,010 |
| Accrued interest | 41,673 | 58,029 | - | - | - | - | 99,702 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Company (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> RM'000 | <u>Past due and impaired/ partially impaired</u> RM'000 | <u>Investment-linked</u> RM'000 | <u>Not subject to credit risks</u> RM'000 | <u>Total</u> RM'000 |
|--|---|----------------------------|--|--|------------------------------------|--|------------------------|
| | <u>Investment grade (AAA-A)</u> RM'000 | <u>Not rated</u> RM'000 | | | | | |
| <u>At 31 December 2019 (continued)</u> | | | | | | | |
| <u>FVTPL financial assets</u> | | | | | | | |
| Malaysian government securities | - | 5,296,803 | - | - | 278,859 | - | 5,575,662 |
| Cagamas papers | 1,282,871 | - | - | - | 458 | - | 1,283,329 |
| Equity securities | - | - | - | - | 4,127,125 | 6,118,846 | 10,245,971 |
| Real estate investment trust funds | - | - | - | - | 158,694 | 385,977 | 544,671 |
| Corporate debt securities | 10,054,814 | 7,033,844 | - | - | 1,857,246 | - | 18,945,904 |
| Mutual funds | - | - | - | - | 1,025,586 | 1,164,248 | 2,189,834 |
| Accrued interest | 127,550 | 128,869 | - | - | 22,145 | - | 278,564 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Company (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> | <u>Past due and impaired/ partially impaired</u> | <u>Investment-linked</u> | <u>Not subject to credit risks</u> | <u>Total</u> |
|---|--------------------------------------|-------------------|----------------------------------|--|--------------------------|------------------------------------|-------------------|
| | <u>Investment grade (AAA-A)</u> | <u>Not rated</u> | | | | | |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>At 31 December 2019 (continued)</u> | | | | | | | |
| <u>Loans and receivables</u> | | | | | | | |
| Loan receivables | - | 4,093,239 | 72,195 | 42,356 | - | - | 4,207,790 |
| Other receivables | - | 270,368 | - | 12,198 | 7,397 | - | 289,963 |
| Reinsurance assets | - | 375,679 | - | - | - | - | 375,679 |
| Insurance receivables | - | 278,331 | - | 20,725 | - | - | 299,056 |
| Cash and cash equivalents | 260,747 | 2,617 | - | - | 535,782 | - | 799,146 |
| Accrued interest | - | 40,044 | - | - | - | - | 40,044 |
| Allowance for impairment losses | - | - | - | (75,279) | - | - | (75,279) |
| | 15,177,007 | 22,674,768 | 72,195 | - | 8,013,292 | 7,673,696 | 53,610,958 |

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**NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Company</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> | <u>Past due and impaired/ partially impaired</u> | <u>Investment-linked</u> | <u>Not subject to credit risks</u> | <u>Total</u> |
|-----------------------------------|--------------------------------------|------------------|----------------------------------|--|--------------------------|------------------------------------|---------------|
| | <u>Investment grade (AAA-A)</u> | <u>Not rated</u> | | | | | |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>At 31 December 2018</u> | | | | | | | |
| <u>AFS financial assets</u> | | | | | | | |
| Malaysian government securities | - | 2,361,075 | - | - | - | - | 2,361,075 |
| Cagamas papers | 268,192 | - | - | - | - | - | 268,192 |
| Unquoted equity securities | - | - | - | - | - | 4,625 | 4,625 |
| Corporate debt securities | 2,941,094 | 2,637,653 | - | - | - | - | 5,578,747 |
| Deposits with licensed banks | 101,550 | - | - | - | - | - | 101,550 |
| Accrued interest | 42,226 | 60,563 | - | - | - | - | 102,789 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Company (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> RM'000 | <u>Past due and impaired/ partially impaired</u> RM'000 | <u>Investment-linked</u> RM'000 | <u>Not subject to credit risks</u> RM'000 | <u>Total</u> RM'000 |
|---|---|----------------------------|--|--|------------------------------------|--|------------------------|
| | <u>Investment grade (AAA-A)</u> RM'000 | <u>Not rated</u> RM'000 | | | | | |
| <u>At 31 December 2018 (continued)</u> | | | | | | | |
| <u>FVTPL financial assets</u> | | | | | | | |
| Malaysian government securities | - | 5,399,860 | - | - | 298,584 | - | 5,698,444 |
| Cagamas papers | 1,508,922 | - | - | - | 453 | - | 1,509,375 |
| Equity securities | - | - | - | - | 3,291,748 | 5,068,767 | 8,360,515 |
| Real estate investment trust funds | - | - | - | - | 28,752 | 379,972 | 408,724 |
| Corporate debt securities | 9,789,825 | 6,229,168 | - | - | 1,380,259 | - | 17,399,252 |
| Mutual funds | - | - | - | - | 815,645 | 907,838 | 1,723,483 |
| Malaysian government guaranteed loans | - | - | - | - | 8,000 | - | 8,000 |
| Accrued interest | 130,708 | 132,939 | - | - | 17,059 | - | 280,706 |

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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

| <u>Company (continued)</u> | <u>Neither past due nor impaired</u> | | <u>Past due but not impaired</u> | <u>Past due and impaired/ partially impaired</u> | <u>Investment-linked</u> | <u>Not subject to credit risks</u> | <u>Total</u> |
|---|--------------------------------------|------------------|----------------------------------|--|--------------------------|------------------------------------|---------------|
| | <u>Investment grade (AAA-A)</u> | <u>Not rated</u> | | | | | |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| <u>At 31 December 2018 (continued)</u> | | | | | | | |
| <u>Loans and receivables</u> | | | | | | | |
| Loan receivables | - | 4,485,880 | 1,337 | 43,187 | - | - | 4,530,404 |
| Other receivables | - | 206,489 | - | 10,868 | 20,222 | - | 237,579 |
| Reinsurance assets | - | 268,015 | - | - | - | - | 268,015 |
| Insurance receivables | - | 291,033 | - | 33,232 | - | - | 324,265 |
| Cash and cash equivalents | 313,611 | 1,007 | - | - | 525,165 | - | 839,783 |
| Accrued interest | - | 42,387 | - | - | - | - | 42,387 |
| Allowance for impairment losses | - | - | - | (87,287) | - | - | (87,287) |
| | 15,096,128 | 22,116,069 | 1,337 | - | 6,385,887 | 6,361,202 | 49,960,623 |

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NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

The financial assets are classified according to the credit rating assessed by rating agencies approved by BNM.

The financial assets comprise Malaysian Government Securities and certain corporate debt securities which are not rated as these investments are issued by the government or guaranteed by government which were exempted from the need of getting rating from rating agencies. Other financial assets which are not rated comprise fixed and call deposits with licensed bank, and loans and receivables as the issuer did not obtain any credit rating from the respective rating agencies. Such financial assets although not rated are issued by companies which have sound financial and high creditworthiness. The creditworthiness of the issuer is monitored on any downgrade news related to any investment in the debt portfolio.

The Group's loans and receivables include policy loans, mortgage loans, other secured loans, staff loans and unsecured loans. Policy loans, mortgage loans, other secured loans and secured staff loans are generally secured by collateral. The amount of loan is based on the valuation of collateral as well as an assessment of the credit risk of the counterparty. Guidelines are implemented on the acceptability of the types of collateral and the valuation parameters.

The type of collaterals, held by the Group as lender, for which it is entitled to in the event of default is as follows:

| | Type of collateral | 31.12.2019 RM'000 | Group 31.12.2018 RM'000 |
|------------------|-------------------------------|------------------------------------|--|
| Policy loans | Cash surrender value | 1,430,501 | 1,501,355 |
| Mortgage loans | Properties | 2,417,476 | 2,470,548 |
| Staff loans | Motor vehicles and properties | 31,765 | 32,205 |
| Unsecured loans | Nil | 7,112 | 10,813 |
| Accrued interest | Nil | 40,759 | 42,387 |
| | | 3,927,613 | 4,057,308 |

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**NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

The type of collaterals, held by the Company as lender, for which it is entitled to in the event of default is as follows:

| | Type of collateral | 31.12.2019 RM'000 | Company 31.12.2018 RM'000 |
|------------------|-------------------------------|-----------------------------|---|
| Policy loans | Cash surrender value | 1,430,501 | 1,501,355 |
| Mortgage loans | Properties | 2,417,476 | 2,470,548 |
| Staff loans | Motor vehicles and properties | 27,701 | 30,688 |
| Unsecured loans | Nil | 7,112 | 10,813 |
| Accrued interest | Nil | 40,044 | 42,387 |
| | | <u>3,922,834</u> | <u>4,055,791</u> |

Age analysis of financial assets past-due but not impaired

| | 30 days RM'000 | 60 days RM'000 | > 90 days RM'000 | Group Total RM'000 |
|-----------------------------------|--------------------------|--------------------------|-------------------------------|--|
| <u>At 31 December 2019</u> | | | | |
| Loan receivables | 204 | 125 | 1,367 | 1,696 |

At 31 December 2018

| | | | | |
|------------------|-----|-----|-------|-------|
| Loan receivables | 431 | 263 | 1,503 | 2,197 |
|------------------|-----|-----|-------|-------|

| | 30 days RM'000 | 60 days RM'000 | > 90 days RM'000 | Company Total RM'000 |
|--|--------------------------|--------------------------|-------------------------------|--|
|--|--------------------------|--------------------------|-------------------------------|--|

At 31 December 2019

| | | | | |
|------------------|-----|---|-------|-------|
| Loan receivables | 185 | 5 | 1,367 | 1,557 |
|------------------|-----|---|-------|-------|

At 31 December 2018

| | | | | |
|------------------|-----|-----|-----|-------|
| Loan receivables | 267 | 161 | 909 | 1,337 |
|------------------|-----|-----|-----|-------|

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NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Impaired financial assets

For assets to be classified as “past-due and impaired”, contractual payments must be in arrears for more than three (3) months. The Group records impairment allowance for loan receivables, other receivables and insurance/takaful receivables in separate allowance for impairment accounts. A reconciliation of the allowance for impairment losses is as follows:

Group

| | <u>Loan receivables</u> | | <u>Other receivables</u> | | <u>Insurance/takaful receivables</u> | |
|---|--|--|--|--|--|--|
| | <u>12 months year ended 31.12.2019</u> | <u>13 months period ended 31.12.2018</u> | <u>12 months year ended 31.12.2019</u> | <u>13 months period ended 31.12.2018</u> | <u>12 months year ended 31.12.2019</u> | <u>13 months period ended 31.12.2018</u> |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| At 1 January/ 1 December | 43,187 | 35,923 | 10,868 | 16,919 | 36,900 | 29,882 |
| Acquisition of subsidiaries | - | - | 1,071 | - | 2,988 | - |
| Net (recovery)/ charge for the financial year/period | (831) | 3,218 | 1,330 | (6,051) | (11,412) | 7,521 |
| Writeback/ (write off) of allowance for impairment losses | - | 4,046 | - | - | (3,636) | (503) |
| At 31 December | <u>42,356</u> | <u>43,187</u> | <u>13,269</u> | <u>10,868</u> | <u>24,840</u> | <u>36,900</u> |

Company

| | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| At 1 January/ 1 December | 43,187 | 35,923 | 10,868 | 16,919 | 33,232 | 27,553 |
| Net (recovery)/ charge for the financial year/period | (831) | 3,218 | 1,330 | (6,051) | (8,871) | 6,182 |
| Writeback/ (write off) of allowance for impairment losses | - | 4,046 | - | - | (3,636) | (503) |
| At 31 December | <u>42,356</u> | <u>43,187</u> | <u>12,198</u> | <u>10,868</u> | <u>20,725</u> | <u>33,232</u> |

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38 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet the payment obligations to counterparties when they become due. This can arise when internal funds are insufficient to meet cash outflow obligations and where the Group is unable to obtain funding at market rates or liquidate assets at fair value resulting in the forced liquidation of assets at depressed prices. The Group is exposed to liquidity risk in respect of insurance/takaful and investment policies that permit surrender, withdrawal or other forms of early termination for cash surrender value specified in the contractual terms and conditions.

The Group's liquidity position is monitored in compliance with regulatory and internal requirements in combination with maturity gap analysis. To manage liquidity risk, the Group has implemented a variety of measures, including emphasising flexible insurance/takaful product design so that it can retain the greatest flexibility to adjust contract pricing or crediting rates.

The Group continuously seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of insurance/takaful policies issued. The Group constantly monitors its liquidity position and has in place several contingency sources of liquidity in order to minimise the impact of any liquidity risk.

Investment-linked liabilities are repayable or transferable upon notice by policyholders/participants and are disclosed separately under the "Investment-linked" column. Liquidity risk of investment-linked liabilities is managed as part of the Group-wide established framework, process and procedures as detailed above. The Group constantly monitors the liquidity position of the respective funds and has in place several contingency sources of liquidity in order to minimise the impact of any liquidity risk, which includes but not limited to funding from the operating fund and repurchase agreement ("Repo") as well as catastrophe excess-of-loss reinsurance/retakaful cover.

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38 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Group and Company based on remaining contractual obligations, including interest payable and receivable. For insurance/takaful contract liabilities, maturity profiles are determined based on the estimated timing of discounted net cash outflows from the recognised insurance/takaful liabilities.

| Group | Carrying value RM'000 | Up to a year RM'000 | 1 – 3 years RM'000 | 3 – 5 years RM'000 | > 5 years RM'000 | No maturity date RM'000 | Investment- linked RM'000 | Total RM'000 |
|--|--------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|--|--|-------------------------|
| <u>At 31 December 2019</u> | | | | | | | | |
| Available-for-sale financial assets | 9,196,675 | 606,974 | 1,516,450 | 1,451,909 | 9,560,655 | 4,625 | - | 13,140,613 |
| Fair value through profit or loss financial assets | 40,156,127 | 1,788,579 | 3,956,157 | 3,040,924 | 25,303,453 | 7,669,819 | 7,470,113 | 49,229,045 |
| Loans and receivables | 4,525,445 | 917,319 | 430,443 | 412,245 | 2,964,042 | 1,403,069 | 7,397 | 6,134,515 |
| Reinsurance/retakaful assets | 402,945 | 394,314 | 6,345 | 1,232 | 1,054 | - | - | 402,945 |
| Insurance/takaful receivables | 324,950 | 324,950 | - | - | - | - | - | 324,950 |
| Cash and cash equivalents | 1,287,050 | 675,922 | - | - | - | - | 611,128 | 1,287,050 |
| Total assets | 55,893,192 | 4,708,058 | 5,909,395 | 4,906,310 | 37,829,204 | 9,077,513 | 8,088,638 | 70,519,118 |
| Insurance/takaful contract liabilities: | | | | | | | | |
| With DPF | 29,557,017 | 875,910 | 970,322 | 648,432 | 25,008,680 | 1,591,381 | 462,292 | 29,557,017 |
| Without DPF | 14,311,183 | 537,499 | 188,723 | 148,441 | 5,451,538 | - | 7,984,982 | 14,311,183 |
| Insurance/takaful payables | 6,826,113 | 6,826,113 | - | - | - | - | - | 6,826,113 |
| Other payables | 889,263 | 878,421 | - | - | - | - | 10,842 | 889,263 |
| Expense liabilities | 9,089 | 3,935 | - | 285 | 4,869 | - | - | 9,089 |
| Lease liabilities | 137,064 | 19,296 | 38,671 | 37,499 | 41,598 | - | - | 137,064 |
| Total liabilities | 51,729,729 | 9,141,174 | 1,197,716 | 834,657 | 30,506,685 | 1,591,381 | 8,458,116 | 51,729,729 |

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38 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

| <u>Group</u> | <u>Carrying value RM'000</u> | <u>Up to a year RM'000</u> | <u>1 – 3 years RM'000</u> | <u>3 – 5 years RM'000</u> | <u>> 5 years RM'000</u> | <u>No maturity date RM'000</u> | <u>Investment- linked RM'000</u> | <u>Total RM'000</u> |
|--|--------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|--|--|-------------------------|
| <u>At 31 December 2018</u> | | | | | | | | |
| Available-for-sale financial assets | 8,766,691 | 719,309 | 1,504,468 | 1,295,097 | 10,622,142 | 4,625 | - | 14,145,641 |
| Fair value through profit or loss financial assets | 35,393,740 | 1,744,824 | 3,007,712 | 3,600,845 | 24,972,387 | 6,979,894 | 5,840,500 | 46,146,162 |
| Loans and receivables | 4,833,091 | 671,158 | 964,960 | 421,126 | 3,043,799 | 1,474,953 | 20,223 | 6,596,219 |
| Reinsurance assets | 279,846 | 273,230 | 4,574 | 1,099 | 943 | - | - | 279,846 |
| Insurance receivables | 332,442 | 332,442 | - | - | - | - | - | 332,442 |
| Cash and cash equivalents | 872,332 | 347,167 | - | - | - | - | 525,165 | 872,332 |
| Total assets | 50,478,142 | 4,088,130 | 5,481,714 | 5,318,167 | 38,639,271 | 8,459,472 | 6,385,888 | 68,372,642 |
| Insurance contract liabilities: | | | | | | | | |
| With DPF | 27,435,814 | 852,217 | 1,197,430 | 703,595 | 23,238,560 | 1,444,012 | - | 27,435,814 |
| Without DPF | 11,522,990 | 500,394 | 195,523 | 132,746 | 4,326,993 | - | 6,367,334 | 11,522,990 |
| Insurance payables | 6,406,975 | 6,406,975 | - | - | - | - | - | 6,406,975 |
| Other payables | 948,496 | 909,690 | - | - | - | - | 38,806 | 948,496 |
| Total liabilities | 46,314,275 | 8,669,276 | 1,392,953 | 836,341 | 27,565,553 | 1,444,012 | 6,406,140 | 46,314,275 |

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38 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

| <u>At 31 December 2019</u> | <u>Carrying value RM'000</u> | <u>Up to a year RM'000</u> | <u>1 – 3 years RM'000</u> | <u>3 – 5 years RM'000</u> | <u>> 5 years RM'000</u> | <u>No maturity date RM'000</u> | <u>Investment- linked RM'000</u> | <u>Total RM'000</u> |
|--|--------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|--|--|-------------------------|
| <u>Company</u> | | | | | | | | |
| Available-for-sale financial assets | 8,610,624 | 568,037 | 1,342,498 | 1,294,894 | 9,393,389 | 4,625 | - | 12,603,443 |
| Fair value through profit or loss financial assets | 39,063,935 | 1,736,007 | 3,955,874 | 3,040,695 | 25,303,224 | 7,669,819 | 7,470,113 | 49,175,732 |
| Loans and receivables | 4,483,243 | 824,215 | 430,443 | 412,245 | 2,964,042 | 1,403,069 | 7,397 | 6,041,411 |
| Reinsurance assets | 375,679 | 375,679 | - | - | - | - | - | 375,679 |
| Insurance receivables | 278,331 | 278,331 | - | - | - | - | - | 278,331 |
| Cash and cash equivalents | 799,146 | 263,364 | - | - | - | - | 535,782 | 799,146 |
| Total assets | 53,610,958 | 4,045,633 | 5,728,815 | 4,747,834 | 37,660,655 | 9,077,513 | 8,013,292 | 69,273,742 |
| Insurance contract liabilities: | | | | | | | | |
| With DPF | 28,257,401 | 751,973 | 970,322 | 625,943 | 24,450,143 | 1,459,020 | - | 28,257,401 |
| Without DPF | 14,007,772 | 399,406 | 63,628 | 120,986 | 5,438,770 | - | 7,984,982 | 14,007,772 |
| Insurance payables | 6,788,201 | 6,788,201 | - | - | - | - | - | 6,788,201 |
| Other payables | 773,178 | 762,336 | - | - | - | - | 10,842 | 773,178 |
| Lease liabilities | 136,589 | 19,160 | 38,576 | 37,255 | 41,598 | - | - | 136,589 |
| Total liabilities | 49,963,141 | 8,721,076 | 1,072,526 | 784,184 | 29,930,511 | 1,459,020 | 7,995,824 | 49,963,141 |

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38 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

| <u>At 31 December 2018</u> | <u>Carrying value RM'000</u> | <u>Up to a year RM'000</u> | <u>1 – 3 years RM'000</u> | <u>3 – 5 years RM'000</u> | <u>> 5 years RM'000</u> | <u>No maturity date RM'000</u> | <u>Investment- linked RM'000</u> | <u>Total RM'000</u> |
|--|---|---|--|--|---|---|---|--------------------------------|
| <u>Company</u> | | | | | | | | |
| Available-for-sale financial assets | 8,416,978 | 679,154 | 1,325,171 | 1,220,595 | 10,483,513 | 4,625 | - | 13,713,058 |
| Fair value through profit or loss financial assets | 35,388,499 | 1,744,824 | 3,007,712 | 3,600,845 | 24,972,387 | 6,974,654 | 5,840,500 | 46,140,922 |
| Loans and receivables | 4,756,315 | 643,112 | 964,960 | 421,126 | 3,043,799 | 1,474,953 | 20,223 | 6,568,173 |
| Reinsurance assets | 268,015 | 268,015 | - | - | - | - | - | 268,015 |
| Insurance receivables | 291,033 | 291,033 | - | - | - | - | - | 291,033 |
| Cash and cash equivalents | 839,783 | 314,618 | - | - | - | - | 525,165 | 839,783 |
| Total assets | 49,960,623 | 3,940,756 | 5,297,843 | 5,242,566 | 38,499,699 | 8,454,232 | 6,385,888 | 67,820,984 |
| Insurance contract liabilities: | | | | | | | | |
| With DPF | 27,409,607 | 852,216 | 1,197,430 | 703,595 | 23,238,560 | 1,417,806 | - | 27,409,607 |
| Without DPF | 11,217,614 | 353,801 | 70,952 | 108,960 | 4,316,567 | - | 6,367,334 | 11,217,614 |
| Insurance payables | 6,396,914 | 6,396,914 | - | - | - | - | - | 6,396,914 |
| Other payables | 921,300 | 882,496 | - | - | - | - | 38,804 | 921,300 |
| Total liabilities | 45,945,435 | 8,485,427 | 1,268,382 | 812,555 | 27,555,127 | 1,417,806 | 6,406,138 | 45,945,435 |

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38 FINANCIAL RISKS (CONTINUED)

(c) Market risk

Market risk arises from the possibility of financial losses caused by changes in the financial instruments' fair values or future cash flows due to fluctuations in key variables, including interest/profit rates, equity market prices, foreign exchange rates and real estate property market prices. The Group manages the risk of market-based fluctuations in the value of the Group's investments, as well as liabilities with exposure to market risk.

The Group uses various quantitative measures to assess market risk, including sensitivity analysis. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors. The Group routinely conducts sensitivity analysis of its fixed income portfolios to estimate its exposure to movements in interest/profit rates. The Group's fixed income sensitivity analysis is primarily a duration-based approach.

Policies on asset allocation, portfolio limit structure and diversification benchmark have been set in line with the Group's risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

(i) Interest/profit rate risk

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

The Group's exposure to interest/profit risk predominantly arises from the Group's duration gap between the liabilities and assets for interest/profit rate sensitive products, especially those providing interest/profit rate guarantees. For other products, including those with participation or investment-linked features, interest/profit rate risk is significantly reduced due to the non-guaranteed nature of additional policyholder benefits.

The Group manages its interest/profit rate risk by investing in financial instruments with tenors that match the duration of its liabilities as much as practicable and appropriate. The Group also considers the effect of interest/profit rate risk in its overall product strategy. Certain products such as investment-linked, universal life and participating business, inherently have lower interest rate risk as their design provides flexibility as to crediting rates and policyholder dividend scales. For new products, the Group emphasises flexibility in product design and generally designs products to avoid excessive long-term interest/profit rate guarantees. For in-force policies/certificates, bonus payout and credit interest/profit rates applicable to policyholders'/participants' account balances are regularly adjusted by considering, amongst others, the earned yields and policyholders'/participants' communications and reasonable expectations.

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38 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

(i) Interest/profit rate risk (continued)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit after tax (due to changes in fair value of floating rate/yield financial instruments), AFS fair value reserves and unallocated surplus of contract with DPF included in insurance/takaful contract liabilities (that reflects re-valuing fixed rate/yield financial assets of life/family takaful fund) and equity (that reflects adjustments to profit after 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/profit rate yield risk but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

| <u>Change in variable</u> | <u>Impact on Insurance/ takaful contract liabilities</u> RM'000 | <u>Impact on profit after tax</u> RM'000 | <u>Impact on equity</u> RM'000 |
|---|--|---|---------------------------------------|
| <u>Group</u> | | | |
| <u>At 31 December 2019</u> | | | |
| +50 basis points shift in yield curves | (865,917) | - | (281,941) |
| - 50 basis points shift in yield curves | 918,193 | - | 301,373 |
| <u>At 31 December 2018</u> | | | |
| +50 basis points shift in yield curves | (797,188) | - | (264,238) |
| - 50 basis points shift in yield curves | 847,218 | - | 282,616 |
| <u>Company</u> | | | |
| <u>At 31 December 2019</u> | | | |
| +50 basis points shift in yield curves | (841,344) | - | (271,110) |
| - 50 basis points shift in yield curves | 895,621 | - | 290,534 |

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NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

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

(i) **Interest/profit rate risk (continued)**

| <u>Change in variable</u> | <u>Impact on Insurance/ takaful contract liabilities</u> RM'000 | <u>Impact on profit after tax</u> RM'000 | <u>Impact on equity</u> RM'000 |
|--|--|---|---------------------------------------|
| <u>Company</u> | | | |
| <u>At 31 December 2018</u> | | | |
| +50 basis points shift in yield curves | (797,188) | - | (258,800) |
| - 50 basis points shift in yield curves | 847,218 | - | 276,934 |

(ii) **Equity price risk**

Equity price risk arises from changes in the market value of equity securities and equity funds. Investments in equity securities on a long-term basis are expected to provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group's strategic asset allocations.

The Group manages equity price risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector, market and issuer, having regard also to such limits stipulated by BNM. The Group complies with BNM's stipulated limits during the financial year and has no significant concentration risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit after tax (due to changes in fair value of foreign currency financial instruments) and unallocated surplus included in insurance/takaful contract liabilities (due to changes in fair value of financial assets and liabilities of life/family takaful fund whose changes in fair values are retained in the life insurance/takaful contract liabilities). 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, the variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

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38 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

(ii) Equity price risk (continued)

| <u>Group</u> | <u>Impact on Insurance/ takaful contract liabilities RM'000</u> | <u>Impact on profit after tax RM'000</u> | <u>Impact on equity RM'000</u> |
|-----------------------------------|---|--|--|
| <u>At 31 December 2019</u> | | | |
| + 10% shift in equity price | 635,186 | 86,555 | 66,841 |
| - 10% shift in equity price | (635,186) | (86,555) | (66,841) |
| <u>At 31 December 2018</u> | | | |
| + 10% shift in equity price | 510,981 | 31,191 | 31,191 |
| - 10% shift in equity price | (510,981) | (31,191) | (31,191) |
| <u>Company</u> | | | |
| <u>At 31 December 2019</u> | | | |
| + 10% shift in equity price | 628,076 | 85,760 | 65,484 |
| - 10% shift in equity price | (628,076) | (85,760) | (65,484) |
| <u>At 31 December 2018</u> | | | |
| + 10% shift in equity price | 510,981 | 30,784 | 30,784 |
| - 10% shift in equity price | (510,981) | (30,784) | (30,784) |

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NOTES TO THE FINANCIAL STATEMENTS
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38 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

(iii) Currency risks

Currency risk is the risk that the fair value of future cash flows of a financial instrument denominated in currencies other than RM, will fluctuate because of movements in foreign exchange rates vis-à-vis RM. The Group's primary transactions are carried out in RM and its exposure to currency risk arises principally with respect to Australian Dollar ("AUD"), United State Dollar ("USD"), EURO ("EUR"), Hong Kong Dollar ("HKD") and Singapore Dollar ("SGD"). The Group manages currency risks by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit after tax (due to changes in fair value of foreign currency financial instruments) and unallocated surplus included in insurance contract liabilities (due to changes in fair value of foreign currency financial instruments of the Life Fund are retained in life insurance contract liabilities). The correlation of variables will have a significant effect in determining the ultimate impact on currency risk but to demonstrate the impact due to changes in variables, the variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

| | | Impact on Insurance/ takaful contract liabilities RM'000 | Impact on profit after tax RM'000 | Impact on equity RM'000 |
|-----------------------------------|-------------------------------|---|--|--|
| | Change in variable | | | |
| <u>Group</u> | | | | |
| <u>At 31 December 2019</u> | | | | |
| AUD | 10% strengthening | 5,038 | 539 | 539 |
| USD | 10% strengthening | 92,630 | 23,225 | 23,225 |
| EUR | 10% strengthening | 87 | 24 | 24 |
| HKD | 10% strengthening | 27,005 | 5,611 | 5,611 |
| SGD | 10% strengthening | 1,223 | 113 | 113 |
| <u>At 31 December 2018</u> | | | | |
| AUD | 10% strengthening | 5,944 | 594 | 594 |
| USD | 10% strengthening | 58,108 | 9,863 | 9,863 |
| EUR | 10% strengthening | 501 | 139 | 139 |
| HKD | 10% strengthening | 20,031 | 2,854 | 2,854 |
| SGD | 10% strengthening | 1,203 | 105 | 105 |

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

38 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

(iii) Currency risks (continued)

Company

| | <u>Change in variable</u> | <u>Impact on Insurance contract liabilities</u> RM'000 | <u>Impact on profit after tax</u> RM'000 | <u>Impact on equity</u> RM'000 |
|-----------------------------------|--------------------------------------|--|--|--|
| <u>At 31 December 2019</u> | | | | |
| AUD | 10% strengthening | 5,038 | 539 | 539 |
| USD | 10% strengthening | 92,630 | 23,225 | 23,225 |
| EUR | 10% strengthening | 87 | 24 | 24 |
| HKD | 10% strengthening | 27,005 | 5,611 | 5,611 |
| SGD | 10% strengthening | 1,223 | 113 | 113 |
| <u>At 31 December 2018</u> | | | | |
| AUD | 10% strengthening | 5,944 | 594 | 594 |
| USD | 10% strengthening | 58,108 | 9,863 | 9,863 |
| EUR | 10% strengthening | 501 | 139 | 139 |
| HKD | 10% strengthening | 20,031 | 2,854 | 2,854 |
| SGD | 10% strengthening | 1,203 | 105 | 105 |

39 NON FINANCIAL RISKS

The Company's non-financial risks comprise operational risk and strategic risk.

(a) Operational risk

Operational risk is the risk arising from business processes including inadequate procedures or policies, people conduct, system failures, fraud, criminal activity or from external events which may result in direct or indirect business impact.

The Group protects itself against financial losses by purchasing insurance/takaful cover against a range of operational loss events including business disruption, property damage and internal fraud. The coverage is determined after taking into consideration the Group's operational risk profile.

(b) Strategic risk

Strategic risk is identified as part of the business plan processes and is defined as the potential impact of the business strategy on the Group's earnings, capital and reputation. This also takes into consideration the wider social, economic, political, regulatory, competitive or technological trends that could impact the Group's business strategy within a set time period.

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NOTES TO THE FINANCIAL STATEMENTS
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40 SHARE-BASED PAYMENT

During the financial year, the AIA Group made further grants of share options, restricted share units and restricted share purchase units to certain employees, Directors and Officers of the Group under the Share Option ("SO") Scheme, the Restricted Share Unit ("RSU") Scheme and Employee Share Purchase Plan ("ESPP").

(a) RSU Scheme

Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the AIA Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period. If the RSU grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the eligible participants are not entitled to dividends of the underlying shares. The maximum number of shares that can be granted under the RSU scheme is 301,100,000 (2018: 301,100,000), representing approximately 2.5% (2018: 2.5%) of the number of shares in issue of AIA Group Ltd. ("AIAGL") as at 31 December 2019.

| | Group | | Company | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | <u>31.12.2019</u> | <u>31.12.2018</u> | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | Number of | Number of | Number of | Number of |
| | shares | shares | shares | shares |
| Outstanding at beginning of financial year/period | 1,602,318 | 1,868,591 | 1,491,973 | 1,758,246 |
| Granted | 428,464 | 530,160 | 428,464 | 530,160 |
| Vested | (503,811) | (450,638) | (503,811) | (450,638) |
| Transferred in | 190,157 | - | 190,157 | - |
| Transferred out | (64,775) | (119,917) | (64,775) | (119,917) |
| Forfeited or expired | <u>(244,591)</u> | <u>(225,878)</u> | <u>(244,591)</u> | <u>(225,878)</u> |
| Outstanding at end of financial year/period | <u>1,407,762</u> | <u>1,602,318</u> | <u>1,297,417</u> | <u>1,491,973</u> |

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NOTES TO THE FINANCIAL STATEMENTS
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40 SHARE-BASED PAYMENT (CONTINUED)

(b) SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period, during which, the eligible participants are required to remain in employment with the AIA Group. If the SO grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. The granted share options expire ten years from the date of grant. The total number of shares under options that can be granted under the scheme is 301,100,000 (2018: 301,100,000), representing approximately 2.5% (2018: 2.5%) of the number of shares in issue of AIAGL as at 31 December 2019.

Information about options outstanding and options exercisable by the Company's employees and Directors as at the end of the reporting period are as follows:

| | <u>31 December 2019</u> | | <u>31 December 2018</u> | |
|---|--------------------------------|---|--------------------------------|---|
| | <u>Number of share options</u> | <u>Weighted average exercise price (HK\$)</u> | <u>Number of share options</u> | <u>Weighted average exercise price (HK\$)</u> |
| <u>Group and Company</u> | | | | |
| Outstanding at beginning of financial year/period | 112,312 | 51.96 | 80,014 | 45.83 |
| Granted | 28,912 | 76.38 | 32,298 | 67.15 |
| Exercise | (214,505) | 39.48 | - | - |
| Transferred in | 395,654 | - | - | - |
| Forfeited or expired | (98,682) | 63.46 | - | - |
| Outstanding at end of financial year/period | <u>223,691</u> | <u>58.77</u> | <u>112,312</u> | <u>51.96</u> |

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40 SHARE-BASED PAYMENT (CONTINUED)

(b) SO Scheme (continued)

The range of exercise prices for the share options outstanding as of 31 December 2019 is summarised in the table below.

| | <u>31 December 2019</u> | | <u>31 December 2018</u> | |
|---|--|--|--|--|
| | <u>Number of share options outstanding</u> | <u>Weighted average remaining contractual life (years)</u> | <u>Number of share options outstanding</u> | <u>Weighted average remaining contractual life (years)</u> |
| Range of exercise price | | | | |
| HK\$36 – HK\$45 | - | - | 42,542 | 7.19 |
| HK\$46 – HK\$55 | 127,673 | 6.34 | 37,472 | 8.19 |
| HK\$56 – HK\$65 | - | - | - | - |
| HK\$66 – HK\$75 | 51,012 | 8.20 | 32,298 | 9.20 |
| HK\$76 - HK\$85 | 45,006 | 9.24 | | |
| Outstanding at end of financial year/period | <u>223,691</u> | <u>7.35</u> | <u>112,312</u> | <u>8.10</u> |

(c) ESPP

Under the plan, eligible employees of the Company can purchase ordinary shares of AIAGL with qualified employees' contributions and the AIA Group will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employees' contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 8% of the annual basic salary subject to a maximum of HK\$117,000 per annum. For the financial year ended 31 December 2019, eligible employees paid RM5,084,045 (2018: RM5,762,149) to purchase 123,145 (2018: 162,430) ordinary shares of AIAGL.

Valuation methodology

The Company utilises a binomial lattice model to calculate the fair value of the share options grant, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of AIAGL's shares which is based on an analysis of historical data since they are traded in the Stock Exchange of Hong Kong and takes into consideration the historical volatility of peer companies. The expected life of the options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date.

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40 SHARE-BASED PAYMENT (CONTINUED)

Valuation methodology (continued)

| <u>Group and Company</u> | <u>Share Options</u> | <u>Restricted Share Units</u> | <u>ESPP Restricted Stock Purchase Units</u> |
|--|-----------------------------|--------------------------------------|--|
| <u>Assumptions</u> | | | |
| <u>2019</u> | | | |
| Risk free interest rate | 1.59% | 1.67% | 1.44%-1.76% |
| Volatility | 20% | 20% | 20%-24% |
| Dividend yield | 1.50% | 1.50% | 1.50%-1.60% |
| Option life (in years) | 10 | N/A | N/A |
| Exercise price (HK\$) | 78.70 | N/A | N/A |
| Expected life (in years) | 7.97 | N/A | N/A |
| Weighted average fair value per option/unit at measurement date (HK\$) | 15.59 | 67.09 | 75.53 |
| <u>2018</u> | | | |
| Risk free interest rate | 1.87% | 1.48%* | 1.35% - 2.27% |
| Volatility | 20% | 20% | 20% |
| Dividend yield | 1.80% | 1.80% | 1.80% |
| Option life (in years) | 10 | N/A | N/A |
| Exercise price (HK\$) | 67.15 | N/A | N/A |
| Expected life (in years) | 7.95 | N/A | N/A |
| Weighted average fair value per option/unit at measurement date (HK\$) | 13.68 | 57.08 | 60.15 |

* *Applicable to RSU with market condition.*

The weighted average share price for share option valuation is HK\$78.70 (2018: HK\$67.15).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme, SO Scheme and ESPP by the Group and the Company for the financial year ended 31 December 2019 are RM12,480,000 (2018: RM12,140,000) and RM12,424,000 (2018: RM12,130,000) respectively.

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41 REGULATORY CAPITAL REQUIREMENT

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

| | Company | |
|--|-------------------|-------------------|
| | 31.12.2019 | 31.12.2018 |
| | RM'000 | RM'000 |
| Eligible Tier 1 Capital | | |
| Share capital (paid up) | 810,000 | 1,450,890 |
| Reserves, including retained earnings | 10,910,255 | 11,473,186 |
| | <u>11,720,255</u> | <u>12,924,076</u> |
| Tier 2 Capital | | |
| Revaluation reserves | 203,580 | 185,167 |
| Available-for-sale fair value reserves | 551,463 | 47,623 |
| | <u>755,043</u> | <u>232,790</u> |
| Amount deducted from capital | <u>(605,946)</u> | <u>(343,740)</u> |
| Total capital available | <u>11,869,352</u> | <u>12,813,126</u> |

42 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 13 September 2019, the Members had also approved the Company's capital reduction of RM640,890,000 pursuant to section 116 of the Companies Act 2016. The High Court had on 1 November 2019 approved the capital reduction and the payment to the shareholders had completed on 21 November 2019.

On 6 December 2019, the Members had approved the share consolidation of every four (4) existing ordinary shares of the Company into one (1) new ordinary share. Notice of alteration of share capital under the Companies Act 2016 had been lodged with Companies Commission of Malaysia on 16 December 2019.

On 13 September 2019, the Members had approved the Company's corporate restructuring exercise to purchase 45% ordinary shares of AIA PUBLIC Takaful Bhd. ("APTB") from Orange Policy Sdn. Bhd. ("OPSB") at RM135,000,000; 25% ordinary shares of APTB from AIA General Berhad ("AIAGB") at RM75,000,000; and 100% ordinary shares of AIA Health Services Sdn. Bhd. ("AHS") from OPSB at RM24,858,974 in an effort to simplify the structure and achieve capital efficiency., allowing for all AIA entities in Malaysia to be owned directly by the Company. The Company signed the respective Sale and Purchase Agreements with OPSB and AIAGB in relation to the purchase of shares on 12 December 2019 and the sale consideration was satisfied in cash.

Details of the purchase consideration and the net assets acquired are as follows:

The acquisition of subsidiaries meet the definition of business combination under common control and are accounted for using the predecessor method of accounting. The assets and liabilities of the subsidiaries at carrying amounts as follow:

| | RM'000 |
|--|------------------|
| Property and equipment (Note 3) | 944 |
| Right-of-use assets | 5,723 |
| Intangible assets (Note 7) | 8,546 |
| Available-for-sale financial assets (Note 10) | 137,450 |
| Fair value through profit or loss financial assets (Note 11) | 1,081,727 |
| Loans and receivables | 82,433 |
| Reinsurance assets | 13,355 |
| Insurance receivables | 6,285 |
| Deferred tax assets (Note 19) | 3,143 |
| Current tax assets | 13,443 |
| Cash and cash equivalents | 388,178 |
| Total assets | <u>1,741,227</u> |

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42 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

Details of the purchase consideration and the net assets acquired are as follows: (continued)

| | RM'000 |
|--|------------------|
| Insurance contract liabilities (Note 18) | 1,292,396 |
| Insurance payables | 27,047 |
| Deferred tax liabilities (Note 19) | 6,191 |
| Other payables | 193,974 |
| Lease liabilities | 5,813 |
| Total liabilities | <u>1,525,421</u> |
| Carrying value of net identifiable assets | 215,806 |
| Less: non-controlling interests | (59,310) |
| Less: carrying value of net assets previously held as an associate | <u>(62,873)</u> |
| Carrying value of net assets acquired | <u>93,623</u> |

The purchase consideration for the acquisition of subsidiaries are satisfied in cash, amounted to RM159,858,974. The difference between the carrying value of the net assets acquired of RM93,623,000 and cash consideration of RM159,858,974 was accounted for as equity, as shown below:

| | RM'000 |
|--|-----------------|
| Carrying value of net assets acquired | 93,623 |
| Consideration paid, cash | 159,859 |
| Reserves arising from acquisition of subsidiaries | <u>(66,236)</u> |

Net impact to the cash flow arising from the acquisition of subsidiaries is as below:

| | RM'000 |
|---|------------------|
| Inflow of cash to acquire subsidiary, net of cash acquired | |
| Consideration paid, cash | 159,859 |
| Less: balance acquired - cash and cash equivalents | <u>(388,178)</u> |
| Net inflow of cash – investment activities | <u>(228,319)</u> |

43 INSURANCE/TAKAFUL FUNDS

The Group's principal activities are organised by funds and segregated into Shareholders, General, Life, Family Takaful and Investment-linked funds in accordance with the FSA.

The Group's statements of financial position and income statements analysed by Life/Family Takaful Fund, Shareholders' and General Funds have been presented together as one fund.

The life insurance/family takaful business offers a wide range of participating and non-participating whole life, term assurance, endowment as well as investment-linked products.

The General insurance business offers general insurance products which include personal accident, motor, fire and other classes.

Individual fund's revenue, expense, assets and liabilities are those amounts resulting from the operating activities of the respective funds that are directly attributable to the respective funds and the relevant portion that can be allocated on a reasonable basis to the respective funds. Individual fund's revenue, expense, assets and liabilities are determined before inter-fund balances and inter-fund transactions are eliminated as part of the consolidation process.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

STATEMENTS OF FINANCIAL POSITION BY FUNDS AS AT 31 DECEMBER 2019

At 31 December 2019

| <u>Group</u> | <u>Shareholders' and General Fund</u> RM'000 | <u>Life/Family Takaful Fund</u> RM'000 | <u>Inter-fund Elimination</u> RM'000 | <u>Total</u> RM'000 |
|--|---|---|---|------------------------|
| <u>Assets</u> | | | | |
| Property, plant and equipment | 2,376 | 443,896 | - | 446,272 |
| Investment properties | - | 363,130 | - | 363,130 |
| Right of use assets | 471 | 133,917 | - | 134,388 |
| Intangible assets | 11,400 | 118,087 | - | 129,487 |
| Investment in associates | - | 16,397 | - | 16,397 |
| Available-for-sale financial assets | 1,671,947 | 7,524,728 | - | 9,196,675 |
| Fair value through profit or loss financial assets | 18,500 | 40,137,627 | - | 40,156,127 |
| Loans and receivables | 3,671,186 | 4,523,230 | (3,668,971) | 4,525,445 |
| Reinsurance/retakaful assets | 16,793 | 389,034 | - | 405,827 |
| Insurance/takaful receivables | 40,334 | 284,616 | - | 324,950 |
| Deferred tax assets | 3,713 | - | (1,329) | 2,384 |
| Current tax assets | 39,318 | 133,797 | - | 173,115 |
| Cash and cash equivalents | 222,531 | 1,064,519 | - | 1,287,050 |
| Total assets | 5,698,569 | 55,132,978 | (3,670,300) | 57,161,247 |
| <u>Equity and liabilities</u> | | | | |
| Total equity | 4,819,131 | (72,070) | - | 4,747,061 |
| Insurance/takaful contract liabilities | 312,500 | 43,564,789 | - | 43,877,289 |
| Deferred tax liabilities | 481,896 | 194,677 | (1,329) | 675,244 |
| Insurance/takaful payables | 10,866 | 6,815,247 | - | 6,826,113 |
| Derivative | - | 9,213 | - | 9,213 |
| Other payables | 73,701 | 4,484,533 | (3,668,971) | 889,263 |
| Lease liabilities | 475 | 136,589 | - | 137,064 |
| Total liabilities | 879,438 | 55,205,048 | (3,670,300) | 52,414,186 |
| Total equity and liabilities | 5,698,569 | 55,132,978 | (3,670,300) | 57,161,247 |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

43 **INSURANCE/TAKAFUL FUNDS (CONTINUED)**

STATEMENTS OF FINANCIAL POSITION BY FUNDS AS AT 31 DECEMBER 2019 (CONTINUED)

At 31 December 2018

| <u>Group</u> | <u>Shareholders'</u> <u>and</u> <u>General Fund</u> <u>RM'000</u> | <u>Life Fund</u> <u>RM'000</u> | <u>Inter-fund</u> <u>Elimination</u> <u>RM'000</u> | <u>Total</u> <u>RM'000</u> |
|--|--|-----------------------------------|--|-------------------------------|
| <u>Assets</u> | | | | |
| Property, plant and equipment | 849 | 433,928 | - | 434,777 |
| Investment properties | - | 363,220 | - | 363,220 |
| Prepaid land lease payments | 584 | 562 | - | 1,146 |
| Intangible assets | 3,698 | 94,319 | - | 98,017 |
| Investment in associates | 57,264 | 26,294 | - | 83,558 |
| Available-for-sale financial assets | 1,478,148 | 7,288,543 | - | 8,766,691 |
| Fair value through profit or loss financial assets | 5,241 | 35,388,499 | - | 35,393,740 |
| Loans and receivables | 4,004,687 | 4,745,689 | (3,917,285) | 4,833,091 |
| Reinsurance assets | 14,995 | 268,015 | - | 283,010 |
| Insurance receivables | 41,409 | 291,033 | - | 332,442 |
| Deferred tax assets | 7,078 | - | - | 7,078 |
| Current tax assets | (1,430) | 114,144 | - | 112,714 |
| Cash and cash equivalents | 33,471 | 838,861 | - | 872,332 |
| Total assets | 5,645,994 | 49,853,107 | (3,917,285) | 51,581,816 |
| <u>Equity and liabilities</u> | | | | |
| Total equity | 4,782,179 | - | - | 4,782,179 |
| Insurance contract liabilities | 305,377 | 38,653,427 | - | 38,958,804 |
| Deferred tax liabilities | 514,050 | (28,688) | - | 485,362 |
| Insurance payables | 10,061 | 6,396,914 | - | 6,406,975 |
| Other payables | 34,327 | 4,831,454 | (3,917,285) | 948,496 |
| Total liabilities | 863,815 | 49,853,107 | (3,917,285) | 46,799,637 |
| Total equity and liabilities | 5,645,994 | 49,853,107 | (3,917,285) | 51,581,816 |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

STATEMENTS OF FINANCIAL POSITION BY FUNDS AS AT 31 DECEMBER 2019 (CONTINUED)

At 31 December 2019

| <u>Company</u> | <u>Shareholders' Fund RM'000</u> | <u>Life Fund RM'000</u> | <u>Inter-fund Elimination RM'000</u> | <u>Total RM'000</u> |
|--|--|-----------------------------|--|-------------------------|
| <u>Assets</u> | | | | |
| Property, plant and equipment | 1,070 | 443,896 | - | 444,966 |
| Investment properties | - | 363,130 | - | 363,130 |
| Right of use assets | - | 133,917 | - | 133,917 |
| Intangible assets | - | 118,087 | - | 118,087 |
| Investment in subsidiaries | 487,859 | - | - | 487,859 |
| Investment in associates | - | 88 | - | 88 |
| Available-for-sale financial assets | 1,089,695 | 7,520,929 | - | 8,610,624 |
| Fair value through profit or loss financial assets | - | 39,063,935 | - | 39,063,935 |
| Loans and receivables | 3,553,139 | 4,476,315 | (3,546,211) | 4,483,243 |
| Reinsurance assets | - | 375,679 | - | 375,679 |
| Insurance receivables | - | 278,331 | - | 278,331 |
| Current tax assets | 24,361 | 134,944 | - | 159,305 |
| Cash and cash equivalents | 5,049 | 794,097 | - | 799,146 |
| Total assets | 5,161,173 | 53,703,348 | (3,546,211) | 55,318,310 |
| <u>Equity and liabilities</u> | | | | |
| Total equity | 4,679,262 | - | - | 4,679,262 |
| Insurance contract liabilities | - | 42,265,173 | - | 42,265,173 |
| Deferred tax liabilities | 476,039 | 190,655 | - | 666,694 |
| Insurance payables | - | 6,788,201 | - | 6,788,201 |
| Derivative | - | 9,213 | - | 9,213 |
| Other payables | 5,872 | 4,313,517 | (3,546,211) | 773,178 |
| Lease liabilities | - | 136,589 | - | 136,589 |
| Total liabilities | 481,911 | 53,703,348 | (3,546,211) | 50,639,048 |
| Total equity and liabilities | 5,161,173 | 53,703,348 | (3,546,211) | 55,318,310 |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

STATEMENTS OF FINANCIAL POSITION BY FUNDS AS AT 31 DECEMBER 2019 (CONTINUED)

At 31 December 2018

| <u>Company</u> | <u>Shareholders' Fund RM'000</u> | <u>Life Fund RM'000</u> | <u>Inter-fund Elimination RM'000</u> | <u>Total RM'000</u> |
|---|---|------------------------------------|---|--------------------------------|
| <u>Assets</u> | | | | |
| Property, plant and equipment | 490 | 433,928 | - | 434,418 |
| Investment properties | - | 363,220 | - | 363,220 |
| Prepaid land lease payments | 584 | 562 | - | 1,146 |
| Intangible assets | - | 94,319 | - | 94,319 |
| Investment in subsidiaries | 253,000 | - | - | 253,000 |
| Investment in associates | - | 88 | - | 88 |
| Available-for-sale financial assets | 1,128,435 | 7,288,543 | - | 8,416,978 |
| Fair value through profit or loss financial assets | - | 35,388,499 | - | 35,388,499 |
| Loans and receivables | 3,927,911 | 4,745,689 | (3,917,285) | 4,756,315 |
| Reinsurance assets | - | 268,015 | - | 268,015 |
| Insurance receivables | - | 291,033 | - | 291,033 |
| Current tax assets | (3,490) | 114,144 | - | 110,654 |
| Cash and cash equivalents | 922 | 838,861 | - | 839,783 |
| Total assets | 5,307,852 | 49,826,901 | (3,917,285) | 51,217,468 |
| <u>Equity and liabilities</u> | | | | |
| Total equity | 4,786,671 | - | - | 4,786,671 |
| Insurance contract liabilities | - | 38,627,221 | - | 38,627,221 |
| Deferred tax liabilities | 514,050 | (28,688) | - | 485,362 |
| Insurance/takaful payables | - | 6,396,914 | - | 6,396,914 |
| Other payables | 7,131 | 4,831,454 | (3,917,285) | 921,300 |
| Total liabilities | 521,181 | 49,826,901 | (3,917,285) | 46,430,797 |
| Total equity and liabilities | 5,307,852 | 49,826,901 | (3,917,285) | 51,217,468 |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

43 **INSURANCE/TAKAFUL FUNDS (CONTINUED)**

INCOME STATEMENTS BY FUNDS

12 months year ended 31 December 2019

| <u>Group</u> | <u>Shareholders' and General Fund</u> RM'000 | <u>Life/Family Takaful Fund</u> RM'000 | <u>Inter-fund Elimination</u> RM'000 | <u>Total</u> RM'000 |
|--|---|---|---|--------------------------------------|
| Gross earned premiums/ contributions | 303,435 | 9,680,498 | - | 9,983,933 |
| Premiums/contributions ceded to reinsurers/retakaful operators | (19,193) | (1,020,276) | - | (1,039,469) |
| Net earned premiums/ contributions revenue | 284,242 | 8,660,222 | - | 8,944,464 |
| Investment income | 84,750 | 2,163,294 | - | 2,248,044 |
| Net realised gains | 661 | 12,565 | - | 13,226 |
| Fair value gains | 224 | 1,818,741 | - | 1,818,965 |
| Other operating income/ (expenses) | 88,316 | (9,184) | (36,225) | 42,907 |
| Total net revenue | 458,193 | 12,645,638 | (36,225) | 13,067,606 |
| Gross benefits and claims paid | (87,209) | (7,761,985) | - | (7,849,194) |
| Claims ceded to reinsurers/ retakaful operators | 5,045 | 684,163 | - | 689,208 |
| Gross change to insurance/ takaful contract liabilities | (3,742) | (3,633,106) | - | (3,636,848) |
| Change in insurance/takaful contract liabilities ceded to reinsurers/retakaful operators | 2,079 | 107,856 | - | 109,935 |
| Net insurance/takaful benefits and claims | (83,827) | (10,603,072) | - | (10,686,899) |
| Wakalah fee expense | | | | |
| Fee and commission expenses | (72,692) | (926,721) | - | (999,413) |
| Management expenses | (190,164) | (775,219) | 36,225 | (929,158) |
| Other expenses | (262,856) | (1,701,940) | 36,225 | (1,928,571) |
| Profit before share of profit from associate | 111,510 | 340,626 | - | 452,136 |
| Share of gains from associate | 4,337 | 603 | - | 4,940 |
| Profit before tax | 115,847 | 341,229 | - | 457,076 |
| Tax credit attributable to policyholders and unitholders | - | (233,241) | - | (233,241) |
| Profit before tax attributable to shareholders | 115,847 | 107,988 | - | 223,835 |
| Transfer from Revenue Accounts | 107,988 | (107,988) | - | - |
| Profit before tax attributable to shareholders | 223,835 | - | - | 223,835 |
| Tax expense attributable to shareholders | (52,726) | - | - | (52,726) |
| Profit after tax for the financial year | 171,109 | - | - | 171,109 |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

STATEMENTS OF COMPREHENSIVE INCOME BY FUNDS

12 months year ended 31 December 2019

| <u>Group</u> | <u>Shareholders' and General Fund RM'000</u> | <u>Life/Family Takaful Fund RM'000</u> | <u>Inter-fund Elimination RM'000</u> | <u>Total RM'000</u> |
|--|--|--|--|-------------------------|
| Profit after tax for the financial year | 171,109 | - | - | 171,109 |
| Other comprehensive income: | | | | |
| <u>Items that may be subsequently reclassified to profit or loss</u> | | | | |
| Net gains arising during the financial year | 583,751 | - | - | 583,751 |
| Net realised gains transferred to income statements | (13,153) | - | - | (13,153) |
| Deferred taxation | (135,187) | | | (135,187) |
| Change in available-for-sale fair value reserves | 435,411 | - | - | 435,411 |
| Share of other comprehensive income from associate | 1,356 | | | 1,356 |
| | <u>436,767</u> | <u>-</u> | <u>-</u> | <u>436,767</u> |
| <u>Items that will not be subsequently reclassified to profit or loss</u> | | | | |
| Net gains arising during the financial year | 7,682 | - | - | 7,682 |
| Deferred taxation | (245) | - | - | (245) |
| Change in insurance/takaful contract liabilities | (6,264) | - | - | (6,264) |
| Change in asset revaluation reserves | 1,173 | - | - | 1,173 |
| Remeasurements | 1,706 | - | - | 1,706 |
| Deferred taxation | (292) | - | - | (292) |
| Post employment benefit obligations | 1,414 | | - | 1,414 |
| Total other comprehensive income – net of tax, for the financial year | <u>439,354</u> | <u>-</u> | <u>-</u> | <u>439,354</u> |
| Total comprehensive income for the financial year | <u><u>610,463</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>610,463</u></u> |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

INCOME STATEMENTS BY FUNDS

13 months period ended 31 December 2018

| <u>Group</u> | <u>Shareholders' and General Fund</u> <u>RM'000</u> | <u>Life Fund</u> <u>RM'000</u> | <u>Inter-fund Elimination</u> <u>RM'000</u> | <u>Total</u> <u>RM'000</u> |
|--|--|-----------------------------------|--|-------------------------------|
| Gross earned premiums | 308,920 | 9,638,391 | - | 9,947,311 |
| Premiums ceded to reinsurers | (25,228) | (1,021,679) | - | (1,046,907) |
| Net earned premiums | 283,692 | 8,616,712 | - | 8,900,404 |
| Investment income | 80,847 | 2,361,376 | - | 2,442,223 |
| Net realised gains | 2,683 | 3,126 | - | 5,809 |
| Fair value losses | (108) | (1,190,896) | - | (1,191,004) |
| Other operating (expenses)/ income | (1,935) | 64,964 | (24,553) | 38,476 |
| Total net revenue | 365,179 | 9,855,282 | (24,553) | 10,195,908 |
| Gross benefits and claims paid | (88,915) | (7,555,084) | - | (7,643,999) |
| Claims ceded to reinsurers | 405 | 742,712 | - | 743,117 |
| Gross change to insurance contract liabilities | (4,387) | (265,524) | - | (269,911) |
| Change in insurance contract liabilities ceded to reinsurers | (314) | 52,346 | - | 52,032 |
| Net insurance benefits and claims | (93,211) | (7,025,550) | - | (7,118,761) |
| Fee and commission expenses | (72,536) | (870,412) | - | (942,948) |
| Management expenses | (109,770) | (868,513) | 24,553 | (953,730) |
| Other expenses | (182,306) | (1,738,925) | 24,553 | (1,896,678) |
| Profit before share of loss from associate | 89,662 | 1,090,807 | - | 1,180,469 |
| Share of (losses)/gains from associate | (5,544) | 572 | - | (4,972) |
| Profit before tax | 84,118 | 1,091,379 | - | 1,175,497 |
| Tax credit attributable to policyholders and unitholders | - | 15,292 | - | 15,292 |
| Profit before tax attributable to shareholders | 84,118 | 1,106,671 | - | 1,190,789 |
| Transfer from Revenue Accounts | 1,106,671 | (1,106,671) | - | - |
| Profit before tax attributable to shareholders | 1,190,789 | - | - | 1,190,789 |
| Tax expense attributable to shareholders | (228,734) | - | - | (228,734) |
| Profit after tax for the financial period | 962,055 | - | - | 962,055 |

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**NOTES TO THE FINANCIAL STATEMENTS
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43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

STATEMENTS OF COMPREHENSIVE INCOME BY FUNDS (CONTINUED)

13 months period ended 31 December 2018

| <u>Group</u> | <u>Shareholders' and General Fund RM'000</u> | <u>Life Fund RM'000</u> | <u>Inter-fund Elimination RM'000</u> | <u>Total RM'000</u> |
|--|--|-----------------------------|--|-------------------------|
| Profit after tax for the financial period | 962,055 | - | - | 962,055 |
| Other comprehensive (loss)/ income: | | | | |
| <u>Items that may be subsequently reclassified to profit or loss</u> | | | | |
| Net gains arising during the financial year | 75,706 | - | - | 75,706 |
| Net realised gains transferred to income statements | (7,384) | - | - | (7,384) |
| Deferred taxation | (16,190) | - | - | (16,190) |
| Change in available-for-sale fair value reserves | 52,132 | - | - | 52,132 |
| Share of other comprehensive income from associate | 93 | - | - | 93 |
| | <u>52,225</u> | <u>-</u> | <u>-</u> | <u>52,225</u> |
| <u>Items that will not be subsequently reclassified to profit or loss</u> | | | | |
| Net gains arising during the financial year | 7,727 | - | - | 7,727 |
| Deferred taxation | 364 | - | - | 364 |
| Change in insurance/takaful contract liabilities | (6,824) | - | - | (6,824) |
| Change in asset revaluation reserves | 1,267 | - | - | 1,267 |
| Remeasurements | (4,751) | - | - | (4,751) |
| Deferred taxation | 817 | - | - | 817 |
| Post employment benefit obligations | (3,934) | - | - | (3,934) |
| Total other comprehensive income – net of tax, for the financial period | <u>49,558</u> | <u>-</u> | <u>-</u> | <u>49,558</u> |
| Total comprehensive income for the financial period | <u>1,011,613</u> | <u>-</u> | <u>-</u> | <u>1,011,613</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

INCOME STATEMENTS BY FUNDS

12 months year ended 31 December 2019

| <u>Company</u> | <u>Shareholders' Fund RM'000</u> | <u>Life Fund RM'000</u> | <u>Total RM'000</u> |
|---|--|-----------------------------|-------------------------|
| Gross earned premiums | - | 9,630,259 | 9,630,259 |
| Premiums ceded to reinsurers | - | (1,018,693) | (1,018,693) |
| Net earned premiums | - | 8,611,566 | 8,611,566 |
| Investment income | 62,789 | 2,173,794 | 2,236,583 |
| Net realised gains | 481 | 12,566 | 13,047 |
| Fair value gains | - | 1,818,741 | 1,818,741 |
| Other operating income/ (expenses) | 80,216 | (9,183) | 71,033 |
| Total net revenue | 143,486 | 12,607,484 | 12,750,970 |
| Gross benefits and claims paid | - | (7,743,994) | (7,743,994) |
| Claims ceded to reinsurers | - | 683,007 | 683,007 |
| Gross change to insurance contract liabilities | - | (3,623,635) | (3,623,635) |
| Change in insurance contract liabilities ceded to reinsurers | - | 107,664 | 107,664 |
| Net insurance benefits and claims | - | (10,576,958) | (10,576,958) |
| Fee and commission expenses | - | (914,230) | (914,230) |
| Management expenses | (113,344) | (774,178) | (887,522) |
| Other expenses | (113,344) | (1,688,408) | (1,801,752) |
| Profit before tax | 30,142 | 342,118 | 372,260 |
| Tax credit attributable to policyholders and unitholders | - | (233,241) | (233,241) |
| Profit before tax attributable to shareholders | 30,142 | 108,877 | 139,019 |
| Transfer from Revenue Accounts | 108,877 | (108,877) | - |
| Profit before tax attributable to shareholders | 139,019 | - | 139,019 |
| Tax expense attributable to shareholders | (37,438) | - | (37,438) |
| Profit after tax for the financial year | 101,581 | - | 101,581 |

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**NOTES TO THE FINANCIAL STATEMENTS
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43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

STATEMENTS OF COMPREHENSIVE INCOME BY FUNDS

12 months year ended 31 December 2019

| <u>Company</u> | <u>Shareholders' Fund RM'000</u> | <u>Life Fund RM'000</u> | <u>Total RM'000</u> |
|--|--|-----------------------------|-------------------------|
| Profit after tax for the financial Year | 101,581 | - | 101,581 |
| Other comprehensive income: | | | |
| <u>Items that may be subsequently reclassified to profit or loss</u> | | | |
| Net gains arising during the financial year | 572,606 | - | 572,606 |
| Net realised gains transferred to income statements | (12,972) | - | (12,972) |
| Deferred taxation | (132,556) | - | (132,556) |
| Change in available-for-sale fair value reserves | 427,078 | - | 427,078 |
| Net gains arising during the financial year | 7,682 | - | 7,682 |
| Deferred taxation | (245) | - | (245) |
| Change in insurance contract liabilities | (6,264) | - | (6,264) |
| | 1,173 | | 1,173 |
| Remeasurements | 1,706 | - | 1,706 |
| Deferred taxation | (292) | - | (292) |
| Post employment benefit obligations | 1,414 | - | 1,414 |
| Total other comprehensive Income – net of tax, for the financial year | 429,665 | - | 429,665 |
| Total comprehensive income for the financial year | 531,246 | - | 531,246 |

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**NOTES TO THE FINANCIAL STATEMENTS
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43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

INCOME STATEMENTS BY FUNDS

13 months period ended 31 December 2018

| <u>Company</u> | <u>Continuing operations</u> | | | <u>Discontinued operations</u> |
|---|--|-----------------------------------|-------------------------------|--------------------------------------|
| | <u>Shareholders' Fund</u> <u>RM'000</u> | <u>Life Fund</u> <u>RM'000</u> | <u>Total</u> <u>RM'000</u> | <u>General Fund</u> <u>RM'000</u> |
| Gross earned premiums | - | 9,638,391 | 9,638,391 | 163,135 |
| Premiums ceded to reinsurers | - | (1,021,679) | (1,021,679) | (12,510) |
| Net earned premiums | - | 8,616,712 | 8,616,712 | 150,625 |
| Investment income | 62,538 | 2,361,376 | 2,423,914 | 6,480 |
| Net realised gains/(loss) | 2,151 | 3,126 | 5,277 | (867) |
| Fair value gains | - | (1,190,896) | (1,190,896) | (159) |
| Other operating (expenses)/ income | (12,298) | 64,964 | 52,666 | 1,455 |
| Total net revenue | 52,391 | 9,855,282 | 9,907,673 | 157,534 |
| Gross benefits and claims paid | - | (7,555,084) | (7,555,084) | (44,004) |
| Claims ceded to reinsurers | - | 742,712 | 742,712 | (3,639) |
| Gross change to insurance contract liabilities | - | (264,952) | (264,952) | (8,676) |
| Change in insurance contract liabilities ceded to reinsurers | - | 52,346 | 52,346 | (236) |
| Net insurance benefits and claims | - | (7,024,978) | (7,024,978) | (56,555) |
| Fee and commission expenses | - | (870,412) | (870,412) | (35,316) |
| Management expenses | (17,614) | (868,513) | (886,127) | (47,064) |
| Other expenses | (17,614) | (1,738,925) | (1,756,539) | (82,380) |
| Profit before tax | 34,777 | 1,091,379 | 1,126,156 | 18,599 |
| Tax credit attributable to policyholders and unitholders | - | 15,292 | 15,292 | - |
| Profit before tax attributable to shareholders | 34,777 | 1,106,671 | 1,141,448 | 18,599 |
| Transfer from Revenue Accounts | 1,106,671 | (1,106,671) | - | - |
| Profit before tax attributable to shareholders | 1,141,448 | - | 1,141,448 | 18,599 |
| Tax expense attributable to shareholders | (230,689) | - | (230,689) | (5,821) |
| Profit after tax for the financial period | 910,759 | - | 910,759 | 12,778 |

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**NOTES TO THE FINANCIAL STATEMENTS
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43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

STATEMENTS OF COMPREHENSIVE INCOME BY FUNDS

13 months period ended 31 December 2018

| <u>Company</u> | Continuing operations | | | Discontinued operations |
|---|---|--|--------------------------------------|---|
| | <u>Shareholders' Fund</u> RM'000 | <u>Life Fund</u> RM'000 | <u>Total</u> RM'000 | <u>General Fund</u> RM'000 |
| Profit after tax for the financial period | 910,759 | - | 910,759 | 12,778 |
| Other comprehensive (loss)/ income: | | | | |
| <u>Items that may be subsequently reclassified to profit or loss</u> | | | | |
| Net gains/(losses) arising during the financial period | 75,294 | - | 75,294 | (1,067) |
| Net realised gains/(losses) transferred to income statements | (6,852) | - | (6,852) | 867 |
| Deferred taxation | (16,197) | - | (16,197) | 48 |
| Change in available-for-sale fair value reserves | 52,245 | - | 52,245 | (152) |
| <u>Items that will not be subsequently reclassified to profit or loss</u> | | | | |
| Net gains arising during the financial period | 7,727 | - | 7,727 | - |
| Deferred taxation | 364 | - | 364 | - |
| Change in insurance contract liabilities | (6,824) | - | (6,824) | - |
| | 1,267 | - | 1,267 | - |
| Remeasurements | (4,751) | - | (4,751) | - |
| Deferred taxation | 817 | - | 817 | - |
| Post employment benefit obligations | (3,934) | - | (3,934) | - |
| Total other comprehensive income/(loss) – net of tax, for the financial period | 49,578 | - | 49,578 | (152) |
| Total comprehensive income for the financial period | 960,337 | - | 960,337 | 12,626 |

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**NOTES TO THE FINANCIAL STATEMENTS
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43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

Included in the Income Statements for the financial period ended 31 December 2018 and financial year ended 31 December 2019, and the Statements of Financial Position as at 31 December 2018 and 31 December 2019 of the Life fund are the segmental information for the investment-linked funds.

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

| | <u>31.12.2019</u> | <u>Group</u> <u>31.12.2018</u> |
|--|-------------------|-----------------------------------|
| | RM'000 | RM'000 |
| <u>Assets</u> | | |
| Fair value through profit or loss financial assets | 7,857,116 | 5,840,500 |
| Other receivables | 24,593 | 20,222 |
| Current tax assets | 7,900 | 11,750 |
| Deferred tax assets | - | 12,120 |
| Cash and cash equivalents | 611,128 | 525,165 |
| Total assets | <u>8,500,737</u> | <u>6,409,757</u> |
| <u>Less: Liabilities</u> | | |
| Other payables | 11,469 | 42,423 |
| Deferred tax liabilities | 41,995 | - |
| Current tax liabilities | - | - |
| Total liabilities | <u>53,464</u> | <u>42,423</u> |
| Net asset value | <u>8,447,273</u> | <u>6,367,334</u> |

**INCOME STATEMENT FOR INVESTMENT-LINKED FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

| | <u>12 months</u> | <u>Group</u> <u>13 months</u> |
|--|-------------------|----------------------------------|
| | <u>year</u> | <u>period</u> |
| | <u>ended</u> | <u>ended</u> |
| | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 |
| Investment income | 241,924 | 243,477 |
| Fair value gains/(losses) | 344,412 | (756,980) |
| Other operating income | 4,829 | 6,330 |
| | <u>591,165</u> | <u>(507,173)</u> |
| Management expenses | (77,280) | (73,517) |
| Profit/(Loss) before tax | <u>513,885</u> | <u>(580,690)</u> |
| Tax (expenses)/ credit | (32,220) | 57,081 |
| Profit/(Loss) after tax for the financial year/period | <u>481,665</u> | <u>(523,609)</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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43 INSURANCE/TAKAFUL FUNDS (CONTINUED)

Included in the Income Statements for the financial period ended 31 December 2018 and financial year ended 31 December 2019, and the Statements of Financial Position as at 31 December 2018 and 31 December 2019 of the Life fund are the segmental information for the investment-linked funds.

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

| | <u>31.12.2019</u> | <u>Company</u> <u>31.12.2018</u> |
|--|-------------------|-------------------------------------|
| | RM'000 | RM'000 |
| <u>Assets</u> | | |
| Fair value through profit or loss financial assets | 7,470,113 | 5,840,500 |
| Other receivables | 22,805 | 20,222 |
| Current tax assets | 7,897 | 11,750 |
| Deferred tax assets | - | 12,120 |
| Cash and cash equivalents | 535,782 | 525,165 |
| Total assets | <u>8,036,597</u> | <u>6,409,757</u> |
| <u>Less: Liabilities</u> | | |
| Other payables | 10,842 | 42,423 |
| Deferred tax liabilities | 40,773 | - |
| Total liabilities | <u>51,615</u> | <u>42,423</u> |
| Net asset value | <u>7,984,982</u> | <u>6,367,334</u> |

**INCOME STATEMENT FOR INVESTMENT-LINKED FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

| | <u>12 months</u> | <u>Company</u> |
|--|-------------------|-------------------|
| | year | 13 months |
| | ended | period |
| | <u>31.12.2019</u> | <u>31.12.2018</u> |
| | RM'000 | RM'000 |
| Investment income | 241,358 | 243,477 |
| Fair value gains/(losses) | 343,273 | (756,980) |
| Other operating income | 5,077 | 6,330 |
| | <u>589,708</u> | <u>(507,173)</u> |
| Management expenses | (77,280) | (73,517) |
| Profit/(Loss) before tax | <u>512,428</u> | <u>(580,690)</u> |
| Tax (expenses)/credit | (32,111) | 57,081 |
| Profit/(Loss) after tax for the financial year/period | <u>480,317</u> | <u>(523,609)</u> |

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44 ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 “INSURANCE CONTRACT”

The following additional disclosures, required by the Amendments to MFRS 4 for qualified entity who have elected temporary exemption from applying MFRS 9, to present the Group’s and the Company’s financial assets by their contractual cash flows characteristics.

Financial assets of the Group and Company are separated into the following two groups:

- (i) financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”) in accordance with MFRS 9 and are not held-for-trading or managed on fair value basis, which consist of cash and cash equivalents, receivables, accrued investment income, loans and deposits, and debt securities; and
- (ii) all financial assets other than those specified in (i), which consist of derivative assets, equity securities, debt securities, and accrued investment income.

The following table shows the fair value and change in fair value of these two groups of financial assets.

| Group | As at 31 December 2019 | |
|---|-------------------------------|---|
| | Fair value | For the year ended 31 December 2019 Change in fair value |
| RM’000 | | |
| Financial assets that met SPPI criteria and not held-for-trading or managed on fair value basis | 15,334,120 | 570,598 |
| Others* | 40,156,127 | 1,839,418 |
| Total | 55,490,247 | 2,410,016 |

| Company | As at 31 December 2019 | |
|---|-------------------------------|---|
| | Fair value | For the year ended 31 December 2019 Change in fair value |
| RM’000 | | |
| Financial assets that met SPPI criteria and not held-for-trading or managed on fair value basis | 14,171,344 | 559,634 |
| Others* | 39,063,935 | 1,839,194 |
| Total | 53,235,279 | 2,398,828 |

* Others include financial assets that fail SPPI test, those that are held for trading and those that are managed on a fair value basis

Reinsurance/ retakaful assets have been excluded from the above assessments as they will be under the scope of MFRS 17, Insurance Contracts. Other than the financial assets listed in the table above and the assets that are within the scope of MFRS 17, Insurance Contracts, all other assets in the statement of financial position are non-financial assets.

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**44 ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 “INSURANCE CONTRACT”
(CONTINUED)**

The following table sets out the credit quality analysis for financial assets that met the SPPI criteria and are not held for trading or managed on fair value basis.

| Group | 2019 |
|------------------------|-------------------|
| | RM'000 |
| AAA | 2,728,602 |
| AA | 1,281,854 |
| A | 46 |
| BBB | - |
| Below investment grade | - |
| Not rated | 10,703,305 |
| Investment linked | 620,313 |
| Total | 15,334,120 |

| Company | 2019 |
|------------------------|-------------------|
| | RM'000 |
| AAA | 2,539,458 |
| AA | 1,172,268 |
| A | 46 |
| BBB | - |
| Below investment grade | - |
| Not rated | 9,916,393 |
| Investment linked | 543,179 |
| Total | 14,171,344 |

45 COMPARATIVE INFORMATION

In November 2017, the Board resolved to change the financial year end from 30 November to 31 December effective for the financial year ended 31 December 2018. Therefore, the financial period covered in the comparative information is for a period of thirteen (13) months from 1 December 2017 to 31 December 2018. Thereafter, the financial statements of the Group and of the Company for the financial year ended 31 December 2019 and each subsequent year cover a period of twelve (12) months ending 31 December.

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46 SUBSEQUENT EVENTS

In the beginning of 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. The significant disruptions have been observed in the Group's new business sales, and decelerating in values of investments have started to kick in by the first quarter-end of the year. As the situation is rapidly evolving, it is not practical to quantify the financial impact of the outbreak to the Group.

The Group is closely monitoring the developing situation and the potential impact of COVID-19 on its operations and financial position to ensure vigilant steps and appropriate actions could be taken on a timely manner.