

Company No.

201001040438 (924363-W)

**AIA GENERAL BERHAD**  
(Incorporated in Malaysia)

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020**

Company No.

201001040438 (924363-W)

**AIA GENERAL BERHAD**  
(Incorporated in Malaysia)

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020**

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**AIA GENERAL BERHAD**  
(Incorporated in Malaysia)

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**

	<u>Note</u>	<u>30.06.2020</u> RM'000	<u>31.12.2019</u> RM'000
<b>Assets</b>			
Property and equipment		257	290
Right-of-use assets		758	948
Intangible assets		2,001	2,723
Available-for-sale financial assets	11	567,303	448,601
Fair value through profit or loss financial assets	12	10,505	10,465
Loans and receivables		52,646	53,807
Reinsurance assets	13	19,357	16,794
Insurance receivables	14	37,051	40,334
Current tax assets		-	366
Cash and cash equivalents		66,504	94,021
<b>Total assets</b>		<u>756,382</u>	<u>668,349</u>
<b>Equity and liabilities</b>			
Share capital		190,000	190,000
Retained earnings		149,483	114,548
Available-for-sale fair value reserve		17,878	9,450
<b>Total equity</b>		<u>357,361</u>	<u>313,998</u>
Insurance contract liabilities	16	322,490	303,411
Insurance payables	17	9,682	10,867
Other payables		51,444	35,989
Lease liabilities		780	966
Deferred tax liabilities		3,989	3,118
Current tax liabilities		10,636	-
<b>Total liabilities</b>		<u>399,021</u>	<u>354,351</u>
<b>Total equity and liabilities</b>		<u>756,382</u>	<u>668,349</u>

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

Company No.

201001040438 (924363-W)

**AIA GENERAL BERHAD**  
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**UNAUDITED CONDENSED INCOME STATEMENT**  
**FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020**

	<b>Note</b>	<b>6 months period ended <u>30.06.2020</u> RM'000</b>	<b>6 months period ended <u>30.06.2019</u> RM'000</b>
Gross earned premiums		145,535	154,345
Premiums ceded to reinsurers		<u>(8,738)</u>	<u>(9,689)</u>
Net earned premiums	18	136,797	144,656
Investment income		7,922	9,547
Net realised gains		2,574	92
Fair value gains		40	124
<b>Total net revenue</b>		<u>147,333</u>	<u>154,419</u>
Gross benefits and claims paid		(24,836)	(43,377)
Claims ceded to reinsurers		694	4,529
Gross change to insurance contract liabilities		(16,188)	(10,747)
Change in insurance contract liabilities ceded to reinsurers		<u>2,496</u>	<u>1,379</u>
<b>Net insurance benefits and claims</b>		<u>(37,834)</u>	<u>(48,216)</u>
Fee and commission expenses		(32,835)	(36,964)
Management expenses		(27,928)	(32,734)
Other operating expenses		(656)	(75)
<b>Other expenses</b>		<u>(61,419)</u>	<u>(69,773)</u>
<b>Profit before tax</b>		48,080	36,430
Tax expense		<u>(13,145)</u>	<u>(7,163)</u>
<b>Profit after tax for the period</b>		<u>34,935</u>	<u>29,267</u>
Basic earnings per share (sen)		<u>18.39</u>	<u>15.40</u>

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**AIA GENERAL BERHAD**  
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**UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020**

	<b>6 months period ended <u>30.06.2020</u> RM'000</b>	<b>6 months period ended <u>30.06.2019</u> RM'000</b>
<b>Profit after tax for the period</b>	34,935	29,267
<b>Other comprehensive income:</b>		
<u>Items that may be subsequently reclassified to profit or loss</u>		
Fair value gains arising during the period	12,067	7,521
Fair value gains transferred to income statement	(2,574)	(92)
Deferred taxation	(1,065)	(1,783)
<b>Total other comprehensive income - net of tax, for the period</b>	<hr/> 8,428 <hr/>	<hr/> 5,646 <hr/>
<b>Total comprehensive income for the period</b>	<hr/> <u>43,363</u> <hr/>	<hr/> <u>34,913</u> <hr/>

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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020**

	Share capital	Non-distributable		Distributable	Total
		Available-for- sale fair value reserve	Share-based reserves	Retained earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2020	190,000	9,450	-	114,548	313,998
Total comprehensive income for the period	-	8,428	-	34,935	43,363
Share-based compensation:					
- value of employee services	-	-	27	-	27
- repayment to ultimate holding company	-	-	(27)	-	(27)
At 30 June 2020	<u>190,000</u>	<u>17,878</u>	<u>-</u>	<u>149,483</u>	<u>357,361</u>
At 1 January 2019	190,000	1,117	-	48,116	239,233
Total comprehensive income for the period	-	5,646	-	29,267	34,913
Share-based compensation:					
- value of employee services	-	-	23	-	23
- repayment to ultimate holding company	-	-	(23)	-	(23)
At 30 June 2019	<u>190,000</u>	<u>6,763</u>	<u>-</u>	<u>77,383</u>	<u>274,146</u>

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**AIA GENERAL BERHAD**  
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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS**  
**FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020**

	<b>6 months period ended <u>30.06.2020</u> RM'000</b>	<b>6 months period ended <u>30.06.2019</u> RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	48,080	36,430
Interest and dividend income	(8,334)	(9,588)
Net amortisation of premium on investments	402	349
Realised gains	(2,574)	(92)
Fair value gains	(40)	(124)
Allowance for/(reversal of) impairment losses	31	(1,742)
Write off of allowances for bad debts	25	1,507
Depreciation		
- property and equipment	33	43
- right-of-use assets	190	185
Amortisation		
- intangible assets	765	845
Interest expenses	17	24
Operating profit before working capital changes	<u>38,595</u>	<u>27,837</u>
<b>Changes in working capital:</b>		
Increase in AFS and FVTPL financial assets	(107,134)	(45,480)
Increase in reinsurance assets	(2,563)	(1,317)
Decrease/(increase) in insurance receivables	3,227	(2,649)
Decrease in loans and receivables	1,294	3,056
(Decrease)/increase in insurance payables	(1,185)	931
Increase in insurance contract liabilities	19,079	10,805
Increase in other payables	15,455	8,016
Cash (used)/generated from operating activities	<u>(33,232)</u>	<u>1,199</u>
Income taxes paid	(2,337)	(1,385)
Interest income received	7,909	7,346
Interest paid	(17)	(24)
Dividend income received	389	143
<b>Net cash (outflow)/inflow from operating activities</b>	<u>(27,288)</u>	<u>7,279</u>

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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS**  
**FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

	<b>6 months period ended 30.06.2020 RM'000</b>	<b>6 months period ended 30.06.2019 RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	(46)
Purchase of intangible asset	(43)	-
<b>Net cash outflow from investing activities</b>	<u>(43)</u>	<u>(46)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of lease liabilities	(186)	(174)
<b>Net cash outflow from financing activities</b>	<u>(186)</u>	<u>(174)</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(27,517)	7,059
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	94,021	22,114
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<u>66,504</u>	<u>29,173</u>
<b><u>Cash and cash equivalents comprised:</u></b>		
Cash and bank balances	62,494	19,203
Fixed and call deposits with licensed financial institutions with maturity of equal and less than 3 months	4,010	9,970
	<u>66,504</u>	<u>29,173</u>

The 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.

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



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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020**

**1 CORPORATE INFORMATION**

The Company is engaged principally in the underwriting of all classes of general insurance business.

There has been no significant change in the principal activity during the financial period.

The Company is a public limited liability company, incorporated under the Companies Act 2016 and 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 Level 13, Menara AIA, 99 Jalan Ampang, 50450 Kuala Lumpur respectively.

The immediate holding company of the Company is AIA Bhd., a company incorporated in Malaysia. The Directors regard AIA Group Limited, a company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong Limited, as the ultimate holding company.

The interim financial statements are authorised for issue by the Board on 14 August 2020.

**2 Basis of preparation**

The condensed interim financial statements of the Company are prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134 Interim Financial Reporting.

The Company have adopted the MFRS framework issued by the Malaysian Accounting Standards Board ("MASB") and Revised Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM").

The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements for the financial year ended 31 December 2019.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and presentation adopted by the Company for the condensed interim financial statements are consistent with those adopted by the Company's audited financial statements for the financial year ended 31 December 2019, except for the adoption of the following:

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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**3.1 Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Company's financial year beginning on or after 1 January 2020**

The following accounting standards, amendments and interpretations have been adopted for the first time for the financial period beginning on 1 January 2020.

- Amendments to MFRS 3 "Definition of a Business"
- Amendments to MFRS 101 and MFRS 108 "Definition of Material"
- The Conceptual Framework for Financial Reporting (Revised 2018)

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

**3.2 Standards, amendments to published standards and interpretations to existing standards that are relevant to the Company but are not yet effective and have not been early adopted**

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

Financial year beginning on/after 1 January 2023

- Amendments to MFRS 101 'Classification of liabilities as current or non-current' clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date.

The amendments shall be applied retrospectively.

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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**3.2 Standards, amendments to published standards and interpretations to existing  
standards that are relevant to the Company but are not yet effective and have not  
been early adopted (continued)**

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

Financial year beginning on/after 1 January 2023 (continued)

- 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 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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FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**3.2 Standards, amendments to published standards and interpretations to existing  
standards that are not relevant to the Company but are not yet effective and have not  
been early adopted (continued)**

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

Financial year beginning on/after 1 January 2023 (continued)

The Company is in the midst of conducting a detailed assessment of the new standard. On 17 August 2020, the Malaysian Accounting Standards Board ("MASB") issued the Amendments to MFRS 17 and the Amendments to MFRS 4 that defers the effective date of MFRS 17 and the temporary exemption from applying MFRS 9 to annual reporting periods beginning on or after 1 January 2023.

**4 SEASONALITY OR CYCLICALITY**

The business operations of the Company were not significantly affected by seasonality or cyclical factors during the interim financial period.

**5 UNUSUAL ITEMS**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the current financial period ended 30 June 2020.

**6 CHANGES IN ESTIMATES**

There were no material changes in the basis used for the accounting estimates for the current financial period ended 30 June 2020.

**7 ISSUES, REPURCHASES AND REPAYMENTS OF DEBT AND EQUITY SECURITIES**

There were no issuance, cancellation, repurchase and repayment of debt and equity securities during the current financial period ended 30 June 2020.

**8 DIVIDEND PAID**

No dividend has been paid or declared in respect of the current financial period ended 30 June 2020.

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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

**9 CHANGES IN THE COMPOSITION OF THE COMPANY**

There was no change in the composition of the Company during the period under review.

**10 MATERIAL EVENTS SUBSEQUENT TO THE END OF THE PERIOD**

There was no material event subsequent to the end of the period under review that has not been reported in the interim financial statements for the current financial period to date except for a final single tier dividend of RM0.4211 per ordinary share on 190,000,000 ordinary shares was paid on 29 July 2020, amounting to RM80,000,000.

**11 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<u>30.06.2020</u> RM'000	<u>31.12.2019</u> RM'000
<u>At fair value</u>		
Malaysian government securities	39,401	217,734
Cagamas papers	20,241	20,419
Unquoted corporate debt securities	278,883	206,629
Mutual funds	225,056	-
Accrued interest	3,722	3,819
	<u>567,303</u>	<u>448,601</u>
<u>Carrying values of financial instruments</u>		
At 1 January	448,601	349,713
Purchases	291,688	157,937
Maturities	(4,000)	(25,100)
Disposals at amortised cost	(177,980)	(45,103)
Fair value gains recorded in other comprehensive income	12,067	11,145
Fair value gains transferred to income statement	(2,574)	(181)
Movement in accrued interest	(97)	931
Net amortisation of premiums	(402)	(741)
At 30 June/31 December	<u>567,303</u>	<u>448,601</u>
Current	32,448	24,473
Non current	<u>534,855</u>	<u>424,128</u>
	<u>567,303</u>	<u>448,601</u>

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**FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

**11 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)**

**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>Carrying amount</u> RM'000	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000
<b><u>At 30 June 2020</u></b>				
Malaysian government securities	39,401	-	39,401	-
Cagamas papers	20,241	-	20,241	-
Unquoted corporate debt securities	278,883	-	278,883	-
Mutual funds	225,056	-	225,056	-
Accrued interest	3,722	-	3,722	-
Total assets on a recurring fair value measurement basis	<u>567,303</u>	<u>-</u>	<u>567,303</u>	<u>-</u>

	<u>Carrying amount</u> RM'000	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000
<b><u>At 31 December 2019</u></b>				
Malaysian government securities	217,734	-	217,734	-
Cagamas papers	20,419	-	20,419	-
Unquoted corporate debt securities	206,629	-	206,629	-
Accrued interest	3,819	-	3,819	-
Total assets on a recurring fair value measurement basis	<u>448,601</u>	<u>-</u>	<u>448,601</u>	<u>-</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 as per Note 15 to the financial statements.

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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
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**12 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS**

	<u>30.06.2020</u> RM'000	<u>31.12.2019</u> RM'000
<u>At fair value</u>		
Equity securities of corporations		
- Unquoted	<u>10,505</u>	<u>10,465</u>
<u>Carrying values of financial instruments</u>		
At 1 January	10,465	5,241
Purchases	-	5,000
Fair value gains recorded in income statement	<u>40</u>	<u>224</u>
At 30 June/31 December	<u>10,505</u>	<u>10,465</u>
Current	-	-
Non current	<u>10,505</u>	<u>10,465</u>
	<u>10,505</u>	<u>10,465</u>

**Fair value of financial instruments**

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

	<u>Carrying amount</u> RM'000	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000
<b><u>At 30 June 2020</u></b>				
Equity securities of corporations				
- Unquoted	<u>10,505</u>	<u>-</u>	<u>10,505</u>	<u>-</u>
Total assets on a recurring fair value measurement basis	<u>10,505</u>	<u>-</u>	<u>10,505</u>	<u>-</u>
<b><u>At 31 December 2019</u></b>				
Equity securities of corporations				
- Unquoted	<u>10,465</u>	<u>-</u>	<u>10,465</u>	<u>-</u>
Total assets on a recurring fair value measurement basis	<u>10,465</u>	<u>-</u>	<u>10,465</u>	<u>-</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 as per Note 15 to the financial statements.

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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

**13 REINSURANCE ASSETS**

	<b><u>30.06.2020</u></b> <b>RM'000</b>	<b><u>31.12.2019</u></b> <b>RM'000</b>
Reinsurance of insurance contracts	19,357	16,794
Current	7,199	6,030
Non current	12,158	10,764
	<u>19,357</u>	<u>16,794</u>

**14 INSURANCE RECEIVABLES**

	<b><u>30.06.2020</u></b> <b>RM'000</b>	<b><u>31.12.2019</u></b> <b>RM'000</b>
Outstanding premiums including agents' balances	36,936	40,233
Amount due from reinsurers	1,273	1,228
	<u>38,209</u>	<u>41,461</u>
Allowance for impairment losses	(1,158)	(1,127)
	<u>37,051</u>	<u>40,334</u>
Receivable within 12 months	<u>37,051</u>	<u>40,334</u>



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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2020 (CONTINUED)**

**14 INSURANCE RECEIVABLES (CONTINUED)**

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 period end:

	<b>Gross amount of recognised financial assets/(liabilities)</b>	<b>Gross amount of recognised financial assets/(liabilities) set off in the statement of financial position</b>	<b>Net amount of financial assets/(liabilities) presented in the statement of financial position</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>At 30 June 2020</u></b>			
Insurance receivables	38,226	(17)	38,209
Insurance payables	(9,699)	17	(9,682)
	<u>28,527</u>	<u>-</u>	<u>28,527</u>
<b><u>At 31 December 2019</u></b>			
Insurance receivables	41,474	(13)	41,461
Insurance payables	(10,880)	13	(10,867)
	<u>30,594</u>	<u>-</u>	<u>30,594</u>

Certain amount due from reinsurers and amount due to reinsurers 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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**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS  
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**15 FAIR VALUE MEASUREMENTS**

**Fair value measurements on a recurring basis**

The Company 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 Company does not have assets or liabilities measured at fair value on a non-recurring basis during the period ended 30 June 2020.

The following methods and assumptions were used by the Company 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 Company'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 Company's own assumptions about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data.

The Company'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 period ended 30 June 2020, 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 period ended 30 June 2020.

The Company's Level 2 financial instruments include equity securities. 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.

The Company 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 Company 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. The Company is required to review the reasonableness of the prices used and report price exceptions, if any. The Company'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 Company Pricing Committee which is part of the Company'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 Company has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Company uses the proxy pricing method based on internally-developed valuation inputs.

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**15 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Fair value measurements on a recurring basis (continued)**

**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 30 June 2020 is set out below.

	<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>
<b><u>At 30 June 2020</u></b>				
<b>Financial assets</b>				
Loans and receivables	-	-	50,984	50,984
Insurance receivables	-	-	37,051	37,051
	<u>-</u>	<u>-</u>	<u>88,035</u>	<u>88,035</u>
<b>Financial liabilities</b>				
Insurance payables	-	-	9,682	9,682
Other payables	-	-	51,444	51,444
	<u>-</u>	<u>-</u>	<u>61,126</u>	<u>61,126</u>
<b><u>At 31 December 2019</u></b>				
<b>Financial assets</b>				
Loans and receivables	-	-	52,399	52,399
Insurance receivables	-	-	40,334	40,334
	<u>-</u>	<u>-</u>	<u>92,733</u>	<u>92,733</u>
<b>Financial liabilities</b>				
Insurance payables	-	-	10,867	10,867
Other payables	-	-	35,989	35,989
	<u>-</u>	<u>-</u>	<u>46,856</u>	<u>46,856</u>

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**16 INSURANCE CONTRACT LIABILITIES**

	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
<b>At 30 June 2020</b>			
Claims reported by policyholders	127,114	(13,666)	113,448
Incurred but not reported ("IBNR") claims	81,139	(2,741)	78,398
Claims liabilities (i)	208,253	(16,407)	191,846
Premium liabilities (ii)	114,237	(2,950)	111,287
	<u>322,490</u>	<u>(19,357)</u>	<u>303,133</u>

**At 31 December 2019**

Claims reported by policyholders	111,225	(11,462)	99,763
IBNR	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>

(i) Claims liabilities

	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
<b>At 30 June 2020</b>			
At 1 January 2020	192,065	(13,911)	178,154
Claims incurred in the current accident year	49,667	(3,093)	46,574
Movement in claims incurred in prior accident years	(8,155)	81	(8,074)
Claims paid during the financial period	(24,836)	694	(24,142)
Others	(2,705)	-	(2,705)
Change in expense liabilities and risk margin	2,217	(178)	2,039
At 30 June 2020	<u>208,253</u>	<u>(16,407)</u>	<u>191,846</u>

**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>

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**16 INSURANCE CONTRACT LIABILITIES (CONTINUED)**

(ii) Premium liabilities

	<u>Gross</u> RM'000	<u>Reinsurance</u> RM'000	<u>Net</u> RM'000
<b>At 30 June 2020</b>			
At 1 January 2020	111,346	(2,883)	108,463
Premium written during the financial period (Note 18)	148,426	(8,805)	139,621
Premium earned during the financial period	<u>(145,535)</u>	<u>8,738</u>	<u>(136,797)</u>
At 30 June 2020	<u>114,237</u>	<u>(2,950)</u>	<u>111,287</u>
<b>At 31 December 2019</b>			
At 1 January 2019	117,054	(3,164)	113,890
Premium written during the financial year	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>

**17 INSURANCE PAYABLES**

	<u>30.06.2020</u> RM'000	<u>31.12.2019</u> RM'000
Due to reinsurers	2,739	2,827
Due to agents and insureds	<u>6,943</u>	<u>8,040</u>
	<u>9,682</u>	<u>10,867</u>

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

Offsetting of financial assets and financial liabilities

Certain amounts due from reinsurers and amounts due to reinsurers 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.

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**18 NET EARNED PREMIUMS**

	<b>6 months period ended <u>30.06.2020</u> RM'000</b>	<b>6 months period ended <u>30.06.2019</u> RM'000</b>
<b>(a) Gross earned premiums</b>		
Gross premiums	148,426	154,403
Change in premium liabilities	<u>(2,891)</u>	<u>(58)</u>
	<u>145,535</u>	<u>154,345</u>
<b>(b) Premiums ceded to reinsurers</b>		
Gross premiums ceded	(8,805)	(9,627)
Change in premium liabilities	<u>67</u>	<u>(62)</u>
	<u>(8,738)</u>	<u>(9,689)</u>
<b>Net earned premiums</b>	<u><u>136,797</u></u>	<u><u>144,656</u></u>

**19 REGULATORY CAPITAL REQUIREMENT**

The capital structure of the Company as at 30 June 2020, as prescribed under the RBC Framework is provided below:

	<b><u>30.06.2020</u> RM'000</b>	<b><u>31.12.2019</u> RM'000</b>
<b><u>Eligible Tier 1 Capital</u></b>		
Share capital (paid up)	190,000	190,000
Reserves, including retained earnings	<u>149,483</u>	<u>114,548</u>
	<u>339,483</u>	<u>304,548</u>
<b><u>Tier 2 Capital</u></b>		
Available-for-sale fair value reserves	<u>17,878</u>	<u>9,450</u>
	<u>17,878</u>	<u>9,450</u>
<b>Amount deducted from capital</b>	<u>(2,995)</u>	<u>(4,052)</u>
<b>Total capital available</b>	<u><u>354,366</u></u>	<u><u>309,946</u></u>

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**20 CONTINGENCIES**

In August 2016, Malaysia Competition Commission (“MyCC”) had commenced investigation under Section 15(1) of the Competition Act 2010 (“the Act”) against the General Insurance Association of Malaysia (“PIAM”) and its 22 member companies with regards to an alleged infringement of Section 4(2)(a) of the Act in relation to agreement to fix parts trade discount and labour rates for 6 vehicle makes. On 22 February 2017, the Company received a Notice of Proposed Decision (“Proposed Decision”) by the MyCC under Section 36 of the Competition Act 2010 (“the Act”).

MyCC informed that pursuant to its investigation, the commission on the preliminary basis finds that the Company together with the other 21 members of PIAM have infringed the prohibition under Section 4(2)(a) of the Act for fixing parts trade discounts and labour rates for repair workshops and are therefore liable for an infringement under Section 4(3) of the Act.

MyCC has also proposed to impose a financial penalty of RM2,415,000 on the Company for the alleged infringement. The Proposed Decision is not final as at the date of this report, and the Company in consultation with its legal advisers will take such appropriate actions to defend its position that it has not been in infringement of Section 4(2)(a) of the Act.

Subsequent to the proposed penalty by MyCC, Oral Representation to MyCC was held in October 2017 which continue until February 2018. Due to some changes in terms of members of the Commission in MyCC in November 2018, PIAM’s counsel and insurers proposed to MyCC to proceed with the request for an opportunity to make oral representations to the new Chairman and members of the Commission, where MyCC agreed with the proposal. The new Oral Representation commenced in February 2019 and completed in June 2019. MyCC has not indicated the date to deliver their decision.

Saved as disclosed above, the Company does not have any other contingent assets and liabilities since the last annual balance sheet date.