

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD (102249-P)
(A Member of Great Eastern Holdings Limited)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2018

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

Interim Condensed Financial Statements for Six Months Period Ended 30 June 2018

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GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CONDENSED BALANCE SHEET
AS AT 30 JUNE 2018

	Note	30.06.2018 RM	31.12.2017 RM
Assets			
Goodwill		18,182,598	18,182,598
Property and equipment		19,084,230	19,350,326
Investments	9	647,946,233	662,076,879
Reinsurance assets	10	200,688,761	226,909,865
Insurance receivables		85,825,841	73,321,937
Deferred tax assets		1,400,111	-
Other receivables		68,901,819	70,523,760
Asset held for sale		11,692,000	11,692,000
Cash and bank balances		12,251,023	18,557,881
Total assets		<u>1,065,972,616</u>	<u>1,100,615,246</u>
Equity			
Share capital		100,000,000	100,000,000
Retained earnings		308,610,715	313,114,781
Reserves		(1,418,912)	6,042,600
Total equity		<u>407,191,803</u>	<u>419,157,381</u>
Liabilities			
Insurance contract liabilities	11	557,884,881	569,517,770
Deferred tax liabilities		-	1,680,748
Deposits from reinsurers		1,190,448	2,011,301
Insurance payables		55,882,288	58,930,399
Provision for taxation		12,292,739	8,342,450
Other payables		31,530,457	40,975,197
Total liabilities		<u>658,780,813</u>	<u>681,457,865</u>
Total equity and liabilities		<u>1,065,972,616</u>	<u>1,100,615,246</u>

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CONDENSED INCOME STATEMENT
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2018

	Note	6 months period ended 30.06.2018 RM	6 months period ended 30.06.2017 RM
Gross earned premiums		239,054,793	226,273,171
Premiums ceded to reinsurers		(76,717,918)	(81,177,121)
Net earned premiums		<u>162,336,875</u>	<u>145,096,050</u>
Investment income		14,966,404	14,410,145
Realised gains		3,515,951	5,111,740
Fair value (losses)/gains		(769,096)	1,057,966
Decrease in impairment losses for investment assets		1,069,870	-
Fee and commission income		16,968,016	18,695,467
Other operating revenue		1,595,412	2,166,094
Other revenue		<u>37,346,557</u>	<u>41,441,412</u>
Gross claims paid		(143,204,353)	(107,424,536)
Claims ceded to reinsurers		55,807,989	33,266,344
Gross change to contract liabilities		29,536,897	(32,606,016)
Change in contract liabilities ceded to reinsurers		(25,811,511)	17,188,152
Net claims		<u>(83,670,978)</u>	<u>(89,576,056)</u>
Fee and commission expense		(36,055,549)	(34,196,827)
Management expenses		(45,745,073)	(42,571,717)
Other expenses		<u>(81,800,622)</u>	<u>(76,768,544)</u>
Profit before taxation		34,211,832	20,192,862
Taxation	12	(7,450,795)	(4,318,578)
Net profit for the period		<u>26,761,037</u>	<u>15,874,284</u>
Earnings per share (sen)			
Basic and diluted	13	<u>26.76</u>	<u>15.87</u>

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2018

	6 months period ended 30.06.2018 RM	6 months period ended 30.06.2017 RM
Net profit for the period	26,761,037	15,874,284
Other comprehensive income:		
<u>Items that may be reclassified to income statement in subsequent periods:</u>		
Fair value through other comprehensive income reserves/Available-for-sale fair value reserves:		
Net (losses)/gains on fair value changes	(14,028,940)	10,032,552
Realised losses/(gains) transferred to income statement	3,510,641	(5,111,740)
Decrease in impairment losses for investment assets	(1,079,858)	-
	(11,598,157)	4,920,812
Tax effect	2,783,558	(1,180,995)
	(8,814,599)	3,739,817
Total comprehensive income for the period	17,946,438	19,614,101

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2018

	Non-Distributable	Available-for-sale / Fair value through other comprehensive income reserves	Distributable	Total equity
	Share capital RM	RM	Retained earnings RM	RM
At 1 January 2017	100,000,000	5,150,587	297,402,439	402,553,026
Total comprehensive income for the period	-	3,739,817	15,874,284	19,614,101
Dividend paid during the period	-	-	(30,000,000)	(30,000,000)
At 30 June 2017	100,000,000	8,890,404	283,276,723	392,167,127
At 1 January 2018	100,000,000	6,042,600	313,114,781	419,157,381
Impact of adopting MFRS 9	-	1,353,087	(1,375,009)	(21,922)
Restated opening balance under MFRS 9	100,000,000	7,395,687	311,739,772	419,135,459
Total comprehensive income for the period	-	(8,814,599)	26,761,037	17,946,438
Realised gains on disposal of FVOCI equities	-	-	109,906	109,906
Dividend paid during the period	-	-	(30,000,000)	(30,000,000)
At 30 June 2018	100,000,000	(1,418,912)	308,610,715	407,191,803

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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CONDENSED CASH FLOW STATEMENT
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2018

	Note	6 months ended 30.06.2018 RM	6 months ended 30.06.2017 RM
Operating activities			
Cash generated (used in)/from operating activities	14	(57,846,266)	11,082,109
Dividend income received		1,812,203	782,454
Interest income received		12,320,843	13,581,895
Income tax paid		<u>(3,825,587)</u>	<u>(8,300,789)</u>
Net cash flows generated (used in)/from operating activities		<u>(47,538,807)</u>	<u>17,145,669</u>
Investing activities			
Purchase of property and equipment		<u>(1,718,051)</u>	<u>(5,216,029)</u>
Net cash flows used in investing activities		<u>(1,718,051)</u>	<u>(5,216,029)</u>
Financing activity			
Dividend paid		<u>(30,000,000)</u>	<u>(30,000,000)</u>
Net cash flows used in financing activity		<u>(30,000,000)</u>	<u>(30,000,000)</u>
Net decrease in cash and cash equivalents		(79,256,858)	(18,070,360)
Cash and cash equivalents at beginning of period		<u>93,007,881</u>	<u>45,372,448</u>
Cash and cash equivalents at end of period		<u>13,751,023</u>	<u>27,302,088</u>
Cash and cash equivalents comprise:			
Cash and bank balances		12,251,023	15,282,088
Deposits with financial institutions	9(a)	<u>1,500,000</u>	<u>12,020,000</u>
		<u>13,751,023</u>	<u>27,302,088</u>

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

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS - 30 JUNE 2018

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The interim condensed financial statements of the Company are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134 - Interim Financial Reporting, and International Accounting Standards (“IAS”) 34 - Interim Financial Reporting. The interim condensed 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 2017.

The notes attached to the interim condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial statements of the company since the financial year ended 31 December 2017.

1.2 CHANGES IN ACCOUNTING POLICIES

(a) New and amended standards and interpretations

The significant accounting policies in these interim condensed financial statements are consistent with those adopted in the financial statements for the financial year ended 31 December 2017, except for the adoption of the following MFRS, Amendments and Improvements to MFRSs:

Effective for the financial periods beginning on or after 1 January 2018

- Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2 *Share-based payment - Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- MFRS 9 *Financial Instruments*
- Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140 *Transfers of Investment Property*
- IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- MFRS 15 *Revenue from Contracts with Customers*

The adoption of the above did not have any significant effects on the interim condensed financial statements upon their initial application except as discussed below:

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(a) New and amended standards and interpretations (cont'd.)

MFRS 9 Financial Instruments

The Company has adopted MFRS 9 Financial Instruments effective 1 January 2018. The requirements of MFRS 9 represent a significant change from MFRS139 Financial instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of MFRS 9 are summarised below.

MFRS 9 requires debt instruments to be classified either at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Classification under MFRS 9 for debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are classified as FVOCI. Under the new model, FVTPL is the residual category – financial assets should therefore be classified as FVTPL if they do not meet the criteria of FVOCI or amortised cost. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. The gains or losses of debt instruments initially classified as FVOCI are recycled to profit or loss on derecognition.

MFRS 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses, on an instrument-by-instrument basis on initial recognition, to present fair value changes in other comprehensive income, with no recycling of gains or losses in profit or loss on derecognition.

Derivatives and hybrid contracts with financial asset hosts where contractual cash flows are not solely payments of principal and interest, are required to be classified at fair value through profit or loss.

Impairment

MFRS 9 requires the Company to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Company previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(a) New and amended standards and interpretations (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

Transition

The changes in accounting policies have been applied retrospectively and the Company has elected to apply the limited exemption in MFRS 9 and has not restated comparative periods in the year of initial application. The impact arising from MFRS 9 adoption was included in the opening retained earnings at the date of initial application, 1 January 2018.

The following table shows the material reclassifications arising from adoption of MFRS 9.

in Ringgit Malaysia (RM)	Original classification under MFRS 139	New classification under MFRS 9	Original carrying amount under MFRS 139	New carrying amount under MFRS 9
Financial Assets				
Cash and cash equivalents	Loan and receivables	Amortised cost	93,007,881	93,007,881
Other receivables	Loan and receivables	Amortised cost	70,523,760	70,499,126
Insurance receivables	Loan and receivables	Amortised cost	73,321,937	73,321,937
Loans	Loan and receivables	Amortised cost	21,223,147	21,218,937
Equity securities	Available-for-sale	FVOCI	2,211,721	2,211,721
Debt securities	Available-for-sale	FVOCI	436,436,124	436,436,124
		FVTPL		
Debt securities	Available-for-sale	(mandatory)	51,209,773	51,209,773
		FVTPL		
Other investments	Available-for-sale	(mandatory)	50,973,742	50,973,742
		FVTPL		
Equity securities	Held-for-trading	(mandatory)	9,200	9,200
		FVTPL		
Debt securities	Held-for-trading	(mandatory)	25,563,172	25,563,172
Financial Liabilities				
Insurance payables	Amortised cost	Amortised cost	58,930,399	58,930,399
Other payables	Amortised cost	Amortised cost	40,975,197	40,975,197

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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(a) New and amended standards and interpretations (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018.

in Ringgit Malaysia (RM)	MFRS 139 carrying amount as at 31 December 2017	Reclassification	Remeasurement	MFRS 9 carrying amount as at 1 January 2018
<u>Amortised cost</u>				
Loans				
As previously reported	-	-	21,223,147	21,223,147
Remeasurement	-	-	(4,210)	(4,210)
	-	-	21,218,937	21,218,937
Other receivables				
As previously reported	-	-	500,000	500,000
Remeasurement	-	-	(24,634)	(24,634)
	-	-	475,366	475,366
Total amortised cost	-	-	21,694,303	21,694,303
<u>FVTPL</u>				
Equity securities				
As previously reported	-	-	-	-
Reclassified from held-for-trading	-	9,200	-	9,200
As restated	-	9,200	-	9,200
Debt securities				
As previously reported	-	-	-	-
Reclassified from held-for-trading	-	25,563,172	-	25,563,172
Reclassified from available-for-sale	-	51,209,773	-	51,209,773
As restated	-	76,772,945	-	76,772,945
Other investments				
As previously reported	-	-	-	-
Reclassified from available-for-sale	-	50,973,742	-	50,973,742
As restated	-	50,973,742	-	50,973,742
Total FVTPL	-	127,755,887	-	127,755,887

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(a) New and amended standards and interpretations (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

The following table analyses the impact, net of tax, of transition to MFRS 9 on fair value reserves and retained earnings. There is no impact on other components of equity. (cont'd.)

in Ringgit Malaysia (RM)	MFRS 139 carrying amount as at 31 December 2017	Reclassification	Remeasurement	MFRS 9 carrying amount as at 1 January 2018
<u>FVOCI</u>				
Equity securities				
As previously reported	-	-	-	-
Reclassified from available-for-sale	-	2,211,721	-	2,211,721
As restated	-	2,211,721	-	2,211,721
Debt securities				
As previously reported	-	-	-	-
Reclassified from available-for-sale	-	436,436,124	-	436,436,124
As restated	-	436,436,124	-	436,436,124
Total FVOCI	-	438,647,845	-	438,647,845
<u>Available-for-sale</u>				
As previously reported	540,831,360	-	-	540,831,360
Reclassified to FVTPL	-	(102,183,515)	-	(102,183,515)
Reclassified to FVOCI	-	(438,647,845)	-	(438,647,845)
Total available-for-sale	540,831,360	(540,831,360)	-	-
<u>Held-for-trading</u>				
As previously reported	25,572,372	-	-	25,572,372
Reclassified to FVTPL	-	(25,572,372)	-	(25,572,372)
Total held-for-trading	25,572,372	(25,572,372)	-	-
<u>Loan and receivables</u>				
Loans				
As previously reported	21,223,147	-	-	21,223,147
Remeasurement to amortised cost	-	-	(21,223,147)	(21,223,147)
	21,223,147	-	(21,223,147)	-
Other receivables				
As previously reported	500,000	-	-	500,000
Remeasurement to amortised cost	-	-	(500,000)	(500,000)
	500,000	-	(500,000)	-
Total loan and receivables	21,723,147	-	(21,723,147)	-

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(a) New and amended standards and interpretations (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

The following table analyses the impact, net of tax, of transition to MFRS 9 on fair value reserves and retained earnings. There is no impact on other components of equity.

	RM
<u>Fair value reserve</u>	
Closing balance as at 31 December 2017 before adoption of MFRS 9	6,042,600
Reversal of impairment of equity	(29,497)
Reclassification of investments from available-for-sale to FVTPL	(1,247,998)
Recognition of expected credit losses under MFRS 9	2,630,583
Opening balance under MFRS 9 as at 1 January 2018	<u>7,395,688</u>
<u>Retained earnings</u>	
Closing balance as at 31 December 2017 before adoption of MFRS 9	313,114,781
Reversal of impairment of equity	29,497
Reclassification of investments from available-for-sale to FVTPL	1,247,998
Reclassification of investments from available-for-sale to FVOCI	
Recognition of expected credit losses under MFRS 9	(3,490,137)
Related tax impact	837,633
Opening balance under MFRS 9 as at 1 January 2018	<u>311,739,772</u>

Impairment of financial assets

MFRS 9 replaces the 'incurred loss' model in MFRS 139 with an 'expected credit loss' ("ECL") model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under MFRS 9, credit losses are recognised earlier than under MFRS 139.

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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(a) New and amended standards and interpretations (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

The following table reconciles the closing impairment allowance for financial assets in accordance with MFRS 139 as at 31 December 2017 to the opening ECL allowance determined in accordance with MFRS 9 as at 1 January 2018.

in Ringgit Malaysia (RM)	MFRS 139 impairment allowance as at 31 December 2017	Reclassification	Remeasurement	MFRS 9 impairment allowance as at 1 January 2018
Loans and receivables under MFRS 139/financial assets at amortised cost under MFRS 9	-	-	(4,210)	(4,210)
Related tax impact			1,010	1,010
Available-for-sale debt securities under MFRS 139/ debt financial assets at FVOCI under MFRS 9	-	(3,461,293)	-	(3,461,293)
Related tax impact		830,710		830,710
Other receivables			(24,634)	(24,634)
Related tax impact			5,912	5,912
Total	-	(2,630,583)	(21,921)	(2,652,504)

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards issued but not yet effective

The following are MFRSs and Amendments to MFRSs issued by MASB that will be effective for the Company in future years. The Company intends to adopt the following relevant standards when they become effective.

Effective for the financial periods beginning on or after 1 January 2019

- MFRS 16 *Leases*
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 128 *Investments in Associates and Joint Ventures - Long-term Interest in Associates and Joint Ventures*
- Amendments to MFRS 3 *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 9 *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 *Joint Arrangement (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 112 *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 123 *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 cycle)*

Effective for the financial periods beginning on or after 1 January 2021

- MFRS 17 *Insurance Contracts*

Deferred

- Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The management expects that the adoption of the above standards, amendments to standards and interpretations to standards issued by MASB, but not yet effective, will have no material impact on the financial statements in the period of initial application except as discussed below:

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards issued but not yet effective (cont'd.)

MFRS 16 *Leases*

MFRS 16 will replace MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Lease - Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Company is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards issued but not yet effective (cont'd.)

MFRS 17 Insurance Contracts

MFRS 17 was issued by the Malaysian Accounting Standards Board on 15 August 2017, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces MFRS 4 *Insurance Contracts*.

In contrast to the requirements in MFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, MFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (“CSM”) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e. coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

GREAT EASTERN GENERAL INSURANCE (MALAYSIA) BERHAD
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1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

1.2 CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards issued but not yet effective (cont'd.)

MFRS 17 Insurance Contracts (cont'd.)

MFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies MFRS 9 and MFRS 15 on or before the date it first applies MFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Company plans to adopt the new standard on the required effective date. The Company started a project to implement MFRS 17 and has been performing a high-level impact assessment of MFRS 17. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

2. SEASONALITY OF OPERATIONS

The business and operations of the Company was not materially affected by any seasonal or cyclical fluctuations during the interim financial period.

3. UNUSUAL ITEMS

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim financial period ended 30 June 2018.

4. CHANGE IN ESTIMATES

There were no changes in the basis used for accounting estimates for the interim financial period.

5. DEBT AND EQUITY SECURITIES

There were no issuance, repurchase and repayment of debt and equity securities by the Company during the interim financial period.

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6. DIVIDENDS

During the interim period ended 30 June 2018, the Company paid a final single-tier dividend of RM0.30 per ordinary shares on 100,000,000 ordinary shares, amounting to RM30,000,000 in respect of the financial year ended 31 December 2017 on 27 April 2018.

7. EVENT SUBSEQUENT TO THE END OF THE INTERIM PERIOD

There is no material event subsequent to the end of the interim reporting period that has not been reported in the interim condensed financial statements.

8. CHANGES IN THE COMPOSITION OF THE COMPANY

There is no change in the composition of the Company during the interim financial period.

9. INVESTMENTS

	30.06.2018	31.12.2017
	RM	RM
Malaysian government securities	52,349,610	38,277,600
Debt securities	493,542,105	474,931,469
Equity securities	27,415,278	2,220,921
Unit and property trust funds	51,812,856	50,973,742
Loans	21,326,384	21,223,147
Deposits with financial institutions	1,500,000	74,450,000
	<u>647,946,233</u>	<u>662,076,879</u>

The Company's investments are summarised by categories as follows:

	30.06.2018	31.12.2017
	RM	RM
LAR	22,826,384	95,673,147
FVOCI/AFS financial assets	496,913,874	540,831,360
FVTPL financial assets	128,205,975	25,572,372
	<u>647,946,233</u>	<u>662,076,879</u>

The following investments mature after 12 months:

	30.06.2018	31.12.2017
	RM	RM
LAR	21,210,189	21,096,978
FVOCI/AFS financial assets	453,498,576	523,650,239
FVTPL financial assets	128,205,975	25,563,172
	<u>602,914,740</u>	<u>570,310,389</u>

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9. INVESTMENTS (CONT'D.)

(a) LAR

	30.06.2018	31.12.2017
	RM	RM
At amortised cost/cost:		
Fixed and call deposits with licensed financial institutions	1,500,000	74,450,000
Loans :	21,326,384	21,223,147
Mortgage loans	139,363	144,708
Secured loans	20,013,149	20,022,508
Vehicle loans	1,173,872	1,055,931
	<u>22,826,384</u>	<u>95,673,147</u>

The carrying value of fixed and call deposits approximate their fair values due to the relatively short term maturities.

The carrying value of mortgage loans, secured loans and vehicle loans are reasonable approximations of fair values due to the insignificant impact of discounting.

(b) FVOCI/AFS financial assets

	30.06.2018	31.12.2017
	RM	RM
At fair value:		
Malaysian government securities	52,349,610	38,277,600
Unquoted debt securities in Malaysia	417,156,986	449,368,297
Quoted equity securities in Malaysia	27,407,278	2,211,721
Unquoted unit and property trust funds in Malaysia	-	50,973,742
	<u>496,913,874</u>	<u>540,831,360</u>

(c) FVTPL

	30.06.2018	31.12.2017
	RM	RM
At fair value:		
Unquoted debt securities in Malaysia	76,385,119	25,563,172
Quoted equity securities in Malaysia	8,000	9,200
Unquoted unit and property trust funds in Malaysia	51,812,856	-
	<u>128,205,975</u>	<u>25,572,372</u>

Financial instruments carried at FVTPL primarily comprise redeemable convertible preference shares ("RCPS"), warrants, structured deposits, collective investment scheme and debt securities where cash flows do not represent solely payments of principal and interest. In accordance with MFRS 9, these have been designated as at FVTPL upon initial recognition.

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9. INVESTMENTS (CONT'D.)

(d) Carrying values of investments

	LAR/Amortised Cost RM	AFS/FVOCI RM	FVTPL RM	Total RM
At 1 January 2017	48,410,839	556,888,598	25,066,206	630,365,643
Purchases	4,113,854,000	687,030,108	59,400	4,800,943,508
Maturities/disposals	(4,066,582,845)	(704,065,717)	(58,370)	(4,770,706,932)
Fair value gains recorded in other comprehensive income	-	1,173,703	-	1,173,703
Fair value gains recorded in income statement	-	-	505,136	505,136
Impairment losses on investments	-	(388,285)	-	(388,285)
(Amortisation)/accretion adjustments	(8,847)	192,953	-	184,106
At 31 December 2017	<u>95,673,147</u>	<u>540,831,360</u>	<u>25,572,372</u>	<u>662,076,879</u>
Reclassification/ Remeasurement of adopting MFRS 9	(4,210)	(102,183,515)	102,183,515	(4,210)
At 1 January 2018	<u>95,668,937</u>	<u>438,647,845</u>	<u>127,755,887</u>	<u>662,072,669</u>
Purchases	1,908,309,500	411,932,384	2,719,184	2,322,961,068
Maturities/disposals	(1,981,160,983)	(343,147,047)	(1,500,000)	(2,325,808,030)
Fair value losses recorded in other comprehensive income	-	(10,518,300)	-	(10,518,300)
Fair value losses recorded in income statement	-	-	(769,096)	(769,096)
Impairment losses on investments	(601)	-	-	(601)
(Amortisation)/accretion adjustments	9,531	(1,008)	-	8,523
At 30 June 2018	<u>22,826,384</u>	<u>496,913,874</u>	<u>128,205,975</u>	<u>647,946,233</u>

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10. REINSURANCE ASSETS

	30.06.2018	31.12.2017
	RM	RM
Reinsurers' share of claim liabilities	155,131,708	181,002,230
Reinsurers' share of premium liabilities (Note 11)	46,039,489	46,449,082
	<u>201,171,197</u>	<u>227,451,312</u>
Accumulated impairment losses	(482,436)	(541,447)
	<u>200,688,761</u>	<u>226,909,865</u>

Movement of accumulated impairment losses account:

	Individually Impaired	
	30.06.2018	31.12.2017
	RM	RM
At beginning of year	541,447	698,334
Reversal of impairment losses	(59,011)	(156,887)
At end of period/year	<u>482,436</u>	<u>541,447</u>

During the year, the Company made reversal of impairment losses of RM59,011 in respect of reinsurance assets pertaining to a reinsurer which had been fully impaired in the previous year due to deteriorating financial performance and credit rating. The reversal of impairment losses during the current year was due to the settlement of claims and the closure of time-barred losses, resulting in the reversal of reserves provided earlier.

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11. INSURANCE CONTRACT LIABILITIES

	30.06.2018			31.12.2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM	RM	RM	RM	RM	RM
Provision for claims reported by policyholders	329,191,305	(148,708,499)	180,482,806	356,467,259	(173,919,262)	182,547,997
Provision for incurred but not reported claims (“IBNR”) and provision for risk margin for adverse deviations (“PRAD”)	16,542,572	(5,940,773)	10,601,799	18,803,517	(6,541,521)	12,261,996
Claim liabilities (i)	345,733,877	(154,649,272)	191,084,605	375,270,776	(180,460,783)	194,809,993
Premium liabilities (ii)	212,151,004	(46,039,489)	166,111,515	194,246,994	(46,449,082)	147,797,912
	557,884,881	(200,688,761)	357,196,120	569,517,770	(226,909,865)	342,607,905
(i) Claim liabilities						
At beginning of period/year	375,270,776	(180,460,783)	194,809,993	397,490,366	(191,082,848)	206,407,518
Claims incurred in the current accident period (direct and facultative)	116,969,958	(25,916,381)	91,053,577	261,256,477	(94,722,217)	166,534,260
Adjustment to claims incurred in prior accident year due to changes in assumption						
- change in link ratios used in the IBNR estimation	2,724,334	(5,654,213)	(2,929,879)	18,786,395	(15,037,116)	3,749,279
Movement in PRAD of claim liabilities	(7,545,782)	1,574,120	(5,971,662)	(12,999,695)	5,801,755	(7,197,940)
Movement in unallocated loss adjustment expenses (“ULAE”)	(1,005,749)	-	(1,005,749)	(792,429)	-	(792,429)
Other movement in claims incurred						
in prior accident years (direct and facultative)	-	-	-	(21,687,205)	8,428,212	(13,258,993)
Movement in claims incurred (treaty inwards claims)	2,524,793	-	2,524,793	(1,363,545)	-	(1,363,545)
Claims paid during the period	(143,204,453)	55,807,985	(87,396,468)	(265,419,588)	106,151,431	(159,268,157)
At end of period/year	345,733,877	(154,649,272)	191,084,605	375,270,776	(180,460,783)	194,809,993
(ii) Premium liabilities						
At beginning of period/year	194,246,994	(46,449,082)	147,797,912	188,893,767	(59,469,854)	129,423,913
Premiums written in the period	256,958,803	(76,308,327)	180,650,476	450,521,242	(139,904,464)	310,616,778
Premiums earned during the period	(239,054,793)	76,717,920	(162,336,873)	(445,168,015)	152,925,236	(292,242,779)
At end of period/year	212,151,004	(46,039,489)	166,111,515	194,246,994	(46,449,082)	147,797,912

As at 30 June 2018, the insurance contract liabilities above includes the Company’s share of MMIP’s claims and premium liabilities amounting to RM39,882,969 (2017: RM39,110,409) and RM3,064,106 (2017: RM3,426,279).

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12. TAXATION

	30.06.2018	30.06.2017
	RM	RM
Current income tax:		
Malaysian income tax	7,741,174	4,848,822
	<u>7,741,174</u>	<u>4,848,822</u>
Deferred tax:		
Relating to origination and reversal of temporary differences	(290,379)	(530,240)
	<u>(290,379)</u>	<u>(530,240)</u>
	<u>7,450,795</u>	<u>4,318,582</u>

Income tax is based on the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the financial year.

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

	30.06.2018	30.06.2017
	RM	RM
Profit before taxation	<u>34,211,832</u>	<u>20,192,862</u>
Taxation at Malaysian statutory tax rate of 24%	8,210,839	4,846,288
Income not subject to tax	(475,778)	(275,818)
Expenses not deductible for tax purposes	(284,266)	(251,888)
Tax expense for the year	<u>7,450,795</u>	<u>4,318,582</u>

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13. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the financial period attributable to ordinary equity holders of the Company by the number of ordinary shares in issue during the financial period.

	30.06.2018	30.06.2017
	RM	RM
Profit attributable to ordinary equity holder	26,761,037	15,874,284
Number of ordinary shares in issue during the period	100,000,000	100,000,000
Basic earnings per share (sen)	26.76	15.87

There were no dilutive potential ordinary shares as at the reporting date. There have been no other transactions involving ordinary shares between the reporting date and the date of completion of the financial statements.

14. CASH GENERATED FROM OPERATING ACTIVITIES

	30.06.2018	30.06.2017
	RM	RM
Profit before taxation	34,211,832	20,192,862
Investment income	(15,558,909)	(15,039,204)
Realised gains on FVOCI/AFS and FVTPL financial assets	(3,515,951)	(5,111,740)
Fair value losses/(gains) recorded in income statement	769,096	(1,057,966)
Purchases of FVOCI/AFS financial assets	(411,932,384)	(300,364,100)
Purchases of FVTPL financial assets	(2,719,184)	-
Proceeds from maturities/disposals of FVOCI/AFS financial assets	346,662,998	291,825,773
Proceeds from maturities/disposals of FVTPL financial assets	1,500,000	-
Increase in LAR	(112,595)	(107,812)
Non-cash items:		
Depreciation of property and equipment	1,982,449	2,185,254
Decrease in impairment losses for investment assets	(1,069,870)	-
Provision for/(write back of) impairment losses on insurance receivables	(201,075)	470,328
Write back of bad debts	(40,394)	(37,694)
Property and equipment written off	1,698	141
Net amortisation/(accretion of discounts) of premium	5,554	(75,972)
Realised gains on disposal of FVOCI equities	144,613	-

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14. CASH GENERATED FROM OPERATING ACTIVITIES (CONT'D.)

	30.06.2018	30.06.2017
	RM	RM
Changes in working capital:		
Reinsurance assets	26,221,105	(21,092,303)
Insurance receivables	(12,262,434)	(15,354,064)
Other receivables	3,013,784	(2,914,931)
Insurance contract liabilities	(11,632,889)	45,388,891
Deposit from reinsurers	(820,853)	1,013,225
Insurance payables	(3,048,112)	10,002,255
Other payables	(9,444,745)	1,159,166
Cash generated (used in)/from operating activities	<u>(57,846,266)</u>	<u>11,082,109</u>

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

15. CAPITAL COMMITMENTS

The capital commitments of the Company as at the financial period are as follows:

	30.06.2018	30.06.2017
	RM	RM
Capital expenditure:		
Approved and contracted for:		
Property and equipment	4,114,585	10,308,697
Approved but not contracted for:		
Property and equipment	<u>1,742,377</u>	<u>2,511,420</u>
	<u>5,856,962</u>	<u>12,820,117</u>

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16. OPERATING LEASE ARRANGEMENTS

The Company as lessee

The Company has entered into lease agreements for rental of equipment, software and services and office premises.

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

Future minimum rental payments:

	30.06.2018	30.06.2017
	RM	RM
Rental of equipment, software and services:		
Not later than 1 year	680,764	275,954
Later than 1 year and not later than 5 years	281,801	233,868
	<u>962,565</u>	<u>509,822</u>
Rental of office premises:		
Not later than 1 year	2,304,747	3,365,564
Later than 1 year and not later than 5 years	1,332,561	5,091,536
	<u>3,637,308</u>	<u>8,457,100</u>

17. REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 30 June 2018, as prescribed under the Risk Based Capital Framework is provided below:

	30.06.2018	30.06.2017
	RM	RM
Eligible Tier 1 Capital:		
Share capital (paid up)	100,000,000	100,000,000
Reserves, including retained earnings	255,253,592	235,658,864
	<u>355,253,592</u>	<u>335,658,864</u>
Tier 2 Capital:		
Eligible Reserves	<u>(1,322,880)</u>	<u>7,849,251</u>
Deductions	<u>(18,182,598)</u>	<u>(18,182,598)</u>
Total Capital Available	<u>335,748,114</u>	<u>325,325,517</u>

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18. CONTINGENT LIABILITIES

Arbitration

On 18 August 2010, the Company entered into a Sale and Purchase Agreement (“SPA” or the “Agreement”) with Tahan Insurance Malaysia Berhad (now known as Tahan Malaysia Berhad) (“Tahan”) to acquire certain assets and liabilities of general insurance business of Tahan.

On 1 January 2011, the Company completed the acquisition of certain assets and liabilities of the general insurance business of Tahan for a cash consideration of RM15 million, subject to adjustments to be made to the value of the acquired assets and liabilities upon finalisation of the acquisition.

In order to ascertain the adequacy of the claim liabilities of Tahan, especially the IBNR claims reserve as at 31 December 2010, the Company and Tahan had each appointed independent professional actuaries to provide an estimate of the total claim liabilities. Different views arose on the value to be ascribed to the IBNR component of total claim liabilities. The Company’s independent professional actuary estimated the value of the IBNR claims of Tahan as at 31 December 2010 to be approximately RM46.5 million, which was higher than the value estimated by Tahan’s independent professional actuary and used as the basis for determining the value of the IBNR claim liabilities as at the acquisition date.

On 29 December 2011, Tahan, via an appointed legal counsel, served an originating summons in the High Court of Malaya in Kuala Lumpur, making a claim against the Company for an amount of approximately RM21.8 million plus interest of 8% per annum.

On 22 February 2012, the High Court of Malaya in Kuala Lumpur approved the Company’s application for a stay of proceedings and the Company commenced action through arbitration. Both parties had agreed to leave the appointment of the arbitrator to the Kuala Lumpur Regional Centre for Arbitration (“KLRCA”).

The appointment of the arbitrator was made by Kuala Lumpur Regional Centre for Arbitration (“KLRCA”) on 7 January 2013. Since the appointment of the arbitrator, hearings were held between the Company, Tahan and the arbitrator.

On 24 January 2018, the Arbitrator had sought clarification from counsel on several aspects of the remedies sought by the claimant. The Arbitrator gave the directions to move the matter forward which both parties will agree on a list of issues to address and deliver the written submissions to Arbitrator by 30 March 2018.

The written submissions were submitted to the arbitrator on 6 April 2018, and a further response from the Company to the arbitrator was submitted on 16 April 2018. The Arbitrator has fixed the date for issuance of the Final Award on 20 September 2018.

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18. CONTINGENT LIABILITIES (CONT'D.)

Arbitration (cont'd.)

The Directors of the Company are of the view that any possible obligation that may arise in respect of the disagreement between Tahan and the Company will be confirmed only by the outcome of the arbitration. The amount of the obligation, if any, cannot be measured with sufficient reliability as it is dependent on the assessment to be made by the independent actuary to be appointed by KLRCA.

The final outcome of the Terms of Settlement may have an impact on the purchase considerations and income statements of the Company should the IBNR claims reserve estimated by the Company on the date of acquisition differs materially from the assessment of the independent actuary appointed by KLRCA.

Malaysian Competition Commission (“MyCC”)

On 22 February 2017, the Malaysian Competition Commission (“MyCC”) issued its Proposed Decision on an alleged infringement by the General Insurance Association of Malaysia (“PIAM”) and its 22 members under the Section 4(2)(a) of the Competition Act 2010 (“the Act”). MyCC’s Proposed Decision is with respect to the agreement reached between PIAM and the Federation of Automobile Workshop Owners’ Association of Malaysia (“FAWOAM”) in respect to the trade discount rates for parts of certain vehicle makes and labour rates for workshops under the PIAM Approved Repairers Scheme.

As a result, the MyCC has proposed various remedies on the general insurers, including financial penalties amounting to a total of RM213.45 million. The proposed financial penalty on the Company is RM2.95 million.

General insurers have been given until 5 April 2017 to submit written representations to the MyCC and to indicate if they wish to make an oral representation before the MyCC. The MyCC will make its final decision after having considered all representations and available information and evidence.

Pursuant to the first session of the oral representation on 16 October 2017 and 17 October 2017, the Commission had decided for the second session of the oral representation to be held on 12 December 2017 and 14 December 2017. During GEGM’s oral representation on 14 December 2017, counsel had adopted the strategy of delivering the oral representation succinctly, focusing on the BNM Directive argument, and avoiding technical issues as much as possible.

The Commission fixed 29 January 2018 and 30 January 2018 for the oral representations of the remaining general insurers and BNM. BNM’s Oral Representation will be held in a closed session and insurers and counsels will not be allowed to sit in.

To-date, the MyCC has not informed on the decision date following the oral representation of PIAM, the general insurers and BNM.