Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2013

(in Ringgit Malaysia)

Domiciled in Malaysia
Principal place of business
Suite 3A-15, Level 15, Block 3A,
Plaza Sentral, Jalan Stesen Sentral 5,
Kuala Lumpur Sentral,
50470 Kuala Lumpur

Allianz Life Insurance Malaysia Berhad
(Company No. 104248-X)
(Incorporated in Malaysia)

Contents	**Page**

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Directors' report for the year ended 31 December 2013

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2013.

Principal activities

The Company is principally engaged in the underwriting of life insurance and investment-linked business. There has been no significant change in the nature of these activities during the financial year.

Results

	RM'000
Profit for the year	50,760

Dividend

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Life insurance liabilities

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that the life insurance liabilities are adequate in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework issued by Bank Negara Malaysia ("BNM").

Bad and doubtful debts

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

Bad and doubtful debts (continued)

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

Current assets

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the financial statements of the Company, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances that would render the value attributed to the current assets in the financial statements of the Company misleading.

Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities in the financial statements of the Company misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there does not exist:-

(i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of the Company 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 Company to meet its obligations as and when they fall due.

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

Change of circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company that would render any amount stated in the financial statements of the Company misleading.

Items of an unusual nature

In the opinion of the Directors, the results of operations of the Company for the financial year ended 31 December 2013 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

Issue of shares

There were no changes in the authorised, issued and paid-up share capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Company No. 104248-X

Corporate governance

A. Board responsibilities and oversight

The Board of Directors ("Board") has overall responsibility for reviewing and adopting strategic plans for the Company, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control system.

The Company complied with all the prescriptive requirements of, the Prudential Framework of Corporate Governance for Insurers issued by BNM ("CG Framework") and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements") where applicable, and adopts management practices that are consistent with the principles and/or best practices prescribed under the CG Framework, the Listing Requirements and the Malaysian Code on Corporate Governance 2012 ("Code"), where applicable. The Board is committed to ensure that the highest standard of corporate governance is practiced throughout the Company as a fundamental of discharging its duties and responsibilities to protect the interest of its shareholders and policyholders.

A1. Composition of the Board

The Board comprises 4 Independent Non-Executive Directors and 1 Non-Independent Executive Director.

The Board comprises members from various fields with a balance of skills and experiences appropriate to the business of the Company.

All the members of the Board have complied with the BNM's requirements on restriction of directorships and the minimum criteria of "A Fit and Proper Person" as prescribed under the Financial Services Act, 2013.

The appointments and re-appointments of all Board members were approved by BNM.

A2. Board meetings

The Board meets regularly which is at least 6 times in a year. Additional Board Meetings are held as and when required. There were 6 Board Meetings held during the financial year ended 31 December 2013.

Company No. 104248-X

Corporate governance (continued)

A2. Board meetings (continued)

The attendance of the existing Directors at the Board Meetings held during the financial year ended 31 December 2013 are as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Bin Ismail	6	6
Foo San Kan	6	6
Dato' Dr. Thillainathan A/L Ramasamy	6	6
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Jens Reisch	6	5

A3. Board Committees

The Company has since 1 January 2008 formally used the services of the below mentioned Board Committees of its immediate holding company, Allianz Malaysia Berhad ("AMB"):-

(a) Audit Committee;
(b) Risk Management Committee;
(c) Nominating Committee;
(d) Remuneration Committee; and
(e) Investment Committee.

The Board Committees are operating on the terms of reference as approved by the Board of AMB and adopted by the Board of the Company to assist the Board in the execution of its responsibilities. These Board Committees shall have the authorities to examine particular issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

Company No. 104248-X

Corporate governance (continued)

A3. Board Committees (continued)

A.3.1 Audit Committee of AMB

The members of the Audit Committee of AMB as at the date of this report are as follows:-

Foo San Kan (Chairman-Independent Non-Executive Director)
Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)

There were 5 Audit Committee Meetings held by AMB during the financial year ended 31 December 2013.

The attendance of the abovementioned Audit Committee members at the Audit Committee Meetings held during the financial year ended 31 December 2013 are as follows:-

Name of Members	No. of Audit Committee Meetings Held	No. of Audit Committee Meetings Attended
Foo San Kan	5	5
Tan Sri Razali Bin Ismail	5	4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5

The terms of reference of the Audit Committee of AMB complied with the Listing Requirements, the BNM's Guidelines for Audit Committees and Internal Audit Department (BNM/RH/GL/003-22) and the Code.

A.3.2 Risk Management Committee of AMB

The members of the Risk Management Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)

Company No. 104248-X

Corporate governance (continued)

A3. Board Committees (continued)

A.3.2 Risk Management Committee of AMB (continued)

There were 4 Risk Management Committee Meetings held by AMB during the financial year ended 31 December 2013.

The attendance of the abovementioned Risk Management Committee members at the Risk Management Committee Meetings held during the financial year ended 31 December 2013 are as follows:-

Name of Members	No. of Risk Management Committee Meetings Held	No. of Risk Management Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	4
Foo San Kan	4	4
Dato' Dr. Thillainathan A/L Ramasamy	4	4

The Risk Management Committee of AMB is responsible for driving the risk management framework of AMB and its subsidiaries ("Group") and to report to the Boards of the respective companies within the Group on its recommendations and/or decisions. The responsibilities of the Risk Management Committee of AMB are stated below:-

(a) to address strategic and corporate level risks and recommend to the respective Boards of the Group the strategies to manage these risks and ensure its implementation;

(b) to review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

Company No. 104248-X

Corporate governance (continued)

A3. Board Committees (continued)

A.3.2 Risk Management Committee of AMB (continued)

(c) to review and recommend risk management strategies, policies and risk parameters/tolerance levels, Internal Capital Adequacy Assessment Process result for the approval of the respective Boards of the Group and to ensure any changes and concerns are communicated to senior management effectively;

(d) to ensure the risk control functions have adequate resources, authority, infrastructure, systems and independence to enable an effective risk management;

(e) to review the Key Risks Profile and risks raised by business units and monitor the progress of action plans implemented;

(f) to review and recommend for the approval of the respective Boards of the Group, the contingency planning, including its effectiveness testing covering policies, processes and resources in place to address potential crisis, unusual circumstances and stress situations;

(g) to review periodic reports on risk exposure, risk portfolio composition and risk management activities;

(h) to report to the respective Boards of the Group, the risk management status on a regular basis; and

(i) to approve the risk methodology to facilitate risk assessment.

A.3.3 Nominating Committee of AMB

The members of the Nominating Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Zakri Bin Mohd Khir (Non-Independent Non-Executive Director of AMB)

There were 6 Nominating Committee Meetings held by AMB during the financial year ended 31 December 2013.

Company No. 104248-X

Corporate governance (continued)

A3. Board Committees (continued)

A.3.3 Nominating Committee of AMB (continued)

The attendance of the abovementioned Nominating Committee members at the Nominating Committee Meetings held during the financial year ended 31 December 2013 are as follows:-

Name of Members	No. of Nominating Committee Meetings Held	No. of Nominating Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Tan Sri Razali Bin Ismail	6	6
Foo San Kan	6	6
Dato' Dr. Thillainathan A/L Ramasamy	6	6
Zakri Bin Mohd Khir	6	6

The primary objective of the Nominating Committee of AMB is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officers and Key Responsible Persons of the Group and to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), Chief Executive Officers and Key Responsible Persons of the Group on an on-going basis.

Corporate governance (continued)

A3. Board Committees (continued)

A.3.3 Nominating Committee of AMB (continued)

The responsibilities of the Nominating Committee of AMB are stated below and shall be applicable to the Group:-

(a) establishing minimum requirements for the Board and the Chief Executive Officers to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors as well as diversity (including gender diversity), and other core competencies required, through annual reviews;

(b) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the Chief Executive Officers position. This includes assessing Directors and the Chief Executive Officers proposed for re-appointment, before an application for approval is submitted to BNM. The Nominating Committee of AMB in making its recommendation on candidates for directorship or re-appointment, should consider the candidates':-

  (i) skill, knowledge, competencies, expertise and experience;
  (ii) professionalism;
  (iii) integrity;
  (iv) commitment, contribution and performance; and
  (v) in the case of candidate for the position of Independent Non-Executive Directors, the Nominating Committee of AMB should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.

(c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director including the Independent Directors to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officers. All assessments and evaluations carried out by the Nominating Committee of AMB in discharge of all its functions should be properly documented;

(d) developing the criteria to assess the independence of its Independent Directors;

(e) overseeing the appointment, management succession planning and performance evaluation of Directors/Chief Executive Officers and Key Responsible Persons, and recommending to the Board on removal of a Director/Chief Executive Officers and Key Responsible Persons if they are ineffective, errant or negligent in discharging their responsibilities; and

Company No. 104248-X

Corporate governance (continued)

A3. Board Committees (continued)

A.3.3 Nominating Committee of AMB (continued)

(f) ensuring that all Directors undergo appropriate induction programmes and receive continuous training.

The Company has put in place a performance evaluation process and procedure for assessing the Directors and the effectiveness of the Board.

All appointments and re-appointments of Directors who are due for retirement and eligible for re-election at the Annual General Meeting of the Company and/or Directors whose terms of office as approved by BNM are due for renewal, will be reviewed by the Nominating Committee of AMB and approved by the Board before the applications are submitted to BNM for approval.

In the opinion of the Nominating Committee of AMB, the Board is made up of Directors from diverse backgrounds and qualifications with experiences from different fields and skills appropriate for the business of the Company.

A.3.4 Remuneration Committee of AMB

The members of the Remuneration Committee of AMB as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)

There were 3 Remuneration Committee Meetings held by AMB during the financial year ended 31 December 2013.

Company No. 104248-X

Corporate governance (continued)

A3. Board Committees (continued)

A.3.4 Remuneration Committee of AMB (continued)

The attendance of the abovementioned Remuneration Committee members at the Remuneration Committee Meetings held during the financial year ended 31 December 2013 are as follows:-

Name of Members	No. of Remuneration Committee Meetings Held	No. of Remuneration Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	3	3
Tan Sri Razali Bin Ismail	3	2
Foo San Kan	3	3

The primary objective of the Remuneration Committee of AMB is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officers and Key Responsible Persons of the Group and ensuring that their compensation is competitive and consistent with the culture, objective and strategy of the Group.

The responsibilities of the Remuneration Committee of AMB are stated below and shall be applicable to the Group:-

(a) recommending a framework of remuneration for Directors, Chief Executive Officers and Key Responsible Persons. The remuneration policy should:-

- (i) be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
- (ii) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officers and Key Responsible Persons;
- (iii) be sufficient to attract and retain Directors, Chief Executive Officers and Key Responsible Persons of calibre needed to manage the Company successfully; and

Corporate governance (continued)

A3. Board Committees (continued)

A.3.4 Remuneration Committee of AMB (continued)

(iv) be balanced against the need to ensure that the funds of the insurer are not used to subsidise excessive remuneration packages.

(b) recommending specific remuneration packages for Directors, Chief Executive Officers and Key Responsible Persons. The remuneration packages should:-

(i) be based on an objective consideration and approved by the full Board;
(ii) take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Directors, Chief Executive Officers or Key Responsible Persons concerned;
(iii) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
(iv) be competitive and is consistent with the culture, objective and strategy of the Group.

The Board has established a remuneration policy for Directors of the Company. The Remuneration Committee of AMB recommends to the Board, the remuneration to be paid to each Director based on the remuneration policy as approved by the Board. Nevertheless, it is the ultimate responsibility of the Board to decide on the quantum for each Director.

A.3.5 Investment Committee of AMB

The members of the Investment Committee of AMB as at the date of this report are as follows:-

Dato' Dr. Thillainathan A/L Ramasamy (Chairman-Independent Non-Executive Director)
Jens Reisch (Executive Director)
Zakri Bin Mohd Khir (Non-Independent Non-Executive Director of AMB)
Ong Eng Chow (Non-Independent Executive Director of AMB)

There were 4 Investment Committee Meetings held by AMB during the financial year ended 31 December 2013.

Company No. 104248-X

Corporate governance (continued)

A3. Board Committees (continued)

A.3.5 Investment Committee of AMB (continued)

The attendance of the abovementioned Investment Committee members at the Investment Committee Meetings held during the financial year ended 31 December 2013 are as follows:-

Name of Members	No. of Investment Committee Meetings Held	No. of Investment Committee Meetings Attended
Dato' Dr. Thillainathan A/L Ramasamy	4	4
Jens Reisch	4	4
Zakri Bin Mohd Khir	4	4
Ong Eng Chow	4	4

The Investment Committee of AMB is responsible for setting of investment policies, objectives, guidelines and controls for the Investment Department, which in turn is responsible for managing the investment functions of the Group.

B. Management Accountability

B1. Organisational Structure and Allocation of Responsibilities

The organisational structure of the Company shows lines of reporting responsibility for all levels of staff. The reporting lines are structured, taking into consideration that management control is maintained at all levels throughout the organisation and that there is no gap in the reporting lines.

In order to ensure that each staff fully understand his/her job responsibilities, a documented job description setting out the duties and responsibilities and reporting line for each staff is made available to the staff concerned. In allocating job duties and responsibilities to the staff, the Management also took into consideration that there are appropriate segregation of duties and that the staff are not assigned with potentially conflicting responsibilities.

Various Management Committees are established by the Management to assist in managing the day-to-day operations and ensure its effectiveness. The Management Committees formulate tactical plans and business strategies, monitor the performance of the Company and ensure that activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

Corporate governance (continued)

B. Management Accountability (continued)

B1. Organisational Structure and Allocation of Responsibilities (continued)

The Board's approving authority is delegated to the Management through formal and defined operational authority limits that governs business procedures and decision making process in the Company. The operational authority limits incorporates segregation of duties and check and balance in delegation of authority. It covers underwriting of risks, claims settlement, reinsurance and capital expenditures and are continuously reviewed and updated to ensure relevance to the Company's operations.

Such authority limits are documented and made available to all staff via the Group's staff e-portal.

In ensuring that the decision making process is transparent and to the best interest of the Company, all Directors and staff including the Chief Executive Officer are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Company, any circumstances that may give rise to a conflict of interest situation during the course of carrying out their duties.

B2. Communication

To support an effective flow of information within the Company and to ensure that important information reaches the appropriate personnel in a timely manner, the Company has in place the following practices:-

- Documentation of important policies and procedures in the form of operating manuals/workflows and published the same in the Group's staff e-portal.
- Senior Management Committee meets regularly to discuss the financial performance, strategic, operational and compliance issues of the Company.
- Regular meetings were held by business units to review strategies, targets and results of the Company.
- Implementation of induction programmes for all newly recruited staff covering amongst others, background of the Company, Code of Conduct for Business Ethics and Compliance, internal policies and procedures and performance management system ("PMS").
- Conduct regular staff dialogue/briefing.
- Monthly/quarterly staff newsletters are circulated to all staff of the Company.
- Regulatory guidelines, Company's policies and procedures, internal news, financial updates, operational and compliance data and external market information are disseminated through the Group's staff e-portal or e-mail to the relevant staff of the Company in a timely manner.

Corporate governance (continued)

B. Management Accountability (continued)

B3. Goal Setting

The Company recognises the importance of aligning the staff individual goals with the corporate objectives.

The PMS is implemented throughout all levels of staff in the Company to ensure that staff individual goals are in line with the corporate goals and staff performance appraisals are based on the achievement of staff and corporate goals. Under the PMS, corporate goals are cascaded into business unit goals and subsequently to individual goals on a yearly basis.

Staff's individual goals are set during the beginning of each assessment year by their respective superiors with the full participation of the staff concerned, following the finalisation of the corporate goals by the Chief Executive Officer for the said assessment year.

The achievement of the individual goals by the respective staff will be evaluated by their respective superiors at the end of the assessment year.

C. Corporate Independence

C1. Related Party Transactions

The Company complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/018-6) and the Listing Requirements in respect of its related party undertakings. Necessary disclosures were made to the Board and where required, prior approval of the Board and/or shareholders for the transactions had also been obtained.

In line with Part E, Paragraph 10.09 of the Listing Requirements on recurrent related party transactions of a revenue or trading nature with related parties ("Recurrent Transactions"), AMB had obtained the shareholders' mandate for the Group to enter into Recurrent Transactions ("Shareholders' Mandate"). The Shareholders' Mandate will be renewed on a yearly basis at the Annual General Meeting of AMB.

Company No. 104248-X

Corporate governance (continued)

C. Corporate Independence (continued)

C1. Related Party Transactions (continued)

The Group has also established a review procedure for related party transactions including Recurrent Transactions ("RPT Review Procedure") to ensure that they are:-

(i) undertaken on arm's length basis;
(ii) consistent with the Group's usual business practices and policies;
(iii) the transaction prices and terms are not more favourable to the related parties than those extended to third parties/public; and
(iv) are not to the detriment of the minority shareholders.

Under the RPT Review Procedure, a due diligence working group ("DDWG") was formed to review the related party transactions prior to the same are submitted to the Audit Committee of AMB for consideration. The Audit Committee of AMB will subsequently review the related party transactions and submit its recommendation to the Board for consideration.

The Audit Committee of AMB also reviews the RPT Review Procedure on an annual basis to ensure that the procedures and processes are sufficient and adequate to monitor, track and identify related party transactions including Recurrent Transactions in a timely and orderly manner.

C2. Group Structure

The Group recognises the importance of corporate independence in ensuring that the interests of its policyholders, claimants, creditors and minority shareholders are not compromised. With this in mind, professional, experienced and dedicated Independent Directors were appointed to the Board of the insurance subsidiaries.

To date, corporate independence within the Company is well represented by an effective Board which are predominant by dedicated, experienced and professional Independent Directors.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management

D1. Risk Recognition and Assessment

The Board recognises the importance of having in place a risk management system to identify key risks and implement appropriate controls to manage such risks as an integral part of the Company's operations.

The Company adopted the Group Risk Management Framework Manual ("RMFM"). The RMFM outlines the guiding principles of the risk management approach, structure, roles, responsibilities, accountabilities, reporting requirements as well as risk identification, evaluation and monitoring process. It is designed to formalise the risk management functions and practices across the Company and to increase awareness of the Company's employees to risk identification, measurement, control, ongoing monitoring and reporting. The RMFM is in compliance with the relevant BNM guidelines and policies.

The system of risk governance process is integrated with core management processes and as part of the daily business process so that it can make value-added contribution to establishing sustainable competitive advantage and improving business performance. Various standards are implemented by the Company, including organisational structure, risk strategy, written policies, limits, system documentation and reporting to ensure accurate and timely flow of risk-related information and as a disciplined approach towards decision making and execution.

The Company also adopts the three line of defence model where the "first line of defence" rests with the business managers. They are responsible in the first instance for both the risks and returns of their decisions. The "second line of defence" is made up of the independent oversight functions such as Risk, Compliance and Legal. Internal Audit forms the "third line of defence". Internal Audit independently reviews risk governance implementation, performs reviews of risk processes and tests adherence to business standards.

A risk management function that is independent from business line management has been established to assist the Management to achieve its strategic goals and objectives by implementing risk management activities across the organisation. In addition, the Risk Management Committee of AMB has been tasked to assist the Board to discharge their oversight function effectively while the Risk Management Working Committee will drive the risk management framework of the Company and report regularly to the Risk Management Committee of AMB on its recommendations and/or decisions.

Compliance function will be responsible for integrity management which aims to protect the Company and its employees from regulatory risk while the Legal function seeks to mitigate legal risks which include legislative changes, major litigation and disputes, regulatory proceedings and unclear contractual clauses.

Company No. 104248-X

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D2. Internal Audit

The Company shared the services of the Internal Audit Department of AMB, which assists the Audit Committee of AMB to discharge its duties and responsibilities.

The Internal Audit function undertakes independent reviews or assessments of the Company's operations and its system of internal controls and provides continuous monitoring of the controls and risk management procedures as well as highlights significant risks impacting the Company. The internal audit personnel are independent from the day-to-day activities of the Company and have unrestricted access to all activities conducted by the Company.

The audit scope covers auditable areas encompassing financial operations, product development, investments, pricing operations, back office functions, agency operations, regulatory compliance and information technology ("IT") and systems. An annual audit plan is developed based on annual risk assessment and approved by the Audit Committee of AMB.

Internal audit findings are discussed at management level. Senior and functional line management are tasked to ensure that management action plans are carried out in accordance with internal audit recommendations. Regular follow-up audits are also performed to monitor continued compliance.

All internal audit reports are submitted to the Audit Committee of AMB. The Audit Committee of AMB will deliberate on the key audit findings and management actions to address these findings during the Audit Committee meetings. The internal auditors will provide regular updates to the Audit Committee of AMB on the progress of the management action plan as well as progress of the audit plan. The requirements of BNM's Guidelines on Internal Audit Function of Licensed Institutions (BNM/RH/GL/013-4) have been met.

The Audit Committee of AMB plays a vital role in ensuring the effectiveness of the internal audit function. Accordingly, two private discussions are held by the Audit Committee of AMB with the Chief Internal Auditor on a yearly basis without the presence of the Management.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities

The Company's key internal control processes include the following:-

Underwriting and reinsurance

The Company exercises control over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually.

Operational authority limits covering underwriting of risks and claims settlement are reviewed and updated regularly. Treaty and retention limits are set for various products and channels of business.

The reinsurers are selected based on the selection criteria prescribed by the Company. Review on reinsurers is conducted on an annual basis to ensure that reinsurers have secured ratings from accredited rating agencies.

Reinsurance arrangements are executed in accordance with the requirements as promulgated in the Financial Services Act, 2013 and guidelines issued by BNM.

Financial control procedures

Financial control procedures are put in place and are documented in the procedural workflows of each business unit. These workflows are subject to review and improvement to reflect changing risks and process enhancement as and when required.

Investment

The Investment Committee of AMB is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department, which resides at the Company. The Investment Department is responsible for managing the investment functions of the Group.

The Company adopted the Group Investment Manual which sets out the detailed investment procedures and controls, including an Investment Code of Ethics to ensure that the Company's interests prevail over the personal interests of the employees.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Investment (continued)

The investment limits are set at various levels with limits which are more stringent than the regulatory limits as prescribed by BNM. The investment limits are monitored continuously to ensure compliance with the investment limits as specified in the RBC Framework for Insurers issued by BNM.

The investment performance and equity/bond exposure reports are amongst the reports submitted to the Senior Management Committee for review on a monthly basis and to the Investment Committee of AMB for review at its regular meetings.

Information system

The Company complied with the BNM's Guidelines on Management of IT Environment (GPIS 1) and Guidelines on Internet Insurance (Consolidated) (BNM/RH/GL/003-5) by establishing a reliable information security system and Group Information Security Policy and Standard ("Policy") to protect information confidentiality, integrity, availability and non-repudiation.

All employees are required to strictly abide and comply with the Policy.

An IT Steering Committee is established to be responsible for the overall strategic deployment of IT in tandem to the business objectives of the Company, establishing effective IT plans, recommending to Senior Management Committee for approval on IT-related expenditure and monitoring the progress of approved IT projects.

Data management framework

The Group Data Management Framework ("DMF") has been in place to establish and maintain a sound data management and management information system framework. The objective of the DMF is to manage data and disseminate information effectively and efficiently and to maximise the effective use and value of data assets. In addition, DMF aims to ensure the integrity of data assets by preventing unauthorised or inappropriate use of data and information.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Data privacy

Given the enforcement of the Personal Data Protection Act, 2010 ("PDPA") with effect from 15 November 2013, all internal processes, practices and policies pertaining to the collection, processing and storage of personal data are being reviewed and the necessary steps are being taken to ensure compliance with the PDPA.

Product development

A Product Development Management Framework ("Framework") which sets out the policies and procedures on product development was established by the Company in accordance with the requirements of the Guideline on Introduction of New Products for Insurance Company and Takaful Operators (BNM/RH/GL/010-14) issued by BNM.

The Framework aims to promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risk during the development and marketing stages. The Framework will also assist to ensure that the products developed and marketed by the Company are appropriate to the needs, resources and financial capability of the targeted consumer segments.

All new products launched in the financial year ended 31 December 2013 were developed in accordance with the requirements of the Framework, approved by the Senior Management Committee, certified by the Appointed Actuary and lodged with BNM pursuant to Financial Services Act, 2013, prior to the same being marketed by the Company.

The ongoing product risk management is embedded within the risk management framework of the Company.

Whistleblowing and anti-fraud

The Integrity Committee ("InC") of AMB was established in May 2013 to replace the Whistleblowing Committee and the Anti-Fraud Committee on oversight of whistleblowing and fraud matters. The restructuring was aim to manage fraud and whistleblowing incidents through a single committee. The InC coordinates all activities concerning prevention and detection of fraud and the handling of whistleblowing incidents.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Whistleblowing and anti-fraud (continued)

The Company has adopted the Group Anti-Fraud Policy and the Group Whistleblowing Policies and Procedures to address fraud and whistleblowing issues respectively. The Anti-Fraud Policy defines fraud events, investigation process, reporting procedures, fraud risk assessments, training and the roles and responsibilities of Management and employees. The Group Whistleblowing Policies and Procedures on the other hand describes the Company's Speak-Up policy, avenues for filing a concern and handling of whistleblowing incidents.

In respect of whistleblowing, the Company had established a whistleblowing mechanism to enable anonymous and non-anonymous reporting of any breach of Allianz SE Group's Code of Conduct for Business Ethics and Compliance, any laws, regulations, orders or regulation or any internal rules. These whistleblowing cases are assessed confidentially by the InC to determine the validity and appropriate actions to be taken.

Anti-Corruption

The Company adopted the Allianz SE Group's Anti-Corruption Policy ("Anti-Corruption Policy"). The Anti-Corruption Policy serves to outline the Group's existing controls and behavioral guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments.

Anti-money laundering/counter financing of terrorism

The Company has in place internal policies and procedures relating to Anti-Money Laundering and Counter Financing Terrorism to prevent and detect money laundering and terrorism financing activities. These include customer due diligence, screening against sanction list and suspicious transaction reporting to Compliance Department. In respect of education, staff and agents are trained on Anti-Money Laundering and Counter Financing of Terrorism requirements to promote understanding of their fundamental responsibilities in adhering to the procedures of verifying customers' identity and reporting of suspicious transactions. The Company will co-operate with any national authorities and law enforcement authorities in combating money laundering/financing of terrorist group operations.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Agent sales compliance disciplinary policy

As part of measures to improve uniformity in disciplining the agency force, the Company had formalised a Sales Compliance Disciplinary Policy detailing definition of types of offences/misconducts and the associated recommended disciplinary actions. The said policy is expected to yield consistent disciplinary actions against agents for misconduct purposes; and provide a transparent approach to reconcile agency behaviour.

Employees and agents

All staff are required to make an annual declaration that they fulfilled the minimum criteria of "A Fit and Proper Person" as prescribed in Section 59(1), (2) and (3) of the Financial Services Act, 2013. In addition, all staff are also required to attest that they understand and comply with the requirements of the following internal guidelines and policies:-

(i) Related Party Transaction Declaration;
(ii) Disclosure of Data;
(iii) Conflict of Interest;
(iv) Allianz SE Group's Code of Conduct for Business Ethics and Compliance;
(v) IT Security Policy and Guideline e-Awareness Declaration;
(vi) Anti-Corruption Policy; and
(vii) Anti-Fraud Awareness Declaration.

The Company's agents are guided by the Sales Policy and Sales Agent Code of Conduct, in order to promote professional sales conduct of agents representing the Company. The Company has established the Ethics and Compliance Committee to deal with the agents behaviours that are contrary to the said Sales Policy and Sales Agent Code of Conduct.

In addition, the Company's agents are also subject to the Life Insurance Association of Malaysia ("LIAM")'s Code of Ethics and Conduct.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Employees and agents (continued)

All internal control deficiencies or breaches are reported to the Senior Management Committee and/or the Board, where applicable, as soon as they are identified by the Compliance Department, Internal Audit Department, business units or BNM examiners. Corrective measures will be at the same time presented to the Senior Management Committee and/or the Board for consideration. The progress of the corrective measures will also be presented on a timely manner to the Senior Management Committee and/or the Board until the matters are fully resolved.

Business continuity management

Business Continuity Plan for the Company has been formulated to ascertain that the Company will recover and restore any interrupted critical functions within a predetermined time upon the occurrence of any disastrous events.

The testing for Business Continuity Plan for all critical business functions and Disaster Recovery Plan test for all main application systems had been conducted during the financial year ended 31 December 2013 and findings were submitted for the Board's information.

Human resources policies and procedures

The Company has established proper policies and procedures on human resource management, including recruitment, training, appraisal, promotion, resignation, termination and remuneration. These policies and procedures are reviewed as and when the need arises and changes effected are communicated to relevant employees via-email or through memorandum. The policies and procedures are also made available via the Group's intranet for easy access by the employees.

The Company aims to equip employees with the relevant knowledge, skills and competencies required for their roles and responsibilities through structured training and development programmes. These include a combination of classroom training, on-the-job attachment, professional examinations and project assignments. Employees are encouraged to embrace the culture of continuous learning for personal competency and career development.

Company No. 104248-X

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Human resources policies and procedures (continued)

Talent development is another key focus area of the Company. As part of ongoing efforts in promoting a culture of high performance and in retaining key staff, the Company has embarked on a systematic approach for identifying and developing these talent. Through the annual Career Development Conference, the management team is updated on the career and development progress of these individuals.

E. Public Accountability

The Company complied with the provisions relating to policies under Sections 128 and 130 and Schedules 8 and 10 of the Financial Services Act, 2013. Each staff of the Company and the agency force (intermediary) are also required to adhere to LIAM's Code of Ethics and Conduct when dealing with customers.

In addition to the above, the Company has also put in place action plan to ensure that the Company's products, sales and after sales processes meet the Guidelines on Minimum Standards for Treating Customer Fairly Framework issued by LIAM.

Members of the public are also made aware of avenues for appeal against the Company's practices or decisions. The Company's policy contract contains a written statement alerting them to the existence of the Financial Mediation Bureau ("FMB") and BNM's Customer Services Bureau ("CSB"), their roles in investigating complaints into unfair market practices, their contact details and procedures for lodging complaints with the FMB or CSB. In addition, notices containing the same information are exhibited in the Head Office and all the Company's branches. The Company's letter to any claimant on the rejection of a claim also includes similar information for appeal to FMB and CSB.

The Company has a well defined complaint management process to handle all complaints within the stipulated turnaround time. There is also an avenue for public to lodge complaints via the Group's website.

Corporate governance (continued)

F. Financial Reporting

Statutory reporting and public disclosure

The Company exercises due care and diligence in ensuring compliance with the requirements of statutory reporting to BNM and other relevant authorities, the accuracy of information contained in the reports submitted to the relevant authorities, as well as maintaining appropriate accounting records. The Group Retention Period of Documents Policy has been in place to ensure that the Company's accounting records are properly kept.

The external auditors are appointed in accordance with the provisions of Section 67, of the Financial Services Act, 2013 and the requirements of the Companies Act, 1965. They provide an independent opinion that the financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company and its financial performance and cash flows.

The abridged audited financial statements of the Company are published in two daily national press and a copy of which also exhibited at all branches in a conspicuous position. In addition, the audited financial statements and the unaudited interim financial statements of the Company are also made available in the Group's website at www.allianz.com.my.

Management reporting

Financial reports form the primary basis for decisions making and strategies taken by the Senior Management Committee and the Board in respect of the Company's corporate objectives and day-to-day operations. To enable the Senior Management Committee and the Board to effectively monitor the financial condition and performance as well as challenges or risks faced by the Company towards achieving its corporate objectives and subsequently formulate appropriate strategies, various management reports including the RBC results are submitted to the Senior Management Committee and the Board for review at its regular meetings.

Company No. 104248-X

Corporate governance (continued)

F. Financial Reporting (continued)

Management reporting (continued)

The financial and business performance reports as well as the yearly corporate goals target performance report are regular monthly reports submitted to the Senior Management Committee for review. These reports cover the performance of all key operational areas and highlighting challenges faced by the Company, to enable the Management to assess the business development and financial condition of the Company at any point in time and formulate appropriate strategies in addressing operational problems or risks in a timely manner.

In addition, special purpose management reports prepared for decision making will also be presented to the Senior Management Committee on a need to basis.

Annual business plans and budgets are reviewed by the Senior Management Committee before submitting to the Board for approval. Financial condition and business performance reports are also submitted to the Board for review at its regular meetings. These reports cover all key operational areas and provide a sound basis for the Board to assess the financial performance of the Company and to identify potential problems or risks face by the Company, thus enabling the Board to effectively monitor on an ongoing basis, the affairs of the Company.

Similarly, special purpose management reports prepared for decision making will also be presented to the Board on a need to basis.

Directors of the Company

Directors who served since the date of the last report are:-

Tan Sri Razali Bin Ismail (Chairman-Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Jens Reisch (Non-Independent Executive Director)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)

Directors' interests

As the Company is a wholly-owned subsidiary of AMB, the interests and deemed interests in the ordinary shares of the related corporations of the Company (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) are reported in the Directors' report of AMB.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year, which had the objective 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.

Ultimate holding company

The ultimate holding company is Allianz SE, a public listed company incorporated and domiciled in Germany.

Immediate holding company

The immediate holding company is AMB, a public limited liability company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Company No. 104248-X

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:-

……………………………………………………

Tan Sri Razali Bin Ismail

……………………………………………………

Jens Reisch

Kuala Lumpur,

Date: 21 March 2014

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2013

	Note	2013 RM'000	2012 RM'000
Assets			
Property, plant and equipment	3	23,050	21,982
Investment properties	4	3,300	2,990
Intangible assets	5	46,645	80
Investments	6	5,140,083	4,319,851
Derivatives financial assets	14	-	8,946
Reinsurance assets	7	77,540	86,536
Insurance receivables	8	52,751	55,709
Other receivables, deposits and prepayments	9	87,158	55,973
Current tax assets		2,691	3,562
Cash and cash equivalents		413,423	307,693
Total assets		5,846,641	4,863,322
Equity, policyholders' funds and liabilities			
Share capital	10	236,600	236,600
Fair value reserve	11	(1,257)	2,340
Revaluation reserve	11	794	794
Retained earnings	11	353,637	302,877
Total equity		589,774	542,611
Insurance contract liabilities	12	4,667,930	3,880,653
Deferred tax liabilities	13	118,122	107,082
Derivative financial liabilities	14	20,950	-
Subordinated loan	15	54,300	-
Other financial liabilities	16	2,078	1,416
Insurance payables	17	113,092	90,132
Other payables and accruals	18	162,537	156,615
Benefits and claims liabilities	19	117,858	84,813
Total liabilities		5,256,867	4,320,711
Total equity, policyholders' funds and liabilities		5,846,641	4,863,322

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

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
Operating revenue	20	1,810,270	1,488,160
Gross earned premiums		1,599,805	1,309,569
Premiums ceded to reinsurers		(101,148)	(74,850)
Net earned premiums	21	1,498,657	1,234,719
Investment income	22	210,465	178,591
Realised gains and losses	23	61,257	41,888
Fair value gains and losses	24	(69,459)	15,342
Fee and commission income	25	6,842	4,750
Other operating income		7,847	5,007
Other revenue		216,952	245,578
Gross benefits and claims paid		(477,983)	(381,320)
Claims ceded to reinsurers		83,521	66,909
Gross change in contract liabilities		(752,568)	(677,845)
Change in contract liabilities ceded to reinsurers		(8,996)	3,510
Net benefits and claims	26	(1,156,026)	(988,746)
Fee and commission expense		(309,802)	(286,283)
Management expenses	27	(144,566)	(110,871)
Other operating expenses		(21,098)	(9,879)
Other expenses		(475,466)	(407,033)
Profit before tax		84,117	84,518
Tax expense	28	(33,357)	(31,568)
Net profit for the year		50,760	52,950

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

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
Net profit for the year attributable to owners of the Company		50,760	52,950
Other comprehensive income, net of tax			
Items that are or may be reclassified subsequently to profit or loss			
Available-for-sale financial assets' fair value reserve	6	(4,820)	(352)
Tax effects thereon	28	1,223	73
		(3,597)	(279)
Total other comprehensive income for the year, net of tax		(3,597)	(279)
Total comprehensive income for the year attributable to owners of the Company		47,163	52,671

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

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2013

	Attributable to owners of the Company					
	Non-distributable				Distributable	
	Share capital RM'000	Fair value reserve RM'000	Revaluation reserve RM'000	Non participating fund surplus* RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2012	236,600	2,619	794	244,203	5,724	489,940
Fair value of available-for-sale financial assets	-	(279)	-	-	-	(279)
Total other comprehensive income for the year	-	(279)	-	-	-	(279)
Profit for the year	-	-	-	35,216	17,734	52,950
Total comprehensive income for the year	-	(279)	-	35,216	17,734	52,671
At 31 December 2012	236,600	2,340	794	279,419	23,458	542,611

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2013 (continued)

	Attributable to owners of the Company					
	Non-distributable				Distributable	
	Share capital RM'000	Fair value reserve RM'000	Revaluation reserve RM'000	Non participating fund surplus* RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2013	236,600	2,340	794	279,419	23,458	542,611
Fair value of available-for-sale financial assets	-	(3,597)	-	-	-	(3,597)
Total other comprehensive income for the year	-	(3,597)	-	-	-	(3,597)
Profit for the year	-	-	-	42,741	8,019	50,760
Total comprehensive income for the year	-	(3,597)	-	42,741	8,019	47,163
At 31 December 2013	236,600	(1,257)	794	322,160	31,477	589,774
	Note 10	**Note 11**	**Note 11**		**Note 11**	

* The non participating fund surplus amount is net of deferred tax. This amount is only distributable when the surplus is transferred from the life fund to the Shareholders' fund.

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

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2013

	2013 RM'000	2012 RM'000
Cash flows from operating activities		
Profit before tax	84,117	84,518
Adjustments for:		
Investment income	(210,465)	(178,591)
Interest expense	4,416	1,368
Realised gains recorded in profit or loss	(61,257)	(41,886)
Fair value loss/(gain) on investments recorded in profit or loss	69,769	(15,342)
Purchase of held-to-maturity ("HTM") financial investments	(209,920)	(368,635)
Maturity of HTM financial investments	10,000	37,000
Purchase of available-for-sale ("AFS") financial investments	(190,647)	(533,617)
Maturity of AFS financial investments	8,500	61,000
Proceeds from sale of AFS financial investments	176,839	368,233
Purchase of held for trading ("HFT") financial investments	(569,961)	(425,400)
Maturity of HFT financial investments	9,500	20,000
Proceeds from sale of HFT financial investments	240,483	240,948
Purchase of designated upon initial recognition ("DUIR") financial investments	(493,375)	(370,966)
Maturity of DUIR financial investments	92,028	148,760
Proceeds from sale of DUIR financial investments	164,097	130,710
Purchase of derivatives financial investments	(2,819)	(3,200)
Change in loans and receivables	(3,815)	(9,987)
Non-cash items:		
Change in fair value of AFS financial assets	(34,709)	(38,073)
Change in fair value of investment property	(310)	-
Allowance for impairment loss on receivables	1,072	1,075
Amortisation of intangible assets	5,386	45
Depreciation of property, plant and equipment	3,284	2,748
Gain on disposal of property, plant and equipment	-	(2)
Property, plant and equipment written off	4	3
Unrealised foreign exchange loss/(gain)	2,552	(125)
Operating loss before changes in working capital	**(905,231)**	**(889,416)**

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2013 (continued)

	2013 RM'000	2012 RM'000
Changes in working capital:		
Change in reinsurance assets	8,996	(3,510)
Change in insurance receivables	1,749	(7,545)
Change in other receivables, deposits and prepayments	(31,048)	(7,337)
Change in insurance contract liabilities	787,277	715,918
Change in other financial liabilities	662	(47)
Change in insurance payables	22,960	5,141
Change in other payables	1,506	22,003
Change in benefits and claims liabilities	33,045	16,240
Cash used in operations	**(80,084)**	**(148,553)**
Tax paid	(23,241)	(18,924)
Dividends received	26,816	20,792
Coupon interest received	184,150	156,480
Rental income on investment properties received	96	96
Net cash generated from operating activities	**107,737**	**9,891**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	-	5
Acquisition of property, plant and equipment	(5,649)	(4,614)
Acquisition of intangible assets	(50,658)	-
Net cash used in investing activities	**(56,307)**	**(4,609)**
Cash flows from financing activity		
Proceeds from subordinated loan	54,300	-
Net cash from financing activity	**54,300**	**-**
Net increase in cash and cash equivalents	105,730	5,282
Cash and cash equivalents at 1 January	307,693	302,411
Cash and cash equivalents at 31 December	**413,423**	**307,693**
Cash and cash equivalents comprises:		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	381,714	290,833
Cash and bank balances	31,709	16,860
	413,423	**307,693**

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

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Notes to the financial statements

Corporate information

Allianz Life Insurance Malaysia Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Company is as follows:

Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur, Malaysia

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

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany. The immediate holding company is Allianz Malaysia Berhad, a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

These financial statements were approved by the Board of Directors on 21 March 2014.

1. Basis of preparation

1.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia, the Insurance Act and Regulations, 1996 (replaced on 30 June 2013), Financial Services Act, 2013 (effective on 30 June 2013) and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*

Company No. 104248-X

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014 (continued)

- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Properties (Annual Improvements 2011-2013 Cycle)*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- MFRS 9, *Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2014 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014 except for Amendments to MFRS 10, Amendments to MFRS 12 and Amendments to MFRS 127 which are not applicable to the Company.

- from the annual period beginning on 1 January 2015 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014 except for Amendments to MFRS 1, Amendments to MFRS 2, Amendments to MFRS 3, Amendments to MFRS 8 and Amendments to MFRS 119 which are not applicable to the Company.

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Company except as mentioned below:

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities and on hedge accounting. Upon the adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of MFRS 9 may result in a change in accounting policy for financial assets. The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

1.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1. Basis of preparation (continued)

1.4 Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2 (b) – revaluation of land and buildings
- Note 2 (c) – valuation of investment properties
- Note 2 (g)(iii) – determination of the recoverable amounts of other intangible assets
- Note 2 (f) – fair value measurement of financial instruments
- Note 2 (u) – valuation of life insurance contract liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2. Significant accounting policies (continued)

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

The Company revalues its properties comprising land and buildings every five years and at shorter intervals whenever the fair value of the revalued assets are expected to differ materially from their carrying value.

The revalued amounts of property are determined by using the comparison method. The comparison method entails critical analysis of recent evidence of values of comparable properties in the neighbourhood and making adjustment for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics.

Valuation of the properties involves a degree of judgement before arriving at the respective property's revalued amount. As such, the revalued amount of the properties may be different from its actual market price.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

Costs include expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "realised gains and losses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Work-in-progress are not depreciated until the assets are ready for their intended use.

2. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:-

• leasehold land	Over lease period
• buildings	50 years
• office equipment, furniture and fittings	10 years
• computers	5 years
• motor vehicles	5 years
• office renovation and partitions	10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(c) Investment properties

(i) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

2. Significant accounting policies (continued)

(c) Investment properties (continued)

(i) Investment properties carried at fair value (continued)

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(ii) Reclassification to/from investment property

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in other comprehensive income and accumulated in equity as a revaluation reserve. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(iii) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment properties portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

2. Significant accounting policies (continued)

(c) Investment properties (continued)

(iii) Determination of fair value (continued)

The determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from its actual market price.

(d) Intangible assets

(i) Development costs

Expenditure incurred on software development is capitalised. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as an expense as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is based on the cost of an asset less its residual value. Intangible assets with finite useful lives are amortised from the date that they are available for use. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.

The estimated useful life for the current and comparative periods are as follows:-

• Capitalised software development	5 years
• Other intangible assets	10 years

2. Significant accounting policies (continued)

(d) Intangible assets (continued)

(iv) Amortisation (continued)

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the Company's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or for both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

2. Significant accounting policies (continued)

(e) Leased assets (continued)

(ii) Operating lease (continued)

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(f) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

(1) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(1) Financial assets at fair value through profit or loss (continued)

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(2) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(3) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market and include other receivables, deposits and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(4) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

(5) Insurance receivables

Insurance 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 receivables are measured at amortised cost, using the effective interest method.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(g)(ii).

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(5) Insurance receivables (continued)

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(f)(v), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(g)).

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair value arising from financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date; and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(v) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(g) Impairment

(i) Financial assets, excluding insurance receivables

All financial assets (except for financial assets categorised as fair value through profit or loss and fixed and call deposits) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2(g)(ii) below) and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

2. Significant accounting policies (continued)

(g) Impairment (continued)

(i) Financial assets, excluding insurance receivables (continued)

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months for those individually assessed, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

2. Significant accounting policies (continued)

(g) Impairment (continued)

(ii) Insurance receivables (continued)

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(iii) Other assets

The carrying amounts of other assets (except for deferred tax asset and investment properties measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

2. Significant accounting policies (continued)

(g) Impairment (continued)

(iii) Other assets (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of the assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(h) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Ordinary shares

Ordinary share capital is classified as equity.

(ii) Dividends on ordinary share capital

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

Dividends for the year that are approved after the end of the reporting period are dealt with as a subsequent event.

(i) Product classification

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

2. Significant accounting policies (continued)

(i) Product classification (continued)

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

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

Investment contracts are those contracts that do not transfer significant insurance risk.

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

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

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

Under the terms of the contracts, surpluses in the DPF funds can be distributed on discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

2. Significant accounting policies (continued)

(i) Product classification (continued)

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

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

(j) Reinsurance

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

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

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

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

2. Significant accounting policies (continued)

(j) Reinsurance (continued)

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

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

(k) Life insurance underwriting results

Surplus

The surplus transferable from the Life fund to profit or loss is based on the surplus determined by an annual actuarial valuation of the liabilities to policyholders, made in accordance with the provisions of the Financial Services Act, 2013 by the Company's appointed actuary.

Gross premiums

Gross premiums are recognised as soon as the amount of the premiums can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured. Premiums not received on due dates are recognised as revenue in profit or loss and reported as outstanding premiums in the statement of financial position.

Reinsurance premiums

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

2. Significant accounting policies (continued)

(k) Life insurance underwriting results (continued)

Benefits, claims and expenses

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

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

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

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

Commission and agency expenses

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

Fees and commission income

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

(l) Life insurance contract liabilities

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

2. Significant accounting policies (continued)

(l) Life insurance contract liabilities (continued)

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed benefits and, in the case of the participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies.

The liability in respect of policies of a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the contract level derived as stated above.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the accumulated amount, as declared to the policy owners, are set as the liabilities if the accumulated amount is higher than the figure as calculated using the prospective actuarial valuation method.

For non-unit liability of investment-linked policy, the liability 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.

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

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

Adjustments to the liabilities at each reporting date are recorded in profit or loss. Profits originated from margins of adverse deviations on run-off contracts, are recognised in profit or loss over the life of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off.

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

2. Significant accounting policies (continued)

(m) Investment contract liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, investment contract liabilities are remeasured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position.

Fair value adjustments are performed at each reporting date and are recognised in profit or loss. Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each investment-linked fund multiplied by the unit-price of those funds at the end of reporting period. The fund assets and fund liabilities used to determine the unit-prices at the end of reporting period are adjusted to take into account the effect of deferred tax on unrealised gains on assets in the fund.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

(n) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

2. Significant accounting policies (continued)

(n) Other revenue recognition (continued)

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except where an interest bearing investments is considered non-performing i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iv) Realised gains and losses on investments

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

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for temporary difference arises from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of reporting period.

2. Significant accounting policies (continued)

(o) Income tax (continued)

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(c), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. Significant accounting policies (continued)

(q) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

(r) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations. Prepaid contributions are recognised as an asset to the extend that a cash refund or a reduction in future payments is available.

(s) Other financial liabilities and insurance payables

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

2. Significant accounting policies (continued)

(t) Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hand, deposits held at call with financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy note 2(f)(ii)(3).

(u) Significant accounting judgements, estimates and assumptions

Valuation of life insurance contract liabilities

The valuation of life insurance contract liabilities is based on the Risk-Based Capital Framework for Insurers, issued by BNM.

The life insurance contract liability is valued using a prospective actuarial valuation based on the sum of the present value of future guaranteed benefits 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 flow is determined using best estimate assumptions and with due regard to significant recent experience.

For non-unit liability of investment-linked policy, the liability 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.

An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

For a 1-year life policy or a 1-year extension to a life policy covering contingencies other than death or survival, the liabilities are calculated as the higher of unearned premium reserve or the unexpired risk reserve.

2. Significant accounting policies (continued)

(u) Significant accounting judgements, estimates and assumptions (continued)

Valuation of life insurance contract liabilities (continued)

The risk-free discount rate is used for all cash flows to determine the liability of a non-participating life policy and the non-unit actuarial liability of an investment-linked policy. A discount rate based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund is used for all cash flows to determine the liability of participating policies.

Risk-free discount rate for durations of less than 15 years is zero-coupon spot yields of Malaysian Government Securities ("MGS") with matching duration. Risk-free discount rate for durations of 15 years or more is zero-coupon spot yields of MGS with 15 years term to maturity. Duration is the term to maturity of each future cash flow. The MGS zero-coupon spot yields are obtained from a recognised bond pricing agency in Malaysia.

(v) Fair value measurement

From 1 January 2013, the Company adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price 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. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, the Company applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Company's assets or liabilities other than the additional disclosures.

Company No. 104248-X

3. Property, plant and equipment

	Note	Land RM'000	Buildings RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovation and partitions RM'000	Work-in-progress RM'000	Total RM'000
Cost/Valuation								
At 1 January 2012		6,580	4,315	15,855	1,325	6,155	991	35,221
Additions		-	-	1,582	-	505	2,527	4,614
Disposals		-	-	(184)	-	-	-	(184)
Written off		-	-	(142)	-	-	-	(142)
Reclassification		-	-	1,429	-	894	(2,323)	-
At 31 December 2012/1 January 2013		6,580	4,315	18,540	1,325	7,554	1,195	39,509
Additions		-	-	2,097	-	194	3,358	5,649
Disposals		-	-	(7)	-	-	-	(7)
Written off		-	-	(42)	-	-	-	(42)
Reclassification #	5	-	-	424	-	2,273	(3,990)	(1,293)
At 31 December 2013		6,580	4,315	21,012	1,325	10,021	563	43,816

Certain work-in-progress were reclassified as software development costs (intangible assets), see Note 5.

Company No. 104248-X

3. Property, plant and equipment (continued)

	Note	Land RM'000	Buildings RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovation and partitions RM'000	Work-in-progress RM'000	Total RM'000
Depreciation								
At 1 January 2012		7	9	10,936	896	3,251	-	15,099
Depreciation for the year	27	76	104	1,753	139	676	-	2,748
Disposals		-	-	(181)	-	-	-	(181)
Written off		-	-	(139)	-	-	-	(139)
At 31 December 2012/1 January 2013		83	113	12,369	1,035	3,927	-	17,527
Depreciation for the year	27	76	104	2,074	139	891	-	3,284
Disposals		-	-	(7)	-	-	-	(7)
Written off		-	-	(38)	-	-	-	(38)
At 31 December 2013		159	217	14,398	1,174	4,818	-	20,766
Carrying amounts								
At 31 December 2012/1 January 2013		6,497	4,202	6,171	290	3,627	1,195	21,982
At 31 December 2013		6,421	4,098	6,614	151	5,203	563	23,050

Included in property, plant and equipment are fully depreciated assets which are still in use costing RM14,856,000 (2012 : RM12,931,000).

Company No. 104248-X

3. Property, plant and equipment (continued)

3.1 Property, plant and equipment under the revaluation model

The land and buildings were revalued in October 2011 by independent professional qualified valuers using the comparison method.

Had the land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been as follows:

	2013 RM'000	2012 RM'000
Land	4,605	4,661
Buildings	3,253	3,337
	7,858	7,998

3.2 Land

Included in the total carrying amount of land are:

	2013 RM'000	2012 RM'000
Freehold land	850	850
Leasehold land with unexpired lease period of more than 50 years	5,571	5,647
	6,421	6,497

3.3 Fair value information

Fair value of land and buildings are categorised as follows:

	2013			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	6,421	-	6,421
Buildings	-	4,098	-	4,098
	-	10,519	-	10,519

Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

3. Property, plant and equipment (continued)

3.3 Fair value information (continued)

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical land and buildings that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the land and buildings, either directly or indirectly.

Level 2 fair values of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the land and buildings.

4. Investment properties

	Note	2013 RM'000	2012 RM'000
At 1 January		2,990	2,990
Change in fair value recognised in profit or loss	24	310	-
At 31 December		3,300	2,990

	2013 RM'000	2012 RM'000
Included in the above are:		
At fair value:		
Freehold land	730	610
Buildings	2,570	2,380
	3,300	2,990

4. Investment properties (continued)

The fair value of the investment properties is determined based on valuations performed by an external independent valuer in November 2013 using the comparison method.

Investment properties comprise a number of commercial properties that are leased to third parties.

The following are recognised in profit or loss in respect of investment properties:

	2013 RM'000	2012 RM'000
Rental income	96	96
Direct operating expenses:		
-income generating investment properties	(8)	(6)

4.1 Fair value information

Fair value of investment properties are categorised as follows:

	2013			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Freehold land	-	730	-	730
Buildings	-	2,570	-	2,570
	-	3,300	-	3,300

Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

Company No. 104248-X

4. Investment properties (continued)

4.1 Fair value information (continued)

Level 2 fair value (continued)

Level 2 fair values of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

5. Intangible assets

	Note	Software development costs RM'000	Other intangible assets RM'000	Total RM'000
Cost				
At 1 January 2012		3,681	-	3,681
Additions		-	-	-
Reclassification		-	-	-
At 31 December 2012/ 1 January 2013		3,681	-	3,681
Additions		163	50,495	50,658
Reclassification	3	1,293	-	1,293
At 31 December 2013		5,137	50,495	55,632
Amortisation				
At 1 January 2012		3,556	-	3,556
Amortisation for the year	27	45	-	45
At 31 December 2012/ 1 January 2013		3,601	-	3,601
Amortisation for the year	27	337	5,049	5,386
At 31 December 2013		3,938	5,049	8,987
Carrying amounts				
At 31 December 2012/ 1 January 2013		80	-	80
At 31 December 2013		1,199	45,446	46,645

5. Intangible assets (continued)

The software development costs are in relation to the internal development expenditure incurred for the Open Product Underwriting System ("OPUS"), the on-going integrated system to improve the efficiency of the business activity of the Company. These software development costs are amortised over a period of five years.

Other intangible assets are in relation to the exclusive bancassurance agreement which provides the Company with an exclusive right to the use of the bancassurance network of a bank to sell, market and promote conventional life product. The fee for this right is amortised over its useful life of 10 years using the straight-line method. The future economic benefits that are attributable to the Bancassurance Agreement was valued at the present value of projected future cash flows to be derived from the tenure of the agreement of ten years using the discounting cash flow model.

The following key assumptions have been used in cash flow projections in respect of bancassurance agreement:

Key assumptions

Bancassurance annualised new premium growth rate	9.0% - 29.0% per annum
Discount rate	8.0%

6. Investments

	2013 RM'000	2012 RM'000
Malaysian government securities	1,429,862	1,220,247
Malaysian government guaranteed bonds	946,941	648,107
Ringgit denominated bonds by foreign issuers in Malaysia	181,037	191,736
Quoted equity securities of corporations in Malaysia	795,603	554,300
Quoted equity securities of corporations outside Malaysia	880	-
Unquoted equity securities of corporations in Malaysia	2,147	2,147
Unquoted bonds of corporations in Malaysia	1,246,832	1,135,306
Quoted unit trusts in Malaysia	52,797	84,025
Unquoted unit trusts in Malaysia	5,390	1,928
Unquoted unit trusts outside Malaysia	50,676	49,104
Structured deposits with licensed banks	146,937	155,785
Government guaranteed loans	190,000	190,000
Mortgage loans	70	80
Policy loans	12,515	12,098
Automatic premium loans	73,239	61,920
Fixed and call deposits with licensed financial institutions	5,157	13,068
	5,140,083	4,319,851

Company No. 104248-X

6. Investments (continued)

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

	Current		Non-current		Total	
	2013	2012	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Held-to-maturity financial assets ("HTM")	15,000	10,000	1,308,892	1,113,735	1,323,892	1,123,735
Available-for-sale financial assets ("AFS")	738,617	668,153	-	-	738,617	668,153
Loans and receivables ("LAR")	90,926	87,101	190,055	190,065	280,981	277,166
Fair value through profit or loss ("FVTPL")						
- Held for trading ("HFT")	917,651	547,550	-	-	917,651	547,550
- Designated upon initial recognition ("DUIR")	1,878,942	1,703,247	-	-	1,878,942	1,703,247
	3,641,136	3,016,051	1,498,947	1,303,800	5,140,083	4,319,851

	2013		2012	
	Amortised cost	Fair value	Amortised cost	Fair value
	RM'000	RM'000	RM'000	RM'000
Held-to-maturity				
Malaysian government securities	680,270	669,761	570,826	590,812
Malaysian government guaranteed bonds	543,837	522,711	443,189	464,204
Ringgit denominated bonds by foreign issuers in Malaysia	99,785	101,848	109,720	112,750
	1,323,892	1,294,320	1,123,735	1,167,766

6. Investments (continued)

	Fair value 2013 RM'000	Fair value 2012 RM'000
Available-for-sale		
Malaysian government securities	79,795	76,870
Malaysian government guaranteed bonds	45,805	44,064
Ringgit denominated bonds by foreign issuers in Malaysia	13,643	13,745
Quoted equity securities of corporations in Malaysia	415,481	317,557
Unquoted bonds of corporations in Malaysia	90,643	98,069
Quoted unit trusts in Malaysia	48,659	77,251
Unquoted unit trusts in Malaysia	4,164	1,017
Unquoted unit trusts outside Malaysia	36,185	35,277
Structured deposits with licensed banks	2,095	2,156
	736,470	666,006

	Cost 2013 RM'000	Cost 2012 RM'000
Unquoted equity securities of corporations in Malaysia	2,147	2,147
	2,147	2,147
Total available-for-sale financial investments	738,617	668,153

Company No. 104248-X

6. Investments (continued)

	2013 Amortised cost RM'000	2013 Fair value RM'000	2012 Amortised cost RM'000	2012 Fair value RM'000
Loans and receivables				
Government guaranteed loans	190,000	190,000	190,000	190,000
Mortgage loans	70	70	80	80
Policy loans	12,515	12,515	12,098	12,098
Automatic premium loans	73,239	73,239	61,920	61,920
Fixed and call deposits with:				
Licensed financial institutions	5,157	5,157	13,068	13,068
	280,981	280,981	277,166	277,166

Company No. 104248-X

6. Investments (continued)

	Fair value	
	2013	2012
Fair value through profit or loss ("FVTPL")	**RM'000**	**RM'000**
Held for trading		
Malaysian government securities	161,721	73,438
Malaysian government guaranteed bonds	106,742	36,797
Ringgit denominated bonds by foreign issuers in Malaysia	5,193	5,273
Quoted equity securities of corporations in Malaysia	380,122	236,743
Quoted equity securities of corporations outside Malaysia	880	-
Unquoted bonds of corporations in Malaysia	217,943	143,617
Quoted unit trusts in Malaysia	4,138	6,774
Unquoted unit trusts in Malaysia	1,226	911
Unquoted unit trusts outside Malaysia	14,491	13,827
Structured deposits with licensed banks	25,195	30,170
	917,651	547,550

6. Investments (continued)

	Fair value	
Fair value through profit or loss ("FVTPL")	**2013 RM'000**	**2012 RM'000**
Designated upon initial recognition		
Malaysian government securities	508,076	499,113
Malaysian government guaranteed bonds	250,557	124,057
Ringgit denominated bonds by foreign issuers in Malaysia	62,416	62,998
Unquoted bonds of corporations in Malaysia	938,246	893,620
Structured deposits with licensed banks	119,647	123,459
	1,878,942	1,703,247
Total fair value through profit or loss financial investments	2,796,593	2,250,797

Company No. 104248-X

6. Investments (continued)

Carrying values of financial instruments

	Note	HTM RM'000	AFS RM'000	LAR RM'000	HFT RM'000	DUIR RM'000	Total RM'000
At 1 January 2012		791,776	507,621	267,179	353,652	1,603,807	3,524,035
Purchases/placements		368,635	533,617	11,926,888	425,400	370,966	13,625,506
Maturities		(37,000)	(61,000)	(11,916,901)	(20,000)	(148,760)	(12,183,661)
Disposals		-	(348,104)	-	(225,432)	(123,019)	(696,555)
Fair value gains/(losses) recorded in:							
Profit or loss							
- Unrealised gains/(losses)	24	-	-	-	13,698	(348)	13,350
- Unrealised foreign exchange gains		-	-	-	125	-	125
- Movement in impairment allowance	24	-	(5,204)	-	-	-	(5,204)
Insurance contract liabilities	12	-	41,384	-	-	-	41,384
Other comprehensive income		-	(352)	-	-	-	(352)
Amortisation of premiums		(729)	(225)	-	(219)	(2,791)	(3,964)
Accretion of discounts		1,053	416	-	326	3,392	5,187
At 31 December 2012		1,123,735	668,153	277,166	547,550	1,703,247	4,319,851

Company No. 104248-X

6. Investments (continued)

Carrying values of financial instruments (continued)

	Note	HTM RM'000	AFS RM'000	LAR RM'000	HFT RM'000	DUIR RM'000	Total RM'000
At 1 January 2013		1,123,735	668,153	277,166	547,550	1,703,247	4,319,851
Purchases/placements		209,920	190,647	12,317,956	569,961	493,375	13,781,859
Maturities		(10,000)	(8,500)	(12,314,141)	(9,500)	(92,028)	(12,434,169)
Disposals		-	(143,789)	-	(214,107)	(158,692)	(516,588)
Fair value gains/(losses) recorded in:							
Profit or loss							
- Unrealised gains/(losses)	24	-	-	-	26,092	(65,949)	(39,857)
- Unrealised foreign exchange losses		-	-	-	(2,552)	-	(2,552)
- Movement in impairment allowance	24	-	(771)	-	-	-	(771)
Insurance contract liabilities	12	-	37,727	-	-	-	37,727
Other comprehensive income		-	(4,820)	-	-	-	(4,820)
Amortisation of premiums		(769)	(209)	-	(306)	(3,114)	(4,398)
Accretion of discounts		1,006	179	-	513	2,103	3,801
At 31 December 2013		1,323,892	738,617	280,981	917,651	1,878,942	5,140,083

Company No. 104248-X

7. Reinsurance assets

	Note	2013 RM'000	2012 RM'000
Reinsurance of insurance contracts			
Actuarial liabilities			
- Current		100	6,717
- Non-current		77,440	79,819
	12	77,540	86,536

8. Insurance receivables

	Note	2013 RM'000	2012 RM'000
Current			
Due premium including agents, brokers and co-insurers balances		47,647	47,322
Due from reinsurers and cedants		6,877	2,071
Due from a related company	8.1	-	7,033
Due from ultimate holding company	8.1	20	-
Group claims receivables		1,167	1,034
		55,711	57,460
Less: Allowance for impairment		(2,960)	(1,751)
		52,751	55,709

8.1 Amounts due from a related company and ultimate holding company

The amounts due from a related company and ultimate holding company are unsecured.

9. Other receivables, deposits and prepayments

	Note	2013 RM'000	2012 RM'000
Non-current			
Other receivables		3,156	3,522
Malaysian Institute of Insurance ("MII") bonds		100	100
		3,256	3,622
Current			
Other receivables		21,060	2,090
Sundry deposits		647	662
Less: Allowance for impairment		(530)	(667)
		21,177	2,085
Income due and accrued		47,791	39,288
Due from related companies	9.1	1,461	84
Due from inter-fund	18	13,473	10,894
		83,902	52,351
		87,158	55,973

9.1 Amounts due from related companies

The amounts due from related companies are unsecured, interest free and repayable on demand.

10. Share capital

	2013		2012	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Authorised:				
Ordinary shares of RM1 each				
At 1 January/31 December	350,000	350,000	350,000	350,000
Issued and fully paid:				
Ordinary shares of RM1 each				
On issue at 1 January/31 December	236,600	236,600	236,600	236,600

11. Reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings immediately prior to its reclassification as investment property.

Retained earnings

Section 108 tax credit

The section 108 tax credit expired on 31 December 2013. As such, the Company will distribute single tier dividend to its shareholders out of its retained earnings if dividend were paid.

Restriction on payment of dividends

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

Pursuant to the Financial Services Act, 2013, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend with effect from the financial year beginning 1 January 2014.

Company No. 104248-X

12. Insurance contract liabilities

	2013			2012		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Actuarial liabilities	3,956,026	(77,540)	3,878,486	3,239,571	(86,536)	3,153,035
Unallocated surplus	67,830	-	67,830	175,000	-	175,000
Available-for-sale fair value reserve	99,797	-	99,797	65,088	-	65,088
Net asset value attributable to unitholders	542,496	-	542,496	399,213	-	399,213
Revaluation reserve	1,781	-	1,781	1,781	-	1,781
	4,667,930	(77,540)	4,590,390	3,880,653	(86,536)	3,794,117
		Note 7			Note 7	

Company No. 104248-X

12. Insurance contract liabilities (continued)

		Gross			Reinsurance			
	Note	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net RM'000
At 1 January 2012		2,141,178	1,023,557	3,164,735	(2,474)	(80,552)	(83,026)	3,081,709
Premiums received		482,118	827,451	1,309,569	(8,802)	(66,048)	(74,850)	1,234,719
Liabilities paid for death, maturities, surrenders, benefits and claims		(96,615)	(284,705)	(381,320)	6,814	60,095	66,909	(314,411)
Benefits and claims experience variation		(1,800)	(31,090)	(32,890)	1,379	2,267	3,646	(29,244)
Fees deducted		(78,283)	(319,103)	(397,386)	650	4,100	4,750	(392,636)
Expected interest on reserve/net investment income attributable to Universal Life Fund		119,489	28,147	147,636	(125)	(2,323)	(2,448)	145,188
Adjustments due to changes in assumptions		16,450	12,890	29,340	-	(1,517)	(1,517)	27,823
Net asset value attributable to unitholders		-	32,985	32,985	-	-	-	32,985
Available-for-sale fair value reserve	6	41,384	-	41,384	-	-	-	41,384
Unallocated surplus		(30,089)	-	(30,089)	-	-	-	(30,089)
Deferred tax effect:								
Available-for-sale fair value reserve	28	(3,311)	-	(3,311)	-	-	-	(3,311)
At 31 December 2012		2,590,521	1,290,132	3,880,653	(2,558)	(83,978)	(86,536)	3,794,117

Company No. 104248-X

12. Insurance contract liabilities (continued)

	Note	Gross With DPF RM'000	Gross Without DPF RM'000	Gross Total RM'000	Reinsurance With DPF RM'000	Reinsurance Without DPF RM'000	Reinsurance Total RM'000	Net RM'000
At 1 January 2013		2,590,521	1,290,132	3,880,653	(2,558)	(83,978)	(86,536)	3,794,117
Premiums received		465,933	1,133,872	1,599,805	(9,502)	(91,646)	(101,148)	1,498,657
Liabilities paid for death, maturities, surrenders, benefits and claims		(121,037)	(356,946)	(477,983)	7,917	75,604	83,521	(394,462)
Benefits and claims experience variation		2,862	(39,049)	(36,187)	703	18,473	19,176	(17,011)
Fees deducted		(61,133)	(388,073)	(449,206)	1,012	5,830	6,842	(442,364)
Expected interest on reserve/net investment income attributable to Universal Life Fund		111,870	35,539	147,409	(129)	(2,502)	(2,631)	144,778
Adjustments due to changes in assumptions		61,858	(41,791)	20,067	2,557	679	3,236	23,303
Net asset value attributable to unitholders		-	55,833	55,833	-	-	-	55,833
Available-for-sale fair value reserve	6	37,727	-	37,727	-	-	-	37,727
Unallocated surplus		(107,170)	-	(107,170)	-	-	-	(107,170)
Deferred tax effect:								
Available-for-sale fair value reserve	28	(3,018)	-	(3,018)	-	-	-	(3,018)
At 31 December 2013		2,978,413	1,689,517	4,667,930	-	(77,540)	(77,540)	4,590,390

Company No. 104248-X

13. Deferred tax assets/(liabilities)

13.1 Recognised deferred tax assets and liabilities are attributable to the following:

	Asset		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	(460)	(468)	(460)	(468)
Investment properties	-	-	(71)	(46)	(71)	(46)
Unallocated surplus	-	-	(107,387)	(93,140)	(107,387)	(93,140)
Available-for-sale fair value reserve	-	-	(8,231)	(6,436)	(8,231)	(6,436)
Fair value movement recognised in profit or loss	-	-	(1,771)	(7,004)	(1,771)	(7,004)
Revaluation reserve	-	-	(189)	(189)	(189)	(189)
Net accretion/(amortisation)	-	201	(13)	-	(13)	201
Net tax assets/(liabilities)	-	201	(118,122)	(107,283)	(118,122)	(107,082)

13. Deferred tax assets/(liabilities) (continued)

13.2 Movement in temporary differences during the year

	At 1 January 2012 RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in other compre-hensive income (Note 28) RM'000	Recognised in insurance contract liabilities (Note 28) RM'000	At 31 December 2012/ 1 January 2013 RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in other compre-hensive income (Note 28) RM'000	Recognised in insurance contract liabilities (Note 28) RM'000	At 31 December 2013 RM'000
Property, plant and equipment	(543)	75	-	-	(468)	8	-	-	(460)
Investment properties	(46)	-	-	-	(46)	(25)	-	-	(71)
Unallocated surplus	(81,402)	(11,738)	-	-	(93,140)	(14,247)	-	-	(107,387)
Available-for-sale fair value reserve	(3,198)	-	73	(3,311)	(6,436)	-	1,223	(3,018)	(8,231)
Fair value movement recognised in profit or loss	(5,121)	(1,883)	-	-	(7,004)	5,233	-	-	(1,771)
Revaluation reserve	(189)	-	-	-	(189)	-	-	-	(189)
Net accretion /(amortisation)	-	201	-	-	201	(214)	-	-	(13)
Net tax (liabilities)/ assets	(90,499)	(13,345)	73	(3,311)	(107,082)	(9,245)	1,223	(3,018)	(118,122)

Company No. 104248-X

14. Derivative financial assets/(liabilities)

	Nominal value RM'000	Assets RM'000	Liabilities RM'000
2013			
Derivatives held for trading at fair value through profit or loss			
Forward starting interest rate swap	400,000	-	(20,950)
	400,000	-	(20,950)
2012			
Derivatives held for trading at fair value through profit or loss			
Forward starting interest rate swap	200,000	8,946	-
	200,000	8,946	-

15. Subordinated loan

	Note	2013 RM'000	2012 RM'000
Non-current			
Subordinated loan	15.1	54,300	-
		54,300	-

15.1 Subordinated loan from immediate holding company

The subordinated loan from immediate holding company is unsecured, subject to interest of 4.5% per annum and repayable in 2023.

Company No. 104248-X

16. Other financial liabilities

	2013 RM'000	2012 RM'000
Non-current		
Deposits received from reinsurers	991	1,139
	991	1,139
Current		
Outstanding purchase of investment securities	1,087	277
	1,087	277
	2,078	1,416

17. Insurance payables

	Note	2013 RM'000	2012 RM'000
Current			
Due to reinsurers and cedants		20,068	12,227
Due to agents, brokers and co-insurers and insurers		86,140	77,666
Due to a related company	17.1	6,884	157
Due to ultimate holding company	17.2	-	82
		113,092	90,132

17.1 Amounts due to a related company

The amounts due to a related company are unsecured.

17.2 Amounts due to ultimate holding company

The amounts due to ultimate holding company are unsecured.

18. Other payables and accruals

	Note	2013 RM'000	2012 RM'000
Non-current			
Other payables	18.1	51,776	57,814
Current			
Other payables and accrued expenses	18.1	95,463	87,473
Due to immediate holding company	18.2	1,825	434
Due to inter-fund	9	13,473	10,894
		110,761	98,801
		162,537	156,615

18.1 Other payables and accrued expenses

Included in other payables and accrued expenses at 31 December 2013 is an amount of RM70,509,000 (2012 : RM76,886,000) relating to premium received in advance and RM19,758,000 (2012 : RM15,600,000) relating to premium deposits.

18.2 Amounts due to immediate holding company

The amounts due to immediate holding company are unsecured, interest free and repayable on demand.

19. Benefits and claims liabilities

	2013 RM'000	2012 RM'000
Current		
Gross benefits and claims liabilities	131,250	96,928
Less: Recoverable from reinsurers	(13,392)	(12,115)
Net benefits and claims liabilities	117,858	84,813

Company No. 104248-X

20. Operating revenue

	Note	2013 RM'000	2012 RM'000
Gross earned premiums	21	1,599,805	1,309,569
Investment income	22	210,465	178,591
		1,810,270	1,488,160

21. Net earned premiums

	Note	2013 RM'000	2012 RM'000
Gross earned premiums	20	1,599,805	1,309,569
Premiums ceded to reinsurers		(101,148)	(74,850)
Net earned premiums		1,498,657	1,234,719

22. Investment income

	2013 RM'000	2012 RM'000
Rental of premises from:		
- Investment properties	96	96
Held-to-maturity financial assets		
Coupon income from:		
- Malaysian government securities	25,345	21,894
- Malaysian government guaranteed bonds	22,070	16,824
- Ringgit denominated bonds by foreign issuers in Malaysia	4,488	4,846
Accretion of discounts on:		
- Malaysian government securities	411	482
- Malaysian government guaranteed bonds	530	512
- Ringgit denominated bonds by foreign issuers in Malaysia	65	59
Amortisation of premiums on:		
- Malaysian government securities	(662)	(616)
- Malaysian government guaranteed bonds	(107)	(113)

Company No. 104248-X

22. Investment income (continued)

	2013 RM'000	2012 RM'000
Available-for-sale financial assets		
Coupon income from:		
- Malaysian government securities	2,908	2,806
- Malaysian government guaranteed bonds	1,607	1,323
- Ringgit denominated bonds by foreign issuers in Malaysia	597	596
- Unquoted bonds of corporations in Malaysia	4,060	3,260
Dividend income from:		
- Quoted equity securities in Malaysia	11,916	8,825
- Quoted unit trusts in Malaysia	3,190	3,602
- Unquoted unit trusts in Malaysia	-	13
Accretion of discounts on:		
- Malaysian government securities	7	310
- Malaysian government guaranteed bonds	168	102
- Ringgit denominated bonds by foreign issuers in Malaysia	4	4
Amortisation of premiums on:		
- Malaysian government securities	(126)	(173)
- Malaysian government guaranteed bonds	(38)	(16)
- Unquoted bonds of corporations in Malaysia	(45)	(36)
Interest income from licensed banks:		
- Structured deposits	105	105
Loans and receivables		
Interest income from:		
- Government guaranteed loans	8,645	8,703
- Mortgage loans	5	6
- Policy loans	924	833
- Automatic premium loans	5,173	4,304
Interest income from licensed banks:		
- Fixed and call deposits	9,941	9,884

22. Investment income (continued)

	2013 RM'000	2012 RM'000
Fair value through profit or loss - Held for trading financial assets		
Coupon income from:		
- Malaysian government securities	3,723	1,785
- Malaysian government guaranteed bonds	2,747	1,174
- Ringgit denominated bonds by foreign issuers in Malaysia	246	246
- Unquoted bonds of corporations in Malaysia	8,025	5,046
Dividend income from:		
- Quoted equity securities in Malaysia	11,485	6,916
- Quoted unit trusts in Malaysia	225	1,436
Interest income from licensed financial institutions:		
- Structured deposits	1,576	1,736
- Collateralised forward starting interest rate swap	(7)	(138)
Accretion of discounts on:		
- Malaysian government securities	67	39
- Malaysian government guaranteed bonds	145	-
- Unquoted bonds of corporations in Malaysia	18	2
- Structured deposits	283	285
Amortisation of premiums on:		
- Malaysian government securities	(79)	(80)
- Malaysian government guaranteed bonds	(24)	(12)
- Unquoted bonds of corporations in Malaysia	(203)	(127)

Company No. 104248-X

22. Investment income (continued)

	2013 RM'000	2012 RM'000
Fair value through profit or loss - Designated upon initial recognition financial assets		
Coupon income from:		
- Malaysian government securities	21,247	20,221
- Malaysian government guaranteed bonds	8,362	4,033
- Ringgit denominated bonds by foreign issuers in Malaysia	2,795	2,789
- Unquoted bonds of corporations in Malaysia	44,923	39,548
Interest income from licensed financial institutions:		
- Structured deposits	4,645	4,656
Accretion of discounts on:		
- Malaysian government securities	146	411
- Malaysian government guaranteed bonds	351	238
- Ringgit denominated bonds by foreign issuers in Malaysia	6	6
- Unquoted bonds of corporations in Malaysia	455	1,621
- Structured deposits	1,145	1,116
Amortisation of premiums on:		
- Malaysian government securities	(1,758)	(1,874)
- Malaysian government guaranteed bonds	(65)	(23)
- Unquoted bonds of corporations in Malaysia	(1,291)	(894)
	210,465	178,591

Company No. 104248-X

23. Realised gains and losses

	2013 RM'000	2012 RM'000
Realised gains on disposal of property, plant and equipment	-	2
Realised gains on disposal of investments in debt and equity securities:		
Malaysian government securities	2,952	2,665
Quoted equity securities of corporations in Malaysia	57,819	30,195
Quoted equity securities of corporations outside Malaysia	4	-
Quoted unit trusts in Malaysia	6,956	4,084
Unquoted unit trusts in Malaysia	-	114
Unquoted unit trusts outside Malaysia	73	-
Unquoted bonds of corporations in Malaysia	2,583	5,773
Structured deposits	-	1,763
Realised losses on disposal of investments in debt and equity securities:		
Malaysian government securities	(183)	-
Quoted equity securities of corporations in Malaysia	(4,158)	-
Quoted equity securities of corporations outside Malaysia	(68)	-
Unquoted unit trusts outside Malaysia	(1,144)	(1,258)
Structured deposits	(3)	-
Put options	(3,574)	(1,450)
	61,257	41,888

Company No. 104248-X

24. Fair value gains/(losses)

	Note	2013 RM'000	2012 RM'000
Investment properties	4	310	-
Held for trading financial assets	6	26,092	13,698
Designated upon initial recognition financial assets	6	(65,949)	(348)
Derivatives		(29,141)	7,196
Total fair value (losses)/gains on financial assets at FVTPL		(68,998)	20,546
Impairment loss on AFS financial assets	6	(771)	(5,204)
		(69,459)	15,342

25. Fee and commission income

	2013 RM'000	2012 RM'000
Reinsurance commission income	6,842	4,750

26. Net benefits and claims

	2013 RM'000	2012 RM'000
Gross benefits and claims paid	(477,983)	(381,320)
Claims ceded to reinsurers	83,521	66,909
Net claims paid	(394,462)	(314,411)
Gross change in contract liabilities	(752,568)	(677,845)
Change in contract liabilities ceded to reinsurers	(8,996)	3,510
	(1,156,026)	(988,746)

Company No. 104248-X

27. Management expenses

	Note	2013 RM'000	2012 RM'000
Advertising and marketing expenses		21,406	8,890
Allowance for impairment loss on receivables		1,072	1,075
Amortisation of intangible assets	5	5,386	45
Auditors' remuneration:			
- statutory audits, KPMG Malaysia		255	250
Bank charges		10,669	9,413
Depreciation on property, plant and equipment	3	3,284	2,748
Non-executive directors' fee and other emoluments		507	489
Employee benefits expense	27(a)	60,647	51,272
Rental of premises:			
Third parties		4,769	3,973
Other expense		36,571	32,716
		144,566	110,871

27. Management expenses (continued)

(a) Employee benefits expense

	2013 RM'000	2012 RM'000
Wages and salaries	34,255	26,785
Social security contributions	296	258
Contributions to Employees' Provident Fund	5,861	5,055
Other benefits	20,235	19,174
	60,647	51,272

(b) Key management personnel compensation

	2013 RM'000	2012 RM'000
Executive director:		
Salaries	1,216	816
Bonus	812	952
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	265	413
	2,293	2,181
Non-executive directors:		
Fees	329	327
Other emoluments	178	162
Estimated monetary value of benefits-in-kind	18	17
	525	506
	2,818	2,687
Other key management personnel:		
Short term employee benefits	5,250	4,917

27. Management expenses (continued)

(b) Key management personnel compensation (continued)

Other key management personnel comprise persons other than the Directors of the Company, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

The number of executive and non-executive directors whose total remuneration and other emoluments received during the year falls within the following bands is analysed below:

	Number of directors	
	2013	**2012**
Executive director:		
RM1,000,000 and above	1	1
Non-executive directors:		
Below RM50,000	-	1
RM50,000 – RM100,000	3	3
RM100,001 – RM150,000	-	-
RM150,001 – RM200,000	-	-
RM200,001 – RM250,000	-	1
RM250,001 – RM300,000	1	-

(c) The details of remuneration receivable by the CEO during the year are as follows:

	2013 RM'000	2012 RM'000
Salaries and other emoluments	1,216	816
Bonus	812	952
Estimated monetary value of benefits-in-kind	265	413
	2,293	2,181
Amount included in employee benefits expense	2,293	2,181

Company No. 104248-X

28. Tax expense

	2013 RM'000	2012 RM'000
(a) Recognised in profit or loss		
Current tax expense		
Current year	23,768	20,075
Under/(Over) provision in prior years	344	(1,852)
	24,112	18,223
Deferred tax expense		
Origination and reversal of temporary differences	9,245	13,168
Under provision in prior year	-	177
Total tax expense	33,357	31,568

The income tax provided for in the life fund for the current and previous financial years is in respect of investment income which is taxed at a tax rate of 8% (2012: 8%) applicable for life insurance business and 25% (2012: 25%) on income other than investment income which is taxed under Section 60(8) of the Income Tax Act, 1967.

For the shareholders' fund, the corporate tax rate is at 25% for year of assessment 2013 to 2015. Consequently, deferred tax assets and liabilities of shareholders' fund are measured using this tax rate. The taxes of respective funds are disclosed in Note 36 – Insurance funds.

(b) Reconciliation of tax expense

	2013 RM'000	2012 RM'000
Profit before tax	84,117	84,518
Tax at Malaysian tax rates of 25%	21,029	21,130
Tax rate differential of 17% in respect of life fund	2,026	843
Section 110B tax credit set off	(837)	(711)
Income not subject to tax	(121,534)	(100,242)
Non-deductible expenses	132,349	112,223
Other items	(20)	-
Under/(Over) provision in prior years	344	(1,675)
Total tax expense	33,357	31,568

Company No. 104248-X

28. Tax expense (continued)

(c) Income tax recognised directly in other comprehensive income

	2013 RM'000	2012 RM'000
Fair value reserve		
At 1 January	776	849
Net loss arising from change in fair value	(1,223)	(73)
At 31 December	(447)	776
Revaluation reserve		
At 1 January	57	57
Net gain arising from change in fair value	-	-
At 31 December	57	57

(d) Income tax recognised in insurance contract liabilities

	Note	2013 RM'000	2012 RM'000
Available-for-sale fair value reserve			
At 1 January		5,660	2,349
Net gain arising from change in fair value	12	3,018	3,311
At 31 December		8,678	5,660
Revaluation reserve			
At 1 January		132	132
Net gain arising from change in fair value		-	-
At 31 December		132	132

28. Tax expense (continued)

Previously, investment income and gains from disposal of investments from life fund was taxed twice, once at tax rate of 8% in the life fund and again at a tax rate of 25% when the surplus from life fund is transferred to shareholders' fund. In a Gazette Order on 21 April 2008 and effective from year of assessment 2008 onwards, insurance companies are permitted a set-off ("Section 110B Credits") from the total amount of tax imposed on the shareholders' fund to overcome the incidence of double taxation.

Section 110B credits are governed by a specific Inland Revenue Board ("IRB") guideline issued on 5 November 2008 which details the computation of said credits available to the shareholders' fund of an insurance company. Section 110B credits are applied before dividend tax credits when computing net tax payable to IRB.

Under Section 60 (10A) of the Income Tax Act, 1967 ("Act"), tax losses of the life fund are restricted for deduction against future statutory income of the life fund.

However, Section 60 is silent with regards to the utilisation of unabsorbed tax losses arising from the shareholders' fund. The industry in general (including the Company), has in the past, adopted the position that the tax losses of the shareholders' fund should be preserved for utilisation against the taxable income from the same source. However, the tax authority has made adjustments to utilise the unabsorbed losses of the shareholders' fund to offset against the income of the life fund based on the general provision of the Act.

This will result in the tax losses from the shareholders' fund (that would be taxed at the corporate rate) to be offset against the taxable income of the life fund (that would be taxed at a lower rate of 8%).

Arising from the adjustments made by the tax authority, the Company's taxation beginning from year of assessment 2010, has been prepared without bringing forward unabsorbed tax losses of the shareholders' fund.

The industry has appealed to the Ministry of Finance to allow tax losses of the shareholders' fund to be preserved for utilisation against the taxable income from the same source.

29. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2013 RM'000	2012 RM'000
Less than one year	992	1,278
Between one and five years	503	315
	1,495	1,593

The Company leases a number of offices under operating leases. The leases typically run for a period of 1-5 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

Leases as lessor

The Company leases out its investment properties under operating leases. The future minimum lease receivables under non-cancellable leases are as follows:

	2013 RM'000	2012 RM'000
Less than one year	180	192
Between one and five years	40	220
	220	412

30. Capital commitments

	2013 RM'000	2012 RM'000
Property, plant and equipment		
Authorised but not contracted for	15,191	10,880
Contracted but not provided for	2,931	3,338
	18,122	14,218
Exclusive distribution agreement		
Contracted but not provided for	-	50,495

31. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company, and members of Senior Management Committee of the Company. There were no significant transactions with the Company during the financial year other than key management personnel compensation as disclosed in Note 27.

31. Related parties (continued)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Company, other than key management personnel compensation (see note 27), are as follows:

Transactions	Amount transacted for the year ended 31 December 2013 RM'000	Amount transacted for the year ended 31 December 2012 RM'000
Ultimate holding company		
Reinsurance premium and commission	(151)	(230)
Payment of IT service costs	-	(215)
Payment of personnel expenses	(478)	-
Sharing of HR database platform expenses	-	(49)
Payment of global marketing expenses	(546)	(484)
Immediate holding company		
Reimbursement /(Payment) of other expenses	254	(147)
Sharing of common expenses	(5,656)	(3,750)
Subordinated loan	54,300	-
Interest payment for subordinated loan	(2,403)	-
Related companies*		
Reinsurance premium and commission	(81,638)	(58,664)
Insurance premium	62	(107)
Motor insurance premium	(215)	(161)
Redemption of /(Investment in) foreign unit trust	765	(34,405)
Payment of fund management fees and advisory fees	(829)	(1,234)
Payment of brokerage fee for purchases and disposals of equity	(21)	(122)
Reimbursement of personnel expenses	(1,365)	(1,194)
Payment of other expenses	(683)	(2,894)
Rental expenses	(169)	(115)
Rental income	109	117
Payment of intranet portal network cost	(137)	(98)
Sharing of common expenses	741	153
Sharing of asset and investment manager database	(281)	-
Payment for purchases of various software licenses	(28)	-
Sharing of expenses of HR database platform and recruitment solution	(24)	-

* Related companies are companies within the Allianz SE group.

Significant related party balances related to the above transactions are disclosed in note 8, 9, 15, 17 and 18.

32. Risk management framework

As a provider of insurance services, the Company considers risk management to be one of their core competencies. It is an integral part of the Company's business process. In order to protect its assets, the Company has established a risk management framework to promote a strong risk management culture supported by a robust risk governance structure.

This framework ensures that risks are properly identified, analysed and evaluated. Risk appetite is defined by the Company's risk strategy and limit structure. Close monitoring and reporting allows the Company to detect deviations from its risk tolerance limit at an early stage.

The Allianz risk management framework consists of the following four primary components:

(a) Risk underwriting and identification
A sound risk underwriting and identification framework including risk assessment, risk standards, and clear targets form the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, strategic or tactical asset allocation.

(b) Risk reporting and monitoring
The Company's qualitative and quantitative risk reporting and controlling framework provides transparency and risk indicators to senior management with regards to its overall risk profile and whether the profile is within the delegated limits and authorities.

(c) Risk strategy and risk appetite
The Company's risk strategy clearly defines its risk appetite. It ensures that returns are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into management and decision making processes. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within its risk appetite.

(d) Communication and transparency
Finally, a transparent and robust risk disclosure provides a basis for communicating this strategy to the Company's internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

32. Risk management framework (continued)

Risk governance structure

The Board assumes ultimate responsibility over the effectiveness of the Company's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the responsibility to establish and supervise the operation of the risk management framework to the Risk Management Committee ("RMC") to discharge their oversight function effectively.

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Company. RMC also oversees the Senior Management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of AMB Group of Companies ("AMB Group") and to report to the Board on its recommendations and/or decisions. Through structured reporting from the Risk Management Working Committee ("RMWC"), RMC will consolidate the status of the risks and present them to the Board for consideration.

RMC serves and provides as a platform for two way communications between the management and the Board on matters of the AMB Group's risk management framework and its strategies. RMWC is responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendation to the Board. RMWC determines the allocation of risks by cascading and/or escalating to the relevant owners. RMWC also oversees the compliance of all risk management process by all departments of the Company and provides pre-emptive recommendations to ensure timely action is taken in managing and mitigating the identified risks.

Asset and Liability Management ("ALM") Framework

An Asset-Liability Working Group has been tasked to manage business practices so that decisions and actions taken with respect to assets and liabilities are coordinated. It involves various management activities and responsibilities, including the formulation of long-term strategic goals and objectives and the management of various risks including liquidity risk, interest rate risk and market risk.

The ALM process chosen will reflect external and internal constraints.

- External constraints include supervisory and legislative requirements, the interests and expectations of policyholders and other stakeholders. A significant constraint is the liquidity of the assets and liabilities which may compromise the ability to price, measure and hedge exposures.
- Internal constraints such as asset allocation limits reflect the Company's management philosophy or professional judgement (although this may also be influenced by external constraints).

32. Risk management framework (continued)

Governance and regulatory framework

The Company is required to comply with the requirements of the Financial Services Act, 2013, relevant laws and guidelines from BNM and Life Insurance Association of Malaysia.

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

33. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in the legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks through a formalised reinsurance arrangement with an appropriate mix and spread of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines and limits and standards applied to the security of reinsurers.

33. Insurance risk (continued)

The insurance risk of life insurance 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 underestimation 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 life insurance contract liabilities with and without DPF by type of contract.

	Gross			Reinsurance			
	With DPF RM '000	Without DPF RM '000	Total RM '000	With DPF RM '000	Without DPF RM '000	Total RM '000	Net RM '000
2013							
Whole life	1,862,139	435,066	2,297,205	-	(10,645)	(10,645)	2,286,560
Endowment	562,767	454,346	1,017,113	-	-	-	1,017,113
Mortgage	-	119,097	119,097	-	(66,895)	(66,895)	52,202
Riders and others	384,098	138,513	522,611	-	-	-	522,611
Total	2,809,004	1,147,022	3,956,026	-	(77,540)	(77,540)	3,878,486
2012							
Whole life	1,521,604	260,279	1,781,883	-	(16,267)	(16,267)	1,765,616
Endowment	481,212	387,892	869,104	-	(2,251)	(2,251)	866,853
Mortgage	-	113,775	113,775	-	(53,511)	(53,511)	60,264
Riders and others	345,835	128,974	474,809	(2,558)	(11,949)	(14,507)	460,302
Total	2,348,651	890,920	3,239,571	(2,558)	(83,978)	(86,536)	3,153,035

As all of the business is derived from Malaysia, the entire life insurance contract liabilities are in Malaysia and no investment contract.

33. Insurance risk (continued)

Key assumptions

Significant judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experiences, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- Mortality and morbidity rates

  Experience study on mortality and morbidity rates is carried out on annual basis. The actual claim experience is compared against industrial mortality table and reinsurers' morbidity risk charges. Mortality and morbidity assumptions vary by product type and underwriting procedures.

  The Company can increase the mortality/morbidity risk charges in future years in line with emerging experience for investment-linked and universal life contracts.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

- Expenses

  Expense assumption was set during initial pricing stage. Expense assumption is inflated annually to reflect higher cost of underwriting, issuing and maintaining the policies. Expense assumption varies by premium term, distribution channel, policy duration and underwriting procedures. The expense assumption is reviewed annually; it is compared to actual expense that the Company incurred.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

33. Insurance risk (continued)

Key assumptions (continued)

- Lapse and surrender rates

  Experience study on lapse and surrender rates is carried out on annual basis using statistical method. Lapse and surrender rates vary by product type, distribution channel and policy duration.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

- Discount rate

  In the valuation of the total benefits insurance liabilities of participating life policies, the Company has assumed a long term gross rate of return of 4.50% - 6.50% per annum. The long term gross rate of return is derived based on a basket of strategic asset allocations. The Company calculates long term gross rate by assuming each asset class will earn the targeted yield. The strategic asset allocation and targeted yield are reviewed annually in accordance to the Company's investment philosophy, market condition and the prevailing long term market return for each asset class.

  Malaysian Government Securities (MGS) spot rate is used in the valuation of non participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

33. Insurance risk (continued)

Key assumptions (continued)

The assumptions that have significant effects on the gross insurance contract liabilities and reinsurance assets are listed below.

	Mortality and morbidity rates[1]		Lapse and surrender rate		Discount rate	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
	%	**%**	**%**	**%**	**%**	**%**
Type of business						
With fixed and guaranteed terms and with DPF contracts						
Life insurance	70-80	70-80	3-30	3-30	4.50-6.50	4.50-6.50
Without DPF contracts						
Life insurance	70-150	70-150	3-40	3-35	MGS spot yield	MGS spot yield

[1] Industry mortality and morbidity experience tables that were observed in Malaysia between year 1999 and 2003 or the respective reinsurance risk rates.

33. Insurance risk (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax. Sensitivities testing on individual assumptions are meaningful to analyse the magnitude of reserve changes for each assumption. However, it should be studied with care as it does not capture the possible correlation effect when all assumptions are being stressed simultaneously. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

	Change in assumptions %	Impact on Profit before tax# RM'000	Impact on Gross liabilities* RM'000	Impact on Net liabilities* RM'000
Life insurance contracts				
2013				
Mortality and morbidity rates	+5%	(5,851)	13,802	10,310
Discount rate	-0.5%	(23,472)	248,371	245,984
Expenses	+10%	(10,653)	18,468	18,468
Lapse and surrender rates	-10%	978	24,083	23,744
2012				
Mortality and morbidity rates	+5%	(6,353)	13,330	10,511
Discount rate	-0.5%	(28,927)	228,461	223,983
Expenses	+10%	(9,357)	17,413	17,046
Lapse and surrender rates	-10%	(2,671)	31,560	30,891

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

33. Insurance risk (continued)

Sensitivities (continued)

The above illustration is only prepared for adverse scenario, where the key assumptions are being moved in an unfavourable direction. In the sensitivity analysis above, changes in assumptions for life non participating business would impact the profit before tax and insurance contract liabilities. In respect of life participating insurance business, it would impact the insurance contract liabilities.

* The impact on gross and net liabilities only reflects the changes in the prescribed assumptions above without adjustment to policyholders' bonuses for the life participating business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

34. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate/profit yield risk, equity price risk) and operational risk arises in the normal course of the Company's business. The Company is guided by its risk management framework as well as policies and guidelines from the ultimate holding company, Allianz SE which sets out its general risk management philosophy. Through financial risk management, business strategies are evaluated to ensure their appropriateness to the strategic, operational and financial risks tolerance.

34.1 Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from the underwriting of life insurance business and the investment in fixed income instruments. Financial loss may materialise when the counterparty failed to meet payment obligations for various reasons.

The Company has credit policies in place to mitigate the credit risk from underwriting of insurance business and it is monitored on an ongoing basis. Reinsurance is prioritised to local insurers or reinsurers, and if the Company has to place overseas, only counterparties that have a credit rating that is acceptable to Allianz SE Group are used.

With effect from 12 September 2008, all new bond investments must carry a minimum rating of AA- by rating agencies established in Malaysia or minimum rating of BBB- by any internationally recognised rating agency as outlined in the Company's Investment Mandate which is approved by the Board of Directors.

The Company considers rating of BBB and above as investment grades and ratings below BBB as non-investment grade. Assets which are not rated by rating agencies are classified as non-rated.

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position.

	Insurance and Shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
2013			
HTM financial investments			
Malaysian government securities	680,270	-	680,270
Malaysian government guaranteed bonds	543,837	-	543,837
Ringgit denominated bonds by foreign issuers in Malaysia	99,785	-	99,785
LAR			
Government guaranteed loans	190,000	-	190,000
Other loans	85,824	-	85,824
Fixed and call deposits	5,000	157	5,157
AFS financial investments			
Malaysian government securities	79,795	-	79,795
Malaysian government guaranteed bonds	45,805	-	45,805
Ringgit denominated bonds by foreign issuers in Malaysia	13,643	-	13,643
Debt securities	90,643	-	90,643
Structured deposits	2,095	-	2,095
FVTPL - HFT financial investments			
Malaysian government securities	137,442	24,279	161,721

Company No. 104248-X

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure (continued)

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position (continued).

	Insurance and Shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
2013 (continued)			
FVTPL - HFT financial investments (continued)			
Malaysian government guaranteed bonds	99,298	7,444	106,742
Ringgit denominated bonds by foreign issuers in Malaysia	1,558	3,635	5,193
Debt securities	133,353	84,590	217,943
Structured deposits	-	25,195	25,195
FVTPL - Designated upon initial recognition			
Malaysian government securities	508,076	-	508,076
Malaysian government guaranteed bonds	250,557	-	250,557
Ringgit denominated bonds by foreign issuers in Malaysia	62,416	-	62,416
Debt securities	938,246	-	938,246
Structured deposits	119,647	-	119,647
Derivatives financial assets			
Forward starting interest rate swap	-	-	-
Reinsurance assets	77,540	-	77,540
Insurance receivables	52,751	-	52,751
Other receivables and deposits	80,832	6,326	87,158
Cash and cash equivalents	336,570	76,853	413,423
	4,634,983	228,479	4,863,462

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure (continued)

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position (continued).

	Insurance and Shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
2012			
HTM financial investments			
Malaysian government securities	570,826	-	570,826
Malaysian government guaranteed bonds	443,189	-	443,189
Ringgit denominated bonds by foreign issuers in Malaysia	109,720	-	109,720
LAR			
Government guaranteed loans	190,000	-	190,000
Other loans	74,098	-	74,098
Fixed and call deposits	10,668	2,400	13,068
AFS financial investments			
Malaysian government securities	76,870	-	76,870
Malaysian government guaranteed bonds	44,064	-	44,064
Ringgit denominated bonds by foreign issuers in Malaysia	13,745	-	13,745
Debt securities	98,069	-	98,069
Structured deposits	2,156	-	2,156
FVTPL - HFT financial investments			
Malaysian government securities	59,550	13,888	73,438

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure (continued)

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position (continued).

	Insurance and Shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
2012 (continued)			
FVTPL - HFT financial investments (continued)			
Malaysian government guaranteed bonds	31,624	5,173	36,797
Ringgit denominated bonds by foreign issuers in Malaysia	1,582	3,691	5,273
Debt securities	76,460	67,157	143,617
Structured deposits	-	30,170	30,170
FVTPL - Designated upon initial recognition			
Malaysian government securities	499,113	-	499,113
Malaysian government guaranteed bonds	124,057	-	124,057
Ringgit denominated bonds by foreign issuers in Malaysia	62,998	-	62,998
Debt securities	893,620	-	893,620
Structured deposits	123,459	-	123,459
Derivatives financial assets			
Forward starting interest rate swap	8,946	-	8,946
Reinsurance assets	86,536	-	86,536
Insurance receivables	55,709	-	55,709
Other receivables and deposits	49,165	6,808	55,973
Cash and cash equivalents	257,704	49,989	307,693
	3,963,928	179,276	4,143,204

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating

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

	Neither past-due nor impaired					
	Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2013						
HTM financial investments						
Malaysian government securities	-	-	680,270	-	-	680,270
Malaysian government guaranteed bonds	-	-	543,837	-	-	543,837
Ringgit denominated bonds by foreign issuers in Malaysia	99,785	-	-	-	-	99,785
LAR						
Government guaranteed loans	-	-	190,000	-	-	190,000
Other loans	-	-	85,824	-	-	85,824
Fixed and call deposits	-	-	5,000	157	-	5,157
AFS financial investments						
Malaysian government securities	-	-	79,795	-	-	79,795
Malaysian government guaranteed bonds	-	-	45,805	-	-	45,805
Ringgit denominated bonds by foreign issuers in Malaysia	13,643	-	-	-	-	13,643
Debt securities	90,643	-	-	-	-	90,643
Structured deposits	2,095	-	-	-	-	2,095
FVTPL - HFT financial investments						
Malaysian government securities	-	-	137,442	24,279	-	161,721
Malaysian government guaranteed bonds	-	-	99,298	7,444	-	106,742

* Investment grade is defined as investment with rating BBB and above.

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired					
	Investment grade * RM'000	**Non-investment grade RM'000**	**Non-rated RM'000**	**Investment-linked funds RM'000**	**Past-due but not impaired RM'000**	**Total RM'000**
2013 (continued)						
FVTPL - HFT financial investments (continued)						
Ringgit denominated bonds by foreign issuers in Malaysia	1,558	-	-	3,635	-	5,193
Debt securities	133,353	-	-	84,590	-	217,943
Structured deposits	-	-	-	25,195	-	25,195
FVTPL - Designated upon initial recognition financial investments						
Malaysian government securities	-	-	508,076	-	-	508,076
Malaysian government guaranteed bonds	-	-	250,557	-	-	250,557
Ringgit denominated bonds by foreign issuers in Malaysia	62,416	-	-	-	-	62,416
Debt securities	933,136	5,110	-	-	-	938,246
Structured deposits	119,647	-	-	-	-	119,647
Derivatives financial assets						
Forward starting interest rate swap	-	-	-	-	-	-
Reinsurance assets	76,764	-	776	-	-	77,540
Insurance receivables	-	-	46,741	-	6,010	52,751
Other receivables and deposits	-	-	80,832	6,326	-	87,158
Cash and cash equivalents	336,213	-	357	76,853	-	413,423
	1,869,253	5,110	2,754,610	228,479	6,010	4,863,462

* Investment grade is defined as investment with rating BBB and above.

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired					
	Investment grade * RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2012						
HTM financial investments						
Malaysian government securities	-	-	570,826	-	-	570,826
Malaysian government guaranteed bonds	-	-	443,189	-	-	443,189
Ringgit denominated bonds by foreign issuers in Malaysia	109,720	-	-	-	-	109,720
LAR						
Government guaranteed loans	-	-	190,000	-	-	190,000
Other loans	-	-	74,098	-	-	74,098
Fixed and call deposits	-	-	10,668	2,400	-	13,068
AFS financial investments						
Malaysian government securities	-	-	76,870	-	-	76,870
Malaysian government guaranteed bonds	-	-	44,064	-	-	44,064
Ringgit denominated bonds by foreign issuers in Malaysia	13,745	-	-	-	-	13,745
Debt securities	98,069	-	-	-	-	98,069
Structured deposits	2,156	-	-	-	-	2,156
FVTPL - HFT financial investments						
Malaysian government securities	-	-	59,550	13,888	-	73,438

* Investment grade is defined as investment with rating BBB and above.

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired					
	Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2012 (continued)						
FVTPL - HFT financial investments (continued)						
Malaysian government guaranteed bonds	-	-	31,624	5,173	-	36,797
Ringgit denominated bonds by foreign issuers in Malaysia	1,582	-	-	3,691	-	5,273
Debt securities	76,460	-	-	67,157	-	143,617
Structured deposits	-	-	-	30,170	-	30,170
FVTPL - Designated upon initial recognition financial investments						
Malaysian government securities	-	-	499,113	-	-	499,113
Malaysian government guaranteed bonds	-	-	124,057	-	-	124,057
Ringgit denominated bonds by foreign issuers in Malaysia	62,998	-	-	-	-	62,998
Debt securities	893,620	-	-	-	-	893,620
Structured deposits	123,459	-	-	-	-	123,459
Derivatives financial assets						
Forward starting interest rate swap	8,946	-	-	-	-	8,946
Reinsurance assets	85,827	-	709	-	-	86,536
Insurance receivables	-	-	48,345	-	7,364	55,709
Other receivables and deposits	-	-	49,165	6,808	-	55,973
Cash and cash equivalents	257,664	-	40	49,989	-	307,693
	1,734,246	-	2,222,318	179,276	7,364	4,143,204

* Investment grade is defined as investment with rating BBB and above.

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	AAA	AA	A	BBB	BB	Non-rated	Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013								
HTM financial investments								
Malaysian government securities	-	-	-	-	-	680,270	-	680,270
Malaysian government guaranteed bonds	-	-	-	-	-	543,837	-	543,837
Ringgit denominated bonds by foreign issuers in Malaysia	84,785	15,000	-	-	-	-	-	99,785
LAR								
Government guaranteed loans	-	-	-	-	-	190,000	-	190,000
Other loans	-	-	-	-	-	85,824	-	85,824
Fixed and call deposits	-	-	-	-	-	5,000	157	5,157
AFS financial investments								
Malaysian government securities	-	-	-	-	-	79,795	-	79,795
Malaysian government guaranteed bonds	-	-	-	-	-	45,805	-	45,805
Ringgit denominated bonds by foreign issuers in Malaysia	12,126	1,517	-	-	-	-	-	13,643
Debt securities	17,194	73,449	-	-	-	-	-	90,643
Structured deposits	2,095	-	-	-	-	-	-	2,095
FVTPL - HFT financial investments								
Malaysian government securities	-	-	-	-	-	137,442	24,279	161,721
Malaysian government guaranteed bonds	-	-	-	-	-	99,298	7,444	106,742

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	AAA	AA	A	BBB	BB	Non-rated	Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013 (continued)								
FVTPL - HFT financial investments (continued)								
Ringgit denominated bonds by foreign issuers in Malaysia	1,558	-	-	-	-	-	3,635	5,193
Debt securities	64,233	69,120	-	-	-	-	84,590	217,943
Structured deposits	-	-	-	-	-	-	25,195	25,195
FVTPL - Designated upon initial recognition financial investments								
Malaysian government securities	-	-	-	-	-	508,076	-	508,076
Malaysian government guaranteed bonds	-	-	-	-	-	250,557	-	250,557
Ringgit denominated bonds by foreign issuers in Malaysia	53,817	8,599	-	-	-	-	-	62,416
Debt securities	373,489	559,647	-	-	5,110	-	-	938,246
Structured deposits	119,647	-	-	-	-	-	-	119,647
Derivatives financial assets								
Forward starting interest rate swap	-	-	-	-	-	-	-	-
Reinsurance assets	-	75,773	991	-	-	776	-	77,540
Insurance receivables	-	-	-	-	-	52,751	-	52,751
Other receivables and deposits	-	-	-	-	-	80,832	6,326	87,158
Cash and cash equivalents	294,440	7,751	34,022	-	-	357	76,853	413,423
	1,023,384	810,856	35,013	-	5,110	2,760,620	228,479	4,863,462

Company No. 104248-X

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	AAA	AA	A	BBB	BB	Non-rated	Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012								
HTM financial investments								
Malaysian government securities	-	-	-	-	-	570,826	-	570,826
Malaysian government guaranteed bonds	-	-	-	-	-	443,189	-	443,189
Ringgit denominated bonds by foreign issuers in Malaysia	29,720	70,000	-	10,000	-	-	-	109,720
LAR								
Government guaranteed loans	-	-	-	-	-	190,000	-	190,000
Other loans	-	-	-	-	-	74,098	-	74,098
Fixed and call deposits	-	-	-	-	-	10,668	2,400	13,068
AFS financial investments								
Malaysian government securities	-	-	-	-	-	76,870	-	76,870
Malaysian government guaranteed bonds	-	-	-	-	-	44,064	-	44,064
Ringgit denominated bonds by foreign issuers in Malaysia	2,034	11,711	-	-	-	-	-	13,745
Debt securities	17,622	48,708	-	31,739	-	-	-	98,069
Structured deposits	2,156	-	-	-	-	-	-	2,156
FVTPL - HFT financial investments								
Malaysian government securities	-	-	-	-	-	59,550	13,888	73,438
Malaysian government guaranteed bonds	-	-	-	-	-	31,624	5,173	36,797

Company No. 104248-X

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	AAA	AA	A	BBB	BB	Non-rated	Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012 (continued)								
FVTPL - HFT financial investments (continued)								
Ringgit denominated bonds by foreign issuers in Malaysia	-	1,582	-	-	-	-	3,691	5,273
Debt securities	19,455	44,956	-	12,049	-	-	67,157	143,617
Structured deposits	-	-	-	-	-	-	30,170	30,170
FVTPL - Designated upon initial recognition financial investments								
Malaysian government securities	-	-	-	-	-	499,113	-	499,113
Malaysian government guaranteed bonds	-	-	-	-	-	124,057	-	124,057
Ringgit denominated bonds by foreign issuers in Malaysia	3,051	59,947	-	-	-	-	-	62,998
Debt securities	288,745	410,390	85,014	109,471	-	-	-	893,620
Structured deposits	123,459	-	-	-	-	-	-	123,459
Derivatives financial assets								
Forward starting interest rate swap	8,946	-	-	-	-	-	-	8,946
Reinsurance assets	-	84,980	847	-	-	709	-	86,536
Insurance receivables	-	-	-	-	-	55,709	-	55,709
Other receivables and deposits	-	-	-	-	-	49,165	6,808	55,973
Cash and cash equivalents	203,666	6,627	47,371	-	-	40	49,989	307,693
	698,854	738,901	133,232	163,259	-	2,229,682	179,276	4,143,204

34. Financial risks (continued)

34.1 Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company according to the Company's categorisation of counter-parties by credit rating.

	AAA	AA	A	BBB	BB	Non-rated	Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013								
Investment grade	1,023,384	810,856	35,013	-	-	-	190,430	2,059,683
Non-investment grade	-	-	-	-	5,110	-	-	5,110
Non-rated	-	-	-	-	-	2,754,610	38,049	2,792,659
Past-due but not impaired	-	-	-	-	-	6,010	-	6,010
	1,023,384	810,856	35,013	-	5,110	2,760,620	228,479	4,863,462
2012								
Investment grade	698,854	738,901	133,232	163,259	-	-	125,249	1,859,495
Non-investment grade	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	2,222,318	54,027	2,276,345
Past-due but not impaired	-	-	-	-	-	7,364	-	7,364
	698,854	738,901	133,232	163,259	-	2,229,682	179,276	4,143,204

34. Financial risks (continued)

34.1 Credit risk (continued)

The Company has not provided the credit risk analysis for the financial asset of the investment-linked business. This is due to the fact that, in investment-linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities and the shareholders have no direct exposure to any credit risk in those assets.

(i) Past-due but not impaired financial assets

Age analysis of financial assets past-due but not impaired

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past due as at the reporting date but not impaired is as follows:

Insurance receivables	< 90 days	91-180 days	Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000
2013	6,010	-	-	6,010
2012	7,364	-	-	7,364

34. Financial risks (continued)

34.1 Credit risk (continued)

(ii) Past-due and impaired financial assets

At 31 December 2013, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM2,960,000 (2012: RM1,751,000) and other receivables of RM530,000 (2012: RM667,000) respectively. No collateral is held as security for any past due or impaired financial assets. The Company records impairment allowance for insurance receivables and other receivables in separate allowance for impairment accounts. A reconciliation of the allowance for impairment losses for insurance receivables and other receivables are as follows:

	Insurance receivables		Other receivables	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	1,751	1,140	667	203
Impairment loss recognised/ (reversed)	1,209	611	(137)	464
At 31 December	2,960	1,751	530	667

34. Financial risks (continued)

34.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Company, refinancing is only possible at higher interest rates or that assets may have to be liquidated at a discount.

Besides monitoring the liquidity position of the Company on a daily basis, the investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets in the portfolio. Some other tools used by the Company include to ensure that its assets and liabilities are adequately matched and drawing down of funds to meet claim payments should the claim events exceed a certain amount as provided for in the reinsurance contracts.

Maturity profiles

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on remaining undiscounted contractual obligations, including interest/profit payable.

For insurance contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

Investment-linked liabilities are repayable or transferable on demand and are included in the “up to a year” column. Repayments which are subject to notice are treated as if notice were to be given immediately.

Company No. 104248-X

34. Financial risks (continued)

34.2 Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	5-15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
2013								
Insurance contract liabilities								
With DPF	2,978,413	376,578	(72,968)	331,765	2,047,466	7,584,472	-	10,267,313
Without DPF	1,689,517	1,246,540	20,351	60,370	303,698	356,005	-	1,986,964
Derivative financial liabilities	20,950	20,950	-	-	-	-	-	20,950
Subordinated loan	54,300	-	-	-	54,300	-	-	54,300
Other financial liabilities	2,078	1,087	991	-	-	-	-	2,078
Insurance payables	113,092	113,092	-	-	-	-	-	113,092
Other payables and accruals	92,028	93,277	4,897	4,887	11,012	-	-	114,073
Benefits and claims liabilities	117,858	117,858	-	-	-	-	-	117,858
Total liabilities	5,068,236	1,969,382	(46,729)	397,022	2,416,476	7,940,477	-	12,676,628
2012								
Insurance contract liabilities								
With DPF	2,590,521	377,953	(157,158)	185,655	1,990,538	6,231,900	-	8,628,888
Without DPF	1,290,132	732,506	66,805	65,592	328,094	361,754	-	1,554,751
Derivative financial liabilities	-	-	-	-	-	-	-	-
Subordinated loan	-	-	-	-	-	-	-	-
Other financial liabilities	1,416	277	1,139	-	-	-	-	1,416
Insurance payables	90,132	90,132	-	-	-	-	-	90,132
Other payables and accruals	79,729	79,729	-	-	-	-	-	79,729
Benefits and claims liabilities	84,813	84,813	-	-	-	-	-	84,813
Total liabilities	4,136,743	1,365,410	(89,214)	251,247	2,318,632	6,593,654	-	10,439,729

34. Financial risks (continued)

34.3 Market risk

Market risk is the risk of loss arising due to changes in market prices or parameters influencing market prices, and in particular the resultant interest rate guarantee risks from asset liability management or from changes to the participations. This includes changes in market prices due to a worsening of market liquidity. Market risk comprises of currency risk, interest rate/profit yield risk and equity price risk.

The following risk mitigation actions are in place to control and monitor such risk:

- Investment Committee actively monitors the investment activities undertaken by the Company.
- An Asset-Liability Working Group would recommend the initiatives after balancing competing and legitimate objective of various stakeholders.
- The Investment Policy and Mandate which formulated the single counter limits, company limits and sector limits are in place. Compliance to such limits is monitored monthly and reported to Risk Management Working Committee / Risk Management Committee on a quarterly basis.
- Perform stress test as and when needed.
- Stop loss policy is in place.

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

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.1 Currency risk

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

The Company's primary transactions are carried out in Ringgit Malaysia (RM) and its exposure to foreign exchange risk arises principally with respect to US Dollar (USD), Australian Dollar (AUD), Singapore Dollar (SGD), Thai Baht (THB) and Indonesia Rupiah (IDR). As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act, 2013 and hence, primarily denominated in the same currency (RM) as its insurance contract liabilities. Thus the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

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

Exposure to foreign currency risk

The Company's exposure to foreign currency risk, based on carrying amounts as at end of the reporting period was:

Denominated in	Financial assets RM'000	Investment-linked funds RM'000
2013		
USD	36,185	14,491
AUD	-	25,195
SGD	-	564
THB	-	146
IDR	-	170

Company No. 104248-X

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.1 Currency risk (continued)

Exposure to foreign currency risk (continued)

Denominated in	Financial assets	Investment-linked funds
2012	**RM'000**	**RM'000**
USD	35,277	13,827
AUD	-	28,158
SGD	-	-
THB	-	-
IDR	-	-

Currency risk sensitivity analysis

A 10% (2012:10%) strengthening of the Ringgit Malaysia (RM) against the following currencies at the end of the reporting period would have increased/(decreased) the insurance contract liabilities by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted income and expenses.

	Impact on insurance contract liabilities 2013 RM'000	Impact on insurance contract liabilities 2012 RM'000
USD	(5,068)	(4,910)
AUD	(2,520)	(2,816)
SGD	(56)	-
THB	(15)	-
IDR	(17)	-

A 10% (2012:10%) weakening of the Ringgit Malaysia (RM) against the above currencies at the end of the reporting period would have equal but opposite effect on the above currencies to the amount shown above, on the basis that all variables remained constant.

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

Only life participating fund and investment-linked funds invested in foreign financial instruments.

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.2 Interest rate/Profit yield risk

The Company is affected by changes in market interest rate due to the impact of such changes on fair value and will incur an economic loss when the interest rates drop since the duration of policy liabilities is generally longer than the duration of the fixed income financial assets.

Besides the uncertainty of the cash flows of the insurance funds and scarcity of the longer dated instruments, it is not possible to hold assets that will perfectly match the policy liabilities.

Interest rate risk sensitivity analysis

The analysis below is performed for reasonable possible movements in interest rate with all other variables held constant, showing the impact on the profit before tax, equity and insurance contract liabilities.

	Change in variables	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on Insurance contract liabilities** RM'000
2013				
Interest rate	+100 basis points	(74,889)	(52,275)	(64,682)
Interest rate	+200 basis points	(142,704)	(99,625)	(123,591)
2012				
Interest rate	+100 basis points	(41,073)	(29,078)	(33,495)
Interest rate	+200 basis points	(103,608)	(72,945)	(85,543)

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.2 Interest rate/Profit yield risk (continued)

Interest rate risk sensitivity analysis (continued)

The above illustration is only prepared for adverse scenario, where interest rate is being raised. The impact on profit before tax would be dependent on whether the interest risk resides in shareholders' fund, life non participating insurance fund, life participating insurance fund or investment-linked funds. Where the interest risk resides in shareholders' fund and life non participating fund, the impact will be directly to profit before tax and equity of the Company. In respect of life participating fund and investment-linked funds, impact arising from changes in interest rate risk would affect the insurance contract liabilities. The above sensitivity test would yield proxy results if interest rate were to move in the opposite direction, with the Company.

* The impact on equity reflects adjustments for tax, where applicable.

** The impact on insurance contract liabilities only reflects the changes in the prescribed assumptions above without any adjustments to policyholders' bonuses for the participating insurance business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

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

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.3 Equity price risk

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

The Company's equity price risk exposures relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investments securities not held for the account of the investment-linked business.

The Company's equity price risk policy requires it to prioritise capital preservation besides setting limits on overall portfolio, single security and sector holdings. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of equity price risk.

Equity price risk sensitivity analysis

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit before tax, equity and insurance contract liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		2013			2012		
	Changes in variable	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000
Market indices							
Market value	-10%	-	-	(77,733)	-	-	(57,753)
Market value	-20%	-	-	(154,328)	-	-	(112,110)

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.3 Equity price risk (continued)

The above illustration is only prepared for adverse scenario, where market price is being moved in an unfavourable direction. The impact on profit before tax would be dependent on whether the equity price risk resides in shareholders' fund, life non participating insurance fund, life participating insurance fund or investment-linked funds. Where the equity price risk resides in shareholders' fund and life non participating fund, the impact will be directly to profit before tax and equity of the Company. In respect of life participating fund and investment-linked funds, impact arising from changes in equity price risk would affect the insurance contract liabilities. The above sensitivity test would yield proxy results if market price were to move in the opposite direction, with the Company.

* The impact on equity reflects adjustments for tax, where applicable.

** The impact on insurance contract liabilities only reflects the changes in the prescribed assumptions above without any adjustments to policyholders' bonuses for the participating insurance business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

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

Only life participating fund and investment-linked funds invested in equity securities.

34.4 Operational risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives resulting from inadequate or failed internal processes and systems, human factors or external events.

The Company put in place the following controls to monitor and mitigate such risk:-

- Effective segregation of duties;
- Access controls, authorisation and reconciliation procedures;
- Automation of processes where possible;
- Staff training; and
- Evaluation procedures such as internal audit.

34. Financial risks (continued)

34.5 Fair value of financial instruments

The Company's basis in estimation of fair values for financial instruments is as follows:

- The fair values of structured deposits and forward starting interest rate swap are based on the indicative market prices from the issuing banks;

- The fair values of quoted equity securities of corporations in and outside Malaysia and quoted unit trusts in Malaysia are based on quoted closing market price as at the end of the reporting period;

- The unquoted equity securities of corporations in Malaysia are stated at cost. Where in the opinion of the Directors, there is a decline other than temporary in value of unquoted equity securities, the allowance for impairment is recognised as an expense in the financial year in which the decline is identified;

- The fair values of Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers in Malaysia and unquoted bonds of corporations in Malaysia are based on the indicative market yields obtained from three financial institutions;

- The fair values of unquoted unit trusts in and outside Malaysia are based on the net asset values of the unit trusts as at the date of the statements of assets and liabilities obtained from fund managers;

- The carrying amount of government guaranteed loan, policy loans, mortgage loans, automatic premium loans, subordinated loan, other secured loans, other unsecured loans and fixed and call deposits and other financial liabilities are assumed to reasonably approximate their fair values; and

- The carrying amounts of cash and cash equivalents, insurance receivables, other receivables and deposits, insurance payables and other payables and accruals reasonably approximate fair values due to the relatively short term nature of these financial instruments.

34. Financial risks (continued)

34.5 Fair value of financial instruments (continued)

Estimation of the fair values of Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers in Malaysia, and unquoted bonds of corporations in Malaysia are based on the indicative market yields obtained from three financial institutions which involve projections of the market yields based on past transactions. There are elements of uncertainty in projecting the expected market yields and these uncertainties arise from changes in underlying risk and overall economic conditions. As such, the projected market yields may be different from the actual market yields in future.

It was not practicable to estimate the fair value of the Company's investment in unquoted equity securities of corporations in Malaysia due to lack of comparable quoted market prices and inability to estimate fair value without incurring excessive costs.

Company No. 104248-X

34. Financial risks (continued)

34.5 Fair value of financial instruments (continued)

34.5.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
2013										
Financial assets										
Malaysian government securities	-	749,592	-	749,592	-	669,761	-	669,761	1,419,353	1,429,862
Malaysian government guaranteed bonds	-	403,104	-	403,104	-	522,711	-	522,711	925,815	946,941
Ringgit denominated bonds by foreign issuers in Malaysia	-	81,252	-	81,252	-	101,848	-	101,848	183,100	181,037
Quoted equity securities of corporations in Malaysia	795,603	-	-	795,603	-	-	-	-	795,603	795,603
Quoted equity securities of corporations outside Malaysia	880	-	-	880	-	-	-	-	880	880
Unquoted bonds of corporations in Malaysia	-	1,246,832	-	1,246,832	-	-	-	-	1,246,832	1,246,832
Quoted unit trusts in Malaysia	52,797	-	-	52,797	-	-	-	-	52,797	52,797
Unquoted unit trusts in Malaysia	-	5,390	-	5,390	-	-	-	-	5,390	5,390
Unquoted unit trusts outside Malaysia	-	50,676	-	50,676	-	-	-	-	50,676	50,676
Forward starting interest rate swap	-	-	-	-	-	-	-	-	-	-
Structured deposits with licensed banks	-	146,937	-	146,937	-	-	-	-	146,937	146,937
Government guaranteed loan	-	-	-	-	-	190,000	-	190,000	190,000	190,000
	849,280	2,683,783	-	3,533,063	-	1,484,320	-	1,484,320	5,017,383	5,046,955
Financial liabilities										
Forward starting interest rate swap	-	20,950	-	20,950	-	-	-	-	20,950	20,950
Subordinated loan	-	-	-	-	-	54,300	-	54,300	54,300	54,300
	-	20,950	-	20,950	-	54,300	-	54,300	75,250	75,250

Company No. 104248-X

34. Financial risks (continued)

34.5 Fair value of financial instruments (continued)

34.5.1 Fair value hierarchy (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position (continued).

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value*		Carrying
	Level 1	Level 2	Level 3	Total	Total	Total fair value	amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012							
Financial assets							
Malaysian government securities	-	649,421	-	649,421	590,812	1,240,233	1,220,247
Malaysian government guaranteed bonds	-	204,918	-	204,918	464,204	669,122	648,107
Ringgit denominated bonds by foreign issuers in Malaysia	-	82,016	-	82,016	112,750	194,766	191,736
Quoted equity securities of corporations in Malaysia	554,300	-	-	554,300	-	554,300	554,300
Quoted equity securities of corporations outside Malaysia	-	-	-	-	-	-	-
Unquoted bonds of corporations in Malaysia	-	1,135,306	-	1,135,306	-	1,135,306	1,135,306
Quoted unit trusts in Malaysia	84,025	-	-	84,025	-	84,025	84,025
Unquoted unit trusts in Malaysia	-	1,928	-	1,928	-	1,928	1,928
Unquoted unit trusts outside Malaysia	-	49,104	-	49,104	-	49,104	49,104
Forward starting interest rate swap	-	8,946	-	8,946	-	8,946	8,946
Structured deposits with licensed banks	-	155,785	-	155,785	-	155,785	155,785
Government guaranteed loan	-	-	-	-	190,000	190,000	190,000
	638,325	2,287,424	-	2,925,749	1,357,766	4,283,515	4,239,484
Financial liabilities							
Forward starting interest rate swap	-	-	-	-	-	-	-
Subordinated loan	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

34. Financial risks (continued)

34.5 Fair value of financial instruments (continued)

34.5.1 Fair value hierarchy (continued)

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year. (2012: no transfer in either directions)

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

Company No. 104248-X

35. Capital management

Regulatory capital requirements

Risk-Based Capital Framework ("RBC Framework") came into effect on 1 January 2009. Under this framework, insurance companies need to maintain a capital adequacy level that commensurate with their risk profiles. All insurance companies are required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130% and an internal target capital level determined by BNM or level determined under the Internal Capital Adequacy Process. The internal target will include additional capacity to absorb unexpected losses beyond those that are covered under the minimum required CAR.

The Company has been in compliance with the said requirement.

The total capital available of the Company as at 31 December 2013, as prescribed under the RBC Framework is provided below:

	Note	2013 RM'000	2012 RM'000
Tier 1 Capital			
Paid up share capital	10	236,600	236,600
Reserves, including retained earnings		528,854	477,877
Capital instruments which qualifies as Tier 1 Capital		590,887	404,402
		1,356,341	1,118,879
Tier 2 Capital			
Revaluation reserve		2,575	2,575
Available-for-sale reserve		98,540	67,428
Subordinated loan		55,492	-
		156,607	70,003
Amount deducted from capital		(52,130)	92,715
Total capital available		1,460,818	1,281,597

Company No. 104248-X

36. Insurance funds

The Company's activities are organised by funds and segregated into Life and Shareholders' funds in accordance with the Financial Services Act, 2013.

The Company's statement of financial position and statement of profit or loss have been further analysed by funds.

The life insurance business offers a wide range of participating and non-partipating Whole life, Term assurance, Endownment, as well as investment-linked products.

Statement of financial position by funds for the year ended 31 December

	Shareholders' fund		Life fund		Total	
	2013	2012	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Property, plant and equipment	-	-	23,050	21,982	23,050	21,982
Investment properties	-	-	3,300	2,990	3,300	2,990
Intangible assets	45,446	-	1,199	80	46,645	80
Investments	247,170	252,720	4,892,913	4,067,131	5,140,083	4,319,851
Derivative financial assets	-	-	-	8,946	-	8,946
Reinsurance assets	-	-	77,540	86,536	77,540	86,536
Insurance receivables	-	-	52,751	55,709	52,751	55,709
Other receivables, deposits and prepayments	12,562	8,194	74,596	47,779	87,158	55,973
Current tax assets	973	1,528	1,718	2,034	2,691	3,562
Cash and cash equivalents	16,255	837	397,168	306,856	413,423	307,693
	322,406	263,279	5,524,235	4,600,043	5,846,641	4,863,322

Company No. 104248-X

36. Insurance funds (continued)

Statement of financial position by funds
for the year ended 31 December (continued)

	Shareholders' fund		Life fund		Total	
	2013	2012	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Total equity	266,708	262,383	323,066	280,228	589,774	542,611
Total policyholders' funds and liabilities						
Insurance contract liabilities	-	-	4,667,930	3,880,653	4,667,930	3,880,653
Deferred tax (assets) / liabilities	(384)	830	118,506	106,252	118,122	107,082
Derivative financial liabilities	-	-	20,950	-	20,950	-
Subordinated loan	54,300	-	-	-	54,300	-
Other financial liabilities	-	-	2,078	1,416	2,078	1,416
Insurance payables	-	-	113,092	90,132	113,092	90,132
Other payables and accruals	1,782	66	160,755	156,549	162,537	156,615
Benefits and claims liabilities	-	-	117,858	84,813	117,858	84,813
	55,698	896	5,201,169	4,319,815	5,256,867	4,320,711
Total equity, policyholders' funds and liabilities	322,406	263,279	5,524,235	4,600,043	5,846,641	4,863,322

Company No. 104248-X

36. Insurance funds (continued)

Statement of profit or loss by funds for the year ended 31 December

	Shareholders' fund		Life fund		Total	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Operating revenue	10,190	9,578	1,800,080	1,478,582	1,810,270	1,488,160
Gross earned premiums	-	-	1,599,805	1,309,569	1,599,805	1,309,569
Premiums ceded to reinsurers	-	-	(101,148)	(74,850)	(101,148)	(74,850)
Net earned premiums	-	-	1,498,657	1,234,719	1,498,657	1,234,719
Investment income	10,190	9,578	200,275	169,013	210,465	178,591
Realised gains and losses	(72)	2,257	61,329	39,631	61,257	41,888
Fair value gains and losses	-	-	(69,459)	15,342	(69,459)	15,342
Fee and commission income	-	-	6,842	4,750	6,842	4,750
Other operating income	-	-	7,847	5,007	7,847	5,007
Other revenue	10,118	11,835	206,834	233,743	216,952	245,578
Gross benefits and claims paid	-	-	(477,983)	(381,320)	(477,983)	(381,320)
Claims ceded to reinsurers	-	-	83,521	66,909	83,521	66,909
Gross change in contract liabilities	-	-	(752,568)	(677,845)	(752,568)	(677,845)
Change in contract liabilities ceded to reinsurers	-	-	(8,996)	3,510	(8,996)	3,510
Net benefits and claims	-	-	(1,156,026)	(988,746)	(1,156,026)	(988,746)
Fee and commission expense	-	-	(309,802)	(286,283)	(309,802)	(286,283)
Management expenses	(5,162)	232	(139,404)	(111,103)	(144,566)	(110,871)
Other operating expenses	(2,937)	(15)	(18,161)	(9,864)	(21,098)	(9,879)
Other expenses	(8,099)	217	(467,367)	(407,250)	(475,466)	(407,033)
Transfer	10,203	8,370	(10,203)	(8,370)	-	-
Profit/Surplus before tax	12,222	20,422	71,895	64,096	84,117	84,518
Tax expense (Note 28)	(4,203)	(2,688)	(29,154)	(28,880)	(33,357)	(31,568)
Net profit/Surplus after tax	8,019	17,734	42,741	35,216	50,760	52,950

Company No. 104248-X

36. Insurance funds (continued)

Investment-linked funds statement of assets and liabilities for the year ended 31 December

	2013 RM'000	2012 RM'000
Assets		
Financial investments	464,341	347,466
Interest and dividend receivables, and other receivables	6,326	6,808
Cash and cash equivalents	76,853	49,989
Total assets	547,520	404,263
Liabilities		
Deferred tax liabilities	4,014	1,787
Other payables	344	197
Benefits and claims liabilities	550	2,931
Current tax liabilities	116	135
Total liabilities	5,024	5,050
Net asset value of funds (Note 12)	542,496	399,213

36. Insurance funds (continued)

Investment-linked funds statement of income and expenditure for the year ended 31 December

	2013 RM'000	2012 RM'000
Investment income	18,205	14,944
Realised gains and losses	21,667	13,742
Fair value gains and losses	29,010	10,974
Other operating income	6	143
	68,888	39,803
Other operating expenses	(8,220)	(4,171)
Profit before tax	60,668	35,632
Tax expense	(4,835)	(2,647)
Net profit for the year	55,833	32,985

36. Insurance funds (continued)

Information on cash flows by funds for the year ended 31 December

	Shareholders' fund		Life fund		Investment-linked funds		Total	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash flows from/(used in):								
Operating activities	11,613	(5,393)	69,260	1,240	26,864	14,044	107,737	9,891
Investing activities	(50,495)	-	(5,812)	(4,609)	-	-	(56,307)	(4,609)
Financing activities	54,300	-	-	-	-	-	54,300	-
Net increase/(decrease) in cash and cash equivalents	15,418	(5,393)	63,448	(3,369)	26,864	14,044	105,730	5,282
At beginning of year	837	6,230	256,867	260,236	49,989	35,945	307,693	302,411
At end of year	16,255	837	320,315	256,867	76,853	49,989	413,423	307,693

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 31 to 152 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:-

……………………………………………………..
Tan Sri Razali Bin Ismail

……………………………………………………..
Jens Reisch

Kuala Lumpur,

Date: 21 March 2014

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Ong Eng Chow**, the officer primarily responsible for the financial management of Allianz Life Insurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 31 to 152 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.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 21 March 2014.

……….…..………………………..
Ong Eng Chow

Before me:

Independent Auditors' Report to the member of Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Allianz Life Insurance Malaysia Berhad, which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 31 to152.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Company No. 104248-X

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matter

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Loh Kam Hian
Approval Number: 2941/09/14(J)
Chartered Accountant

Petaling Jaya,

Date: 21 March 2014