

# **Allianz Life Insurance Malaysia Berhad**

(Company No. 104248-X)

(Incorporated in Malaysia)

## **Financial statements for the year ended 31 December 2017**

(in Ringgit Malaysia)

Domiciled in Malaysia  
Principal place of business  
Level 29, Menara Allianz Sentral,  
203, Jalan Tun Sambanthan,  
Kuala Lumpur Sentral,  
50470 Kuala Lumpur

# Allianz Life Insurance Malaysia Berhad

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

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# Allianz Life Insurance Malaysia Berhad

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

## Directors' report for the year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2017.

### 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	<u>95,865</u>

### Dividend

The Directors do not recommend any final 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").

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## **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.

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.

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## **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 2017 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 issued 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.

## **Indemnity and insurance costs**

The Company maintains a Directors' and Officers' Liability Insurance for the purpose of Section 289(5) of the Companies Act 2016, throughout the year, which provides appropriate insurance cover for the Directors and Officers of the Company. The amount of insurance premium paid during the financial year amounted to RM28,500.

There were no indemnity given to, or insurance effected for auditors of the Company during the financial year.

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## **Corporate governance**

### **A. Board of Directors**

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 detailed responsibilities of the Board is set out in the Board Charter, which is available at the Allianz’s website, [allianz.com.my](http://allianz.com.my).

#### **A1. Composition of the Board**

The Board is made up of 2 Non-Independent Non-Executive Directors, 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 members of the Board complied with Bank Negara Malaysia (“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 (“FSA 2013”).

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

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

The profiles of the Board members are as follows:-

<b>Tan Sri Razali Bin Ismail</b> Chairman - Non-Independent Non-Executive Director	
Working experience	<p>Tan Sri Razali was in the diplomatic service of the Government of Malaysia for 36 years (1962-1998) serving the last 10 years as Malaysia's Permanent Representative to the United Nations in New York. Y. Bhg. Tan Sri Razali was the President of the 53rd United Nations General Assembly from 1996 to 1997. He was involved in articulating and developing positions in various bodies on issues such as development and sustainability, poverty and marginalisation, political reforms in the United Nations and issues of human rights and the environment. He continues to keep abreast on these subjects at home and abroad, through participation at seminars and interacting with personalities and bodies, ties established earlier. He was the United Nations Secretary-General's Special Envoy for Myanmar for more than 5 years (2000-2005).</p> <p>In Malaysia, he has built a small position on issues relating to environment and is a self-styled environmental entrepreneur. He is an on the ground environmentalist especially over the protection and replanting of mangrove and dealing with environmental degradation due to urbanisation, pushing for recovery efforts such as sanitary landfills and the promotion of renewable energy and solar.</p>
Shareholding in the Company	Nil

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Foo San Kan</b>	
Non-Independent Non-Executive Director	
Working experience	Foo San Kan was the Country Managing Partner of Ernst & Young Malaysia from 1997 to 2002 before he retired as a practising accountant. He has 35 years of experience in the accounting profession, of which the last 30 years were spent in various positions in Ernst & Young. During the course of his career, he was involved in various industry sectors including financial services, energy, manufacturing, plantations, property, construction, leisure and entertainment and almost all aspects of the accounting profession.
Shareholding in the Company	Nil



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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Dato' Dr. Thillainathan A/L Ramasamy</b> Independent Non-Executive Director	
Working experience	<p>Dato' Dr. Thillainathan has been with the Genting Group since 1989 and held positions as Director of Finance (1989-2002), Chief Operating Officer (2002-2006) and Executive Director (2003-2007) and was subsequently redesignated as an Independent Director in 2009. Prior to his employment with the Genting Group, he was the Chief Executive of Bank Buruh Malaysia Berhad (1984-1989), Joint Managing Director of Bank Pusat Kerjasama (1983-1984), General Manager, Treasury and Investment Services of Arab Malaysian Merchant Bank (1980-1983) and Lecturer and Associate Professor, Faculty of Economics and Administration of University of Malaya (1970-1979). He is currently a Member of the Board of Director (Lembaga Pengarah Universiti) and UM Holdings Sdn Bhd and a council member of the Malaysian Quality Agency.</p> <p>Dato' Dr. Thillainathan has extensive years of experience in finance and banking. He is the past President of Malaysian Economic Association and past Chairman and council member of the Federation of Asean Economic Associations. He has served on the National Economic Panel, the Anti-Recession Task Force, the Task Force on Capital Market Development, the Investment Panel of Employees Provident Fund, the National Economic Consultative Council, the Tax Review Panel of the Ministry of Finance, the Economic Council and Majlis Perundingan Ekonomi Negara Kedua.</p>
Shareholding in the Company	Nil

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Tan Sri Datuk (Dr.) Rafiah Binti Salim</b> Independent Non-Executive Director	
Working experience	<p>Tan Sri Datuk (Dr.) Rafiah started her career as a lecturer at the Faculty of Law, University of Malaya in 1974. In 1988, she ended her service with the University as the Dean of the Faculty. She then moved on to become the Head of the Legal Department of the Malayan Banking Berhad (“Maybank”). In 1991, she was promoted to the post of General Manager of the Human Resource Department at Maybank. She was then invited to serve in BNM as the Assistant Governor for the Security Department, Legal Department and Property and Service Department.</p> <p>Tan Sri Datuk (Dr.) Rafiah’s international experience includes holding the position of Assistant Secretary General for Human Resource Management, United Nations, New York, from 1997 to 2002 and was the first Malaysian to be appointed to such a high ranking post in the United Nations system. From 2003 to 2006, she was the Executive Director of the International Centre for Leadership in Finance, now known as The ICLIF Leadership And Governance Centre. In 2006, she was appointed as the Vice-Chancellor/President of the University of Malaya.</p> <p>She was the Executive Director of NAM Institute for the Empowerment of Women from 2009 to 2013.</p> <p>Tan Sri Datuk (Dr.) Rafiah has been awarded the “Darjah Kebesaran Panglima Jasa Negara (PJN)” and the “Panglima Setia Mahkota (PSM)” from His Majesty The Yang di-Pertuan Agong.</p>
Shareholding in the Company	Nil

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Tunku Zain Al-Abidin Ibni Tuanku Muhriz</b> Independent Non-Executive Director	
Working experience	<p>Tunku Zain Al-Abidin worked in the UK Houses of Parliament before moving to Washington DC to join the World Bank as a Public Sector Consultant. Upon returning to Malaysia in 2008, he worked at the United Nations Development Programme and the KRA Group before becoming a Research Fellow at the Lee Kuan Yew School of Public Policy at the National University of Singapore.</p> <p>Tunku Zain Al-Abidin is Founding President of the Institute for Democracy and Economic Affairs; a Trustee of Yayasan Chow Kit, Yayasan Munarah, the Jeffrey Cheah Foundation and the Genovasi Foundation; an advisor or patron to numerous educational and cultural organisations; a committee member of several societies; a columnist in three newspapers; and a Royal fellow of the National University of Malaysia.</p> <p>In 2006 he co-founded the Malaysia Think Tank which evolved into the Institute for Democracy and Economic Affairs (IDEAS) in 2010. Since 2008 he has maintained a newspaper column: firstly Abiding Times in theSun, then Roaming Beyond the Fence in the Star and Sin Chew, and now Conservatively Speaking Freely in the Malay Mail, Borneo Post and Oriental Daily. From these articles three books have been compiled, the latest being nominated for the Popular Readers' Choice Awards. Tunku Zain Al-Abidin is also authored a coffee table book for the Installation of the Eleventh Yang di-Pertuan Besar of Negeri Sembilan and led a major project to revitalise the State Anthem.</p>

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Tunku Zain Al-Abidin Ibni Tuanku Muhriz (continued)</b> Independent Non-Executive Director	
Working experience	<p>An Eisenhower Fellow, Tunku Zain Al-Abidin has been selected for various leadership programmes by the governments of Australia, France and the European Union. Tunku Zain Al-Abidin has been recognised with the Rotary Young Integrity Award in 2013 and a Top 10 Most Impactful Young Leaders Award in 2015.</p> <p>Tunku Zain Al-Abidin is often invited to speak on subjects ranging from nation building, public policy, history, culture, law, business ethics and youth development.</p>
Shareholding in the Company	Nil

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Goh Ching Yin</b> Independent Non-Executive Director	
Working experience	<p>Goh Ching Yin holds an MBA from the Cranfield University, and has held various leadership and management positions in capital market regulations, investment banking, regional business development, strategic consultancy, corporate recovery and insolvency, and auditing. He started his professional career with Peat Marwick Mitchell (now known as KPMG), and then moved on to consultancy at Price Waterhouse Associates.</p> <p>Goh Ching Yin commenced his foray into the investment banking industry when he was with RHB Sakura Merchant Bankers Berhad as the General Manager for Corporate Finance. Subsequently, he assumed the roles as the Managing Director of Corporate Finance with the BNP Paribas Group in Malaysia, and as Chief Executive Officer (“CEO”) of Southern Investment Bank of the Southern Bank Group. He then held positions as Executive Director in the Chairman’s Office, Strategy and Development, and Market Oversight Divisions during his stint with the Securities Commission of Malaysia.</p> <p>At the Securities Commission of Malaysia, Goh Ching Yin had led landmark initiatives such as financial technology, sustainability and inclusiveness, Trans Pacific Partnership Agreement, the Capital Market Masterplan 2, the Corporate Governance Blueprint and Code of Corporate Governance 2012; and setting up the Audit Oversight Board in 2010 of which he was a founding Board Member.</p>

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A1. Composition of the Board (continued)

<b>Goh Ching Yin (continued)</b> Independent Non-Executive Director	
Working experience	<p>He was also the Head of the Continuing Professional Education Advisory Group and represents the Securities Commission of Malaysia on the Audit Licensing Committee within the Accountant General's office of the Ministry of Finance, and was a member of the Cluster Working Group on Funding Support for the Biotechnology Industry under the Malaysian Biotechnology Corporation (a Ministry of Finance incorporated company).</p> <p>He was also a member of the National Cyber Security Advisory Committee, Ministry of Science, Technology and Innovation Malaysia, and the Intellectual Capital Development Committee, Innovation Agency Malaysia.</p>
Shareholding in the Company	Nil

<b>Joseph Kumar Gross</b> Non-Independent Executive Director	
Working experience	<p>Joseph Gross Kumar joined Allianz SE in 2002 as the Senior Vice President of Strategic Brand Management and subsequently appointed as the Executive Director and Head of Group Market Management before he assumed his current position as the Chief Executive Officer ("CEO") of the Company on 20 April 2016. He was appointed as Non-Independent Executive Director of the Company on 17 August 2017.</p>
Shareholding in the Company	Nil

During the financial year, the Company provided training on the Key Disclosure Obligations of a Listed Company to the Board.

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A2. Board meetings

There were 7 Board Meetings held during the financial year ended 31 December 2017 and the attendance of the Directors as at 31 December 2017 was as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Bin Ismail	7	7
Foo San Kan	7	7
Dato' Dr. Thillainathan A/L Ramasamy	7	7
Tan Sri Datuk (Dr.) Rafiah Binti Salim	7	6
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	7	7
Goh Ching Yin	7	7
Joseph Kumar Gross	7	2 out of 2 meetings held after his appointment as Director on 17 August 2017

#### 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; and
- (c) Nomination and Remuneration Committee.

On 1 January 2017, the Nominating Committee of AMB Board and the Remuneration Committee of AMB Board were combined and renamed as Nomination and Remuneration Committee of AMB Board.

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A3. Board Committees (continued)

The Board Committees are operating on the terms of reference 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 to the Board with their observations and recommendations. The ultimate responsibility for the decision on all matters, however, lies with the entire Board.

##### A3.1. Audit Committee of AMB Board ("AC")

The composition of the AC as at the date of this report are as follows:-

Dato' Dr. Thillainathan A/L Ramasamy (Chairman-Independent Non-Executive Director)

Foo San Kan (Non-Independent Non-Executive Director)

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)

There were 5 AC Meetings held during the financial year ended 31 December 2017 and the attendance of the abovementioned AC members was as follows:-

Name of Members	No. of AC Meetings Held	No. of AC Meetings Attended
Dato' Dr. Thillainathan A/L Ramasamy	5	5
Foo San Kan	5	5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5



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## **Corporate governance (continued)**

### **A. Board of Directors (continued)**

#### **A3. Board Committees (continued)**

##### **A3.1. Audit Committee of AMB Board ("AC") (continued)**

The AC is charged with the responsibilities of assisting the Board of AMB and its subsidiaries ("AMB Group" or "Group") in its oversight, amongst others, as follows:-

- support the Board in ensuring that there is a reliable and transparent financial reporting process;
- performance and effectiveness of the external and internal audit functions; and
- conflict of interest situations and related party transactions.

The detailed terms of reference of the AC is set out in the Board Charter, which is available at Allianz website, [allianz.com.my](http://allianz.com.my).

##### **A3.2. Risk Management Committee of AMB Board ("RMC")**

The composition of the RMC as at the date of this report are as follows:-

Goh Ching Yin (Chairman-Independent Non-Executive Director)  
Foo San Kan (Non-Independent Non-Executive Director)  
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)  
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)  
Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director)

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A3. Board Committees (continued)

##### A3.2. Risk Management Committee of AMB Board ("RMC") (continued)

There were 4 RMC Meetings held during the financial year ended 31 December 2017 and the attendance of the abovementioned RMC members was as follows:-

Name of Members	No. of RMC Meetings Held	No. of RMC Meetings Attended
Goh Ching Yin	4	4
Foo San Kan	4	4
Dato' Dr. Thillainathan A/L Ramasamy	4	4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	4
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	4	4

The RMC is responsible for effective risk identification, measurement, monitoring and control functions of the AMB Group, and oversees the senior management's activities in managing the key risk areas of the AMB Group and to ensure that the risk management process is in place and functioning effectively.

The detailed terms of reference of the RMC is set out in the Board Charter, which is available at the Allianz's website, [allianz.com.my](http://allianz.com.my).

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## Corporate governance (continued)

### A. Board of Directors (continued)

#### A3. Board Committees (continued)

##### A3.3. Nomination and Remuneration Committee of AMB Board ("NRC")

The NRC was formed on 1 January 2017. The composition of the NRC as at the date of this report are as follows:-

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairman-Independent Non-Executive Director)

Tan Sri Razali Bin Ismail (Non-Independent Non-Executive Director)

Foo San Kan (Non-Independent Non-Executive Director)

Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)

Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director)

There were 5 NRC Meetings held during the financial year ended 31 December 2017 and the attendance of the NRC members was as follows:-

Name of Members	No. of NRC Meetings Held	No. of NRC Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	4
Tan Sri Razali Bin Ismail	5	5
Foo San Kan	5	5
Dato' Dr. Thillainathan A/L Ramasamy	5	5
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	5	5

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## **Corporate governance (continued)**

### **A. Board of Directors (continued)**

#### **A3. Board Committees (continued)**

##### **A3.3. Nomination and Remuneration Committee of AMB Board (“NRC”) (continued)**

The primary objectives of the NRC are:-

- (a) to establish a documented formal and transparent procedure for the appointment and removals of Directors, CEOs and Key Responsible Persons (“KRP(s)”) of AMB Group;
- (b) to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), CEOs and KRPs of AMB Group on an on-going basis;
- (c) to provide formal and transparent procedure for developing a remuneration policy for Directors, CEOs and KRPs of AMB Group; and
- (d) to ensure that the compensation is competitive and consistent with the culture, objective and strategy of AMB Group.

The detailed terms of reference of the NRC is set out in the Board Charter, which is available at Allianz website, [allianz.com.my](http://allianz.com.my).

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## Corporate governance (continued)

### B. Internal control framework

#### B1. Risk Management Framework

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 of the Company. 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, on-going monitoring and reporting.

The RMFM is in compliance with the relevant BNM and Allianz SE Group's guidelines and policies.

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

The Company also adopts the three lines 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 oversight functions comprising Legal, Compliance, and Risk Management that are independent from business operations.

- The Legal function seeks to mitigate legal risks arising from legislative changes, major litigation and disputes, regulatory proceedings and unclear contractual terms.
- The Compliance function assists the Board and Senior Management in managing and mitigating the compliance risks due to any non-compliance of the requirements of the law, regulations as well as regulatory and industry guidelines.

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B1. Risk Management Framework (continued)**

- Risk Management function assists the Board and Senior Management to achieve its strategic goals and objectives by implementing risk management activities and controls across the organisation.
- Both the Compliance and Risk Management functions report to the RMC which assists Board members to discharge its oversight function effectively. As part of its responsibilities, the Compliance and Risk Management functions advise the Board and Senior Management on compliance, risk and regulatory matters; and provide training to the Company's employees.

In addition to the above oversight functions, Actuarial function constitutes additional components of the "second line of defence". Actuarial function contributes towards assessing and managing risks in line with regulatory requirements and reports to the Board and Senior Management. Its scope of work includes coordination and calculation of technical reserves, product pricing and profitability oversight and contribution to the effective implementation of the risk management system. An appropriate control framework has been established to avoid any potential conflict of interest to fulfil its role as the second line of defence.

The RMC drives the risk management framework of the Company and reports quarterly to the Board on its recommendations and/or decisions. The Risk Management Working Committee ("RMWC") is established at the management level and serves as a platform for two way communications between the Management and the RMC on matters relating to risk strategy and management. Through the quarterly reporting from RMWC, the RMC consolidates the status of the risks and presents them to the Board for consideration.

#### **B2. Internal Audit**

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

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B2. Internal Audit (continued)**

Internal Audit Plan is developed based on annual risk assessment and approved by the AC. The audit scope covers auditable areas encompassing financial operations, underwriting and claims operation, sales operations, operations supports, internal and regulatory compliance audit such as business continuity management, replacement of policy and information technology (“IT”) systems.

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. All internal audit reports are submitted to the AC. The AC deliberates on key audit findings and management actions to address these findings during the AC meetings.

Follow-up audits are also performed to monitor continued compliance and the internal auditors will provide quarterly updates to the AC on the progress of the management action plans as well as progress of the audit plan.

#### **B3. Other Key Internal Control Process**

The other key processes that the Board has established to provide effective internal control include:-

##### **Clear and Defined Organisational Structure**

The Company has established an organisational structure with clearly defined lines of responsibility, authority limits and accountability aligned to its business and operation requirements and control environment. Relevant Board Committees with specific responsibilities delegated by the Board are established to provide oversight governance over the Company’s activities.

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 performance and ensure activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Management Authority Limit**

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.

The Management's authority limits covers underwriting of risks, claims settlement, reinsurance, investment and capital expenditures and are 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 CEO 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 circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

##### **Policies and Procedures**

Clear, formalised and documented internal policies and procedures are in place to ensure continued compliance with internal controls and relevant rules and regulations imposed by the relevant authorities.

These policies and procedures are subject to review and improvement to reflect changing risks and process enhancement, as and when required. Policies are also made available via the Group's staff e-portal for easy access by the employees.

##### **Annual Business Plan and Performance Review**

Annual business plans 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 during the 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 faced by the Company, thus enabling the Board to effectively monitor on an on-going basis, the affairs of the Company.



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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Related Party Transactions**

The Company complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/018-6) and Bursa Malaysia Securities Berhad's Main Market Listing Requirements ("MMLR") 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 MMLR on recurrent related party transactions of a revenue or trading nature with related parties ("Recurrent Transactions"), the Company's parent company, 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.

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

- (i) they are undertaken on arm's length basis;
- (ii) they are 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) they 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 being submitted to the AC for consideration. The AC will subsequently review the related party transactions and submit its recommendation to the Board for consideration.

The AC 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.

Company No. 104248-X
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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Underwriting and Reinsurance**

The Company employs high standards in its respective underwriting process. This includes among others, risk segmentation and selection, setting adequate pricing and terms and conditions, setting of right retention limit and adequate reinsurance protection.

Underwriting authority is controlled centrally at the Head Office level. Reinsurance is in place primarily to ensure that no single loss or aggregation of losses arising from a single event will have an adverse financial impact on the Company. Reinsurers selection is guided by the guidelines issued by the regulator and the Allianz SE Group. Reinsurance needs are reviewed annually in respect of reinsurance treaties and on case to case basis on facultative arrangements.

##### **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 reviews and improvements to reflect changing risks and process enhancement as and when required.

##### **Investment**

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

The Company has in place 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.

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 monthly to ensure compliance with the investment limits as specified in the Risk Based Capital Framework for Insurers issued by BNM.

The investment performance and bonds exposure reports are amongst the reports submitted to the Investment Committee of the Company for review at its quarterly meetings.

Company No. 104248-X
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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Internal Capital Adequacy Assessment Process (“ICAAP”)**

ICAAP is an overall process where the Company is required to adopt to ensure that its has adequate capital to meet its capital requirements that reflects its own risk profile on an on-going basis. This formal assessment will be conducted at least on an annual basis based on its annual business plans, business strategy and appetite. Its results will be reported to the Board.

##### **Code of Conduct for Business Ethics and Compliance (“COC”)**

Every employee is required to attest on an annual basis that they understand and comply with the Allianz SE Group’s COC. The COC among others, is essential in promoting ethical conduct within the Company and encompasses non-disclosure of the Company’s information, accountability and areas on potential conflict of interest.

##### **Anti-Money Laundering/Counter Financing of Terrorism (“AML/CFT”)**

The Company has in place internal policies and procedures relating to AML/CFT to prevent and detect money laundering and terrorism financing activities. These include customer due diligence, screening against sanctions list and suspicious transaction reporting to the Compliance Department. In respect of education, staff and agents are trained on AML/CFT requirements to promote understanding of their fundamental responsibilities in adhering to the procedures of verifying customers’ identities and reporting of suspicious transactions.

##### **Product Development**

The Company has in place a Product Development Management Policy (“PDM Policy”) which sets out the policies and procedures on product development in accordance with the requirements of the Guideline on Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10) issued by BNM (“BNM Product Guidelines”).

The PDM Policy 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 PDM Policy 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. The on-going product risk management is embedded within the risk management framework of the Company.

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Whistleblowing and Anti-Fraud**

The oversight of whistleblowing and fraud matters of the Company is performed by the AMB Integrity Committee (“InC”). The InC coordinates all activities concerning prevention and detection of fraud and handling of whistleblowing incidents.

The Company has adopted the Group Anti-Fraud Policy and the Group Whistleblowing Policies and Procedures to address fraud and whistleblowing issues respectively. The Group 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, describe the Company’s Speak-Up Policy, avenues for filing a concern and handling of whistleblowing incidents.

In respect of whistleblowing, the Company has an established whistleblowing mechanism in place to enable anonymous and non-anonymous reporting of any breach of the COC, any laws, regulations, orders or any internal rules. These whistleblowing cases are assessed confidentially by the InC to determine the validity and appropriate actions to be taken.

The InC reports its findings and recommendations to the AC.

##### **Anti-corruption**

The Company has adopted Allianz SE Group’s Anti-Corruption Policy which 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.

The Vendor Integrity Screening process which is a part of the Allianz SE Group’s Anti-Corruption Programme is aimed at ensuring an integrity based due diligence before any third party vendor is engaged. The screening contains a self-assessment section which among others includes questions on anti-corruption to be answered by the potential vendor and a risk evaluation to be completed by the relevant staff/department in charge. Only those vendors whose screening does not reveal any negative findings will be engaged.

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Employees**

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 FSA 2013. In addition, all staff are also required to understand the requirements of the following internal guidelines and policies:-

- (i) Related Party Transaction Declaration;
- (ii) Disclosure of Data;
- (iii) Conflict of Interest;
- (iv) COC;
- (v) IT Security Policy and Guideline;
- (vi) Anti-Corruption Policy;
- (vii) Anti-Fraud Awareness; and
- (viii) Dealing with Government Clients (for employees under Sales Department only).

##### **Sales Policy and Sales Agent Code of Conduct**

The Company's insurance intermediaries are guided by the Sales Policy and Sales Agent Code of Conduct in order to promote professional sales conduct of intermediaries representing the Company. The Company has established an Ethics and Compliance Committee to deal with intermediary behaviour that are contrary to the Sales Policy and Sales Agent Code of Conduct.

In addition, agents of the Company are also required to comply with the Code of Ethics and Conduct imposed by Life Insurance Association of Malaysia ("LIAM").

All internal control deficiencies or breaches related to Sales Policy and Sales Agent Code of Conduct are reported to the Senior Management Committees together with corrective measures.

##### **Agent Sales Compliance Disciplinary Policy**

As part of measures to improve uniformity in disciplining the agency force, the Company has formalised a Sales Compliance Disciplinary Policy detailing definition of types of offences/misconduct and the associated recommended disciplinary actions.

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **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 is conducted at least once a year whilst the testing for Disaster Recovery Plan test for all main application systems is conducted at least twice a year.

##### **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 a Group Information Security Policy and Standard ("Policy") to protect information confidentiality, integrity, availability and non-repudiation. All employees are required to strictly abide by and comply with the Policy.

An IT Steering Committee is established and responsible for the overall strategic deployment of IT in tandem with the business objectives of the Company, establishing effective IT plans, recommending to the 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, the DMF aims to ensure the integrity of data assets by preventing unauthorised or inappropriate use of data and information.

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Data Privacy**

The Allianz Standard for Data Protection and Privacy (“ASDP”) adopted by the Company ensures compliance with the Malaysian Personal Data Protection Act, 2010 (“PDPA”) and is in line with the Code of Practice on Personal Data Protection for Insurance and Takaful in Malaysia. The Data Privacy Management System (“DPMS”), a requirement under the ASDP, includes conducting Privacy Impact Assessments for new processes that involve handling of personal data. The objectives of the DPMS are to ensure compliance with legislative and regulatory obligations pertaining to data privacy and securing the trust of customers and business partners in relation to the handling of personal data which ultimately would increase confidence and trust in the Allianz brand.

##### **Reputation Risk Management**

The Company has adopted Allianz SE Group’s Allianz Standard for Reputational Risk and Issues Management which establishes a core set of principles and processes for the management of reputational risks and reputational issues within the Group. The management of direct reputational risks requires balancing the benefits of a given business decision against the potential reputational impacts, taking into account the Company’s reputational risk strategy and Environmental, Social and Governance approach. Indirect reputational risks are managed through the top risk assessment and risk and control self-assessment processes, which apply the same reputational risk assessment methodology used for direct reputational risks.

##### **Human Resources Policies and Procedures**

The Company has established proper policies and procedures on human resource management, including recruitment, learning and development, talent development, performance management and employee benefits. These policies and procedures are reviewed as and when the need arises and changes effected are communicated to relevant employees via-email. The policies and procedures are also made available via the Group’s staff e-portal for easy access by the employees.

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## **Corporate governance (continued)**

### **B. Internal control framework (continued)**

#### **B3. Other Key Internal Control Process (continued)**

##### **Human Resources Policies and Procedures (continued)**

The Company aims to fill open positions with internal employees who have the relevant knowledge, skills and aspiration to learn a new area. In the event that these positions cannot be filled by internal employees, the process of recruiting external candidates will begin. Candidates are sought from various sources and go through a selection process which comprises interviews, job-specific assessments as well as background and reference checks.

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

Talent development is another key focus area of the Company. As part of on-going 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 talents. Key talent and high potentials are invited to attend a Development Centre to better gauge their strengths, areas for development and career aspiration. Through the Career Development Conference, the Management team is updated on the career and development progress of these individuals.

### **C. Remuneration**

The remuneration policy of the Company is approved by the Board and subject to periodic review. The remuneration system takes into account overall business objectives in line with the Company's mission and corporate values. Business objectives are set annually within the regulatory and risk framework within which the Company operates.

All recommendation for approval to the Board are first deliberated and reviewed by the NRC.



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## Corporate governance (continued)

### C. Remuneration (continued)

The remuneration components of employees are fixed and variable compensation. The fixed component of base salary is dependent on position responsibility as well as the experience and qualification of incumbent. The variable compensation is largely determined by individual performance against expectations and increases along level of accountability.

The Company adopts the 'pay-for-performance' philosophy and strives to ensure that employees are equitably remunerated for their contribution to overall business objectives. Based on targets set out at the start of each year, employees are evaluated on their performance against these targets. To ensure a fair standard of assessment, an overall performance calibration is undertaken by the Company. The quantum of remuneration is decided based on the outcome of the performance calibration. The size of the bonus pool is also determined by overall performance of the Company. All bonus payouts are subject to employee's compliance to all relevant internal and external codes of conduct, regulations and guidelines.

The remuneration of key senior officers ("Key Responsible Persons" or "KRPs") of the Company is not only determined by performance against business objectives but include other factors such as prudent risk-taking and actions affecting the long-term interests of the Company. Remuneration of KRPs is adjusted each year to account for all types of risk and breaches, determined by both quantitative measures and qualitative judgement.

Employees in control functions are measured on the achievement of control function objectives which determine their remuneration. Similar to all employees, actual payout is subject to overall size of bonus pool.

Remuneration payout schedule for the Chief Executive Officer ("CEO") reflect the time horizon of risks and take account of the potential for financial risks to crystallise over a longer period of time. The remuneration of the CEO comprises a mix of cash and equity. A portion of the CEO's remuneration is deferred over a 3-year period. Adjustments to these portions are made in the event of poor performance or serious legal, regulatory or internal policy breaches. The deferment of payment is currently being reviewed for the KRPs.

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## **Directors of the Company**

Directors who served during the financial year until the date of this report are:-

Tan Sri Razali Bin Ismail (Chairman-Non-Independent Non-Executive Director)  
Foo San Kan (Non-Independent Non-Executive Director)  
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)  
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)  
Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director)  
Goh Ching Yin (Independent Non-Executive Director)  
Joseph Kumar Gross (Non-Independent Executive Director) (Appointed on 17 August 2017)  
Zakri Bin Mohd Khir (Non-Independent Executive Director) (Resigned on 17 August 2017)

## **Directors' interests**

According to the Register of Directors' shareholdings, none of the Directors holding office at 31 December 2017 had any interest in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) during the financial year.

## **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 those fees and other benefits included in the aggregate amount of remuneration 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 Directors regard Allianz SE, a public listed company incorporated and domiciled in Germany as the Company's ultimate holding company.

## **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, KPMG PLT, retire and are not seeking re-appointment as a result of mandatory rotation of ultimate holding company's auditors.

The auditors' remuneration is disclosed in note 26 to the financial statements.

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

.....  
**Tan Sri Datuk (Dr.) Rafiah Binti Salim**  
**Director**

.....  
**Joseph Kumar Gross**  
**Director**

Kuala Lumpur,

Date: 22 February 2018

# Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)

(Incorporated in Malaysia)

## Statement of financial position as at 31 December 2017

	Note	2017 RM'000	2016 RM'000
<b>Assets</b>			
Property, plant and equipment	3	33,167	35,334
Investment properties	4	3,840	3,840
Intangible assets	5	30,317	32,661
Investments	6	9,482,509	8,273,533
Derivative financial assets	14	25,537	15,425
Reinsurance assets	7	52,764	59,975
Insurance receivables	8	53,938	50,658
Other receivables, deposits and prepayments	9	134,182	128,579
Cash and cash equivalents		677,759	421,124
<b>Total assets</b>		<b>10,494,013</b>	<b>9,021,129</b>
<b>Equity, policyholders' funds and liabilities</b>			
Share capital	10	236,600	236,600
Fair value reserve	11	511	(1,190)
Revaluation reserve	11	2,522	2,522
Retained earnings	11	663,391	567,526
<b>Total equity</b>		<b>903,024</b>	<b>805,458</b>
Insurance contract liabilities	12	8,482,291	7,347,962
Deferred tax liabilities	13	225,351	172,596
Derivative financial liabilities	14	5,251	13,873
Subordinated loan	15	54,300	54,300
Other financial liabilities	16	20,710	5,308
Insurance payables	17	213,232	152,874
Other payables and accruals	18	251,069	206,346
Benefits and claims liabilities	19	331,296	253,726
Current tax liabilities		7,489	8,686
<b>Total liabilities</b>		<b>9,590,989</b>	<b>8,215,671</b>
<b>Total equity, policyholders' funds and liabilities</b>		<b>10,494,013</b>	<b>9,021,129</b>

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 2017

	Note	2017 RM'000	2016 RM'000
<b>Operating revenue</b>	20	<u>2,545,284</u>	<u>2,434,819</u>
Gross earned premiums		2,149,592	2,099,677
Premiums ceded to reinsurers		<u>(53,129)</u>	<u>(152,189)</u>
<b>Net earned premiums</b>	21	<u>2,096,463</u>	<u>1,947,488</u>
Investment income	22	395,692	335,142
Realised gains and losses	23	50,381	58,177
Fair value gains and losses	24	196,230	(25,250)
Fee and commission income		219	4
Other operating income		<u>19,832</u>	<u>14,887</u>
<b>Other income</b>		<u>662,354</u>	<u>382,960</u>
Gross benefits and claims paid		(973,641)	(772,969)
Claims ceded to reinsurers		74,362	126,446
Gross change in contract liabilities		(1,032,559)	(948,141)
Change in contract liabilities ceded to reinsurers		<u>(7,211)</u>	<u>(5,101)</u>
<b>Net benefits and claims</b>	25	<u>(1,939,049)</u>	<u>(1,599,765)</u>
Fee and commission expense		(390,831)	(366,465)
Management expenses	26	(221,272)	(196,299)
Other operating expenses		<u>(34,348)</u>	<u>(30,728)</u>
<b>Other expenses</b>		<u>(646,451)</u>	<u>(593,492)</u>
<b>Profit before tax</b>		173,317	137,191
Tax expense	27	<u>(77,452)</u>	<u>(56,229)</u>
<b>Net profit for the year</b>		<u>95,865</u>	<u>80,962</u>

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 2017

	Note	2017 RM'000	2016 RM'000
<b>Net profit for the year attributable to owners of the Company</b>		95,865	80,962
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Fair value of available-for-sale ("AFS") financial assets		2,229	273
Tax effects thereon	27(c)	<u>(528)</u>	<u>(65)</u>
		<u>1,701</u>	<u>208</u>
<b>Total other comprehensive income for the year, net of tax</b>		<u>1,701</u>	<u>208</u>
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<u><u>97,566</u></u>	<u><u>81,170</u></u>

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

## Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)  
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### Statement of changes in equity for the year ended 31 December 2017

	←————— Attributable to owners of the Company —————→				—————→ Distributable	
	←————— Non-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
<b>At 1 January 2016</b>	236,600	(1,398)	2,522	449,104	37,460	724,288
Fair value of available-for-sale financial assets	-	208	-	-	-	208
Total other comprehensive income for the year	-	208	-	-	-	208
Profit for the year	-	-	-	75,412	5,550	80,962
<b>Total comprehensive income for the year</b>	-	208	-	75,412	5,550	81,170
<b>At 31 December 2016</b>	<b>236,600</b>	<b>(1,190)</b>	<b>2,522</b>	<b>524,516</b>	<b>43,010</b>	<b>805,458</b>

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## Statement of changes in equity for the year ended 31 December 2017 (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
<b>At 1 January 2017</b>	236,600	(1,190)	2,522	524,516	43,010	805,458
Fair value of available-for-sale financial assets	-	1,701	-	-	-	1,701
Total other comprehensive income for the year	-	1,701	-	-	-	1,701
Profit for the year	-	-	-	87,329	8,536	95,865
<b>Total comprehensive income for the year</b>	-	1,701	-	87,329	8,536	97,566
<b>At 31 December 2017</b>	<b>236,600</b>	<b>511</b>	<b>2,522</b>	<b>611,845</b>	<b>51,546</b>	<b>903,024</b>
	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 2017

	2017 RM'000	2016 RM'000
<b>Cash flows from operating activities</b>		
Profit before tax	173,317	137,191
<i>Adjustments for:</i>		
Investment income	(395,692)	(335,142)
Interest income	(765)	(636)
Interest expense	4,798	5,759
Realised gains recorded in profit or loss	(50,311)	(58,177)
Fair value gain on investments recorded in profit or loss	(202,812)	(4,154)
Purchase of available-for-sale ("AFS") financial investments	(504,750)	(699,555)
Maturity of AFS financial investments	65,500	36,000
Proceeds from sale of AFS financial investments	380,684	786,158
Purchase of held for trading ("HFT") financial investments	(1,179,071)	(1,349,148)
Maturity of HFT financial investments	57,500	67,500
Proceeds from sale of HFT financial investments	586,952	593,913
Purchase of designated upon initial recognition ("DUIR") financial investments	(698,667)	(775,737)
Maturity of DUIR financial investments	190,000	130,000
Proceeds from sale of DUIR financial investments	124,963	189,552
(Purchase)/Disposal of derivatives financial investments	(442)	2,359
Change in loans and receivables	109,103	(97,411)
<b>Non-cash items:</b>		
Change in fair value of AFS financial assets	(101,770)	7,890
(Reversal of)/Allowance for impairment loss on receivables	(823)	951
Amortisation of intangible assets	5,634	4,976
Depreciation of property, plant and equipment	4,960	5,060
Gain on disposal of property, plant and equipment	(70)	-
Property, plant and equipment written off	5	6
Unrealised foreign exchange loss/(gain)	2,008	(205)
Impairment loss on AFS financial investments	6,582	29,404
<b>Operating loss before changes in working capital</b>	<b>(1,423,167)</b>	<b>(1,323,446)</b>

Company No. 104248-X
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## Statement of cash flows for the year ended 31 December 2017 (continued)

	2017 RM'000	2016 RM'000
<b>Changes in working capital:</b>		
Change in reinsurance assets	7,211	5,101
Change in insurance receivables	(2,422)	16,631
Change in other receivables, deposits and prepayments	(5,638)	(38,023)
Change in insurance contract liabilities	1,134,329	940,251
Change in other financial liabilities	15,402	4,319
Change in insurance payables	60,358	(9,146)
Change in other payables and accruals	42,369	37,633
Change in benefits and claims liabilities	77,570	59,165
<b>Cash used in operations</b>	<b>(93,988)</b>	<b>(307,515)</b>
Tax paid	(35,272)	(27,922)
Dividends received	52,824	39,843
Interest income received	341,403	294,267
Rental income on investment properties received	130	128
<b>Net cash from/(used in) operating activities</b>	<b>265,097</b>	<b>(1,199)</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of property, plant and equipment	352	1
Acquisition of property, plant and equipment	(5,581)	(8,391)
Acquisition of intangible assets	(789)	-
<b>Net cash used in investing activities</b>	<b>(6,018)</b>	<b>(8,390)</b>
<b>Cash flows from financing activity</b>		
Payment of loan interest to immediate holding company	(2,444)	(2,450)
<b>Net cash used in financing activity</b>	<b>(2,444)</b>	<b>(2,450)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>256,635</b>	<b>(12,039)</b>
Cash and cash equivalents at 1 January	421,124	433,163
<b>Cash and cash equivalents at 31 December</b>	<b>677,759</b>	<b>421,124</b>
<b>Cash and cash equivalents comprise:</b>		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	583,821	357,671
Cash and bank balances	93,938	63,453
	<b>677,759</b>	<b>421,124</b>

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:

Level 29, Menara Allianz Sentral,  
203, Jalan Tun Sambanthan,  
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 listed 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 22 February 2018.

## 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 ("MFRSs"), International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia, Financial Services Act, 2013 and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The following are accounting standards, amendments and interpretations 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 2018***

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

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## 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 2018 (continued)***

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

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

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021***

- MFRS 17, *Insurance Contracts*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed***

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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## 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 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 1, Amendments to MFRS 2 and Amendments to MFRS 128 which are not applicable to the Company and MFRS 9 which the Company is eligible for temporary exemption that permits, but does not require, the insurer to apply MFRS 139, *Financial Instruments: Recognition and Measurement* rather than MFRS 9 for annual periods beginning before 1 January 2021.
- from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 3, Amendments to MFRS 11, Amendments to MFRS 123 and Amendments to MFRS 128 which are not applicable to the Company.
- from the annual period beginning on 1 January 2021 for the accounting standard that is effective for annual periods beginning on or after 1 January 2021.

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material financial impact 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.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9 and intends to adopt MFRS 9 together with MFRS 17 on 1 January 2021.

#### **MFRS 16, *Leases***

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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## **1. Basis of preparation (continued)**

### **1.1 Statement of compliance (continued)**

#### **MFRS 16, *Leases* (continued)**

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 16.

#### **MFRS 17, *Insurance Contracts***

MFRS 17 replaces the guidance in MFRS 4, *Insurance Contracts*.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 17.

### **1.2 Basis of measurement**

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2 (c)(i) and 2(f)(ii).

### **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.

### **1.4 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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## **1. Basis of preparation (continued)**

### **1.4 Use of estimates and judgements (continued)**

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)(i) – revaluation of land and buildings
- Note 2 (f)(ii) and 2 (v) – valuation of financial instruments
- Note 2 (g)(iii) – determination of the recoverable amounts of other intangible assets
- 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 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

Freehold land and work-in-progress are stated at cost less any accumulated impairment losses. Other 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.



## 2. Significant accounting policies (continued)

### (b) Property, plant and equipment (continued)

#### (i) Recognition and measurement (continued)

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

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 from the date that they are available for use. 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.

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## 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.

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.

## 2. Significant accounting policies (continued)

### (c) Investment properties (continued)

#### (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 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.

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.

## 2. Significant accounting policies (continued)

### (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.

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## 2. Significant accounting policies (continued)

### (d) Intangible assets (continued)

#### (iv) Amortisation (continued)

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

- capitalised software development costs           5 years
- other intangible assets                                   11 years

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.

## 2. Significant accounting policies (continued)

### (e) Leased assets (continued)

#### (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 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.

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.

## 2. Significant accounting policies (continued)

### (f) Financial instruments (continued)

#### (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.

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) *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)*

#### (3) *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.

#### (4) *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)*

##### **(4) Insurance receivables (continued)**

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(f)(vi), 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)(i)).

##### ***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, if any, are classified as deferred income and is 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) Hedge accounting

##### Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

#### (vi) 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 control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. 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.

## 2. Significant accounting policies (continued)

### (f) Financial instruments (continued)

#### (vi) Derecognition (continued)

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, 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) 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) 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 insurance receivable'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 investment properties measured at fair value and deferred tax assets) 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.

## 2. Significant accounting policies (continued)

### (i) Product classification

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

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 (if any) 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.



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## 2. Significant accounting policies (continued)

### (i) Product classification (continued)

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.

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.

## 2. Significant accounting policies (continued)

### (j) Reinsurance (continued)

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.

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.

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## 2. Significant accounting policies (continued)

### (k) Life insurance underwriting results

#### Surplus

The surplus transferable from the Life fund to profit or loss of Shareholders' fund 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.

#### 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.

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## 2. Significant accounting policies (continued)

### (k) Life insurance underwriting results (continued)

#### Commission and agency expenses

Gross commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, and income derived from reinsurance 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.

These liabilities are measured by using a prospective actuarial valuation method (See Note 2(u)). 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 insurance fund 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.

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## **2. Significant accounting policies (continued)**

### **(l) Life insurance contract liabilities (continued)**

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.

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 or 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.

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

### **(m) Investment contract liabilities**

Investment contracts (if any) 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.

## 2. Significant accounting policies (continued)

### (m) Investment contract liabilities (continued)

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.

#### (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.

## 2. Significant accounting policies (continued)

### (n) Other revenue recognition (continued)

#### (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 a business combination or items recognised directly in equity, insurance contract liabilities 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.

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.

## 2. Significant accounting policies (continued)

### (o) Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, 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 assets and liabilities on a net basis or their assets and liabilities will be realised simultaneously.

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.

### (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.



## 2. Significant accounting policies (continued)

### (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 extent 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.

### (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)(2).

## 2. Significant accounting policies (continued)

### (u) 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.

The risk-free discount rate is used for all cash flows to determine the liability of a non-participating life policy, non-unit actuarial liability of an investment-linked policy and guaranteed benefits insurance liability of participating 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 total benefit liability of participating policies.

## 2. Significant accounting policies (continued)

### (v) Fair value measurement

Fair value of an asset or a liability 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.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

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### 3. Property, plant and equipment

	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
<b>Cost/Valuation</b>							
At 1 January 2016	11,150	5,430	27,281	1,886	12,286	968	59,001
Additions	-	-	2,812	378	532	4,669	8,391
Disposals	-	-	(4)	-	-	-	(4)
Written off	-	-	(4,734)	-	(18)	-	(4,752)
Reclassification #	-	-	2,772	-	366	(3,836)	(698)
At 31 December 2016/ 1 January 2017	11,150	5,430	28,127	2,264	13,166	1,801	61,938
Additions	-	-	1,914	-	271	3,396	5,581
Disposals	-	-	(3)	(875)	-	-	(878)
Written off	-	-	(91)	-	-	-	(91)
Reclassification #	-	-	303	-	98	(2,902)	(2,501)
At 31 December 2017	11,150	5,430	30,250	1,389	13,535	2,295	64,049

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

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### 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
<b>Depreciation</b>								
At 1 January 2016		76	60	18,809	1,226	6,122	-	26,293
Depreciation for the year	26	140	148	3,511	246	1,015	-	5,060
Disposals		-	-	(3)	-	-	-	(3)
Written off		-	-	(4,729)	-	(17)	-	(4,746)
At 31 December 2016/ 1 January 2017		216	208	17,588	1,472	7,120	-	26,604
Depreciation for the year	26	140	149	3,488	163	1,020	-	4,960
Disposals		-	-	(2)	(594)	-	-	(596)
Written off		-	-	(86)	-	-	-	(86)
At 31 December 2017		356	357	20,988	1,041	8,140	-	30,882
<b>Carrying amounts</b>								
At 1 January 2016		11,074	5,370	8,472	660	6,164	968	32,708
At 31 December 2016/ 1 January 2017		10,934	5,222	10,539	792	6,046	1,801	35,334
At 31 December 2017		10,794	5,073	9,262	348	5,395	2,295	33,167

Included in property, plant and equipment are fully depreciated assets which are still in use costing RM16,732,000 (2016 : RM14,874,000).

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### 3. Property, plant and equipment (continued)

#### 3.1 Property, plant and equipment under the revaluation model

The land and buildings were last revalued in November 2015 by external 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:

	2017 RM'000	2016 RM'000
Land	4,382	4,437
Buildings	2,917	3,001
	<u>7,299</u>	<u>7,438</u>

#### 3.2 Fair value information

Fair value of land and buildings are categorised as follows:

	2017			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	10,794	-	10,794
Buildings	-	5,073	-	5,073
	-	<u>15,867</u>	-	<u>15,867</u>
	2016			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	10,934	-	10,934
Buildings	-	5,222	-	5,222
	-	<u>16,156</u>	-	<u>16,156</u>

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### 3. Property, plant and equipment (continued)

#### 3.2 Fair value information (continued)

##### Level 2 fair value

Level 2 fair values of land and buildings have been generally derived using the Comparison Method. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics.

### 4. Investment properties

	2017 RM'000	2016 RM'000
At 1 January/31 December	<u>3,840</u>	<u>3,840</u>
	<b>2017 RM'000</b>	<b>2016 RM'000</b>
Included in the above are:		
At fair value:		
Freehold land	1,000	1,000
Buildings	<u>2,840</u>	<u>2,840</u>
	<u><u>3,840</u></u>	<u><u>3,840</u></u>

The fair value of the investment properties is determined based on valuations performed by an external independent professional qualified valuer in November 2015 using the Comparison Method.

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

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#### 4. Investment properties (continued)

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

	2017 RM'000	2016 RM'000
Rental income	130	128
Direct operating expenses:		
- income generating investment properties	(3)	(2)
	<u>          </u>	<u>          </u>

##### 4.1 Fair value information

Fair value of investment properties are categorised as follows:

	2017			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Freehold land	-	1,000	-	1,000
Buildings	-	2,840	-	2,840
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	-	3,840	-	3,840
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	2016			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Freehold land	-	1,000	-	1,000
Buildings	-	2,840	-	2,840
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	-	3,840	-	3,840
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



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## 4. Investment properties (continued)

### 4.1 Fair value information (continued)

#### Level 2 fair value

Level 2 fair values of land and buildings have been generally derived using the Comparison Method. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics.

## 5. Intangible assets

	Note	Software development costs RM'000	Other intangible assets RM'000	Total RM'000
<b>Cost</b>				
At 1 January 2016		5,137	50,495	55,632
Additions		698	-	698
At 31 December 2016/ 1 January 2017		5,835	50,495	56,330
Additions		789	-	789
Reclassification		2,501	-	2,501
At 31 December 2017		9,125	50,495	59,620
<b>Amortisation</b>				
At 1 January 2016		4,555	14,138	18,693
Amortisation for the year	26	431	4,545	4,976
At 31 December 2016/ 1 January 2017		4,986	18,683	23,669
Amortisation for the year	26	1,089	4,545	5,634
At 31 December 2017		6,075	23,228	29,303
<b>Carrying amounts</b>				
At 1 January 2016		582	36,357	36,939
At 31 December 2016/ 1 January 2017		849	31,812	32,661
At 31 December 2017		3,050	27,267	30,317
		<b>Note 5.1</b>	<b>Note 5.2</b>	

## 5. Intangible assets (continued)

### 5.1 Software development costs

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

### 5.2 Other intangible assets

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 local commercial bank to sell, market and promote conventional life product. The Company and the bank had on 9 May 2014 executed the amendment agreement to extend the original term under the Exclusive Bancassurance Agreement from 10 years to 11 years.

The fee for this exclusive right is amortised over its useful life of 11 years using the straight-line method. In the impairment assessment conducted by the Company, 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 11 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 average annualised new premium growth rate	4.52%
Discount rate - post tax	11.2%

#### 5.2.1 Sensitivity to changes in key assumptions

Management considers that it is not reasonably possible for the abovementioned key assumptions to change so significantly that would result in impairment.

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## 6. Investments

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Malaysian government securities	1,972,906	1,734,023
Malaysian government guaranteed bonds	1,885,194	1,633,034
Ringgit denominated bonds by foreign issuers outside Malaysia	65,667	100,914
Quoted equity securities of corporations in Malaysia	1,875,382	1,544,889
Quoted equity securities of corporations outside Malaysia	4,507	24,916
Unquoted equity securities of corporations in Malaysia	2,147	2,147
Unquoted bonds of corporations in Malaysia	2,909,083	2,386,394
Unquoted bonds of corporations outside Malaysia	115,469	116,765
Quoted unit trusts in Malaysia	57,726	54,458
Unquoted unit trusts in Malaysia	19,375	6,023
Unquoted unit trusts outside Malaysia	26,945	12,633
Structured deposits with licensed financial institutions	155,954	155,759
Government guaranteed loans	190,000	190,000
Mortgage loans	2,117	3,926
Policy loans	12,905	14,588
Automatic premium loans	84,561	89,041
Fixed and call deposits with licensed financial institutions	92,839	193,970
Negotiable certificate of deposits with licensed financial institution	9,732	10,053
	<u>9,482,509</u>	<u>8,273,533</u>

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## 6. Investments (continued)

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

	Current		Non-current		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Available-for-sale financial assets ("AFS")	2,757,745	2,568,369	-	-	2,757,745	2,568,369
Loans and receivables ("LAR")	108,605	202,907	273,817	288,618	382,422	491,525
Fair value through profit or loss ("FVTPL")						
- Held for trading ("HFT")	3,344,810	2,601,755	-	-	3,344,810	2,601,755
- Designated upon initial recognition ("DUIR")	2,997,532	2,611,884	-	-	2,997,532	2,611,884
	<u>9,208,692</u>	<u>7,984,915</u>	<u>273,817</u>	<u>288,618</u>	<u>9,482,509</u>	<u>8,273,533</u>

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## 6. Investments (continued)

### Available-for-sale

	← Fair value →	
	2017	2016
	RM'000	RM'000
Malaysian government securities	912,746	839,772
Malaysian government guaranteed bonds	894,509	851,216
Ringgit denominated bonds by foreign issuers outside Malaysia	41,918	74,086
Quoted equity securities of corporations in Malaysia	730,337	663,162
Unquoted bonds of corporations in Malaysia	106,178	80,346
Quoted unit trusts in Malaysia	55,480	54,458
Unquoted unit trusts in Malaysia	12,409	1,137
Structured deposits with licensed financial institutions	2,021	2,045
	2,755,598	2,566,222
	← Cost →	
	2017	2016
	RM'000	RM'000
Unquoted equity securities of corporations in Malaysia	2,147	2,147
	← Total available-for-sale financial investments →	
	2,757,745	2,568,369

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## 6. Investments (continued)

	2017		2016	
	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000
<b>Loans and receivables</b>				
Government guaranteed loans	190,000	190,000	190,000	190,000
Mortgage loans	2,117	2,117	3,926	3,926
Policy loans	12,905	12,905	14,588	14,588
Automatic premium loans	84,561	84,561	89,041	89,041
Fixed and call deposits with:				
Licensed financial institutions	92,839	92,839	193,970	193,970
	<u>382,422</u>	<u>382,422</u>	<u>491,525</u>	<u>491,525</u>

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## 6. Investments (continued)

	← Fair value →	
	2017 RM'000	2016 RM'000
<b>Fair value through profit or loss</b>		
<b>Held for trading</b>		
Malaysian government securities	477,312	437,633
Malaysian government guaranteed bonds	530,465	397,451
Ringgit denominated bonds by foreign issuers outside Malaysia	5,080	5,098
Quoted equity securities of corporations in Malaysia	1,145,045	881,727
Quoted equity securities of corporations outside Malaysia	4,507	24,916
Unquoted bonds of corporations in Malaysia	1,116,028	807,117
Quoted unit trusts in Malaysia	2,246	-
Unquoted unit trusts in Malaysia	6,966	4,886
Unquoted unit trusts outside Malaysia	26,945	12,633
Structured deposits with licensed financial institutions	30,216	30,294
	3,344,810	2,601,755

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## 6. Investments (continued)

	← Fair value →	
	2017 RM'000	2016 RM'000
<b>Fair value through profit or loss</b>		
<b>Designated upon initial recognition</b>		
Malaysian government securities	582,848	456,618
Malaysian government guaranteed bonds	460,220	384,367
Ringgit denominated bonds by foreign issuers outside Malaysia	18,669	21,730
Unquoted bonds of corporations in Malaysia	1,686,877	1,498,931
Unquoted bonds of corporations outside Malaysia	115,469	116,765
Structured deposits with licensed financial institutions	123,717	123,420
Negotiable certificate of deposits with licensed financial institution	9,732	10,053
	2,997,532	2,611,884
Total fair value through profit or loss financial investments	6,342,342	5,213,639



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## 6. Investments (continued)

### Movements in carrying values of financial instruments

	Note	AFS RM'000	LAR RM'000	HFT RM'000	DUIR RM'000	Total RM'000
<b>At 1 January 2016</b>		2,683,139	394,114	1,912,091	2,140,734	7,130,078
Purchases/Placements		699,555	20,077,781	1,349,148	775,737	22,902,221
Maturities		(36,000)	(19,980,370)	(67,500)	(130,000)	(20,213,870)
Disposals		(739,815)	-	(583,368)	(186,714)	(1,509,897)
Fair value (losses)/gains recorded in:						
Profit or loss						
- Unrealised (losses)/gains	24	-	-	(9,322)	11,551	2,229
- Movement in impairment allowance	24	(29,404)	-	-	-	(29,404)
Insurance contract liabilities	12	(9,842)	-	-	-	(9,842)
Other comprehensive income		273	-	-	-	273
Amortisation of premiums		(1,114)	-	(679)	(1,880)	(3,673)
Accretion of discounts		1,577	-	1,180	2,456	5,213
Unrealised foreign exchange gains		-	-	205	-	205
<b>At 31 December 2016</b>		<b>2,568,369</b>	<b>491,525</b>	<b>2,601,755</b>	<b>2,611,884</b>	<b>8,273,533</b>

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## 6. Investments (continued)

### Movements in carrying values of financial instruments (continued)

	Note	AFS RM'000	LAR RM'000	HFT RM'000	DUIR RM'000	Total RM'000
<b>At 1 January 2017</b>		2,568,369	491,525	2,601,755	2,611,884	8,273,533
Purchases/Placements		504,750	17,392,260	1,179,071	698,667	19,774,748
Maturities		(65,500)	(17,501,363)	(57,500)	(190,000)	(17,814,363)
Disposals		(359,621)	-	(559,628)	(123,039)	(1,042,288)
Fair value gains/(losses) recorded in:						
Profit or loss						
- Unrealised gains	24	-	-	184,209	10,588	194,797
- Movement in impairment allowance	24	(6,582)	-	-	-	(6,582)
Insurance contract liabilities	12	113,866	-	-	-	113,866
Other comprehensive income		2,229	-	-	-	2,229
Amortisation of premiums		(823)	-	(771)	(2,123)	(3,717)
Accretion of discounts		1,057	-	1,374	3,386	5,817
Unrealised foreign exchange losses		-	-	(3,700)	(11,831)	(15,531)
<b>At 31 December 2017</b>		<b>2,757,745</b>	<b>382,422</b>	<b>3,344,810</b>	<b>2,997,532</b>	<b>9,482,509</b>

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## 7. Reinsurance assets

	Note	2017 RM'000	2016 RM'000
<b>Reinsurance of insurance contracts</b>			
Actuarial liabilities			
- Current		99	64
- Non-current		52,665	59,911
	12	<u>52,764</u>	<u>59,975</u>

## 8. Insurance receivables

	Note	2017 RM'000	2016 RM'000
<b>Current</b>			
Due premium including agents, brokers and co-insurers balances		38,073	43,718
Due from reinsurers and cedants		17,302	9,595
Group claims receivable		1,701	1,693
Due from related company	8.1	<u>1,576</u>	<u>1,224</u>
		58,652	56,230
Less: Allowance for impairment	33.1(ii)	<u>(4,714)</u>	<u>(5,572)</u>
		<u>53,938</u>	<u>50,658</u>

### 8.1 Amount due from related company

The amount due from related company is unsecured and receivable in accordance with normal trade terms.

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## 9. Other receivables, deposits and prepayments

	Note	2017 RM'000	2016 RM'000
<b>Non-current</b>			
Other receivables		8,130	3,806
Malaysian Institute of Insurance ("MII") bonds		100	100
		<u>8,230</u>	<u>3,906</u>
<b>Current</b>			
Other receivables		16,027	20,063
Sundry deposits		1,534	1,266
Less: Allowance for impairment	33.1(ii)	(35)	-
		<u>17,526</u>	<u>21,329</u>
Income due and accrued		90,185	77,793
Due from related companies	9.1	440	1,197
Due from immediate holding company	9.1	-	24
Due from inter-fund	18	17,801	24,330
		<u>125,952</u>	<u>124,673</u>
		<u>134,182</u>	<u>128,579</u>

### 9.1 Amounts due from related companies and immediate holding company

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

## 10. Share capital

	2017		2016	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
<b>Authorised: (Note 10.1)</b>				
Ordinary shares	-	-	350,000	350,000
<b>Issued and fully paid up: (Note 10.1)</b>				
Ordinary shares				
On issue at 1 January/31 December	236,600	236,600	236,600	236,600

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## 10. Share capital (continued)

10.1 The new Companies Act 2016 in Malaysia (“the Act”), which came into operation on 31 January 2017 abolished the concept of authorised share capital and par value of share capital. Pursuant to Section 74 of the Act, all shares issued before or upon commencement of the Act shall have no par or nominal value. There is no impact on the number of shares in issue or the relative entitlement of the member as a result of this transition.

### Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

## 11. Reserves

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

### 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 represents the surplus on revaluation of land and buildings.

### Retained earnings

### 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 the Company’s 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 BNM’s written approval prior to declaring or paying any dividend with effect from the financial year beginning 1 January 2014.

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## 12. Insurance contract liabilities

	← 2017 →			← 2016 →			
Note	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000	
Actuarial liabilities	32	6,880,877	(52,764)	6,828,113	6,101,423	(59,975)	6,041,448
Unallocated surplus		81,659	-	81,659	169,426	-	169,426
Hedging reserve		(2,961)	-	(2,961)	25	-	25
Available-for-sale fair value reserve		145,302	-	145,302	40,546	-	40,546
Net asset value attributable to unitholders	35	1,371,434	-	1,371,434	1,030,562	-	1,030,562
Revaluation reserve		5,980	-	5,980	5,980	-	5,980
		<u>8,482,291</u>	<u>(52,764)</u>	<u>8,429,527</u>	<u>7,347,962</u>	<u>(59,975)</u>	<u>7,287,987</u>
			Note 7			Note 7	

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**12. Insurance contract liabilities (continued)**

	Note	Gross			Reinsurance			Net RM'000
		With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	
<b>At 1 January 2016</b>		3,590,017	2,817,694	6,407,711	-	(65,076)	(65,076)	6,342,635
Premiums received		308,876	1,790,801	2,099,677	(9,026)	(143,163)	(152,189)	1,947,488
Liabilities paid for death, maturities, surrenders, benefits and claims		(206,830)	(566,139)	(772,969)	6,209	120,237	126,446	(646,523)
Benefits and claims experience variation		8,234	(68,969)	(60,735)	2,839	28,339	31,178	(29,557)
Fees deducted		(28,392)	(527,272)	(555,664)	(22)	26	4	(555,660)
Expected interest on reserve/net investment income attributable to Universal Life Fund		150,361	76,732	227,093	-	(970)	(970)	226,123
Adjustments due to changes in assumptions		(117,272)	(4,218)	(121,490)	-	632	632	(120,858)
Net asset value attributable to unitholders	35	-	16,888	16,888	-	-	-	16,888
Hedging reserve		1,266	-	1,266	-	-	-	1,266
Available-for-sale fair value reserve	6	(9,842)	-	(9,842)	-	-	-	(9,842)
Unallocated surplus		115,341	-	115,341	-	-	-	115,341
Deferred tax effects:								
- Hedging reserve	27	(101)	-	(101)	-	-	-	(101)
- Available-for-sale fair value reserve	27	787	-	787	-	-	-	787
<b>At 31 December 2016</b>		<b>3,812,445</b>	<b>3,535,517</b>	<b>7,347,962</b>	<b>-</b>	<b>(59,975)</b>	<b>(59,975)</b>	<b>7,287,987</b>

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## 12. Insurance contract liabilities (continued)

	Note	Gross			Reinsurance			Net RM'000
		With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	
<b>At 1 January 2017</b>		3,812,445	3,535,517	7,347,962	-	(59,975)	(59,975)	7,287,987
Premiums received		188,839	1,960,753	2,149,592	(5,840)	(47,289)	(53,129)	2,096,463
Liabilities paid for death, maturities, surrenders, benefits and claims		(274,194)	(699,447)	(973,641)	2,345	72,017	74,362	(899,279)
Benefits and claims experience variation		37,569	(30,938)	6,631	3,495	(19,917)	(16,422)	(9,791)
Fees deducted		(23,208)	(581,095)	(604,303)	-	219	219	(604,084)
Expected interest on reserve/net investment income attributable to Universal Life Fund		150,649	164,665	315,314	-	(803)	(803)	314,511
Adjustments due to changes in assumptions		74,225	5,747	79,972	-	2,984	2,984	82,956
Net asset value attributable to unitholders	35	-	146,761	146,761	-	-	-	146,761
Hedging reserve		(3,246)	-	(3,246)	-	-	-	(3,246)
Available-for-sale fair value reserve	6	113,866	-	113,866	-	-	-	113,866
Unallocated surplus		(87,767)	-	(87,767)	-	-	-	(87,767)
Deferred tax effects:								
- Hedging reserve	27	260	-	260	-	-	-	260
- Available-for-sale fair value reserve	27	(9,110)	-	(9,110)	-	-	-	(9,110)
<b>At 31 December 2017</b>		<b>3,980,328</b>	<b>4,501,963</b>	<b>8,482,291</b>	<b>-</b>	<b>(52,764)</b>	<b>(52,764)</b>	<b>8,429,527</b>



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

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

	Asset		Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Property, plant and equipment	-	-	(23)	(173)	(23)	(173)
Investment properties	-	-	(115)	(115)	(115)	(115)
Unallocated surplus	-	-	(193,214)	(165,636)	(193,214)	(165,636)
Hedging reserve	258	-	-	(2)	258	(2)
Available-for-sale fair value reserve	-	-	(12,759)	(3,121)	(12,759)	(3,121)
Fair value movement recognised in profit or loss	-	-	(18,460)	(2,744)	(18,460)	(2,744)
Revaluation reserve	-	-	(656)	(656)	(656)	(656)
Net accretion	-	-	(382)	(149)	(382)	(149)
Set off of tax	(258)	-	258	-	-	-
Net liabilities	-	-	(225,351)	(172,596)	(225,351)	(172,596)

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

#### 13.2 Movement in temporary differences during the year

	At 1 January 2016 RM'000	Recognised in profit or loss (Note 27) RM'000	Recognised in other compre- hensive income (Note 27) RM'000	Recognised in insurance contract liabilities (Note 27) RM'000	At 31 December 2016/ 1 January 2017 RM'000	Recognised in profit or loss (Note 27) RM'000	Recognised in other compre- hensive income (Note 27) RM'000	Recognised in insurance contract liabilities (Note 27) RM'000	At 31 December 2017 RM'000
Property, plant and equipment	(134)	(39)	-	-	(173)	150	-	-	(23)
Investment properties	(89)	(26)	-	-	(115)	-	-	-	(115)
Unallocated surplus	(141,823)	(23,813)	-	-	(165,636)	(27,578)	-	-	(193,214)
Hedging reserve	99	-	-	(101)	(2)	-	-	260	258
Available-for-sale fair value reserve	(3,843)	-	(65)	787	(3,121)	-	(528)	(9,110)	(12,759)
Fair value movement recognised in profit or loss	(2,177)	(567)	-	-	(2,744)	(15,716)	-	-	(18,460)
Revaluation reserve	(656)	-	-	-	(656)	-	-	-	(656)
Net (accretion) /amortisation	(272)	123	-	-	(149)	(233)	-	-	(382)
Net tax (liabilities)/ assets	(148,895)	(24,322)	(65)	686	(172,596)	(43,377)	(528)	(8,850)	(225,351)

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## 14. Derivative financial assets/(liabilities)

	Nominal value RM'000	Assets RM'000	Liabilities RM'000
<b>2017</b>			
Derivatives held for trading at fair value through profit or loss			
- Collateralised forward starting interest rate swap	200,000	7,259	-
- Collateralised interest rate swap	200,000	13,827	-
- Cross currency swap	119,750	4,352	(1,933)
Derivatives used for hedging			
- Forward purchase agreements	220,000	99	(3,318)
	<u>739,750</u>	<u>25,537</u>	<u>(5,251)</u>
<b>2016</b>			
Derivatives held for trading at fair value through profit or loss			
- Collateralised forward starting interest rate swap	400,000	14,996	-
- Cross currency swap	111,712	-	(10,759)
Derivatives used for hedging			
- Forward purchase agreements	160,000	429	(3,114)
	<u>671,712</u>	<u>15,425</u>	<u>(13,873)</u>

## 15. Subordinated loan

	Note	2017 RM'000	2016 RM'000
<b>Non-current</b>			
Subordinated loan	15.1	<u>54,300</u>	<u>54,300</u>

### 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.

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## 16. Other financial liabilities

	2017 RM'000	2016 RM'000
<b>Non-current</b>		
Deposits received from reinsurers	<u>430</u>	<u>563</u>
<b>Current</b>		
Outstanding purchase of investment securities	<u>20,280</u>	<u>4,745</u>
	<u>20,710</u>	<u>5,308</u>

## 17. Insurance payables

	Note	2017 RM'000	2016 RM'000
<b>Current</b>			
Due to reinsurers and cedants		84,259	44,876
Due to agents, brokers and co-insurers and insurers		98,105	96,990
Due to related company	17.1	29,729	10,425
Due to ultimate holding company	17.1	<u>1,139</u>	<u>583</u>
		<u>213,232</u>	<u>152,874</u>

### 17.1 Amounts due to related company and ultimate holding company

The amounts due to related company and ultimate holding company are unsecured and payable in accordance with normal trade terms.

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## 18. Other payables and accruals

	Note	2017 RM'000	2016 RM'000
<b>Non-current</b>			
Other payables and accrued expenses	18.1	<u>34,051</u>	<u>29,333</u>
<b>Current</b>			
Other payables and accrued expenses	18.1	186,867	139,359
Due to ultimate holding company	18.2	10,120	12,132
Due to immediate holding company	18.2	1,280	1,192
Due to related company	18.2	950	-
Due to inter-fund	9	17,801	24,330
		<u>217,018</u>	<u>177,013</u>
		<u>251,069</u>	<u>206,346</u>

### 18.1 Other payables and accrued expenses

Included in other payables and accrued expenses at 31 December 2017 is an amount of RM65,187,000 (2016: RM55,871,000) relating to premium received in advance and RM26,586,000 (2016: RM21,725,000) relating to premium deposits.

### 18.2 Amounts due to ultimate holding company, immediate holding company and related company

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

## 19. Benefits and claims liabilities

	2017 RM'000	2016 RM'000
<b>Current</b>		
Gross benefits and claims liabilities	343,883	275,456
Less: Recoverable from reinsurers	<u>(12,587)</u>	<u>(21,730)</u>
Net benefits and claims liabilities	<u>331,296</u>	<u>253,726</u>

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## 20. Operating revenue

	Note	2017 RM'000	2016 RM'000
Gross earned premiums	21	2,149,592	2,099,677
Investment income	22	395,692	335,142
		<u>2,545,284</u>	<u>2,434,819</u>

## 21. Net earned premiums

	Note	2017 RM'000	2016 RM'000
Gross earned premiums	20	2,149,592	2,099,677
Premiums ceded to reinsurers		(53,129)	(152,189)
Net earned premiums		<u>2,096,463</u>	<u>1,947,488</u>

## 22. Investment income

	2017 RM'000	2016 RM'000
Rental of premises from:		
- Investment properties	130	128
Available-for-sale financial assets		
Interest income from:		
- Malaysian government securities	39,155	43,039
- Malaysian government guaranteed bonds	42,078	39,564
- Ringgit denominated bonds by foreign issuers outside Malaysia	2,042	3,251
- Unquoted bonds of corporations in Malaysia	4,181	3,299
Dividend income from:		
- Quoted equity securities of corporations in Malaysia	20,127	16,061
- Quoted unit trusts in Malaysia	1,861	3,173
Accretion of discounts on:		
- Malaysian government securities	750	711
- Malaysian government guaranteed bonds	295	779
- Ringgit denominated bonds by foreign issuers outside Malaysia	12	69
- Unquoted bonds of corporations in Malaysia	-	18

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## 22. Investment income (continued)

	2017 RM'000	2016 RM'000
Available-for-sale financial assets (continued)		
Amortisation of premiums on:		
- Malaysian government securities	(643)	(922)
- Malaysian government guaranteed bonds	(135)	(153)
- Unquoted bonds of corporations in Malaysia	(45)	(39)
Interest income from licensed financial institutions:		
- Structured deposits	105	106
Loans and receivables		
Interest income from:		
- Government guaranteed loans	8,703	8,680
- Mortgage loans	205	329
- Policy loans	1,049	1,098
- Automatic premium loans	6,473	6,696
Interest income from licensed financial institutions:		
- Fixed and call deposits	19,937	23,841
Fair value through profit or loss - Held for trading financial assets		
Interest income from:		
- Malaysian government securities	18,893	13,553
- Malaysian government guaranteed bonds	21,078	14,670
- Ringgit denominated bonds by foreign issuers outside Malaysia	245	245
- Unquoted bonds of corporations in Malaysia	46,341	32,116
Dividend income from:		
- Quoted equity securities of corporations in Malaysia	30,328	20,227
- Quoted equity securities of corporations outside Malaysia	400	262
- Quoted unit trusts in Malaysia	108	120
Interest income from/(expense to) licensed financial institutions:		
- Structured deposits	1,276	1,279
- Cash collateral	(203)	(336)
Accretion of discounts on:		
- Malaysian government securities	657	342
- Malaysian government guaranteed bonds	668	585
- Unquoted bonds of corporations in Malaysia	49	253
Amortisation of premiums on:		
- Malaysian government securities	(154)	(149)
- Malaysian government guaranteed bonds	(11)	(17)
- Unquoted bonds of corporations in Malaysia	(606)	(513)

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**22. Investment income (continued)**

	2017 RM'000	2016 RM'000
Fair value through profit or loss - Designated upon initial recognition financial assets		
Interest income from:		
- Malaysian government securities	19,649	15,486
- Malaysian government guaranteed bonds	17,420	15,284
- Ringgit denominated bonds by foreign issuers outside Malaysia	879	994
- Unquoted bonds of corporations in Malaysia	78,227	64,295
- Unquoted bonds of corporations outside Malaysia	4,394	1,181
Interest income from/(expense to) licensed financial institutions:		
- Structured deposits	4,649	4,668
- Negotiable certificate of deposits	410	409
- Cross currency swap	1,222	(116)
- Collateralised forward starting interest rate swap	2,230	-
Accretion of discounts on:		
- Malaysian government securities	567	350
- Malaysian government guaranteed bonds	1,290	552
- Ringgit denominated bonds by foreign issuers outside Malaysia	1	6
- Unquoted bonds of corporations in Malaysia	82	214
- Structured deposits	1,403	1,334
- Unquoted bonds of corporations outside Malaysia	43	-
Amortisation of premiums on:		
- Malaysian government securities	(551)	(620)
- Malaysian government guaranteed bonds	(27)	(31)
- Unquoted bonds of corporations in Malaysia	(1,217)	(1,117)
- Unquoted bonds of corporations outside Malaysia	(328)	(112)
	<u>395,692</u>	<u>335,142</u>
	Note 20	Note 20



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## 23. Realised gains and losses

	2017 RM'000	2016 RM'000
Realised gains on disposal of property, plant and equipment	70	-
Realised gains on disposal of investments in debt and equity securities:		
Malaysian government securities	3,033	9,793
Malaysian government guaranteed bonds	131	-
Quoted equity securities of corporations in Malaysia	100,534	86,983
Quoted equity securities of corporations outside Malaysia	5,890	416
Unquoted bonds of corporations in Malaysia	5	649
Quoted unit trusts in Malaysia	1,048	3,546
Unquoted unit trusts outside Malaysia	434	9,835
Realised losses on disposal of investments in debt and equity securities:		
Malaysian government securities	(641)	(3,840)
Malaysian government guaranteed bonds	-	(1,963)
Quoted equity securities of corporations in Malaysia	(53,768)	(45,004)
Quoted equity securities of corporations outside Malaysia	(6,069)	(330)
Unquoted unit trusts outside Malaysia	(210)	(359)
Unquoted bonds of corporations in Malaysia	(76)	-
Put options	-	(1,549)
	<u>50,311</u>	<u>58,177</u>
Total net realised gains	<u>50,381</u>	<u>58,177</u>

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## 24. Fair value gains and losses

	Note	2017 RM'000	2016 RM'000
Held for trading financial assets	6	184,209	(9,322)
Designated upon initial recognition financial assets	6	10,588	11,551
Derivatives		8,015	1,925
Total fair value gains on financial assets at FVTPL		202,812	4,154
Impairment loss on AFS financial assets	6	(6,582)	(29,404)
Total fair value net gains/(losses)		196,230	(25,250)

## 25. Net benefits and claims

	2017 RM'000	2016 RM'000
Gross benefits and claims paid	(973,641)	(772,969)
Claims ceded to reinsurers	74,362	126,446
Net claims paid	(899,279)	(646,523)
Gross change in contract liabilities	(1,032,559)	(948,141)
Change in contract liabilities ceded to reinsurers	(7,211)	(5,101)
	(1,939,049)	(1,599,765)

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## 26. Management expenses

	Note	2017 RM'000	2016 RM'000
Advertising and marketing expenses		12,262	15,188
(Reversal of)/Allowance for impairment loss on receivables		(823)	951
Amortisation of intangible assets	5	5,634	4,976
Auditors' remuneration:			
- statutory audit fees		332	317
- non-audit fees		159	8
Bank charges		15,639	15,660
Depreciation on property, plant and equipment	3	4,960	5,060
Employee benefits expense	26(a)	86,727	86,389
Executive director's remuneration		1,862	-
Non-executive directors' fee and other emoluments		1,161	892
Rental of premises:			
Third parties		4,982	6,300
Other expenses		88,377	60,558
		<u>221,272</u>	<u>196,299</u>
		<b>2017 RM'000</b>	<b>2016 RM'000</b>
<b>(a) Employee benefits expense</b>			
Wages and salaries		41,849	39,101
Social security contributions		399	366
Contributions to Employees' Provident Fund		8,555	8,506
Other benefits		35,924	38,416
		<u>86,727</u>	<u>86,389</u>

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## 26. Management expenses (continued)

### (b) Key management personnel compensation

	2017 RM'000	2016 RM'000
Executive director:		
Salaries and other emoluments	1,706	-
Bonus	156	-
Estimated monetary value of benefits-in-kind	142	-
	<u>2,004</u>	<u>-</u>
Non-executive directors:		
Fees	850	684
Other emoluments	311	208
Estimated monetary value of benefits-in-kind	14	12
	<u>1,175</u>	<u>904</u>
Other key management personnel:		
Short-term employee benefits	<u>6,599</u>	<u>6,822</u>

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.

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

	2017 RM'000	2016 RM'000
Salaries	775	594
Bonus	416	-
Estimated monetary value of benefits-in-kind	378	564
Other emoluments	3,769	780
	<u>5,338</u>	<u>1,938</u>
Amount included in employee benefits expense	<u>4,960</u>	<u>1,374</u>

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## 26. Management expenses (continued)

(d) The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors are as follows:

2017	Salaries RM'000	Bonus RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in- kind RM'000	Total RM'000
<b>Chief Executive Officer/Executive Director</b>						
Joseph Kumar Gross	775	416	-	3,769	378	5,338
<b>Non-Executive Directors</b>						
Tan Sri Razali Bin Ismail	-	-	154	218	14	386
Foo San Kan	-	-	143	19	-	162
Dato' Dr. Thillainathan A/L Ramasamy	-	-	151	19	-	170
Tan Sri Datuk (Dr.) Rafiah Binti Salim	-	-	147	17	-	164
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	-	-	129	19	-	148
Goh Ching Yin	-	-	126	19	-	145
<b>Total Directors' remuneration (including benefits-in-kind)</b>	<b>-</b>	<b>-</b>	<b>850</b>	<b>311</b>	<b>14</b>	<b>1,175</b>

The remuneration of CEO of the Company who is also the Executive Director of the Company, including benefits-in-kind, amounted to RM5,338,000. During the financial year under review, the CEO of the Company has been appointed as the Executive Director of the Company.

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## 26. Management expenses (continued)

(d) The total remuneration (including benefits-in-kind) of the Chief Executive Officers and Directors are as follows (continued):

2016	Salaries RM'000	Bonus RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in- kind RM'000	Total RM'000
<b>Chief Executive Officers</b>						
Joseph Kumar Gross	388	-	-	686	555	1,629
Tapan Kumar Rangam Bir	206	-	-	94	9	309
<b>Total Chief Executive Officers' remuneration (including benefits-in-kind)</b>	<b>594</b>	<b>-</b>	<b>-</b>	<b>780</b>	<b>564</b>	<b>1,938</b>
<b>Non-Executive Directors</b>						
Tan Sri Razali Bin Ismail	-	-	159	149	12	320
Foo San Kan	-	-	148	15	-	163
Dato' Dr. Thillainathan A/L Ramasamy	-	-	140	15	-	155
Tan Sri Datuk (Dr.) Rafiah Binti Salim	-	-	144	19	-	163
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	-	-	93	10	-	103
<b>Total Directors' remuneration (including benefits-in-kind)</b>	<b>-</b>	<b>-</b>	<b>684</b>	<b>208</b>	<b>12</b>	<b>904</b>

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## 27. Tax expense

	2017 RM'000	2016 RM'000
<b>(a) Recognised in profit or loss</b>		
<b>Current tax expense</b>		
Current year	34,425	31,303
(Over)/Under provision in prior year	(350)	604
	<u>34,075</u>	<u>31,907</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	<u>43,377</u>	<u>24,322</u>
<b>Total tax expense</b>	<u>77,452</u>	<u>56,229</u>

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% (2016: 8%) applicable for life insurance business and 24% (2016: 24%) 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 24% (2016:24%). Consequently, deferred tax assets and liabilities of Shareholders' fund are measured using this tax rate. The taxes of respective funds are disclosed in Note 35 – Insurance funds.

### (b) Reconciliation of tax expense

	2017 RM'000	2016 RM'000
Profit before tax	<u>173,317</u>	<u>137,191</u>
Tax at Malaysian tax rate of 24% (2016: 24%)	41,596	32,926
Tax rate differential of 16% (2016: 16%) in respect of Life fund	1,801	3,429
Section 110B tax credit set off	(941)	(877)
Income not subject to tax	(173,012)	(157,213)
Non-deductible expenses	208,890	177,867
Other items	(532)	(507)
(Over)/Under provision in prior year	(350)	604
<b>Total tax expense</b>	<u>77,452</u>	<u>56,229</u>

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## 27. Tax expense (continued)

### (c) Deferred tax recognised directly in other comprehensive income

	2017 RM'000	2016 RM'000
<b>Available-for-sale fair value reserve</b>		
At 1 January	(405)	(470)
Net gain arising from change in fair value	528	65
At 31 December	<u>123</u>	<u>(405)</u>
<b>Revaluation reserve</b>		
At 1 January/31 December	<u>191</u>	<u>191</u>

### (d) Deferred tax recognised in insurance contract liabilities

	Note	2017 RM'000	2016 RM'000
<b>Available-for-sale fair value reserve</b>			
At 1 January		3,526	4,313
Net gain/(loss) arising from change in fair value	13	<u>9,110</u>	<u>(787)</u>
At 31 December		<u>12,636</u>	<u>3,526</u>
<b>Revaluation reserve</b>			
At 1 January/31 December		<u>465</u>	<u>465</u>
<b>Hedging reserve</b>			
At 1 January		2	(99)
Net (loss)/gain arising from change in fair value	13	<u>(260)</u>	<u>101</u>
At 31 December		<u>(258)</u>	<u>2</u>



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## 28. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2017 RM'000	2016 RM'000
Less than one year	4,369	3,475
Between one and five years	5,010	5,194
	<u>9,379</u>	<u>8,669</u>

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 (see Note 4). The future minimum lease receivables under non-cancellable leases are as follows:

	2017 RM'000	2016 RM'000
Less than one year	172	214
Between one and five years	218	46
	<u>390</u>	<u>260</u>

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## 29. Capital commitments

	2017 RM'000	2016 RM'000
<b>Property, plant and equipment</b>		
Contracted but not provided for	<u>4,040</u>	<u>3,040</u>
<b>Software development</b>		
Contracted but not provided for	<u>3,711</u>	<u>2,749</u>

## 30. 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. 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 and entity that provides key management personnel services to the Group. The key management personnel include all the Directors of the Company, and certain 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 26.

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### 30. 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 26), are as follows:

	Amount transacted for the year ended 31 December 2017 RM'000	Amount transacted for the year ended 31 December 2016 RM'000
<b>Transactions</b>		
<b>Ultimate holding company</b>		
Payment of reinsurance premium and commission	(5,995)	(4,445)
(Payment)/Reimbursement of personnel expenses	(759)	1,481
Payment of business building and regional investment costs	(17,050)	(12,132)
Payment of global marketing expenses	(1,219)	(841)
Payment of fees for sharing of Global Procurement (excluding IT) services and support	(189)	(181)
Payment of relationship manager fees	(324)	(754)
Provision of regional underwriting service	337	299
Payment of personnel expenses	(2,428)	(816)
Payment for support of design and development of Global Digital Factory	(64)	-
Payment for the development of Allianz One Finance Programme	(72)	-
Payment for IT security services	(314)	-
<b>Immediate holding company</b>		
Interest payment for subordinated loan	(2,444)	(2,450)
Rental income	16	4
Sharing of personal costs and department expenses	(7,748)	(7,508)
Payment for life actuarial modeling services	(147)	-
<b>Related companies*</b>		
Payment of reinsurance premium and commission	(24,510)	(130,959)
Payment of insurance premium	(192)	(360)
Payment of motor insurance premium	(259)	(348)
Reversal/(Payment) of consultant fees	26	(26)
Investment and redemption of funds (including fund management fees)	1,517	35,194
Investment advisory fees	(2,477)	(1,885)
Performance attribution analysis	(11)	(15)
Payment of other expenses	(950)	(1,679)
Rental expenses	(1,796)	(4,295)
Rental income	343	225
Payment of intranet portal network cost	(354)	(178)
Reimbursement of sharing of common expenses	1,726	1,615
Payment for advisory services	(2,551)	-

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### 30. Related parties (continued)

#### Significant related party transactions (continued)

	Amount transacted for the year ended 31 December 2017 RM'000	Amount transacted for the year ended 31 December 2016 RM'000
<b>Related companies* (continued)</b>		
Sharing of asset and investment manager database expenses	(509)	(356)
Payment for purchasing of various software licences	(281)	-
Sharing of expenses of HR database platform and recruitment solution	(74)	(49)
Gain/(Loss) on disposal of property, plant and equipment	2	(2)
Payment of annual maintenance and support fees for software system	(369)	-
Payment for development point of sales system modules	(702)	-
Payment for Actuarial support center services	(230)	-
	<hr/>	<hr/>

\* Related companies are companies within the Allianz SE group.

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

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## 31. 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 practice consists of the following key areas:

**(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.

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## **31. 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.

RMWC serves and provides as a platform for two way communications between the management and the RMC 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**

The Investment Committee ("IC") 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.

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## **31. Risk management framework (continued)**

### **Asset and Liability Management (“ALM”) Framework (continued)**

The Asset Liability Management (“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).

### **Governance and regulatory framework**

The Company is required to comply with the requirements of the Financial Services Act, 2013, relevant laws and guidelines required by BNM, including the relevant guidelines from 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 local law or regulations have priority while the stricter will apply where possible.

## **32. Underwriting 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 risk 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.

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## 32. Underwriting risk (continued)

The underwriting risk of life insurance contracts consists of mortality/longevity/morbidity and calamity risks. Mortality/longevity/morbidity 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 actuarial liabilities by type of contract (with and without DPF).

	Gross			Reinsurance			Net RM'000
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	
<b>2017</b>							
Whole life	2,582,517	1,109,340	3,691,857	-	(10,327)	(10,327)	3,681,530
Endowment	582,259	1,573,666	2,155,925	-	-	-	2,155,925
Mortgage	-	79,330	79,330	-	(42,437)	(42,437)	36,893
Riders and others	585,571	368,194	953,765	-	-	-	953,765
<b>Total</b>	<b>3,750,347</b>	<b>3,130,530</b>	<b>6,880,877</b>	<b>-</b>	<b>(52,764)</b>	<b>(52,764)</b>	<b>6,828,113</b>
			<b>Note 12</b>			<b>Note 12</b>	<b>Note 12</b>
<b>2016</b>							
Whole life	2,510,907	924,548	3,435,455	-	(10,474)	(10,474)	3,424,981
Endowment	568,133	1,226,154	1,794,287	-	(18)	(18)	1,794,269
Mortgage	-	91,085	91,085	-	(49,483)	(49,483)	41,602
Riders and others	517,429	263,167	780,596	-	-	-	780,596
<b>Total</b>	<b>3,596,469</b>	<b>2,504,954</b>	<b>6,101,423</b>	<b>-</b>	<b>(59,975)</b>	<b>(59,975)</b>	<b>6,041,448</b>
			<b>Note 12</b>			<b>Note 12</b>	<b>Note 12</b>

As all of the business is derived from Malaysia, the entire actuarial liabilities are in Malaysia. There is no investment contract issued by the Company during the current and previous financial years.



## 32. Underwriting 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. They 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' mortality and 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.

## 32. Underwriting risk (continued)

### Key assumptions (continued)

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

- Persistency

Experience study on persistency (lapse, surrender, premium holiday, partial withdrawal) is carried out on annual basis using statistical method. Persistency assumptions 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 4.25% - 6.25% per annum (2016: 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.

Risk-free discount rate for durations of less than 15 years is zero-coupon spot yields of 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.

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## 32. Underwriting risk (continued)

### Key assumptions (continued)

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

Type of business	Mortality and morbidity rates <sup>(1)</sup>		Lapse and surrender rates		Discount rate	
	2017 %	2016 %	2017 %	2016 %	2017 %	2016 %
<b>With fixed and guaranteed terms and with DPF contracts</b>						
Life insurance	60-80	60-80	1-25	0.5-30	4.25-6.25	4.50-6.50
<b>Without DPF contracts</b>						
Life insurance	60-175	60-150	1-65	0.5-60	MGS spot yield	MGS spot yield

<sup>(1)</sup> Industry mortality and morbidity experience tables that were observed in Malaysia between year 1999 and 2003 or the respective reinsurance risk rates.

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## 32. Underwriting 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
<b>Life insurance contracts</b>				
<b>2017</b>				
Mortality and morbidity rates	+5%	(5,388)	10,569	8,310
Discount rate	-0.5%	(17,955)	129,621	128,155
Expenses	+10%	(7,550)	12,565	12,565
Lapse and surrender rates	-10%	592	6,511	6,276
<b>2016</b>				
Mortality and morbidity rates	+5%	(7,841)	13,316	10,786
Discount rate	-0.5%	(18,736)	196,002	194,350
Expenses	+10%	(9,104)	14,154	14,154
Lapse and surrender rates	-10%	743	5,845	5,543

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

## 32. Underwriting 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 only 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.

## 33. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate 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.

### 33.1 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 or due to the non-performance of instruments (i.e. payment overdue). The Company's exposure to credit risk arises principally from the reinsurance, insurance receivables and the investment/placement in fixed income instruments and bank balances. 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 on-going basis. Reinsurance is mainly to local or offshore reinsurers, and if the Company has to place overseas, only counterparties that have a credit rating that is acceptable based on Allianz Guidelines for Reinsurance Security 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.

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### 33. Financial risks (continued)

#### 33.1 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
<b>2017</b>			
LAR			
Government guaranteed loans	190,000	-	190,000
Other loans	99,583	-	99,583
Fixed and call deposits	83,710	9,129	92,839
AFS financial investments			
Malaysian government securities	912,746	-	912,746
Malaysian government guaranteed bonds	894,509	-	894,509
Ringgit denominated bonds by foreign issuers outside Malaysia	41,918	-	41,918
Unquoted bonds of corporations in Malaysia	106,178	-	106,178
Structured deposits	2,021	-	2,021

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### 33. Financial risks (continued)

#### 33.1 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
<b>2017 (continued)</b>			
FVTPL - HFT financial investments			
Malaysian government securities	465,707	11,605	477,312
Malaysian government guaranteed bonds	499,510	30,955	530,465
Ringgit denominated bonds by foreign issuers outside Malaysia	1,524	3,556	5,080
Unquoted bonds of corporations in Malaysia	765,521	350,507	1,116,028
Structured deposits	15,108	15,108	30,216
FVTPL - DUIR financial investments			
Malaysian government securities	582,848	-	582,848
Malaysian government guaranteed bonds	460,220	-	460,220
Ringgit denominated bonds by foreign issuers outside Malaysia	18,669	-	18,669
Unquoted bonds of corporations in Malaysia	1,686,877	-	1,686,877
Unquoted bonds of corporations outside Malaysia	115,469	-	115,469
Structured deposits	123,717	-	123,717
Negotiable certificate of deposits	9,732	-	9,732

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### 33. Financial risks (continued)

#### 33.1 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).

<b>2017 (continued)</b>	<b>Insurance and Shareholders' funds RM'000</b>	<b>Investment- linked funds RM'000</b>	<b>Total RM'000</b>
Derivatives financial assets			
Collateralised forward starting interest rate swap	7,259	-	7,259
Collateralised interest rate swap	13,827	-	13,827
Forward purchase agreements	99	-	99
Cross currency swap	4,352	-	4,352
Reinsurance assets	52,764	-	52,764
Insurance receivables	53,938	-	53,938
Other receivables and deposits	116,785	17,397	134,182
Cash and cash equivalents	485,692	192,067	677,759
	<b>7,810,283</b>	<b>630,324</b>	<b>8,440,607</b>



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### 33. Financial risks (continued)

#### 33.1 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
<b>2016</b>			
LAR			
Government guaranteed loans	190,000	-	190,000
Other loans	107,555	-	107,555
Fixed and call deposits	190,860	3,110	193,970
AFS financial investments			
Malaysian government securities	839,772	-	839,772
Malaysian government guaranteed bonds	851,216	-	851,216
Ringgit denominated bonds by foreign issuers outside Malaysia	74,086	-	74,086
Unquoted bonds of corporations in Malaysia	80,346	-	80,346
Structured deposits	2,045	-	2,045
FVTPL - HFT financial investments			
Malaysian government securities	396,801	40,832	437,633

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### 33. Financial risks (continued)

#### 33.1 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
<b>2016 (continued)</b>			
FVTPL - HFT financial investments (continued)			
Malaysian government guaranteed bonds	370,470	26,981	397,451
Ringgit denominated bonds by foreign issuers outside Malaysia	1,529	3,569	5,098
Unquoted bonds of corporations in Malaysia	577,567	229,550	807,117
Structured deposits	15,146	15,148	30,294
FVTPL - DUIR financial investments			
Malaysian government securities	456,618	-	456,618
Malaysian government guaranteed bonds	384,367	-	384,367
Ringgit denominated bonds by foreign issuers outside Malaysia	21,730	-	21,730
Unquoted bonds of corporations in Malaysia	1,498,931	-	1,498,931
Unquoted bonds of corporations outside Malaysia	116,765	-	116,765
Structured deposits	123,420	-	123,420
Negotiable certificate of deposits	10,053	-	10,053
Derivatives financial assets			
Collateralised forward starting interest rate swap	14,996	-	14,996
Forward purchase agreements	429	-	429
Reinsurance assets			
Insurance receivables	59,975	-	59,975
Other receivables and deposits	50,658	-	50,658
Cash and cash equivalents	111,648	16,931	128,579
	326,274	94,850	421,124
	<u>6,873,257</u>	<u>430,971</u>	<u>7,304,228</u>



### 33. Financial risks (continued)

#### 33.1 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).

	← Neither past-due nor impaired →					Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- investment grade RM'000				
<b>2017 (continued)</b>									
FVTPL - HFT financial investments									
Malaysian government securities	-	-	-	-	-	465,707	11,605	-	477,312
Malaysian government guaranteed bonds	-	-	-	-	-	499,510	30,955	-	530,465
Ringgit denominated bonds by foreign issuers outside Malaysia	1,524	-	-	-	-	-	3,556	-	5,080
Unquoted bonds of corporations in Malaysia	389,959	373,550	-	-	-	2,012	350,507	-	1,116,028
Structured deposits	15,108	-	-	-	-	-	15,108	-	30,216



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### 33. Financial risks (continued)

#### 33.1 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).

	← Neither past-due nor impaired →				Non- investment grade RM'000	Investment- linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000				
<b>2017 (continued)</b>								
Reinsurance assets	-	51,871	318	-	-	575	-	52,764
Insurance receivable	-	-	-	-	-	51,946	1,992 <sup>#</sup>	53,938
Other receivables and deposits	-	-	-	-	-	116,785	-	134,182
Cash and cash equivalents	368,323	97,550	18,839	-	-	980	-	677,759
	1,950,455	1,392,31	46,358	55,534	-	4,363,613	1,992	8,440,607

<sup>#</sup> Net of balances which are past due and impaired of RM 4,714,000 which has been fully provided for (See Note 33.1 (ii)).



### 33. Financial risks (continued)

#### 33.1 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).

	← Neither past-due nor impaired →					Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000			
<b>2016 (continued)</b>								
AFS financial investments (continued)								
Structured deposits	2,045	-	-	-	-	-	-	2,045
FVTPL - HFT financial investments								
Malaysian government securities	-	-	-	-	-	396,801	40,832	437,633
Malaysian government guaranteed bonds	-	-	-	-	-	370,470	26,981	397,451
Ringgit denominated bonds by foreign issuers outside Malaysia	-	1,529	-	-	-	-	3,569	5,098
Unquoted bonds of corporations in Malaysia	274,231	303,336	-	-	-	-	229,550	807,117
Structured deposits	15,146	-	-	-	-	-	15,148	30,294
FVTPL - DUIR financial investments								
Malaysian government securities	-	-	-	-	-	456,618	-	456,618
Malaysian government guaranteed bonds	-	-	-	-	-	384,367	-	384,367
Ringgit denominated bonds by foreign issuers outside Malaysia	3,003	18,727	-	-	-	-	-	21,730



### 33. Financial risks (continued)

#### 33.1 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).

	← Neither past-due nor impaired →					Non- investment grade RM'000	Non- rated RM'000	Investment- linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000						
<b>2016 (continued)</b>										
FVTPL - DUIR financial investments (continued)										
Unquoted bonds of corporations in Malaysia	730,113	763,638	-	5,180	-	-	-	-	-	1,498,931
Unquoted bonds of corporations outside Malaysia	-	-	21,679	53,294	-	41,792	-	-	-	116,765
Structured deposits	123,420	-	-	-	-	-	-	-	-	123,420
Negotiable certificate of deposits	10,053	-	-	-	-	-	-	-	-	10,053
Derivatives financial assets										
Collateralised forward starting interest rate swap	14,996	-	-	-	-	-	-	-	-	14,996
Forward purchase agreements	429	-	-	-	-	-	-	-	-	429
Reinsurance assets	-	58,852	419	-	-	704	-	-	-	59,975
Insurance receivable	-	-	-	-	-	48,592	-	2,066 <sup>#</sup>	-	50,658
Other receivables and deposits	-	-	-	-	-	111,648	16,931	-	-	128,579
Cash and cash equivalents	211,618	99,376	15,079	-	-	201	94,850	-	-	421,124
	<b>1,492,949</b>	<b>1,482,855</b>	<b>37,177</b>	<b>58,474</b>	<b>-</b>	<b>3,799,736</b>	<b>430,971</b>	<b>2,066</b>	<b>-</b>	<b>7,304,228</b>

<sup>#</sup> Net of balances which are past due and impaired of RM 5,572,000 which has been fully provided for (See Note 33.1 (ii)).

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### 33. Financial risks (continued)

#### 33.1 Credit risk (continued)

The Company has not provided the credit risk analysis for the financial assets of the investment-linked funds. This is due to the fact that, in investment-linked funds, 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

	1 to 90 days RM'000	91 to 180 days RM'000	Investment- linked funds RM'000	Total RM'000
2017	1,992	-	-	1,992
2016	2,066	-	-	2,066

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### 33. Financial risks (continued)

#### 33.1 Credit risk (continued)

##### (ii) Past-due and impaired financial assets

At 31 December 2017, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables amounting to RM4,714,000 (2016: RM5,572,000) and other receivables of RM35,000 (2016: Nil). 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 loss for the aforesaid insurance receivables and other receivables are as follows:

	Insurance receivables		Other receivables	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>At 1 January</b>	5,572	4,621	-	-
Impairment loss (reversed)/recognised	(858)	951	35	-
<b>At 31 December</b>	<u>4,714</u>	<u>5,572</u>	<u>35</u>	<u>-</u>
	<b>Note 8</b>	<b>Note 8</b>	<b>Note 9</b>	<b>Note 9</b>

### 33. Financial risks (continued)

#### 33.2 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 sufficient 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.

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### 33. Financial risks (continued)

#### 33.2 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
<b>2017</b>								
Insurance contract liabilities								
With DPF	3,980,328	910,215	327,243	400,099	1,814,428	5,665,097	5,980	9,123,062
Without DPF	4,501,963	4,110,776	33,878	59,585	262,299	221,059	-	4,687,597
Derivative financial liabilities	5,251	226	1,231	3,794	-	-	-	5,251
Subordinated loan	54,300	2,444	4,887	4,894	57,975	-	-	70,200
Other financial liabilities	20,710	20,280	430	-	-	-	-	20,710
Insurance payables	213,232	213,232	-	-	-	-	-	213,232
Other payables and accruals	185,882	185,882	-	-	-	-	-	185,882
Benefits and claims liabilities	331,296	331,296	-	-	-	-	-	331,296
<b>Total liabilities</b>	<b>9,292,962</b>	<b>5,774,351</b>	<b>367,669</b>	<b>468,372</b>	<b>2,134,702</b>	<b>5,886,156</b>	<b>5,980</b>	<b>14,637,230</b>
<b>2016</b>								
Insurance contract liabilities								
With DPF	3,812,445	765,386	306,108	325,136	1,874,681	7,632,677	5,980	10,909,968
Without DPF	3,535,517	3,138,548	42,450	30,263	284,683	259,746	-	3,755,690
Derivative financial liabilities	13,873	-	1,457	12,416	-	-	-	13,873
Subordinated loan	54,300	2,444	4,887	4,894	57,975	-	-	70,200
Other financial liabilities	5,308	4,745	563	-	-	-	-	5,308
Insurance payables	152,874	152,874	-	-	-	-	-	152,874
Other payables and accruals	150,475	150,475	-	-	-	-	-	150,475
Benefits and claims liabilities	253,726	253,726	-	-	-	-	-	253,726
<b>Total liabilities</b>	<b>7,978,518</b>	<b>4,468,198</b>	<b>355,465</b>	<b>372,709</b>	<b>2,217,339</b>	<b>7,892,423</b>	<b>5,980</b>	<b>15,312,114</b>

## 33. Financial risks (continued)

### 33.3 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 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.
- Investment Committee would recommend the initiatives after balancing competing and legitimate objective of various stakeholders.
- The Investment Policy and Mandate which formulated the single counterparty 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 fund management charges is based on the value of the assets in the funds.

### 33. Financial risks (continued)

#### 33.3 Market risk (continued)

##### 33.3.1 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), Singapore Dollar (SGD), Thai Baht (THB) and Indonesian 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 the end of the reporting period was:

<b>2017</b>		<b>Investment-linked</b>
<b>Financial assets</b>	<b>Life fund</b>	<b>funds</b>
<b>Denominated in</b>	<b>RM'000</b>	<b>RM'000</b>
USD	115,469	11,918
SGD	-	566
THB	-	3,161
IDR	-	15,807
	<hr/>	<hr/>

### 33. Financial risks (continued)

#### 33.3 Market risk (continued)

##### 33.3.1 Currency risk (continued)

##### Exposure to foreign currency risk (continued)

2016 Financial assets Denominated in	Life fund RM'000	Investment-linked funds RM'000
USD	116,765	12,633
SGD	-	15,505
THB	-	5,028
IDR	-	4,382
	<hr/>	<hr/>

##### Currency risk sensitivity analysis

It is estimated that a 10% (2016:10%) strengthening of the Ringgit Malaysia (RM) against the following currencies at the end of the reporting period would have 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.

Denominated in	Impact on insurance contract liabilities 2017 RM'000	Impact on insurance contract liabilities 2016 RM'000
USD	(12,739)	(12,940)
SGD	(57)	(1,551)
THB	(316)	(503)
IDR	(1,581)	(438)
	<hr/>	<hr/>

It is estimated that a 10% (2016:10%) 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.



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### 33. Financial risks (continued)

#### 33.3 Market risk (continued)

##### 33.3.2 Interest rate risk

The Company is affected by changes in market interest rate due to the change in interest rates will affect the value of mark to market fixed income investments and also the valuation of the liabilities, resulting in the risk of not being able to meet product guarantees.

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
<b>2017</b>				
Interest rate	+100 basis points	(86,407)	(69,975)	(355,465)
Interest rate	-100 basis points	95,174	76,902	407,903
<b>2016</b>				
Interest rate	+100 basis points	(67,607)	(54,259)	(318,486)
Interest rate	-100 basis points	73,948	59,184	366,225

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### **33. Financial risks (continued)**

#### **33.3 Market risk (continued)**

##### **33.3.2 Interest rate risk (continued)**

###### **Interest rate risk sensitivity analysis (continued)**

The impact on profit before tax would be dependent on whether the interest rate risk resides in shareholders' fund, life non-participating insurance fund, life participating insurance fund or investment-linked funds. Where the interest rate 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. It should be noted that movements in these variables are non-linear.

\* 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.

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### 33. Financial risks (continued)

#### 33.3 Market risk (continued)

##### 33.3.3 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 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.

	Changes in variable	2017			2016		
		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
<b>Market indices</b>							
Market value	-10%	-	-	(178,261)	-	-	(149,432)
Market value	-20%	-	-	(356,521)	-	-	(298,864)

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### 33. Financial risks (continued)

#### 33.3 Market risk (continued)

##### 33.3.3 Equity price risk (continued)

###### Equity price risk sensitivity analysis (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, universal life fund and investment-linked funds invested in equity securities.

#### 33.4 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.

Relevant operational risks and control weaknesses are identified and evaluated via a structured self-assessment. Besides, operational risk events are collected so that significant losses can be used to analyse and provide measures aimed at avoiding or reducing future losses.

### **33. Financial risks (continued)**

#### **33.4 Operational risk (continued)**

The Company puts 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.

#### **33.5 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, negotiable certificate of deposits, collateralised forward starting interest rate swap, collateralised interest rate swap, forward purchase agreements and cross currency 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 market bid 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 outside Malaysia, unquoted bonds of corporations in and outside Malaysia are based on the indicative market prices provided by its custodian bank;
- 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 loans, policy loans, mortgage loans, automatic premium loans, fixed and call deposits, subordinated loan and other financial liabilities are assumed to reasonably approximate their fair values; and

### **33. Financial risks (continued)**

#### **33.5 Fair value of financial instruments (continued)**

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

Estimation of the fair values of Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers outside Malaysia, unquoted bonds of corporations in and outside Malaysia are based on the indicative market prices provided by its custodian bank 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.

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### 33. Financial risks (continued)

#### 33.5 Fair value of financial instruments (continued)

##### 33.5.1 Fair value information

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 RM'000	Carrying amount RM'000
	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		
<b>2017</b>										
<b>Financial assets</b>										
Malaysian government securities	-	1,972,906	-	1,972,906	-	-	-	-	1,972,906	1,972,906
Malaysian government guaranteed bonds	-	1,885,194	-	1,885,194	-	-	-	-	1,885,194	1,885,194
Ringgit denominated bonds by foreign issuers outside Malaysia	-	65,667	-	65,667	-	-	-	-	65,667	65,667
Quoted equity securities of corporations in Malaysia	1,875,382	-	-	1,875,382	-	-	-	-	1,875,382	1,875,382
Quoted equity securities of corporations outside Malaysia	4,507	-	-	4,507	-	-	-	-	4,507	4,507
Unquoted bonds of corporations in Malaysia	-	2,909,083	-	2,909,083	-	-	-	-	2,909,083	2,909,083
Unquoted bonds of corporations outside Malaysia	-	115,469	-	115,469	-	-	-	-	115,469	115,469
Quoted unit trusts in Malaysia	57,726	-	-	57,726	-	-	-	-	57,726	57,726
Unquoted unit trusts in Malaysia	-	19,375	-	19,375	-	-	-	-	19,375	19,375
Unquoted unit trusts outside Malaysia	-	26,945	-	26,945	-	-	-	-	26,945	26,945
Structured deposits with licensed financial institutions	-	155,954	-	155,954	-	-	-	-	155,954	155,954
Government guaranteed loans	-	-	-	-	-	190,000	-	190,000	190,000	190,000
Negotiable certificate of deposits with licensed financial institution	-	9,732	-	9,732	-	-	-	-	9,732	9,732
Collateralised forward starting interest rate swap	-	7,259	-	7,259	-	-	-	-	7,259	7,259
Collateralised interest rate swap	-	13,827	-	13,827	-	-	-	-	13,827	13,827
Forward purchase agreements	-	99	-	99	-	-	-	-	99	99
Cross currency swap	-	4,352	-	4,352	-	-	-	-	4,352	4,352
	<b>1,937,615</b>	<b>7,185,862</b>	<b>-</b>	<b>9,123,477</b>	<b>-</b>	<b>190,000</b>	<b>-</b>	<b>190,000</b>	<b>9,313,477</b>	<b>9,313,477</b>

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### 33. Financial risks (continued)

#### 33.5 Fair value of financial instruments (continued)

##### 33.5.1 Fair value information (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				Total fair value RM'000	Carrying amount RM'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
<b>2017</b>										
<b>Financial liabilities</b>										
Forward purchase agreements	-	3,318	-	3,318	-	-	-	-	3,318	3,318
Cross currency swap	-	1,933	-	1,933	-	-	-	-	1,933	1,933
Subordinated loan	-	-	-	-	-	54,300	-	54,300	54,300	54,300
	-	5,251	-	5,251	-	54,300	-	54,300	59,551	59,551



### 33. Financial risks (continued)

#### 33.5 Fair value of financial instruments (continued)

##### 33.5.1 Fair value information (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				Total fair value RM'000	Carrying amount RM'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
<b>2016</b>										
<b>Financial assets</b>										
Malaysian government securities	-	1,734,023	-	1,734,023	-	-	-	-	1,734,023	1,734,023
Malaysian government guaranteed bonds	-	1,633,034	-	1,633,034	-	-	-	-	1,633,034	1,633,034
Ringgit denominated bonds by foreign issuers outside Malaysia	-	100,914	-	100,914	-	-	-	-	100,914	100,914
Quoted equity securities of corporations in Malaysia	1,544,889	-	-	1,544,889	-	-	-	-	1,544,889	1,544,889
Quoted equity securities of corporations outside Malaysia	24,916	-	-	24,916	-	-	-	-	24,916	24,916
Unquoted bonds of corporations in Malaysia	-	2,386,394	-	2,386,394	-	-	-	-	2,386,394	2,386,394
Unquoted bonds of corporations outside Malaysia	-	116,765	-	116,765	-	-	-	-	116,765	116,765
Quoted unit trusts in Malaysia	54,458	-	-	54,458	-	-	-	-	54,458	54,458
Unquoted unit trusts in Malaysia	-	6,023	-	6,023	-	-	-	-	6,023	6,023
Unquoted unit trusts outside Malaysia	-	12,633	-	12,633	-	-	-	-	12,633	12,633
Structured deposits with licensed financial institutions	-	155,759	-	155,759	-	-	-	-	155,759	155,759
Government guaranteed loans	-	-	-	-	-	190,000	-	190,000	190,000	190,000
Negotiable certificate of deposits with licensed financial institution	-	10,053	-	10,053	-	-	-	-	10,053	10,053
Collateralised forward starting interest rate swap	-	14,996	-	14,996	-	-	-	-	14,996	14,996
Forward purchase agreements	-	429	-	429	-	-	-	-	429	429
	1,624,263	6,171,023	-	7,795,286	-	190,000	-	190,000	7,985,286	7,985,286

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### 33. Financial risks (continued)

#### 33.5 Fair value of financial instruments (continued)

##### 33.5.1 Fair value information (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				Total fair value RM'000	Carrying amount RM'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
<b>2016</b>										
<b>Financial liabilities</b>										
Forward purchase agreements	-	3,114	-	3,114	-	-	-	-	3,114	3,114
Cross currency swap	-	10,759	-	10,759	-	-	-	-	10,759	10,759
Subordinated loan	-	-	-	-	-	54,300	-	54,300	54,300	54,300
	-	13,873	-	13,873	-	54,300	-	54,300	68,173	68,173

### 33. Financial risks (continued)

#### 33.5 Fair value of financial instruments (continued)

##### 33.5.1 Fair value information (continued)

###### Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2016: no transfer in either directions).

### 34. 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 required by BNM or level determined under the Internal Capital Adequacy Assessment 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 by maintaining a CAR that is in excess of minimum requirement.

The total capital available of the Company as at 31 December 2017, as prescribed under the RBC Framework is provided below:

	Note	2017 RM'000	2016 RM'000
<b>Tier 1 Capital</b>			
Paid up share capital	10	236,600	236,600
Reserves, including retained earnings		1,470,675	1,459,740
		<u>1,707,275</u>	<u>1,696,340</u>
<b>Tier 2 Capital</b>			
Revaluation reserve		8,502	8,502
Available-for-sale reserve		145,813	39,356
General reserve		(2,961)	25
Subordinated loan		55,492	55,492
		<u>206,846</u>	<u>103,375</u>
<b>Amount deducted from capital</b>		(36,186)	(38,236)
<b>Total capital available</b>		<u>1,877,935</u>	<u>1,761,479</u>

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### 35. 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-participating Whole life, Term assurance, Endowment, as well as investment-linked products.

#### Statement of financial position by funds as at 31 December

	Shareholders' fund		Life fund		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Assets</b>						
Property, plant and equipment	-	-	33,167	35,334	33,167	35,334
Investment properties	-	-	3,840	3,840	3,840	3,840
Intangible assets	27,267	31,812	3,050	849	30,317	32,661
Investments	303,325	279,625	9,179,184	7,993,908	9,482,509	8,273,533
Derivative financial assets	-	-	25,537	15,425	25,537	15,425
Reinsurance assets	-	-	52,764	59,975	52,764	59,975
Insurance receivables	-	-	53,938	50,658	53,938	50,658
Other receivables, deposits and prepayments	14,150	19,322	120,032	109,257	134,182	128,579
Cash and cash equivalents	10,037	11,142	667,722	409,982	677,759	421,124
	<b>354,779</b>	<b>341,901</b>	<b>10,139,234</b>	<b>8,679,228</b>	<b>10,494,013</b>	<b>9,021,129</b>

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### 35. Insurance funds (continued)

#### Statement of financial position by funds as at 31 December (continued)

	Shareholders' fund		Life fund		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Total equity</b>	288,492	278,295	614,532	527,163	903,024	805,458
<b>Total policyholders' funds and liabilities</b>						
Insurance contract liabilities	-	-	8,482,291	7,347,962	8,482,291	7,347,962
Deferred tax liabilities	258	(351)	225,093	172,947	225,351	172,596
Derivative financial liabilities	-	-	5,251	13,873	5,251	13,873
Subordinated loan	54,300	54,300	-	-	54,300	54,300
Other financial liabilities	-	-	20,710	5,308	20,710	5,308
Insurance payables	-	-	213,232	152,874	213,232	152,874
Other payables and accruals	9,203	7,381	241,866	198,965	251,069	206,346
Benefits and claims liabilities	-	-	331,296	253,726	331,296	253,726
Current tax liabilities	2,526	2,276	4,963	6,410	7,489	8,686
	66,287	63,606	9,524,702	8,152,065	9,590,989	8,215,671
<b>Total equity, policyholders' funds and liabilities</b>	354,779	341,901	10,139,234	8,679,228	10,494,013	9,021,129

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### 35. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Operating revenue</b>	12,454	12,051	2,532,830	2,422,768	2,545,284	2,434,819
Gross earned premiums	-	-	2,149,592	2,099,677	2,149,592	2,099,677
Premiums ceded to reinsurers	-	-	(53,129)	(152,189)	(53,129)	(152,189)
<b>Net earned premiums</b>	-	-	2,096,463	1,947,488	2,096,463	1,947,488
Investment income	12,454	12,051	383,238	323,091	395,692	335,142
Realised gains and losses	90	53	50,291	58,124	50,381	58,177
Fair value gains and losses	-	-	196,230	(25,250)	196,230	(25,250)
Fee and commission income	-	-	219	4	219	4
Other operating income	18	9	19,814	14,878	19,832	14,887
<b>Other income</b>	12,562	12,113	649,792	370,847	662,354	382,960
Gross benefits and claims paid	-	-	(973,641)	(772,969)	(973,641)	(772,969)
Claims ceded to reinsurers	-	-	74,362	126,446	74,362	126,446
Gross change in contract liabilities	-	-	(1,032,559)	(948,141)	(1,032,559)	(948,141)
Change in contract liabilities ceded to reinsurers	-	-	(7,211)	(5,101)	(7,211)	(5,101)
<b>Net benefits and claims</b>	-	-	(1,939,049)	(1,599,765)	(1,939,049)	(1,599,765)
Fee and commission expense	-	-	(390,831)	(366,465)	(390,831)	(366,465)
Management expenses	(7,744)	(7,043)	(213,528)	(189,256)	(221,272)	(196,299)
Other operating expenses	(4,365)	(6,245)	(29,983)	(24,483)	(34,348)	(30,728)
<b>Other expenses</b>	(12,109)	(13,288)	(634,342)	(580,204)	(646,451)	(593,492)

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### 35. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Transfer	11,759	10,956	(11,759)	(10,956)	-	-
Profit/Surplus before tax	12,212	9,781	161,105	127,410	173,317	137,191
Tax expense (Note 27)	(3,676)	(4,231)	(73,776)	(51,998)	(77,452)	(56,229)
Net profit after tax	8,536	5,550	87,329	75,412	95,865	80,962

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### 35. Insurance funds (continued)

Investment-linked funds statement of assets and liabilities  
as at 31 December

	2017 RM'000	2016 RM'000
<b>Assets</b>		
Financial investments	1,185,701	926,044
Interest and dividend receivables and other receivables	17,397	16,931
Cash and cash equivalents	192,067	94,850
<b>Total assets</b>	1,395,165	1,037,825
<b>Liabilities</b>		
Deferred tax liabilities	10,946	1,821
Other financial liabilities	10,694	3,896
Other payables	510	706
Benefits and claims liabilities	1,581	840
<b>Total liabilities</b>	23,731	7,263
<b>Net asset value of funds (Note 12)</b>	1,371,434	1,030,562



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### 35. Insurance funds (continued)

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

	Note	2017 RM'000	2016 RM'000
Investment income		40,289	29,626
Realised gains and losses		21,971	7,704
Fair value gains and losses		114,231	(6,930)
Other operating income		48	214
		<hr/> 176,539	<hr/> 30,614
Management expenses		(56)	(56)
Other operating expenses		(17,131)	(12,154)
		<hr/> 159,352	<hr/> 18,404
Profit before tax		159,352	18,404
Tax expense		(12,591)	(1,516)
<b>Net profit for the year</b>	12	<hr/> <b>146,761</b>	<hr/> <b>16,888</b>

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### 35. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Investment-linked funds		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Cash flows from/(used in):</b>								
Operating activities	1,339	5,762	166,541	13,089	97,217	(20,050)	265,097	(1,199)
Investing activities	-	-	(6,018)	(8,390)	-	-	(6,018)	(8,390)
Financing activities	(2,444)	(2,450)	-	-	-	-	(2,444)	(2,450)
<b>Net (decrease)/increase in cash and cash equivalents</b>	(1,105)	3,312	160,523	4,699	97,217	(20,050)	256,635	(12,039)
At beginning of year	11,142	7,830	315,132	310,433	94,850	114,900	421,124	433,163
At end of year	10,037	11,142	475,655	315,132	192,067	94,850	677,759	421,124

# Allianz Life Insurance Malaysia Berhad

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

## Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 34 to 160 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2017 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 Datuk (Dr.) Rafiah Binti Salim**  
Director

.....  
**Joseph Kumar Gross**  
Director

Kuala Lumpur,

Date: 22 February 2018

# **Allianz Life Insurance Malaysia Berhad**

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

## **Statutory declaration pursuant to Section 251(1)(b) of the Companies Act 2016**

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 34 to 160 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ong Eng Chow, I/C No: 650421-71-5931, at Kuala Lumpur in the Federal Territory on 22 February 2018.

.....  
**Ong Eng Chow**

Before me:

Commissioner for Oaths

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ALLIANZ LIFE INSURANCE MALAYSIA BERHAD**

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

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of Allianz Life Insurance Malaysia Berhad, which comprise the statement of financial position as at 31 December 2017, 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 34 to 160.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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 2016 in Malaysia.

### **Basis for Opinion**

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence and Other Ethical Responsibilities**

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

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**Allianz Life Insurance Malaysia Berhad**  
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## **Information Other than the Financial Statements and Auditors' Report Thereon**

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

Our opinion on the financial statements of the Company does not cover the Directors' report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the Directors' report and, in doing so, consider whether the Directors' report is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' report, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the Directors for the Financial Statements**

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

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

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## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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### **Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

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

### **Other Matter**

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

**KPMG PLT**  
(LLP0010081 – LCA & AF 0758)  
Chartered Accountants

**Foong Mun Kong**  
Approval Number: 02613/12/2018 J  
Chartered Accountant

Petaling Jaya,

Date: 22 February 2018