Allianz Life Insurance Malaysia Berhad

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

Financial statements for the year ended 31 December 2018

(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

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Allianz Life Insurance Malaysia Berhad

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Directors' report for the financial year ended 31 December 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2018.

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
Net profit for the financial year	147,821

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 Framework issued by Bank Negara Malaysia ("BNM").

Bad and doubtful debts

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

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.

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Contingent and other liabilities

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

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

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

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

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

Change of circumstances

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

Items of an unusual nature

In the opinion of the Directors, the results of operations of the Company for the financial year ended 31 December 2018 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 in Malaysia, 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 RM31,773.

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

Directors of the Company

The Directors of the Company who served during the financial year and during the period from the end of the financial year to the date of this report are:-

Foo San Kan (Chairman - Non-Independent Non-Executive Director) (Appointed as Chairman on 23 May 2018)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Goh Ching Yin (Independent Non-Executive Director)
Peter Ho Kok Wai (Independent Non-Executive Director) (Appointed on 1 August 2018)
Joseph Kumar Gross (Non-Independent Executive Director)
Tan Sri Razali Bin Ismail (Chairman - Non-Independent Non-Executive Director) (Retired on 22 May 2018)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director) (Resigned on 1 August 2018)
Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director) (Resigned on 1 August 2018)

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Directors' interests

As the Company is a wholly-owned subsidiary of Allianz Malaysia Berhad ("AMB"), the interests and deemed interests in the shares of AMB and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
Interests in AMB	**At 1.1.2018**	**Bought**	**Sold**	**At 31.12.2018**
Dato' Dr. Thillainathan A/L Ramasamy				
- Indirect Interest	-	6,400	-	6,400

Note:
* Deemed interest by virtue of shares acquired by spouse pursuant to Section 59(11)(c) of the Companies Act 2016.

Save as disclosed above, none of the other Directors holding office at 31 December 2018 had any interest in the shares of the Company and of its related corporations 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 disclosed in Note 26 (b) 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.

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Corporate governance disclosures

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 are set out in the Board Charter, which is available at the Allianz's website, allianz.com.my.

A1. Composition of the Board

The Board is made up of 1 Non-Independent Non-Executive Directors, 3 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 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 disclosures (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

The profiles of the Board members are as follows:-

Foo San Kan Chairman - 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 disclosures (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Dato' Dr. Thillainathan A/L Ramasamy **Independent Non-Executive Director**	
Working experience	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 Lembaga Pengarah Universiti Malaya, a member of the Board of Directors of UM Holdings Sdn Bhd and a council member of the Malaysian Quality Agency. 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.
Shareholding in the Company	Nil

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Corporate governance disclosures (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Goh Ching Yin Independent Non-Executive Director	
Working experience	Goh Ching Yin holds an MBA from the Cranfield University, and has held various leadership and management positions in capital market strategy, development and 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 PLT), and then moved on to consultancy at Price Waterhouse Associates in 1990. Goh Ching Yin commenced his foray into the investment banking industry when he was with RHB Sakura Merchant Bankers Berhad as a General Manager for Corporate Finance from 1995 to 2000. Subsequently, he assumed the roles as the Managing Director of Corporate Finance with the BNP Paribas Group in Malaysia from 2000 to 2004, and as Chief Executive Officer of Southern Investment Bank of the Southern Bank Group from 2005 to 2007. 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 from 2007 to 2016.

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Corporate governance disclosures (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Peter Ho Kok Wai Independent Non-Executive Director	
Working experience	Peter Ho Kok Wai is a Member of the Malaysian Institute of Accountants, Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Malaysian Institute of Certified Public Accountants. Peter Ho Kok Wai forged his early career with Everett Pinto & Co., a central London Firm of Chartered Accountants and qualified as a Chartered Accountant in 1984. Subsequently, in 1987, Peter Ho Kok Wai joined KPMG Kuala Lumpur where he progressed to Head of Department in 1992. He was transferred to KPMG Ipoh in 1993 to head the branch and was admitted as Partner in 1995. He was transferred back to KPMG Kuala Lumpur in 2005, where he had, at various times, headed the Technical Committee, Audit Function and Marketing Department. He has more than 35 years of auditing experience in a wide range of companies including public listed companies and multinationals, with particular emphasis in manufacturing, distribution and financial services. Peter Ho Kok Wai retired from KPMG in December 2014.
Shareholding in the Company	Nil

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Corporate governance disclosures (continued)

A. Board of Directors (continued)

A1. Composition of the Board (continued)

Joseph Kumar Gross Chief Executive Officer - Non-Independent Executive Director	
Working experience	Joseph Kumar Gross 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 CEO of the Company on 20 April 2016. He was appointed as Non-Independent Executive Director of the Company on 17 August 2017.
Shareholding in the Company	Nil

During the financial year, the Company provided training on the following to the Board:-

- Malaysian Financial Reporting Standard 17
- Sales and Services Tax
- FinTech Industry Update
- Integrated Reporting
- Cybersecurity

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Corporate governance disclosures (continued)

A. Board of Directors (continued)

A2. Board meetings

There were 7 Board Meetings held during the financial year ended 31 December 2018 and the attendance of the Directors was as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Foo San Kan	7	7
Dato' Dr. Thillainathan A/L Ramasamy	7	7
Goh Ching Yin	7	7
Peter Ho Kok Wai	7	3 out of 3 meetings held after his appointment as Director on 1 August 2018
Joseph Kumar Gross	7	7
Tan Sri Razali Bin Ismail	7	3 out of 3 meetings held prior to his retirement as Chairman and Director on 22 May 2018
Tan Sri Datuk (Dr.) Rafiah Binti Salim	7	4 out of 4 meetings held prior to her resignation as Director on 1 August 2018
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	7	4 out of 4 meetings held prior to her resignation as Director on 1 August 2018

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, AMB:-

(a) Audit Committee;
(b) Risk Management Committee; and
(c) Nomination and Remuneration Committee.

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.

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Corporate governance disclosures (continued)

A. Board of Directors (continued)

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

The composition of the AC during the financial year is 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 of AMB)

There were 5 AC Meetings held during the financial year ended 31 December 2018 and the attendance of the abovementioned AC members were 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

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;
- monitor and evaluate the performance and effectiveness of the external and internal audit functions;
- assess the internal control environment; and
- review and report to the Board of 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's website, allianz.com.my.

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Corporate governance disclosures (continued)

A. Board of Directors (continued)

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

The composition of the RMC during the financial year is 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 of AMB)
Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director of AMB)

There were 4 RMC Meetings held during the financial year ended 31 December 2018 and the attendance of the abovementioned RMC members were 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.

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Corporate governance disclosures (continued)

A. Board of Directors (continued)

A3. Board Committees (continued)

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

The composition of the NRC during the financial year is as follows:-

Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Chairman - Independent Non-Executive Director of AMB)
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 of AMB)
Tan Sri Razali Bin Ismail (Non-Independent Non-Executive Director) (Retired on 22 May 2018)

There were 7 NRC Meetings held during the financial year ended 31 December 2018 and the attendance of the abovementioned NRC members were as follows:-

Name of Members	No. of NRC Meetings Held	No. of NRC Meetings Attended
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	7	7
Foo San Kan	7	7
Dato' Dr. Thillainathan A/L Ramasamy	7	7
Tan Sri Datuk (Dr.)Rafiah Binti Salim	7	7
Tan Sri Razali Bin Ismail	7	3 out of 3 meetings held prior to his retirement as Chairman and Director on 22 May 2018

Note:
* Tan Sri Datuk (Dr.) Rafiah Binti Salim relinquished her position as Chairman of NRC and was re-designated as a member of NRC on 23 May 2018. Tunku Zain Al-'Abidin Ibni Tuanku Muhriz was appointed as Chairman of the NRC on 23 May 2018 in place of Tan Sri Datuk (Dr.) Rafiah Binti Salim.

Corporate governance disclosures (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's website, allianz.com.my.

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 has in place 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 the 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.

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Corporate governance disclosures (continued)

B. Internal control framework (continued)

B1. Risk Management Framework (continued)

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.

- 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.

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Corporate governance disclosures (continued)

B. Internal control framework (continued)

B1. Risk Management Framework (continued)

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 promote risk and compliance awareness amongst the Company's employees through trainings and workshops.

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, providing oversight on product pricing and profitability 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.

During the year, a Governance and Control Committee ("GOVCC") has been set up to provide a platform for a structured and institutionalised interaction and collaboration on cross functional and control related topics to facilitate a consistent approach in terms of processes, methodologies, assessments, materiality and others. The GOVCC comprises of senior management from the governance and operations functions. The GOVCC will report to the AC on matters relating to internal control system while the governance related matters will be reported to the respective Senior Management Committee of the Company.

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Corporate governance disclosures (continued)

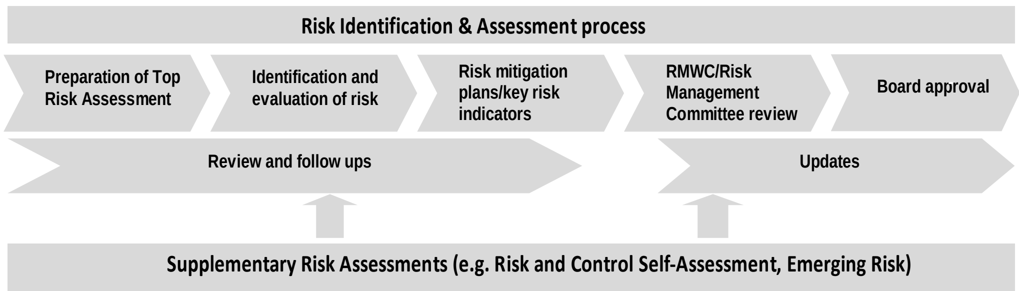
B. Internal control framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process

Risk management is considered and managed as part of the daily process of managing and directing the business. These include the implementation of a limit system, various frameworks, manuals and policies.

Besides the embedded process, the following risk management cycle to identify, assess, mitigate, monitor and report will also be carried out by the risk management function together with the respective risk owners: -



(i) Top Risk Assessment ("TRA")

TRA approach is in place to periodically analyse all material quantifiable and non-quantifiable risks, including market, credit, underwriting, business, operational, liquidity, reputational and strategic risks.

The Company identifies and remediates significant threats to financial results, operational viability or the delivery of key strategic objectives, regardless of whether they relate to quantifiable or non-quantifiable risks using the approved TRA Matrix. The identified top risks are assessed quarterly by the assigned risk owners; and the same is reviewed by the RMWC and the RMC and approved by the Board. Key risk indicators are also put in place to monitor changes in risk exposure or control effectiveness for the top risks on a quarterly basis. The key risks and their salient points on how the Company manages these risks are set out below:-

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Corporate governance disclosures (continued)

B. Internal control framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

Key risks	Broad Definition	Risk Management Practices
Market	Unexpected losses arising due to changes in market prices or parameters influencing market prices, as well as the resultant risk from options and guarantees that are embedded in contracts or from changes to the net worth of assets and liabilities in related undertakings driven by market parameters. In particular, these include changes driven by equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities. It also includes changes in market prices due to worsening of market liquidity.	• Investment activity is strictly governed by the preapproved limits and appetite and monitored through a front end system. Any exception requires pre-approval. • An asset and liability process has been put in place to manage the risks and returns expected from the insurance obligations. • Selectively using derivative to either hedge the portfolio against adverse market movements or reduce reinvestment risk.
Credit	Unexpected losses in the market value of the portfolio due to deterioration in the credit quality of counterparties including their failure to meet payment obligations or due to non-performance of instruments.	• Credit analyses are conducted prior to purchase and regular review on portfolio. • Investment activity is strictly governed by the limits to ensure the diversification of investment portfolio to minimise the impact of default by any single counterparty. • Only uses pre-approved reinsurance partners with strong credit profiles.

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Corporate governance disclosures (continued)

B. Internal control framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

Key risks	Broad Definition	Risk Management Practices
Underwriting	Unexpected financial losses due to inadequacy of premiums for catastrophe and non-catastrophe risks, due to the inadequacy of reserves or due to the unpredictability of mortality or longevity.	• Managed through a comprehensive and strict standard for underwriting limit guidelines. • Regular monitoring of products, assumptions used against actual industry statistics and re-pricing will be considered if necessary. • Adequate reinsurance is purchased and reviewed annually to ensure adequate continuous cover within acceptable appetite and costs. • New products undergo a robust product development process.
Business	Unexpected decrease in actual results as compared to business assumptions, which leads to a decline in income without a corresponding decrease in expenses; this includes lapse risk.	• Regular monitoring of actual experience. • New products undergo a robust product development.
Legal and Compliance	Losses arising from a breach of relevant laws and regulations.	• Trainings will be provided and annual declarations required from all staff. • New guidelines will be published in the Group's staff e-portal and highlighted through e-mails. • Regular reviews are conducted to ensure compliance.

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Corporate governance disclosures (continued)

B. Internal control framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

Key risks	Broad Definition	Risk Management Practices
Cyber	Business disruption, data loss and leakage and loss of availability of services due to: • Cyber-attack performed by internal or external parties including but not limited to criminal gangs, nation states or hacker activists • Social engineering including phishing, inserting subversive into organizations, interpersonal manipulation • Resource depletion [Denial of Service ("DoS"), Distributed Denial of Service ("DDoS")] • Web site defacement • Inadequate response plan and procedures for security incidents - Malicious physical damage - attacks (include unauthorised physical access) or tampering with information system - Misuse of privileged access rights and systems resulting in compensation payments, or incremental operational costs, or legal costs, or reputation management costs.	• Strict policy and disciplinary action for security breach. • Staff awareness on information technology ("IT") Security. • Access Control. • Regular review on User ID access. • Use of virus protection software. • Data Loss Prevention solution. • Conduct of Annual Penetration Testing by independent party to detect possible external and internal vulnerabilities. • IT security controls in place, such as Firewall, Malware Protection and DDOS protection. • Privilege Identity Management.

Corporate governance disclosures (continued)

B. Internal control framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(ii) Operational Risk Management ("ORM")

ORM is a continuous process which includes operational risk identification, measurement, quantification, management and monitoring to mitigate the operational loss resulting from inadequate or failed internal processes, people, system or from external events.

ORM is monitored through a combination of the following activities:-

- Integrated Risk and Control System.
- Analysis of actual loss events reported into the Loss Data Capture database.
- Periodic audits by the Internal Audit Department and reviews by risk management function.
- Other key risk indicators and feedback from subject matter experts (e.g. IT Security Officer, Data Privacy Officer, Business Continuity Management Officers, Anti-Fraud and Anti-Corruption Coordinators, as well as respective operation managers).

(iii) Reputational Risk Management

All activities within Company can influence its reputation, which is determined by the perceptions and beliefs of its stakeholders. Hence, thorough management of reputational risks is required. Any risks that might have significant impact on the Company will be escalated to Allianz SE.

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 Company. 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 TRA and risk and control self-assessment processes, which apply the same reputational risk assessment methodology used for direct reputational risks.

The Corporate Communications Function of the Company actively manages the reputational risk by assessing any potential risk arising from media press or any transaction relating to pre-defined sensitive areas.

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Corporate governance disclosures (continued)

B. Internal control framework (continued)

B1. Risk Management Framework (continued)

Risk Management Process (continued)

(iv) Liquidity Risk Management

Liquidity risk is a consequential risk, i.e. another adverse event has to happen before the Company runs into liquidity issues. On this background, the Company has identified various events that might lead to liquidity shortages. To mitigate this, limits on the cash position have been put in place and closely monitored.

In addition, as the Company is operating in insurance business, the following risk evaluation tools are also adopted as part of the Company's risk management framework:-

(a) Internal Capital Adequacy Assessment Process ("ICAAP")

ICAAP is an overall process by which the Company adopted to ensure it has adequate capital to meet its capital requirements which reflects its own risk profile on an on-going basis. The formal assessment is conducted at least on an annual basis and its results are reported to the Board.

The review of the ICAAP coincides with the annual planning process and any changes in the strategic directions of the respective companies and business plans will be updated into the Risk Strategy and accordingly all risks identified will also be taken into account when computing the Individual Target Capital Level ("ITCL"). The ITCL is validated by stress testing to ensure that it will still be above the Supervisory Target Capital Level even after the occurrence of a severe plausible event.

(b) Stress Testing

Stress test is an effective risk management tool and the Company conducts such stress test regularly. The stress test process is designed based on the Company's solvency position, lines of business, current position within the market, investment policy, business plan, and general economic conditions. The results of the stress test will then be incorporated into the Company's capital management plan, in determining the extent of capital affected by the threats arising from adverse events and the actions required to mitigate such threats. The Board and Management participated actively in providing feedback on its results and appropriateness of its methodology and assumptions.

Corporate governance disclosures (continued)

B. Internal control framework (continued)

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.

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, corporate actuarial, customer services, internal and regulatory compliance audit such as business continuity management, replacement of policy, anti-money laundering and 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.

Corporate governance disclosures (continued)

B. Internal control framework (continued)

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. The Company has formally used the services of the Board Committees of its immediate holding company, AMB. The Board Committee have the authority to examine matters under their terms of reference and report to the Board with their observations and/or recommendations. The ultimate responsibility for the decision on all matters, however, lies with the Board.

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.

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 include limits for underwriting of risks, claims settlement, reinsurance, 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.

Corporate governance disclosures (continued)

B. Internal control framework (continued)

B3. Other Key Internal Control Process (continued)

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 Board 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.

Related Party Transactions

The Group has established the necessary controls and procedures to ensure compliance with the relevant regulatory requirements. Necessary disclosures were made to the Board of the Company and where required, prior approval of the Board of the Company and/or shareholders for the transactions had been obtained.

A due diligence working group 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 of the Company for consideration.

The AC also review the procedures 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

Corporate governance disclosures (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 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 and the Board of the Company for review at its quarterly meetings.

Corporate governance disclosures (continued)

B. Internal control framework (continued)

B3. Other Key Internal Control Process (continued)

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.

Corporate governance disclosures (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's Integrity Committee ("InC"). The InC coordinates all activities concerning prevention and detection of fraud and handling of whistleblowing incidents.

The Company has adopted the Allianz SE Group's Anti-Fraud Policy ("AZSE AFP") and the Allianz SE Group's Whistleblowing Policies and Procedures ("AZSE WBPP") to address fraud and whistleblowing issues respectively. The AZSE AFP defines fraud events, investigation process, reporting procedures, fraud risk assessments, training and the roles and responsibilities of Management and employees. The AZSE WBPP 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 Company'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.

Corporate governance disclosures (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 attest that they understand and comply with the requirements of the following internal guidelines and policies:-

(i) Related Party Transaction Declaration;
(ii) Disclosure of Data;
(iii) Conflict of Interest;
(iv) COC for Business Ethics and Compliance;
(v) IT Security Policy and Guideline e-Awareness Declaration;
(vi) Anti-Corruption Policy;
(vii) Anti-Fraud Awareness Declaration; and
(viii) Dealing with Government Clients Declaration (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 Committee 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.

Corporate governance disclosures (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 is conducted at least once a year whilst the 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.

Corporate governance disclosures (continued)

B. Internal control framework (continued)

B3. Other Key Internal Control Process (continued)

Data Privacy

The Allianz Privacy Standard ("APS"), which superseded and replaced the Allianz Standard for Data Protection and Privacy, contains the global minimum requirements applicable within the Allianz SE Group for the processing and transfer of personal data within the Allianz SE Group. The APS takes into account the requirements of the European Union privacy law, the General Data Protection Regulation that came into effect in May 2018, as well as additional requirements to facilitate cross-border transfers of personal data originating from or processed in the European Economic Area within the Allianz SE Group. The Company adopted the APS in May 2018 and signed the binding corporate rules, which is a legally recognised mechanism for legitimising and facilitating such cross-border transfers. Under the APS, there are functional rules specifying data privacy and protection requirements, including conducting Privacy Impact Assessment to record processing activities that involve handling of personal data and personal data breach incident guideline and workflow. Compliance with the APS adopted by the Company ensures compliance with the Malaysian Personal Data Protection Act, 2010 and is in line with the Code of Practice on Personal Data Protection for Insurance and Takaful in Malaysia.

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.

Corporate governance disclosures (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.

Company No. 104248-X

Corporate governance disclosures (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 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 "CEO" reflects the time horizon of risks and takes 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.

Company No. 104248-X

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.

Auditors

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

……………………………………………………

Foo San Kan
Director

……………………………………………………

Joseph Kumar Gross
Director

Kuala Lumpur,

Date: 21 February 2019

Allianz Life Insurance Malaysia Berhad

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

Statement of financial position as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Property, plant and equipment	3	32,249	33,167
Investment properties	4	3,840	3,840
Intangible assets	5	27,646	30,317
Investments	6	10,126,913	9,572,695
Derivative financial assets	15	26,059	25,537
Reinsurance assets	7	66,579	65,351
Insurance receivables	8	80,703	53,938
Other receivables, deposits and prepayments	9	45,779	43,996
Cash and cash equivalents	10	740,079	677,759
Total assets		11,149,847	10,506,600
Equity, policyholders' funds and liabilities			
Share capital	11	236,600	236,600
Fair value reserve	12	1,294	511
Revaluation reserve	12	2,522	2,522
Retained earnings	12	811,212	663,391
Total equity		1,051,628	903,024
Insurance contract liabilities	13	8,817,972	8,482,291
Deferred tax liabilities	14	240,915	225,351
Derivative financial liabilities	15	2,413	5,251
Subordinated loan	16	54,300	54,300
Insurance payables	17	231,422	213,232
Other payables and accruals	18	284,245	271,779
Benefits and claims liabilities	19	466,283	343,883
Current tax liabilities		669	7,489
Total liabilities		10,098,219	9,603,576
Total equity, policyholders' funds and liabilities		11,149,847	10,506,600

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 2018

	Note	2018 RM'000	2017 RM'000
Operating revenue	20	2,835,353	2,545,284
Gross earned premiums		2,383,537	2,149,592
Premiums ceded to reinsurers		(100,194)	(53,129)
Net earned premiums	21	2,283,343	2,096,463
Investment income	22	451,816	395,692
Realised gains and losses	23	(21,502)	50,381
Fair value gains and losses	24	(313,675)	196,230
Fee and commission income		-	219
Other operating income		24,129	19,832
Other income		140,768	662,354
Gross benefits and claims paid		(1,195,717)	(973,641)
Claims ceded to reinsurers		81,597	74,362
Gross change in contract liabilities		(430,068)	(1,032,559)
Change in contract liabilities ceded to reinsurers		(18,660)	(7,211)
Net benefits and claims	25	(1,562,848)	(1,939,049)
Fee and commission expense		(422,316)	(390,831)
Management expenses	26	(201,426)	(221,272)
Other operating expenses		(36,585)	(34,348)
Other expenses		(660,327)	(646,451)
Profit before tax		200,936	173,317
Tax expense	27	(53,115)	(77,452)
Net profit for the year		147,821	95,865

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 2018

	Note	2018 RM'000	2017 RM'000
Net profit for the year		147,821	95,865
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Fair value of available-for-sale fair financial assets			
- Net (losses)/gains arising during the financial year		(73,216)	137,158
- Net realised gains transferred to profit or loss		(31,554)	(21,063)
Gains/(losses) on cash flow hedge		3,220	(3,246)
Tax effects thereon		7,947	(9,378)
Change in insurance contract liabilities arising from net fair value change on			
- AFS financial assets		105,813	(113,866)
- Cash flow hedge reserve		(3,220)	3,246
Tax effects thereon		(8,207)	8,850
Total other comprehensive income for the year, net of tax		783	1,701
Total comprehensive income for the year attributable to owners of the Company		148,604	97,566

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

Allianz Life Insurance Malaysia Berhad

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

Statement of changes in equity for the year ended 31 December 2018

	Attributable to owners of the Company					
	Non-distributable				Distributable	
	Share capital RM'000	Fair value reserve RM'000	Revaluation reserve RM'000	Retained earnings - Non-participating fund surplus* RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017	236,600	(1,190)	2,522	524,516	43,010	805,458
Total other comprehensive income for the year	-	1,701	-	-	-	1,701
Profit for the year	-	-	-	87,329	8,536	95,865
Total comprehensive income for the year	-	1,701	-	87,329	8,536	97,566
At 31 December 2017	**236,600**	**511**	**2,522**	**611,845**	**51,546**	**903,024**

Company No. 104248-X

Statement of changes in equity for the year ended 31 December 2018 (continued)

	Attributable to owners of the Company					
	Non-distributable				Distributable	
	Share capital RM'000	**Fair value reserve RM'000**	**Revaluation reserve RM'000**	**Retained earnings- Non-participating fund surplus* RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2018	236,600	511	2,522	611,845	51,546	903,024
Total other comprehensive income for the year	-	783	-	-	-	783
Profit for the year	-	-	-	141,058	6,763	147,821
Total comprehensive income for the year	-	783	-	141,058	6,763	148,604
At 31 December 2018	236,600	1,294	2,522	752,903	58,309	1,051,628
	Note 11	**Note 12**	**Note 12**		**Note 12**	

* Non-distributable retained earnings comprise Non-Participating fund surplus, net of deferred tax, which is wholly attributable to the shareholders. This amount is only distributable upon the actual transfer of surplus from the Life Non-Participating fund to the Shareholder's fund as recommended by the Appointed Actuary and approved by the Board of Directors of the Company.

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 2018

	2018 RM'000	2017 RM'000
Cash flows from operating activities		
Profit before tax	200,936	173,317
Adjustments for:		
Investment income	(451,816)	(395,692)
Interest income	(662)	(765)
Interest expense	5,159	4,798
Realised loss/(gain) recorded in profit or loss	21,556	(50,311)
Fair value loss/(gain) on investments recorded in profit or loss	236,871	(202,812)
Purchase of available-for-sale ("AFS") financial investments	(404,098)	(504,750)
Maturity of AFS financial investments	38,500	65,500
Proceeds from sale of AFS financial investments	349,496	380,684
Purchase of held for trading ("HFT") financial investments	(1,207,620)	(1,179,071)
Maturity of HFT financial investments	80,000	57,500
Proceeds from sale of HFT financial investments	444,848	586,952
Purchase of designated upon initial recognition ("DUIR") financial investments	(515,041)	(698,667)
Maturity of DUIR financial investments	297,500	190,000
Proceeds from sale of DUIR financial investments	29,879	124,963
Purchase of derivatives financial investments	-	(442)
Change in loans and receivables	(102,339)	109,103
Reversal of impairment loss on receivables	(435)	(823)
Amortisation of intangible assets	6,021	5,634
Depreciation of property, plant and equipment	5,423	4,960
Gain on disposal of property, plant and equipment	(54)	(70)
Property, plant and equipment written off	9	5
Unrealised foreign exchange loss	902	2,008
Impairment loss on AFS financial investments	76,804	6,582
Operating loss before changes in working capital	**(888,161)**	**(1,321,397)**

Company No. 104248-X

Statement of cash flows for the year ended 31 December 2018 (continued)

	2018 RM'000	2017 RM'000
Changes in working capital:		
Change in reinsurance assets	(1,228)	16,354
Change in insurance receivables	(26,304)	(2,422)
Change in other receivables, deposits and prepayments	(2,207)	6,755
Change in insurance contract liabilities	430,067	1,032,559
Change in insurance payables	18,190	60,358
Change in other payables and accruals	9,751	57,771
Change in benefits and claims liabilities	122,400	68,427
Cash used in operations	**(337,492)**	**(81,595)**
Tax paid	(36,424)	(35,272)
Dividends received	57,032	52,824
Interest income received	389,331	329,010
Rental income on investment properties received	127	130
Net cash from operating activities	**72,574**	**265,097**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	55	352
Acquisition of property, plant and equipment	(7,118)	(5,581)
Acquisition of intangible assets	(747)	(789)
Net cash used in investing activities	**(7,810)**	**(6,018)**
Cash flows from financing activity		
Payment of loan interest to immediate holding company	(2,444)	(2,444)
Net cash used in financing activity	**(2,444)**	**(2,444)**
Net increase in cash and cash equivalents	62,320	256,635
Cash and cash equivalents at 1 January	677,759	421,124
Cash and cash equivalents at 31 December	**740,079**	**677,759**
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	671,114	583,821
Cash and bank balances	68,965	93,938
	740,079	**677,759**

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 21 February 2019.

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 and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments to standards and interpretations that have been issued by Malaysian Accounting Standards Board ("MASB") for the financial year beginning on or after 1 January 2018 and adopted by the Company:

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

- MFRS 15, *Revenue from Contracts with Customers*
- Amendments to MFRS 4 – Applying MFRS 9, *Financial Instruments* with MFRS 4, *Insurance Contracts*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 128, *Investments in Associates and Joint Ventures*

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risks and rewards.

The initial application of MFRS 15 does not have any material financial impact to the current period and prior period financial statements of the Company.

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, effective for annual periods beginning on or after 1 January 2018. The standard eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

The Company has applied the temporary exemption under Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4, *Insurance Contracts* which enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2021 at the latest. Hence, the Company has not adopted MFRS 9 for the financial year beginning on or after 1 January 2018.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4 *Insurance Contracts*

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9, *Financial Instruments* before the forthcoming new insurance contracts standard.

The amendments provide 2 different approaches for the Company:

(i) temporary exemption from MFRS 9 for entities that meet specific requirements; and
(ii) the overlay approach. Both approaches are optional.

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

The Company's business activity is predominantly insurance as the liabilities connected with the Company's insurance businesses made up of more than 90% of the Company's total liabilities. Hence, the Company qualifies for the temporary exemption from applying MFRS 9 and will defer and adopt MFRS 9 together with MFRS 17, *Insurance Contracts* for the financial year beginning on or after 1 January 2021.

The following additional disclosures, required by Amendments to MFRS 4 for entity qualified and elected the temporary exemption from applying MFRS 9, present the Company's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

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1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

Fair value as at 31 December 2018	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total* RM'000
Investments (Note 6)	2,532,881	7,502,769	10,035,650
Malaysian government securities and government guaranteed bonds	1,999,763	2,708,221	4,707,984
Unquoted bonds of corporations	136,294	3,185,717	3,322,011
Quoted equity securities and unit trusts	-	1,462,377	1,462,377
Unquoted equity securities and unit trusts	-	43,773	43,773
Structured deposits	-	102,681	102,681
Government guaranteed loans	190,504	-	190,504
Mortgage loans	165	-	165
Fixed and call deposits with licensed banks	206,155	-	206,155
Derivative financial assets	-	26,059	26,059
Other receivables and deposits	45,779	-	45,779
Cash and cash equivalents	740,079	-	740,079
Total financial assets	3,318,739	7,528,828	10,847,567

* Insurance receivables, reinsurance assets, policy loans and automatic premium loans have been excluded from the above assessment as they will be under the scope of MFRS 17, *Insurance Contracts*. Other than the financial assets listed in the table above and the assets that are within the scope of MFRS 17, *Insurance Contracts*, all other assets in the statement of financial position are non-financial assets.

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1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

Changes in fair value during the year	**Financial assets with SPPI cash flows RM'000**	**All other financial assets RM'000**	**Total RM'000**
Investments			
Malaysian government securities and government guaranteed bonds	13,253	12,269	25,522
Unquoted bonds of corporations	613	13,113	13,726
Quoted equity securities and unit trusts	-	(382,253)	(382,253)
Unquoted equity securities and unit trusts	-	(429)	(429)
Structured deposits	(21)	(1,307)	(1,328)
Government guaranteed loans	-	-	-
Mortgage loans	-	-	-
Fixed and call deposits with licensed banks	-	-	-
Derivative financial assets	-	6,071	6,071
Other receivables and deposits	-	-	-
Cash and cash equivalents	-	-	-
Total financial assets	13,845	(352,536)	(338,691)

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1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

Financial assets with SPPI cash flows *

Gross carrying amounts under MFRS 139 by credit risk rating grades	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
Investments								
Malaysian government securities and government guaranteed bonds	-	-	-	-	-	1,999,763	-	1,999,763
Unquoted bonds of corporations	75,395	60,899	-	-	-	-	-	136,294
Structured deposits	-	-	-	-	-	-	-	-
Government guaranteed loans	-	-	-	-	-	190,504	-	190,504
Mortgage loans	-	-	-	-	-	165	-	165
Fixed and call deposits with licensed banks	120,123	27,935	-	-	-	-	58,097	206,155
Other receivables and deposits	-	-	-	-	-	45,778	1	45,779
Cash and cash equivalents	213,714	319,893	1,389	-	-	461	204,622	740,079
	409,232	408,727	1,389	-	-	2,236,671	262,720	3,318,739

* Credit risk of these financial assets is considered low for the purpose of MFRS 9.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

Except as disclosed above, the adoption of new standards, amendments to standards and interpretations by the Company for the first time for the financial year beginning on or after 1 January 2018 did not have any material impact on the current and/or prior periods and is not likely to affect future periods.

The following are accounting standards, amendments to standards and interpretations that have been issued by MASB but not yet effective and have not been early adopted by the Company:

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*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*

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*.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRS 16, *Leases (continued)*

The right-of-use asset is depreciated in accordance with the principle in MFRS 116, *Property, Plant and Equipment* and the lease liability is accreted over time with interest expense recognised in profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Company is in the midst of finalising the initial assessment of the potential impact on its financial statements. The impact of applying MFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate, the composition of the lease portfolio at that date, the latest assessment of whether the Company will exercise any lease renewal options, and the extent to which the Company choose to use practical expedients and recognition exemptions. The most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases. As at 31 December 2018, the Company's future minimum lease payments under non-cancellable operating leases are amounting to RM8,607,000 on an undiscounted basis (see Note 28).

The Company will adopt MFRS 16 on 1 January 2019, using the modified retrospective approach.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101, *Presentation of Financial Statements – Definition of Material*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS3, *Business Combinations – Definition of a Business*

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

- MFRS 17, *Insurance Contracts*

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRS 17, *Insurance Contracts*

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

MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 'Revenue from Contracts with Customers'. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

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

Alternative measurement models are provided for the different insurance coverages:
a) Simplified Premium Allocation Approach if the insurance coverage period is a year or less; and
b) Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims. Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

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

Except as mentioned above, the initial application of the other new standards, amendments to standards or interpretations issued by MASB effective for periods subsequent to 1 January 2019 are not expected to have any material financial impact to the current period and prior period financial statements of the Company.

1. Basis of preparation (continued)

1.2 Basis of measurement

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

1.3 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The 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.

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 (t) – 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

All items of property, plant and equipment are measured at cost/valuation less any accumulated depreciation and any accumulated impairment losses. Work-in-progress is stated at cost.

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.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

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	2 -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, only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use the asset.

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.

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 the leased assets are not recognised on the Company's statement of financial position.

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)(v), have been met.

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

(iv) 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.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(iv) Hedge accounting (continued)

Cash flow hedge (continued)

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.

The Company enters into forward purchase agreements as cash flow hedging instruments to hedge against variability in future cash flows arising from movements in interest rates of debt securities.

(v) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or 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 the equity is recognized in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, 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.

2. Significant accounting policies (continued)

(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.

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.

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2. Significant accounting policies (continued)

(g) Impairment (continued)

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

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.

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.

2. Significant accounting policies (continued)

(g) Impairment (continued)

(ii) Insurance receivables (continued)

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.

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.

2. Significant accounting policies (continued)

(g) Impairment (continued)

(iii) Other assets (continued)

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 shares are classified as equity.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and accounted for in the equity as an appropriation of retained earnings when they are approved for payment.

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
    - profit or loss of the Company, fund or other entity that issues the contract.

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 ceded and claims reimbursed/recoveries are recognised in the same accounting period as the original policy/contract in which the reinsurance relates, and are presented on a gross basis for both ceded and assumed reinsurance in the statement of profit or loss and statement of financial position.

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.

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

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

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

2. Significant accounting policies (continued)

(k) Life insurance underwriting results

Surplus of Life Fund

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.

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(t)). 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.

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.

2. Significant accounting policies (continued)

(m) Other revenue recognition

(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.

(iii) Dividend income

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

(iv) Realised gains and losses on investments

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

2. Significant accounting policies (continued)

(n) 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)

(n) 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.

(o) 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.

(p) 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)

(q) 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.

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.

(r) Insurance payables

Insurance payables is 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.

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

Cash and cash equivalents consist of cash on hand, balances and 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.

2. Significant accounting policies (continued)

(t) 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.

There are several sources of uncertainty in the estimation of these liabilities, including future mortality and morbidity rates, expenses, persistency and discount rates. These key assumptions used are based on past experiences, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

The key assumptions used and the sensitivity analysis on the key assumptions are disclosed in Note 32.

2. Significant accounting policies (continued)

(u) 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 values 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
Cost/Valuation							
At 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/ 1 January 2018	11,150	5,430	30,250	1,389	13,535	2,295	64,049
Additions	-	-	3,938	-	425	2755	7,118
Disposals	-	-	(2)	(313)	-	-	(315)
Written off	-	-	(191)	-	(6)	-	(197)
Reclassification #	-	-	382	-	648	(3,633)	(2,603)
At 31 December 2018	11,150	5,430	34,377	1,076	14,602	1,417	68,052

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
Depreciation								
At 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/ 1 January 2018		356	357	20,988	1,041	8,140	-	30,882
Depreciation for the year	26	140	149	3,915	147	1,072	-	5,423
Disposals		-	-	(1)	(313)	-	-	(314)
Written off		-	-	(182)	-	(6)	-	(188)
At 31 December 2018		496	506	24,720	875	9,206	-	35,803
Carrying amounts								
At 1 January 2017		10,934	5,222	10,539	792	6,046	1,801	35,334
At 31 December 2017/ 1 January 2018		10,794	5,073	9,262	348	5,395	2,295	33,167
At 31 December 2018		10,654	4,924	9,657	201	5,396	1,417	32,249

Included in property, plant and equipment are fully depreciated assets which are still in use costing RM24,347,000 (2017 : RM16,732,000).

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:

	2018 RM'000	2017 RM'000
Land	4,326	4,382
Buildings	2,833	2,917
	7,159	7,299

3.2 Fair value information

Fair value of land and buildings are categorised as follows:

2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	-	10,654	10,654
Buildings	-	-	4,924	4,924
	-	-	15,578	15,578

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
	-	-	15,867	15,867

3. Property, plant and equipment (continued)

3.2 Fair value information (continued)

Level 3 fair value

The Level 3 unobservable input used in the valuation of land and buildings is the price per square foot ("per sq foot") which is adjusted for differences in location, property size, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building, finishes and services and other relevant characteristics.

The following table shows the valuation technique used in the determination of fair values within Level 3, as well as the significant unobservable input used in the valuation model.

Land and buildings

Valuation technique used	2018 Fair Value RM'000	2018 Adjusted price per sq foot RM/psf	2017 Fair Value RM'000	2017 Adjusted price per sq foot RM/psf
Sales comparison approach	15,578	223 - 911	15,867	223 - 911

4. Investment properties

	2018 RM'000	2017 RM'000
At 1 January/31 December	3,840	3,840

	2018 RM'000	2017 RM'000
Included in the above are:		
At fair value:		
Freehold land	1,000	1,000
Buildings	2,840	2,840
	3,840	3,840

The fair values of investment properties are determined by external independent professional qualified valuers 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:

	Note	2018 RM'000	2017 RM'000
Rental income	22	127	130
Direct operating expenses:			
- income generating investment properties		(3)	(3)

4.1 Fair value information

Fair value of investment properties are categorised as follows:

2018	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
	-	-	3,840	3,840

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
	-	-	3,840	3,840

4. Investment properties (continued)

4.1 Fair value information (continued)

Level 3 fair value

The fair values of the investment properties as at 31 December 2018 and 31 December 2017 were determined by external independent valuers.

The Level 3 unobservable input used in the valuation of investment properties is the price per square foot ("per sq foot") which is adjusted for differences in location, property size, shape and terrain of land, any title restrictions, availability of infrastructure, age and condition of building, finishes and services and other relevant characteristics.

The following table shows the valuation technique used in the determination of fair values within Level 3, as well as the significant unobservable input used in the valuation model.

Valuation technique used	**2018 Fair Value RM'000**	**2018 Adjusted price per sq foot RM/psf**	**2017 Fair Value RM'000**	**2017 Adjusted price per sq foot RM/psf**
Sales comparison approach	3,840	235 - 971	3,840	235 - 971

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5. Intangible assets

	Note	Software development costs RM'000	Other intangible assets RM'000	Total RM'000
Cost				
At 1 January 2017		5,835	50,495	56,330
Additions		789	-	789
Reclassification		2,501	-	2,501
At 31 December 2017/ 1 January 2018		9,125	50,495	59,620
Additions		747	-	747
Reclassification		2,603	-	2,603
At 31 December 2018		12,475	50,495	62,970
Amortisation				
At 1 January 2017		4,986	18,683	23,669
Amortisation for the year	26	1,089	4,545	5,634
At 31 December 2017/ 1 January 2018		6,075	23,228	29,303
Amortisation for the year	26	1,476	4,545	6,021
At 31 December 2018		7,551	27,773	35,324
Carrying amounts				
At 1 January 2017		849	31,812	32,661
At 31 December 2017/ 1 January 2018		3,050	27,267	30,317
At 31 December 2018		4,924	22,722	27,646
		Note 5.1	**Note 5.2**	

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	**2018**	**2017**
Bancassurance average annualised new premium growth rate	8.32%	4.52%
Discount rate - pre tax	10.60%	11.20%

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

	2018 RM'000	2017 RM'000
Malaysian government securities	2,648,364	1,995,867
Malaysian government guaranteed bonds	2,059,620	1,908,480
Ringgit denominated bonds by foreign issuers outside Malaysia	40,505	66,029
Quoted equity securities of corporations in Malaysia	1,395,851	1,876,133
Quoted equity securities of corporations outside Malaysia	3,638	4,507
Unquoted equity securities of corporations in Malaysia	2,147	2,147
Unquoted bonds of corporations in Malaysia	3,166,198	2,941,702
Unquoted bonds of corporations outside Malaysia	115,308	116,391
Quoted unit trusts in Malaysia	62,888	57,726
Unquoted unit trusts in Malaysia	15,641	19,375
Unquoted unit trusts outside Malaysia	25,985	26,945
Structured deposits with licensed financial institutions	102,681	158,659
Government guaranteed loans	190,504	190,545
Mortgage loans	165	2,117
Fixed and call deposits with licensed financial institutions	206,155	98,772
Negotiable certificate of deposits with licensed financial institution	-	9,834
	10,035,650	9,475,229
Policy loans	11,386	12,905
Automatic premium loans	79,877	84,561
	10,126,913	9,572,695

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6. Investments (continued)

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

	Current		Non-current		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Available-for-sale financial assets ("AFS")	2,649,042	2,781,263	-	-	2,649,042	2,781,263
Loans and receivables ("LAR")	248,087	115,083	240,000	273,817	488,087	388,900
Fair value through profit or loss ("FVTPL")						
- Held for trading ("HFT")	3,757,148	3,369,887	-	-	3,757,148	3,369,887
- Designated upon initial recognition ("DUIR")	3,232,636	3,032,645	-	-	3,232,636	3,032,645
	9,886,913	9,298,878	240,000	273,817	10,126,913	9,572,695

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6. Investments (continued)

	Fair value 2018 RM'000	Fair value 2017 RM'000
Available-for-sale		
Malaysian government securities	1,036,791	922,785
Malaysian government guaranteed bonds	962,972	906,644
Ringgit denominated bonds by foreign issuers outside Malaysia	25,316	42,157
Quoted equity securities of corporations in Malaysia	451,438	730,519
Unquoted bonds of corporations in Malaysia	110,978	107,066
Quoted unit trusts in Malaysia	51,933	55,480
Unquoted unit trusts in Malaysia	7,467	12,409
Structured deposits with licensed financial institutions	-	2,056
	2,646,895	2,779,116

	Cost 2018 RM'000	Cost 2017 RM'000
Unquoted equity securities of corporations in Malaysia	2,147	2,147
Total available-for-sale financial investments	2,649,042	2,781,263

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6. Investments (continued)

	2018		2017	
	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000
Loans and receivables				
Government guaranteed loans	190,504	192,278	190,545	194,630
Mortgage loans	165	165	2,117	2,117
Policy loans	11,386	11,386	12,905	12,905
Automatic premium loans	79,877	79,877	84,561	84,561
Fixed and call deposits with licensed financial institutions	206,155	206,155	98,772	98,772
	488,087	489,861	388,900	392,985

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6. Investments (continued)

	Fair value 2018 RM'000	Fair value 2017 RM'000
Fair value through profit or loss		
Held for trading		
Malaysian government securities	859,060	482,806
Malaysian government guaranteed bonds	601,720	536,817
Ringgit denominated bonds by foreign issuers outside Malaysia	5,063	5,081
Quoted equity securities of corporations in Malaysia	944,413	1,145,614
Quoted equity securities of corporations outside Malaysia	3,638	4,507
Unquoted bonds of corporations in Malaysia	1,267,400	1,128,006
Quoted unit trusts in Malaysia	10,955	2,246
Unquoted unit trusts in Malaysia	8,174	6,966
Unquoted unit trusts outside Malaysia	25,985	26,945
Structured deposits with licensed financial institutions	30,740	30,899
	3,757,148	3,369,887

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6. Investments (continued)

	Fair value 2018 RM'000	Fair value 2017 RM'000
Fair value through profit or loss		
Designated upon initial recognition		
Malaysian government securities	752,513	590,276
Malaysian government guaranteed bonds	494,928	465,019
Ringgit denominated bonds by foreign issuers outside Malaysia	10,126	18,791
Unquoted bonds of corporations in Malaysia	1,787,820	1,706,630
Unquoted bonds of corporations outside Malaysia	115,308	116,391
Structured deposits with licensed financial institutions	71,941	125,704
Negotiable certificate of deposits with licensed financial institution	-	9,834
	3,232,636	3,032,645
Total fair value through profit or loss financial investments	6,989,784	6,402,532

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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
At 1 January 2017		2,591,411	499,195	2,619,808	2,640,912	8,351,326
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	13	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)
Movement in income due and accrued		476	(1,192)	7,024	6,085	12,393
At 31 December 2017		2,781,263	388,900	3,369,887	3,032,645	9,572,695

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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
At 1 January 2018		2,781,263	388,900	3,369,887	3,032,645	9,572,695
Purchases/Placements		404,098	21,510,473	1,207,619	515,041	23,637,231
Maturities		(38,500)	(21,408,134)	(80,000)	(297,500)	(21,824,134)
Disposals		(317,942)	-	(497,975)	(29,862)	(845,779)
Fair value (losses)/gains recorded in:						
Profit or loss						
- Unrealised (losses)/gains	24	-	-	(247,818)	8,096	(239,722)
- Movement in impairment allowance	24	(76,804)	-	-	-	(76,804)
Insurance contract liabilities	13	(105,813)	-	-	-	(105,813)
Other comprehensive income		1,042	-	-	-	1,042
Amortisation of premiums		(873)	-	(881)	(2,272)	(4,026)
Accretion of discounts		988	-	1,441	3,104	5,533
Unrealised foreign exchange (losses)/gain		-	-	(613)	2,424	1,811
Movement in income due and accrued		1,583	(3,152)	5,488	960	4,879
At 31 December 2018		2,649,042	488,087	3,757,148	3,232,636	10,126,913

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7. Reinsurance assets

	Note	2018 RM'000	2017 RM'000
Reinsurance assets of insurance contracts liabilities			
Actuarial liabilities			
- Current		50	99
- Non-current		34,054	52,665
	13	34,104	52,764
Recoverable on claims liabilities from reinsurers		32,475	12,587
		66,579	65,351

8. Insurance receivables

	Note	2018 RM'000	2017 RM'000
Current			
Due premium including agents, brokers balances		37,304	38,073
Due from reinsurers and cedants		21,600	17,302
Group claims receivable		1,455	1,701
Due from related company	8.1	24,597	1,576
		84,956	58,652
Less: Allowance for impairment	33.1(ii)	(4,253)	(4,714)
		80,703	53,938

8.1 Amount due from related company

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

8.2 Financial assets

There is no netting off of gross amount of recognised financial assets against the gross amount of financial liabilities in the statement of financial position.

There are no financial assets that are subject to enforceable master netting arrangement or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2017: Nil).

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9. Other receivables, deposits and prepayments

	Note	2018 RM'000	2017 RM'000
Non-current			
Other loans		23,591	4,729
Mortgage loans		1,146	1,141
Other secured loans		327	165
Malaysian Institute of Insurance ("MII") bonds		100	100
Other receivables		3,255	2,095
		28,419	8,230
Current			
Mortgage loans		123	144
Other secured loans		107	72
Prepayments		367	462
Sundry deposits		1,852	1,534
Other receivables		11,097	33,149
Less: Allowance for impairment	33.1(ii)	(61)	(35)
		13,485	35,326
Due from related companies	9.1	3,827	440
Due from immediate holding company	9.1	48	-
		17,360	35,766
		45,779	43,996

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. Cash and cash equivalents

	2018 RM'000	2017 RM'000
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	671,114	583,821
Cash and bank balances	68,965	93,938
	740,079	677,759

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11. Share capital

	2018		2017	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid up:				
Ordinary shares				
On issue at 1 January/31 December	236,600	236,600	236,600	236,600

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.

12. 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 capital level.

Pursuant to Section 51(1) of the FSA, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend on its shares.

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13. Insurance contract liabilities

	Note	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000	2017 Gross RM'000	2017 Reinsurance RM'000	2017 Net RM'000
Actuarial liabilities	32	7,192,870	(34,104)	7,158,766	6,880,877	(52,764)	6,828,113
Unallocated surplus		133,696	-	133,696	81,659	-	81,659
Hedging reserve		1	-	1	(2,961)	-	(2,961)
Available-for-sale fair value reserve		47,954	-	47,954	145,302	-	145,302
Revaluation reserve		5,980	-	5,980	5,980	-	5,980
Net asset value attributable to unitholders	35	1,437,471	-	1,437,471	1,371,434	-	1,371,434
		8,817,972	(34,104)	8,783,868	8,482,291	(52,764)	8,429,527
			Note 7			Note 7	

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13. Insurance contract liabilities (continued)

	Note	Gross With DPF RM'000	Gross Without DPF RM'000	Gross Total RM'000	Reinsurance With DPF RM'000	Reinsurance Without DPF RM'000	Reinsurance Total RM'000	Net RM'000
At 1 January 2017		3,812,445	3,535,517	7,347,962	-	(59,975)	(59,975)	7,287,987
Premiums received	21	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	25	(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								
- Discount rate		55,021	11,091	66,112	-	(807)	(807)	65,305
- Expenses		1,859	2,622	4,481	-	-	-	4,481
- Asset share		16,832	-	16,832	-	-	-	16,832
- Mortality/Morbidity		-	(10,311)	(10,311)	-	3,400	3,400	(6,911)
- Lapse/Surrender		514	2,600	3,114	-	374	374	3,488
- Others		(1)	(255)	(256)	-	17	17	(239)
Net asset value attributable to unitholders	35	-	146,761	146,761	-	-	-	146,761

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13. Insurance contract liabilities (continued)

		Gross			Reinsurance			
	Note	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net RM'000
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)
At 31 December 2017		3,980,328	4,501,963	8,482,291	-	(52,764)	(52,764)	8,429,527

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13. Insurance contract liabilities (continued)

	Note	Gross With DPF RM'000	Gross Without DPF RM'000	Gross Total RM'000	Reinsurance With DPF RM'000	Reinsurance Without DPF RM'000	Reinsurance Total RM'000	Net RM'000
At 1 January 2018		3,980,328	4,501,963	8,482,291	-	(52,764)	(52,764)	8,429,527
Premiums received	21	130,702	2,252,835	2,383,537	(7,240)	(92,954)	(100,194)	2,283,343
Liabilities paid for death, maturities, surrenders, benefits and claims	25	(333,706)	(862,011)	(1,195,717)	2,337	79,260	81,597	(1,114,120)
Benefits and claims experience variation		(43,010)	(124,010)	(167,020)	4,903	18,116	23,019	(144,001)
Fees deducted		(9,632)	(602,874)	(612,506)	-	(846)	(846)	(613,352)
Expected interest on reserve/net investment income attributable to Universal Life Fund		150,427	43,688	194,115	-	(836)	(836)	193,279
Adjustments due to changes in assumptions								
- Discount rate		(466)	(4,366)	(4,832)	-	320	320	(4,512)
- Expenses		114	16,514	16,628	-	-	-	16,628
- Asset share		(20,995)	-	(20,995)	-	-	-	(20,995)
- Mortality/Morbidity		(7,727)	(17,604)	(25,331)	-	12,249	12,249	(13,082)
- Lapse/Surrender		(13,133)	(2)	(13,135)	-	-	-	(13,135)
- Others		2,136	(3,157)	(1,021)	-	3,351	3,351	2,330
Net asset value attributable to unitholders	35	-	(175,693)	(175,693)	-	-	-	(175,693)

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13. Insurance contract liabilities (continued)

	Note	Gross With DPF RM'000	Gross Without DPF RM'000	Gross Total RM'000	Reinsurance With DPF RM'000	Reinsurance Without DPF RM'000	Reinsurance Total RM'000	Net RM'000
Hedging reserve		3,220	-	3,220	-	-	-	3,220
Available-for-sale fair value reserve	6	(105,813)	-	(105,813)	-	-	-	(105,813)
Unallocated surplus		52,037	-	52,037	-	-	-	52,037
Deferred tax effects:								
- Hedging reserve	27	(258)	-	(258)	-	-	-	(258)
- Available-for-sale fair value reserve	27	8,465	-	8,465	-	-	-	8,465
At 31 December 2018		3,792,689	5,025,283	8,817,972	-	(34,104)	(34,104)	8,783,868

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14. Deferred tax assets/(liabilities)

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

	Asset		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	326	(23)	326	(23)
Investment properties	-	-	(114)	(115)	(114)	(115)
Unallocated surplus	-	-	(237,759)	(193,214)	(237,759)	(193,214)
Hedging reserve	-	258	-	-	-	258
Available-for-sale fair value reserve	-	-	(4,554)	(12,759)	(4,554)	(12,759)
Fair value movement recognised in profit or loss	-	-	1,979	(18,460)	1,979	(18,460)
Revaluation reserve	-	-	(656)	(656)	(656)	(656)
Net accretion	-	-	(137)	(382)	(137)	(382)
Set off of tax	-	(258)	-	258	-	-
Net liabilities	-	-	(240,915)	(225,351)	(240,915)	(225,351)

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

14.2 Movement in temporary differences during the year

	At 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/ 1 January 2018 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 2018 RM'000
Property, plant and equipment	(173)	150	-	-	(23)	349	-	-	326
Investment properties	(115)	-	-	-	(115)	1	-	-	(114)
Unallocated surplus	(165,636)	(27,578)	-	-	(193,214)	(44,545)			(237,759)
Hedging reserve	(2)	-	-	260	258	-	-	(258)	-
Available-for-sale fair value reserve	(3,121)	-	(528)	(9,110)	(12,759)	-	(260)	8,465	(4,554)
Fair value movement recognised in profit or loss	(2,744)	(15,716)	-	-	(18,460)	20,439	-	-	1,979
Revaluation reserve	(656)	-	-	-	(656)	-	-	-	(656)
Net (accretion) /amortisation	(149)	(233)	-	-	(382)	245	-	-	(137)
Net tax (liabilities)/ assets	(172,596)	(43,377)	(528)	(8,850)	(225,351)	(23,511)	(260)	8,207	(240,915)

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15. Derivative financial assets/(liabilities)

	Nominal value RM'000	Assets RM'000	Liabilities RM'000
2018			
Derivatives held for trading at fair value through profit or loss	-	-	-
- Collateralised interest rate swap	400,000	19,482	-
- Cross currency swap	119,750	4,982	(819)
Derivatives used for hedging			
- Forward purchase agreements	190,000	1,595	(1,594)
	709,750	26,059	(2,413)
2017			
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)
	739,750	25,537	(5,251)

The Company uses interest rate swap and cross currency swap to mitigate the changes in fair value of local and foreign currency-denominated debt securities due to movements in interest rates or foreign exchange rates.

The Company enters into forward purchase agreements as cash flow hedging instruments to hedge against variability in future cash flows arising from movements in interest rates of debt securities.

15. Derivative financial assets/(liabilities) (continued)

Table below shows the periods when the hedged cash flows are expected to occur:

	>6 to 12 months	>1 to 5 years
As at 31.12.2018	**RM'000**	**RM'000**
Cash inflows (assets)	-	-
Cash outflows (liabilities)	(30,353)	(156,082)
	(30,353)	(156,082)
As at 31.12.2017		
Cash inflows (assets)	-	-
Cash outflows (liabilities)	(30,719)	(186,435)
	(30,719)	(186,435)

16. Subordinated loan

	Note	2018 RM'000	2017 RM'000
Non-current			
Subordinated loan	16.1	54,300	54,300

16.1 Subordinated loan from immediate holding company

The Company has on 7 January 2013, entered into a facility agreement ("Facility Agreement") with immediate holding company, AMB for a subordinated loan of up to the aggregate principal amount of RM73.0 million only ("Facility") upon fulfillment of the terms and conditions as stipulated in the Facility Agreement. The subordinated loan is unsecured, subject to interest at 4.5% per annum and repayable in 2023.

The proceeds from the Facility is utilised by the Company for general working capital purposes including business expansion.

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17. Insurance payables

	Note	2018 RM'000	2017 RM'000
Current			
Due to reinsurers and cedants		124,064	84,259
Due to agents, brokers and reinsurers		104,897	98,105
Due to related company	17.1	2,461	29,729
Due to ultimate holding company	17.1	-	1,139
		231,422	213,232

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.

17.2 Financial liabilities

There is no netting off of gross amount of recognised financial liabilities against the gross amount of financial assets in the statement of financial position.

There are no financial liabilities that are subject to enforceable master netting arrangement or similar arrangement to financial instruments received as collateral or any cash collateral pledged or received (2017: Nil).

18. Other payables and accruals

	Note	2018 RM'000	2017 RM'000
Current			
Premium received in advance		80,529	65,187
Premium deposits		36,406	26,586
Cash collateral payables		20,864	12,128
Sundry creditors		48,587	48,601
Outstanding purchase of investment securities		3,918	20,280
Other payables and accrued expenses		60,833	86,647
Due to ultimate holding company	18.1	15,352	10,120
Due to immediate holding company	18.1	9,485	1,280
Due to related companies	18.1	8,271	950
		284,245	271,779

18.1 Amounts due to ultimate holding company, immediate holding company and related companies

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

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19. Benefits and claims liabilities

	2018 RM'000	2017 RM'000
Current		
Gross benefits and claims liabilities	466,283	343,883

20. Operating revenue

	Note	2018 RM'000	2017 RM'000
Gross earned premiums	21	2,383,537	2,149,592
Investment income	22	451,816	395,692
		2,835,353	2,545,284

21. Net earned premiums

	Note	2018 RM'000	2017 RM'000
Gross earned premiums	20	2,383,537	2,149,592
Premiums ceded to reinsurers		(100,194)	(53,129)
Net earned premiums		2,283,343	2,096,463

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22. Investment income

	Note	2018 RM'000	2017 RM'000
Rental of premises from:			
- Investment properties	4	127	130
Available-for-sale financial assets			
Interest income from:			
- Malaysian government securities		43,802	39,155
- Malaysian government guaranteed bonds		44,436	42,078
- Ringgit denominated bonds by foreign issuers outside Malaysia		1,367	2,042
- Unquoted bonds of corporations in Malaysia		4,897	4,181
Dividend income from:			
- Quoted equity securities of corporations in Malaysia		19,376	20,127
- Quoted unit trusts in Malaysia		3,449	1,861
Accretion of discounts on:			
- Malaysian government securities		785	750
- Malaysian government guaranteed bonds		203	295
- Ringgit denominated bonds by foreign issuers outside Malaysia		-	12
Amortisation of premiums on:			
- Malaysian government securities		(681)	(643)
- Malaysian government guaranteed bonds		(140)	(135)
- Unquoted bonds of corporations in Malaysia		(52)	(45)
Interest income from licensed financial institutions:			
- Structured deposits		70	105
Loans and receivables			
Interest income from:			
- Government guaranteed loans		8,590	8,703
- Mortgage loans		82	205
- Policy loans		900	1,049
- Automatic premium loans		5,805	6,473
Interest income from licensed financial institutions:			
- Fixed and call deposits		23,951	19,937

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22. Investment income (continued)

	2018 RM'000	2017 RM'000
Fair value through profit or loss – Held for trading		
Interest income from:		
- Malaysian government securities	28,568	18,893
- Malaysian government guaranteed bonds	25,628	21,078
- Ringgit denominated bonds by foreign issuers outside Malaysia	246	245
- Unquoted bonds of corporations in Malaysia	57,232	46,341
Dividend income from:		
- Quoted equity securities of corporations in Malaysia	33,311	30,328
- Quoted equity securities outside Malaysia	517	400
- Quoted unit trusts in Malaysia	379	108
Interest income from financial institutions		
- Structured deposits	1,279	1,276
- Cash collateral	(681)	(203)
Accretion of discounts on:		
- Malaysian government securities	830	657
- Malaysian government guaranteed bonds	563	668
- Unquoted bonds of corporations in Malaysia	48	49

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22. Investment income (continued)

	2018 RM'000	2017 RM'000
Amortisation of premiums on:		
- Malaysian government securities	(170)	(154)
- Malaysian government guaranteed bonds	(10)	(11)
- Unquoted bonds of corporations in Malaysia	(701)	(606)
Fair value through profit or loss - Designated upon initial recognition financial assets		
Interest income from:		
- Malaysian government securities	27,480	19,649
- Malaysian government guaranteed bonds	19,790	17,420
- Ringgit denominated bonds by foreign issuers outside Malaysia	563	879
- Unquoted bonds of corporations in Malaysia	85,754	78,227
- Unquoted bonds of corporations outside Malaysia	4,237	4,394
Interest income from/(expense to) licensed financial institutions:		
- Structured deposits	3,543	4,649
- Negotiable certificate of deposits	308	410
- Cross currency swap	1,637	1,222
- Collateralised forward starting interest rate swap	3,666	2,230
Accretion of discounts on:		
- Malaysian government securities	586	567
- Malaysian government guaranteed bonds	845	1,290
- Ringgit denominated bonds by foreign issuers outside Malaysia	-	1
- Quoted bonds of corporations in Malaysia	58	-
- Unquoted bonds of corporations in Malaysia	91	82
- Structured deposits	1,477	1,403
- Unquoted bonds of corporations outside Malaysia	47	43
Amortisation of premiums on:		
- Malaysian government securities	(673)	(551)
- Malaysian government guaranteed bonds	(27)	(27)
- Unquoted bonds of corporations in Malaysia	(1,233)	(1,217)
- Unquoted bonds of corporations outside Malaysia	(339)	(328)
	451,816	395,692
	Note 20	Note 20

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23. Realised gains and losses

	2018 RM'000	2017 RM'000
Realised gains on disposal of property, plant and equipment	54	70
Realised gains on disposal of investments in debt and equity securities:		
Malaysian government securities	264	3,033
Malaysian government guaranteed bonds	-	131
Quoted equity securities of corporations in Malaysia	96,157	100,534
Quoted equity securities of corporations outside Malaysia	790	5,890
Unquoted bonds of corporations in Malaysia	-	5
Quoted unit trusts in Malaysia	15	1,048
Unquoted unit trusts outside Malaysia	20	434
Unquoted unit trusts in Malaysia	318	-
Realised losses on disposal of investments in debt and equity securities:		
Malaysian government securities	(9)	(641)
Malaysian government guaranteed bonds	(6)	-
Quoted equity securities of corporations in Malaysia	(118,632)	(53,768)
Quoted equity securities of corporations outside Malaysia	(365)	(6,069)
Unquoted unit trusts outside Malaysia	(91)	(210)
Unquoted bonds of corporations in Malaysia	(17)	(76)
	(21,556)	50,311
Total net realised gains	(21,502)	50,381

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24. Fair value gains and losses

	Note	2018 RM'000	2017 RM'000
Held for trading financial assets	6	(247,818)	184,209
Designated upon initial recognition financial assets	6	8,096	10,588
Derivatives		2,851	8,015
Total fair value gains on financial assets at FVTPL		(236,871)	202,812
Impairment loss on AFS financial assets	6	(76,804)	(6,582)
Total fair value net (losses)/gains		(313,675)	196,230

25. Net benefits and claims

	2018 RM'000	2017 RM'000
Gross benefits and claims paid	(1,195,717)	(973,641)
Claims ceded to reinsurers	81,597	74,362
Net claims paid	(1,114,120)	(899,279)
Gross change in contract liabilities	(430,068)	(1,032,559)
Change in contract liabilities ceded to reinsurers	(18,660)	(7,211)
	(1,562,848)	(1,939,049)

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26. Management expenses

	Note	2018 RM'000	2017 RM'000
Advertising and marketing expenses		13,766	12,262
Reversal of impairment loss on receivables		(435)	(823)
Amortisation of intangible assets	5	6,021	5,634
Auditors' remuneration:			
- statutory audit fees		299	332
- non-audit fees		63	159
Bank charges		14,277	15,639
Depreciation on property, plant and equipment	3	5,423	4,960
Employee benefits expense	26(a)	88,524	86,727
Executive director's remuneration	26(b)	2,893	1,862
Non-executive directors' fee and other emoluments	26(b)	1,026	1,161
Rental of premises:			
Third parties		5,856	4,982
Other expenses		63,713	88,377
		201,426	221,272

	2018 RM'000	2017 RM'000
(a) Employee benefits expense		
Wages and salaries	44,167	41,849
Social security contributions	413	399
Contributions to Employees' Provident Fund	9,128	8,555
Other benefits	34,816	35,924
	88,524	86,727

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26. Management expenses (continued)

(b) Key management personnel compensation

	2018 RM'000	2017 RM'000
Executive director:		
Salaries and other emoluments	2,411	1,706
Bonus	482	156
Estimated monetary value of benefits-in-kind	539	142
	3,432	2,004
Non-executive directors:		
Fees	756	850
Other emoluments	270	311
Estimated monetary value of benefits-in-kind	6	14
	1,032	1,175
Other key management personnel:		
Short-term employee benefits	7,274	6,599

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 CEO during the year are as follows:

	2018 RM'000	2017 RM'000
Salaries	775	775
Bonus	482	416
Estimated monetary value of benefits-in-kind	539	378
Other emoluments	1,636	3,769
	3,432	5,338
Amount included in employee benefits expense	2,893	4,960

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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:

	Salaries RM'000	Bonus RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
2018						
Chief Executive Officer/Executive Director						
Joseph Kumar Gross	775	482	-	1,636	539	3,432
Non-Executive Directors						
Tan Sri Razali Bin Ismail	-	-	62	92	6	160
Foo San Kan	-	-	167	110	-	277
Dato' Dr. Thillainathan A/L Ramasamy	-	-	161	19	-	180
Tan Sri Datuk (Dr.) Rafiah Binti Salim	-	-	100	11	-	111
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	-	-	89	11	-	100
Goh Ching Yin	-	-	128	19	-	147
Peter Ho Kok Wai	-	-	49	8		57
Total Directors' remuneration (including benefits-in-kind)	-	-	756	270	6	1,032

The remuneration of CEO of the Company who is also the Executive Director of the Company, including benefits-in-kind, amounted to RM3,432,000(2017: RM5,338,000).

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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):

	Salaries RM'000	Bonus RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
2017						
Chief Executive Officer/Executive Director						
Joseph Kumar Gross	775	416	-	3,769	378	5,338
Non-Executive Directors						
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
Total Directors' remuneration (including benefits-in-kind)	-	-	850	311	14	1,175

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27. Tax expense

	2018 RM'000	2017 RM'000
(a) Recognised in profit or loss		
Current tax expense		
Current year	29,014	34,425
Under/(over) provision in prior year	590	(350)
	29,604	34,075
Deferred tax expense		
Origination and reversal of temporary differences	23,511	43,377
Total tax expense	53,115	77,452
Tax expenses attributable to shareholders	14,602	38,079
Tax expenses attributable to participating fund and unitholders	38,513	39,373
	53,115	77,452

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% (2017: 8%) applicable for life insurance business and 24% (2017: 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% (2017: 24%). Consequently, deferred tax assets and liabilities of Shareholders' fund are measured using this tax rate. The tax expense of respective funds are disclosed in Note 35 – Insurance funds.

(b) Reconciliation of tax expense

	2018 RM'000	2017 RM'000
Profit before tax	200,936	173,317
Tax at Malaysian tax rate of 24% (2017: 24%)	48,225	41,596
Tax rate differential of 16% (2017: 16%) in respect of Life fund	14,165	1,801
Section 110B tax credit set off	(1,166)	(941)
Income not subject to tax	(189,823)	(173,012)
Non-deductible expenses	181,057	208,890
Other items	67	(532)
Under/(over) provision in prior year	590	(350)
Total tax expense	53,115	77,452

27. Tax expense (continued)

(c) Deferred tax recognised directly in other comprehensive income

	2018 RM'000	2017 RM'000
Available-for-sale fair value reserve		
At 1 January	123	(405)
Net gain arising from change in fair value	260	528
At 31 December	383	123
Revaluation reserve		
At 1 January/31 December	191	191

(d) Deferred tax recognised in insurance contract liabilities

	Note	2018 RM'000	2017 RM'000
Available-for-sale fair value reserve			
At 1 January		12,636	3,526
Net (loss)/gain arising from change in fair value	13	(8,465)	9,110
At 31 December		4,171	12,636
Revaluation reserve			
At 1 January/31 December		465	465
Hedging reserve			
At 1 January		(258)	2
Net gain/(loss) arising from change in fair value	13	258	(260)
At 31 December		-	(258)

28. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 RM'000	2017 RM'000
Less than one year	4,467	4,369
Between one and five years	4,140	5,010
	8,607	9,379

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:

	2018 RM'000	2017 RM'000
Less than one year	170	172
Between one and five years	98	218
	268	390

29. Capital commitments

	2018 RM'000	2017 RM'000
Property, plant and equipment		
Contracted but not provided for	1,138	4,040
Software development		
Contracted but not provided for	1,445	3,711

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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 Company. 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.

The related parties of, and their relationship with the Company are as follows:

Related Parties	Relationship
Allianz SE, Munich ("Allianz SE")	Ultimate holding company
Allianz Malaysia Berhad (“AMB”)	Immediate holding company
Allianz General Insurance Company (Malaysia) Berhad	Related company of ALIM
Allianz SE Insurance Management Asia Pacific	Related company of ALIM
Allianz Technology SE (formerly known as Allianz Managed & Operations Services SE)	Related company of ALIM
Allianz Investment Management SE	Related company of ALIM
Allianz Investment Management Singapore Pte Ltd	Related company of ALIM
Allianz Global Investors Singapore Limited	Related company of ALIM
Allianz Global Investors Asia Pacific Limited	Related company of ALIM
Allianz Global Benefits GmbH	Related company of ALIM
Allianz Ayudhya Assurance PCL.	Related company of ALIM
Rapidpro Consulting Sdn Bhd	Company connected to the CEO of AMB

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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:

Transactions	Amount transacted for the year ended 31 December 2018 RM'000	Amount transacted for the year ended 31 December 2017 RM'000
Ultimate holding company		
Payment of reinsurance premium ceded, net of commission income	(2,792)	(5,995)
Payment of personnel expenses	(783)	(759)
Payment of business building and regional investment costs	(3,694)	(17,050)
Payment of global marketing expenses	(736)	(1,219)
Payment of fees for sharing of Global Procurement (excluding IT) services and support	(197)	(189)
Reimbursement /(payment) of relationship manager fees	244	(324)
Provision of regional underwriting service	361	337
Payment of personnel expenses	(2,209)	(2,428)
Payment for support of design and development of Global Digital Factory	(45)	(64)
Payment for the development of Allianz One Finance Programme	(40)	(72)
Payment for IT security services	(203)	(314)
Payment for participation in HR Survey	(7)	-
Payment of training fees	(12)	-
Payment for reimbursement of expenses	(29)	-
Immediate holding company		
Interest payment for subordinated loan	(2,444)	(2,444)
Rental income	22	16
Sharing of personal costs and department expenses	(8,926)	(7,748)
Payment for life actuarial modeling services	(226)	(147)
Related companies*		
Payment of reinsurance premium ceded, net of commission income	(83,932)	(24,510)
Payment of insurance premium	(197)	(192)
Payment of motor insurance premium	(270)	(259)
Reimbursement of investment and redemption of funds (including fund management fees)	674	1,517

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30. Related parties (continued)

Significant related party transactions (continued)

	Amount transacted for the year ended 31 December 2018 RM'000	Amount transacted for the year ended 31 December 2017 RM'000
Related companies* (continued)		
Investment advisory fees	(1,682)	(2,477)
Performance attribution analysis expenses	-	(11)
Reversal/(payment) of other expenses	66	(950)
Rental expenses	(2,121)	(1,796)
Rental income	334	343
Reversal/(payment) of intranet portal network cost	286	(354)
Reimbursement of sharing of common expenses	1,368	1,726
Payment for advisory services	-	(2,551)
Payment of asset and investment manager database expenses	(234)	(509)
Payment for purchasing of various software licences	(830)	(281)
Reversal/(payment) of expenses of HR database platform and recruitment solution	83	(74)
Payment for reimbursement of expenses	(30)	-
Payment of annual maintenance and support fees for software system	(2,997)	(369)
Payment for Actuarial support center services	(83)	-
Reversal/(payment) for development point of sales system and maintenance of infrastructure for actuarial modeling	75	(702)
Reversal/(payment) for Actuarial support center services	130	(230)
Related party – Company connected with CEO of the immediate holding company		
Payment of training and other fees	(292)	(612)

* Related companies are companies within the Allianz SE group.

Significant related party balances related to the above transactions are disclosed in Notes 8, 9, 16, 17 and 18.

31. Risk management framework

As a provider of insurance services, the Company considers risk management to be one of its 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 managed through integration of risk appetite and capital needs indecision 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.

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 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 the management of various risks including liquidity risk, interest rate risk and market risk.

31. Risk management framework (continued)

Asset and Liability Management ("ALM") Framework (continued)

The Asset Liability Management ("ALM") process is subjected to external and internal constraints.

- External constraints include supervisory and legislative requirements, market condition, as well as the interests and expectations of policyholders and other stakeholders. For instance, one of the major constraints is the liquidity of the assets and liabilities which may compromise the ability to price, measure and hedge exposures.
- Internal constraints include asset allocation and environmental, social and governance ("ESG") integration framework, which limits reflect the Company's management philosophy and 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 regulations and guidelines imposed by BNM, as well as including the relevant guidelines from Life Insurance Association of Malaysia ("LIAM").

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 laws or regulations have priority while the stricter will apply where possible.

32. Insurance risk

Insurance 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 insurance 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.

32. Insurance risk (continued)

The insurance 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			
	With DPF RM'000	**Without DPF RM'000**	**Total RM'000**	**With DPF RM'000**	**Without DPF RM'000**	**Total RM'000**	**Net RM'000**
2018							
Whole life	2,434,893	1,240,256	3,675,149	-	1,169	1,169	3,676,318
Endowment	563,819	1,858,306	2,422,125	-	-	-	2,422,125
Mortgage	-	66,714	66,714	-	(35,273)	(35,273)	31,441
Riders and others	606,346	422,536	1,028,882	-	-	-	1,028,882
Total	3,605,058	3,587,812	7,192,870	-	(34,104)	(34,104)	7,158,766
			Note 13			**Note 13**	**Note 13**
2017							
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
Total	3,750,347	3,130,530	6,880,877	-	(52,764)	(52,764)	6,828,113
			Note 13			**Note 13**	**Note 13**

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. Insurance risk (continued)

Key assumptions

Significant judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experiences, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation. 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 adjust 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 reviewed annually to reflect inflation due to 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 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. Insurance 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 (2017: 4.25% - 6.25%% 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 framework.

  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 based on zero-coupon spot yields of MGS with matching duration. Risk-free discount rate for durations of 15 years or more is based on zero-coupon spot yields of MGS with 15 years term to maturity. Duration in this context is referring to 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.

32. Insurance risk (continued)

Key assumptions (continued)

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

	Mortality and morbidity rates[1]		Lapse and surrender rates		Discount rate	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	%	**%**	**%**	**%**	**%**	**%**
Type of business						
With fixed and guaranteed terms and with DPF contracts						
Life insurance	60-70	60-80	1.5-25	1-25	4.25-6.25	4.25-6.25
Without DPF contracts						
Life insurance	60-110	60-175	1.5-65	1-65	MGS spot yield	MGS spot yield

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

32. Insurance risk (continued)

Sensitivities

The analysis below is performed for possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit after 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 after tax RM'000	Impact on Gross liabilities* RM'000	Impact on Net liabilities* RM'000
Life insurance contracts				
2018				
Mortality and morbidity rates	+5%	(4,595)	9,751	7,667
Discount rate	-0.5%	(15,268)	94,575	93,613
Expenses	+10%	(6,978)	12,152	12,152
Lapse and surrender rates	-10%	419	5,565	5,642
2017				
Mortality and morbidity rates	+5%	(4,957)	10,569	8,310
Discount rate	-0.5%	(16,519)	129,621	128,155
Expenses	+10%	(6,946)	12,565	12,565
Lapse and surrender rates	-10%	545	6,511	6,276

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

32. Insurance risk (continued)

Sensitivities (continued)

The above illustration is only prepared for "what if" adverse scenario, with the key assumptions applied towards unfavourable direction. In the sensitivity analysis above, changes in assumptions for life non-participating business would impact the profit after 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 and market (currency risk, interest rate risk, equity price 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 alignment with the Company's risk appetite and 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.

The Company's Investment Mandate imposes limits by issuer/counterparty and by credit ratings for investments in corporate fixed income securities (all securities that entails credit risks, e.g. credit facilities, bank deposits of longer than 1-year, certificates of deposits, notes, etc.). These limits are reviewed at least on annual basis, There is active monitoring in place and regular reporting to both RMWC and IC.

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
2018			
LAR			
Government guaranteed loans	190,504	-	190,504
Other loans	91,428	-	91,428
Fixed and call deposits	148,058	58,097	206,155
AFS financial investments			
Malaysian government securities	1,036,791	-	1,036,791
Malaysian government guaranteed bonds	962,972	-	962,972
Ringgit denominated bonds by foreign issuers outside Malaysia	25,316	-	25,316
Unquoted bonds of corporations in Malaysia	110,978	-	110,978
FVTPL - HFT financial investments			
Malaysian government securities	788,020	71,040	859,060
Malaysian government guaranteed bonds	583,380	18,340	601,720
Ringgit denominated bonds by foreign issuers outside Malaysia	1,519	3,544	5,063

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
2018 (continued)			
FVTPL - HFT financial investments (continued)			
Unquoted bonds of corporations in Malaysia	894,774	372,626	1,267,400
Structured deposits	15,371	15,369	30,740
FVTPL - DUIR financial investments			
Malaysian government securities	752,513	-	752,513
Malaysian government guaranteed bonds	494,928	-	494,928
Ringgit denominated bonds by foreign issuers outside Malaysia	10,126	-	10,126
Unquoted bonds of corporations in Malaysia	1,787,820	-	1,787,820
Unquoted bonds of corporations outside Malaysia	115,308	-	115,308
Structured deposits	71,941	-	71,941

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).

2018 (continued)	Insurance and Shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
Derivatives financial assets			
Collateralised interest rate swap	19,482	-	19,482
Forward purchase agreements	1,595	-	1,595
Cross currency swap	4,982	-	4,982
Reinsurance assets	66,579	-	66,579
Insurance receivables	80,703	-	80,703
Other receivables and deposits	45,778	1	45,779
Cash and cash equivalents	533,846	206,233	740,079
	8,834,712	745,250	9,579,962

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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
2017			
LAR			
Government guaranteed loans	190,545	-	190,545
Other loans	99,583	-	99,583
Fixed and call deposits	89,505	9,267	98,772
AFS financial investments			
Malaysian government securities	922,785	-	922,785
Malaysian government guaranteed bonds	906,644	-	906,644
Ringgit denominated bonds by foreign issuers outside Malaysia	42,157	-	42,157
Unquoted bonds of corporations in Malaysia	107,066	-	107,066
Structured deposits	2,056	-	2,056
FVTPL - HFT financial investments			
Malaysian government securities	471,080	11,726	482,806
Malaysian government guaranteed bonds	505,424	31,393	536,817
Ringgit denominated bonds by foreign issuers outside Malaysia	1,525	3,556	5,081

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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
2017 (continued)			
FVTPL - HFT financial investments (continued)			
Unquoted bonds of corporations in Malaysia	774,025	353,981	1,128,006
Structured deposits	15,448	15,451	30,899
FVTPL - DUIR financial investments			
Malaysian government securities	590,276	-	590,276
Malaysian government guaranteed bonds	465,019	-	465,019
Ringgit denominated bonds by foreign issuers outside Malaysia	18,790	-	18,790
Unquoted bonds of corporations in Malaysia	1,706,630	-	1,706,630
Unquoted bonds of corporations outside Malaysia	116,391	-	116,391
Structured deposits	125,704	-	125,704
Negotiable certificate of deposits	9,834	-	9,834
Derivatives financial assets			
Collateralised forward starting interest rate swap	7,259	-	7,259
Collateralised interest rate swap	13,827	-	13,827

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).

2017 (continued)	Insurance and Shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
Derivatives financial assets (continued)			
Forward purchase agreements	99	-	99
Cross currency swap	4,352	-	4,352
Reinsurance assets	65,351	-	65,351
Insurance receivables	53,938	-	53,938
Other receivables and deposits	42,578	1,418	43,996
Cash and cash equivalents	485,692	192,067	677,759
	7,833,583	618,859	8,452,442

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33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying financial assets according to the 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 non-investment grade. Assets which are not rated by rating agencies are classified as non-rated.

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2018									
LAR									
Government guaranteed loans	-	-	-	-	-	190,504	-	-	190,504
Other loans	-	-	-	-	-	91,428	-	-	91,428
Fixed and call deposits	120,123	27,935	-	-	-	-	58,097	-	206,155
AFS financial investments									
Malaysian government securities	-	-	-	-	-	1,036,791	-	-	1,036,791
Malaysian government guaranteed bonds	-	-	-	-	-	962,972	-	-	962,972
Ringgit denominated bonds by foreign issuers outside Malaysia	25,316	-	-	-	-	-	-	-	25,316
Unquoted bonds of corporations in Malaysia	50,079	60,899	-	-	-	-	-	-	110,978

33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2018									
FVTPL – HFT financial investments									
Malaysian government securities	-	-	-	-	-	788,020	71,040	-	859,060
Malaysian government guaranteed bonds	-	-	-	-	-	583,380	18,340	-	601,720
Ringgit denominated bonds by foreign issuers outside Malaysia	1,519	-	-	-	-	-	3,544	-	5,063
Unquoted bonds of corporations in Malaysia	490,776	401,948	-	-	-	2,050	372,626	-	1,267,400
Structured deposits	15,371	-	-	-	-	-	15,369	-	30,740

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33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2018 (continued)									
FVTPL - DUIR financial investments									
Malaysian government securities	-	-	-	-	-	752,513	-	-	752,513
Malaysian government guaranteed bonds	-	-	-	-	-	494,928	-	-	494,928
Ringgit denominated bonds by foreign issuers outside Malaysia	10,126	-	-	-	-	-	-	-	10,126
Unquoted bonds of corporations in Malaysia	1,035,887	697,553	-	5,180	-	49,200	-	-	1,787,820
Unquoted bonds of corporations outside Malaysia	-	-	27,356	49,364	-	38,588	-	-	115,308
Structured deposits	71,941	-	-	-	-	-	-	-	71,941

33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2018 (continued)									
Derivatives financial assets									
Collateralised interest rate swap	19,482	-	-	-	-	-	-	-	19,482
Forward purchase agreements	1,595	-	-	-	-	-	-	-	1,595
Cross currency swap	4,982	-	-	-	-	-	-	-	4,982
Reinsurance assets	-	63,129	563	-	-	2,887	-	-	66,579
Insurance receivable	-	-	-	-	-	74,521	-	6,182#	80,703
Other receivables and deposits	-	-	-	-	-	45,778	1	-	45,779
Cash and cash equivalents	213,714	319,893	1,389	-	-	461	204,622	-	740,079
	2,060,911	1,571,357	29,308	54,544	-	5,114,021	743,639	6,182	9,579,962

Net of balances which are past due and impaired of RM 4,253,000 which has been fully provided for (See Note 33.1 (ii)).

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33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2017									
LAR									
Government guaranteed loans	-	-	-	-	-	190,545	-	-	190,545
Other loans	-	-	-	-	-	99,583	-	-	99,583
Fixed and call deposits	38,066	51,439	-	-	-	-	9,267	-	98,772
AFS financial investments									
Malaysian government securities	-	-	-	-	-	922,785	-	-	922,785
Malaysian government guaranteed bonds	-	-	-	-	-	906,644	-	-	906,644
Ringgit denominated bonds by foreign issuers outside Malaysia	25,417	16,740	-	-	-	-	-	-	42,157
Unquoted bonds of corporations in Malaysia	41,390	65,676	-	-	-	-	-	-	107,066
Structured deposits	2,056	-	-	-	-	-	-	-	2,056

33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2017 (continued)									
FVTPL - HFT financial investments									
Malaysian government securities	-	-	-	-	-	471,080	11,726	-	482,806
Malaysian government guaranteed bonds	-	-	-	-	-	505,424	31,393	-	536,817
Ringgit denominated bonds by foreign issuers outside Malaysia	1,525	-	-	-	-	-	3,556	-	5,081
Unquoted bonds of corporations in Malaysia	394,597	377,366	-	-	-	2,062	353,981	-	1,128,006
Structured deposits	15,451	-	-	-	-	-	15,448	-	30,899

33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2017 (continued)									
FVTPL - DUIR financial investments									
Malaysian government securities	-	-	-	-	-	590,276	-	-	590,276
Malaysian government guaranteed bonds	-	-	-	-	-	465,019	-	-	465,019
Ringgit denominated bonds by foreign issuers outside Malaysia	10,168	8,623	-	-	-	-	-	-	18,791
Unquoted bonds of corporations in Malaysia	912,596	739,423	-	5,136	-	49,475	-	-	1,706,630
Unquoted bonds of corporations outside Malaysia	-	-	27,341	50,956	-	38,094	-	-	116,391
Structured deposits	125,704	-	-	-	-	-	-	-	125,704
Negotiable certificate of deposits	9,834	-	-	-	-	-	-	-	9,834

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33. Financial risks (continued)

33.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired								
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2017 (continued)									
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	-	62,426	607	-	-	2,318	-	-	65,351
Insurance receivable	-	-	-	-	-	51,946	-	1,992#	53,938
Other receivables and deposits	-	-	-	-	-	42,578	1,418	-	43,996
Cash and cash equivalents	368,323	97,550	18,839	-	-	980	192,067	-	677,759
	1,970,664	1,419,243	46,787	56,092	-	4,338,809	618,856	1,992	8,452,443

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)

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

Ageing 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
2018	6,182	-	-	6,182
2017	1,992	-	-	1,992

33. Financial risks (continued)

33.1 Credit risk (continued)

(ii) Past-due and impaired financial assets

At 31 December 2018, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables amounting to RM4,253,000 (2017: RM4,714,000) and other receivables of RM61,000 (2017: RM35,000). 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	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At 1 January	4,714	5,572	35	-
Impairment loss (reversed)/recognised	(461)	(858)	26	35
At 31 December	4,253	4,714	61	35
	Note 8	**Note 8**	**Note 9**	**Note 9**

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.

33. Financial risks (continued)

33.2 Liquidity risk (continued)

Maturity profiles (continued)

Non-derivative financial liabilities

	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
2018								
Insurance contract liabilities								
With DPF	3,792,689	888,460	331,357	517,818	1,657,015	4,872,868	5,980	8,273,498
Without DPF	5,025,283	4,661,848	28,508	96,650	235,147	191,577	-	5,213,730
Subordinated loan	54,300	2,444	7,337	55,532	-	-	-	65,313
Insurance payables	231,422	231,422	-	-	-	-	-	231,422
Other payables and accruals*	203,716	203,716	-	-	-	-	-	203,716
Benefits and claims liabilities	466,283	466,283	-	-	-	-	-	466,283
Total liabilities	9,773,693	6,454,173	367,202	670,000	1,892,162	5,064,445	5,980	14,453,962

* Other payables and accruals exclude premium received in advance (see Note 18).

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33. Financial risks (continued)

33.2 Liquidity risk (continued)

Maturity profiles (continued)

Derivative financial liabilities

The table below analyses the Company's trading derivative financial liabilities and hedging derivative financial liabilities that will be settled on a gross basis.

	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
2018							
Derivatives held for trading							
Cross currency swaps	-	-	-		(819)	-	(819)
Derivatives used for hedging							
Forward purchase agreements							
- Cash inflows	-	-	-	-	-	-	-
- Cash outflows	(30,353)	(99,258)	(56,824)	-	-	-	(186,435)
Net cash outflows	(30,353)	(99,258)	(56,824)	-	(819)	-	(187,254)

33. Financial risks (continued)

33.2 Liquidity risk (continued)

Maturity profiles (continued)

Non-derivative financial liabilities

2017	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
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
Subordinated loan	54,300	2,444	4,887	4,894	57,975	-	-	70,200
Insurance payables	213,232	213,232	-	-	-	-	-	213,232
Other payables and accruals	206,592	206,592	-	-	-	-	-	206,592
Benefits and claims liabilities	343,883	343,883	-	-	-	-	-	343,883
Total liabilities	9,300,298	5,787,142	366,008	464,578	2,134,702	5,886,156	5,980	14,644,566

33. Financial risks (continued)

33.2 Liquidity risk (continued)

Maturity profiles (continued)

Derivative financial liabilities

The table below analyses the Company's trading derivative financial liabilities and hedging derivative financial liabilities that will be settled on a gross basis.

	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
2017							
Derivatives held for trading							
Cross currency swaps	-	-	-		(1,933)	-	(1,933)
Derivatives used for hedging							
Forward purchase agreements							
- Cash inflows	-	-	-	-	-	-	-
- Cash outflows	(30,719)	(89,628)	(96,807)	-	-	-	(217,154)
Net cash outflows	(30,719)	(89,628)	(96,807)	-	(1,933)	-	(219,087)

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 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 make recommendations 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.
- Stress testing is performed 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 arising from the fluctuation of 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:

2018 Financial assets Denominated in	Life fund RM'000	Investment-linked funds RM'000
USD	114,406	9,884
SGD	-	2,905
THB	-	113
IDR	-	16,721

33. Financial risks (continued)

33.3 Market risk (continued)

33.3.1 Currency risk (continued)

Exposure to foreign currency risk (continued)

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

Currency risk sensitivity analysis

It is estimated that a 10% (2017:10%) 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 2018 RM'000	Impact on insurance contract liabilities 2017 RM'000
USD	(12,429)	(12,739)
SGD	(291)	(57)
THB	(11)	(316)
IDR	(1,672)	(1,581)

It is estimated that a 10% (2017:10%) 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.

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 that 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 assumed movements of 100 bps in interest rate with all other variables held constant, showing the impact on the profit after tax, equity and insurance contract liabilities.

	Change in variables	Impact on profit after tax RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000
2018				
Interest rate	+100 basis points	(86,803)	(74,782)	(406,337)
Interest rate	-100 basis points	94,685	81,492	466,321
2017				
Interest rate	+100 basis points	(79,495)	(69,975)	(355,465)
Interest rate	-100 basis points	87,560	76,902	407,903

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 after 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 profit after tax and equity of the Company will be impacted. In respect of life participating fund and investment-linked funds, impact arising from changes in interest rate risk will 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.

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 relate to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally with respect to investment 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 after 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.

		2018			2017		
	Changes in variable	Impact on profit after tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000	Impact on profit after tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000
Market indices							
Market value	-10%	-	-	(134,316)	-	-	(178,261)
Market value	+10%	-	-	134,316	-	-	178,261

33. Financial risks (continued)

33.3 Market risk (continued)

33.3.3 Equity price risk (continued)

Equity price risk sensitivity analysis (continued)

The impact on profit after 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 profit after tax and equity of the Company will be impacted. In respect of life participating fund and investment-linked funds, impact arising from changes in equity price risk will affect the insurance contract liabilities.

* 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, data on operational risk events are collected so that significant losses can be used to analyse and provide measures aimed at avoiding or minimizing 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 development; and
- Evaluation procedures such as compliance assessment and 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 Malaysian government guaranteed loans, policy loans, mortgage loans, automatic premium loans, fixed and call deposits and subordinated loan 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 (current), insurance payables and other payables (current) 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.

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					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2018						
Financial assets						
Malaysian government securities	-	2,648,364	-	2,648,364	2,648,364	2,648,364
Malaysian government guaranteed bonds	-	2,059,620	-	2,059,620	2,059,620	2,059,620
Ringgit denominated bonds by foreign issuers outside Malaysia	-	40,505	-	40,505	40,505	40,505
Quoted equity securities of corporations in Malaysia	1,395,851	-	-	1,395,851	1,395,851	1,395,851
Quoted equity securities of corporations outside Malaysia	3,638	-	-	3,638	3,638	3,638
Unquoted bonds of corporations in Malaysia	-	3,166,198	-	3,166,198	3,166,198	3,166,198

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.

	Fair value of financial instruments carried at fair value					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2018						
Financial assets (continued)						
Unquoted bonds of corporations outside Malaysia	-	115,308	-	115,308	115,308	115,308
Quoted unit trusts in Malaysia	62,888	-	-	62,888	62,888	62,888
Unquoted unit trusts in Malaysia	-	15,641	-	15,641	15,641	15,641
Unquoted unit trusts outside Malaysia	-	25,985	-	25,985	25,985	25,985
Structured deposits with licensed financial institutions	-	102,681	-	102,681	102,681	102,681
Government guaranteed loans	-	-	-	-	192,278	190,504
Collateralised interest rate swap	-	19,482	-	19,482	19,482	19,482
Forward purchase agreements	-	1,595	-	1,595	1,595	1,595
Cross currency swap	-	4,982	-	4,982	4,982	4,982
	1,462,377	8,200,361	-	9,662,738	9,855,016	9,853,242

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					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2018						
Financial liabilities						
Forward purchase agreements	-	1,594	-	1,594	1,594	1,594
Cross currency swap	-	819	-	819	819	819
Subordinated loan	-	-	-	-	54,300	54,300
	-	2,413	-	2,413	56,713	56,713

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					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2017						
Financial assets						
Malaysian government securities	-	1,995,867	-	1,995,867	1,995,867	1,995,867
Malaysian government guaranteed bonds	-	1,908,479	-	1,908,479	1,908,479	1,908,479
Ringgit denominated bonds by foreign issuers outside Malaysia	-	66,029	-	66,029	66,029	66,029
Quoted equity securities of corporations in Malaysia	1,876,133	-	-	1,876,133	1,876,133	1,876,133
Quoted equity securities of corporations outside Malaysia	4,507	-	-	4,507	4,507	4,507
Unquoted bonds of corporation in Malaysia	-	2,941,747	-	2,941,747	2,941,747	2,941,747
Unquoted bonds of corporations outside Malaysia	-	116,391	-	116,391	116,391	116,391
Quoted unit trusts in Malaysia	57,726	-	-	57,726	57,726	57,726

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					
						Carrying
	Level 1	Level 2	Level 3	Total	Total fair value	amount
2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial assets (continued)						
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	-	158,659	-	158,659	158,659	158,659
Government guaranteed loans	-	-	-	-	194,630	190,545
Negotiable certificate of deposits with licensed financial institution	-	9,834	-	9,834	9,834	9,834
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
	1,938,366	7,268,863	-	9,207,229	9,401,859	9,397,774

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					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2017						
Financial liabilities						
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
	-	5,251	-	5,251	59,551	59,551

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 (2017: no transfer in either direction).

34. Capital management

Regulatory capital requirements

Under Risk-Based Capital Framework for Insurers ("RBC Framework") issued by BNM, 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 2018, as prescribed under the RBC Framework is provided below:

	Note	2018 RM'000	2017 RM'000
Tier 1 Capital			
Paid up share capital	11	236,600	236,600
Reserves, including retained earnings		1,694,904	1,470,675
		1,931,504	1,707,275
Tier 2 Capital			
Revaluation reserve		8,502	8,502
Available-for-sale reserve		49,248	145,813
General reserve		1	(2,961)
Subordinated loan		44,393	55,492
		102,144	206,846
Amount deducted from capital		(36,872)	(36,186)
Total capital available		1,996,776	1,877,935

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	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Assets						
Property, plant and equipment	-	-	32,249	33,167	32,249	33,167
Investment properties	-	-	3,840	3,840	3,840	3,840
Intangible assets	22,723	27,267	4,923	3,050	27,646	30,317
Investments	287,352	303,325	9,839,561	9,269,370	10,126,913	9,572,695
Derivative financial assets	-	-	26,059	25,537	26,059	25,537
Reinsurance assets	-	-	66,579	65,351	66,579	65,351
Insurance receivables	-	-	80,703	53,938	80,703	53,938
Other receivables, deposits and prepayments*	39,581	14,150	28,102	29,846	45,779	43,996
Cash and cash equivalents	18,051	10,037	722,028	667,722	740,079	677,759
	367,707	354,779	10,804,044	10,151,821	11,149,847	10,506,600

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35. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Total	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Total equity	296,095	288,492	755,533	614,532	1,051,628	903,024
Total policyholders' funds and liabilities						
Insurance contract liabilities	-	-	8,817,972	8,482,291	8,817,972	8,482,291
Deferred tax liabilities	437	258	240,478	225,093	240,915	225,351
Derivative financial liabilities	-	-	2,413	5,251	2,413	5,251
Subordinated loan	54,300	54,300	-	-	54,300	54,300
Insurance payables	3,437	-	227,985	213,232	231,422	213,232
Other payables and accruals*	10,353	9,203	295,796	262,576	284,245	271,779
Benefits and claims liabilities	-	-	466,283	343,883	466,283	343,883
Current tax liabilities	3,085	2,526	(2,416)	4,963	669	7,489
	71,612	66,287	10,048,511	9,537,289	10,098,219	9,603,576
Total equity, policyholders' funds and liabilities	367,707	354,779	10,804,044	10,151,821	11,149,847	10,506,600

* Included herein are inter-fund balances that are eliminated in presenting the Company's total balances.

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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	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	12,768	12,454	2,822,585	2,532,830	2,835,353	2,545,284
Gross earned premiums	-	-	2,383,537	2,149,592	2,383,537	2,149,592
Premiums ceded to reinsurers	-	-	(100,194)	(53,129)	(100,194)	(53,129)
Net earned premiums	-	-	2,283,343	2,096,463	2,283,343	2,096,463
Investment income	12,768	12,454	439,048	383,238	451,816	395,692
Realised gains and losses	339	90	(21,841)	50,291	(21,502)	50,381
Fair value gains and losses	-	-	(313,675)	196,230	(313,675)	196,230
Fee and commission income	-	-	-	219	-	219
Other operating income	783	18	23,346	19,814	24,129	19,832
Other income	13,890	12,562	126,878	649,792	140,768	662,354
Gross benefits and claims paid	(7)	-	(1,195,710)	(973,641)	(1,195,717)	(973,641)
Claims ceded to reinsurers	-	-	81,597	74,362	81,597	74,362
Gross change in contract liabilities	-	-	(430,068)	(1,032,559)	(430,068)	(1,032,559)
Change in contract liabilities ceded to reinsurers	-	-	(18,660)	(7,211)	(18,660)	(7,211)
Net benefits and claims	(7)	-	(1,562,841)	(1,939,049)	(1,562,848)	(1,939,049)
Fee and commission expense	(3,437)	-	(418,879)	(390,831)	(422,316)	(390,831)
Management expenses	(7,744)	(7,744)	(193,682)	(213,528)	(201,426)	(221,272)
Other operating expenses	(6,209)	(4,365)	(30,376)	(29,983)	(36,585)	(34,348)
Other expenses	(17,390)	(12,109)	(642,937)	(634,342)	(660,327)	(646,451)

35. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Transfer	14,569	11,759	(14,569)	(11,759)	-	-
Profit/Surplus before tax	11,062	12,212	189,874	161,105	200,936	173,317
Tax expense (Note 27)	(4,299)	(3,676)	(48,816)	(73,776)	(53,115)	(77,452)
Net profit after tax	6,763	8,536	141,058	87,329	147,821	95,865

35. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Investment-linked funds		Total	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Cash flows from/(used in):								
Operating activities	10,458	1,339	47,950	166,541	14,166	97,217	72,574	265,097
Investing activities	-	-	(7,810)	(6,018)	-	-	(7,810)	(6,018)
Financing activities	(2,444)	(2,444)	-	-	-	-	(2,444)	(2,444)
Net increase/ (decrease) in cash and cash equivalents	8,014	(1,105)	40,140	160,523	14,166	97,217	62,320	256,635
At beginning of year	10,037	11,142	475,655	315,132	192,067	94,850	677,759	421,124
At end of year	18,051	10,037	515,795	475,655	206,233	192,067	740,079	677,759

35. Insurance funds (continued)

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

	2018 RM'000	2017 RM'000
Assets		
Financial investments	1,225,372	1,190,633
Other receivables	8,594	12,465
Cash and cash equivalents	206,233	192,067
Total assets	1,440,199	1,395,165
Liabilities		
Deferred tax liabilities	253	10,946
Other payables	933	11,204
Benefits and claims liabilities	1,541	1,581
Total liabilities	2,727	23,731
Net asset value of funds (Note 13)	1,437,472	1,371,434

35. Insurance funds (continued)

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

	Note	2018 RM'000	2017 RM'000
Investment income		50,264	40,289
Realised gains and losses		(44,007)	21,971
Fair value gains and losses		(174,747)	114,231
Other operating income		507	48
		(167,983)	176,539
Management expenses		(55)	(56)
Other operating expenses		(19,434)	(17,131)
Profit before tax		(187,472)	159,352
Tax expense		11,779	(12,591)
Net profit for the year	13	(175,693)	146,761

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 37 to 181 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 2018 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:

……………………………………………………………..
Foo San Kan
Director

……………………………………………………………..
Joseph Kumar Gross
Director

Kuala Lumpur,

Date: 21 February 2019

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 37 to 181 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 21 February 2019.

……………………………………..
Ong Eng Chow

Before me:

Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ALLIANZ LIFE INSURANCE MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 104248-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Allianz Life Insurance Malaysia Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its 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.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, profit or loss and other comprehensive income, statement of changes in equity and statement of 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 37 to 181.

Basis for opinion

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

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

Independence and other ethical responsibilities

We are independent of the 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.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ALLIANZ LIFE INSURANCE MALAYSIA BERHAD
(CONTINUED)
(Incorporated in Malaysia)
(Company No. 104248-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 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 other information 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 other information and, in doing so, consider whether the other information 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ALLIANZ LIFE INSURANCE MALAYSIA BERHAD
(CONTINUED)
(Incorporated in Malaysia)
(Company No. 104248-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 scepticism throughout the audit. We also:

(a) 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.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the 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.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ALLIANZ LIFE INSURANCE MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 104248-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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 MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2019 J
Chartered Accountant

Kuala Lumpur
21 February 2019